

## OFFICIAL STATEMENT

**RATINGS**  
**Moody's:** **MIG 1**  
**Standard & Poor's:** **SP-1+**  
(See "Other Bond Information—Ratings.")

**New Issue**  
**Book-Entry Only**

*In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Legal and Tax Information—Tax Exemption" and "—Certain Other Federal Tax Consequences."*

### KING COUNTY, WASHINGTON

**\$50,000,000**  
**JUNIOR LIEN SEWER REVENUE BONDS**  
**SERIES 2015A**  
**Coupon: 2.00%; CUSIP No. 4952892K5**  
**Yield to Mandatory Purchase Date: 0.360%**  
**Price to Mandatory Purchase Date: 101.599**

**\$50,000,000**  
**JUNIOR LIEN SEWER REVENUE BONDS**  
**SERIES 2015B**  
**Coupon: 2.00%; CUSIP No. 4952892L3**  
**Yield to Mandatory Purchase Date: 0.360%**  
**Price to Mandatory Purchase Date: 101.599**

**DATED:** Date of Initial Delivery

**DUE:** January 1, 2046  
**MANDATORY PURCHASE DATE:** November 16, 2016

King County, Washington (the "County"), is issuing its Junior Lien Sewer Revenue Bonds, Series 2015A, and Junior Lien Sewer Revenue Bonds, Series 2015B (together, the "Bonds"), as fully registered obligations. The Bonds of each series will be issued initially in the denomination of \$5,000 or any integral multiple thereof, and will be registered initially in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"). Each Bond registered in the name of DTC or its nominee will be held fully immobilized in book-entry only form by DTC in accordance with the provisions of the Letter of Representations. Purchasers will not receive certificates representing their interest in the Bonds purchased. For so long as the Bonds are registered in the name of DTC or its nominee, DTC will be deemed to be the Registered Owner, and all references to Registered Owners will mean DTC and not the Beneficial Owners.

The Bonds will bear interest payable on November 16, 2016 (the "Long-Term Rate Mandatory Purchase Date"), at the rates set forth above. The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (the "Registrar"), currently U.S. Bank National Association. For so long as the Bonds remain in a "book-entry only" transfer system, the Registrar is required to make such payments only to DTC as initial Securities Depository for the Bonds. DTC, in turn, is obligated to remit such principal and interest to DTC participants for subsequent disbursement to Beneficial Owners of the Bonds as described in Appendix F—Book-Entry System.

The Bonds are being issued as Long-Term Rate Bonds for the Initial Period. This Official Statement describes the Bonds only during the Initial Period. Upon satisfaction of the conditions described herein, all (but not less than all) of the Bonds of a series may be converted on the Long-Term Rate Mandatory Purchase Date to bear interest at the Daily Rate, the Weekly Rate, an Index Floating Rate, the Short-Term Rate, another Long-Term Rate, or the Fixed Rate.

The Bonds are subject to mandatory tender for purchase on the Long-Term Rate Mandatory Purchase Date. ***No Liquidity Facility secures the payment of the Purchase Price of the Bonds on the Long-Term Rate Mandatory Purchase Date. The failure of the County to pay the Purchase Price of the Bonds as and when due on the Long-Term Rate Mandatory Purchase Date constitutes a default.*** The Bonds are not subject to redemption prior to the Long-Term Rate Mandatory Purchase Date.

The Bonds are being issued to provide all or a portion of the funds necessary to pay the principal of and interest on the County's outstanding Sewer Revenue Bond Anticipation Notes, Commercial Paper Series A, and to pay the costs of issuing the Bonds.

The Bonds are obligations only of the Junior Lien Bond Fund and are secured by a lien and charge on Revenue of the System junior, subordinate, and inferior to Operating and Maintenance Expenses; junior, subordinate, and inferior to the lien and charge on such Revenue of the System for the payments required to be made into the Parity Bond Fund and the accounts therein; junior, subordinate, and inferior to the lien and charge on such Revenue of the System for the payments required to be made into the Parity Lien Obligation Fund and the accounts therein; equal to the lien and charge on such Revenue of the System to pay and secure the payment of the outstanding Junior Lien Obligations and any Additional Junior Lien Obligations; and superior to all other liens and charges of any kind or nature. The Bonds are not obligations of the State of Washington (the "State") or any political subdivision thereof other than the County. Neither the full faith and credit nor the taxing power of the County or the State or any political subdivision thereof is pledged to the payment of the Bonds.

The Bonds are offered when, as and if issued, subject to approval of legality by Foster Pepper PLLC, Seattle, Washington, Bond Counsel, and certain other conditions. The form of Bond Counsel's opinion is attached as Appendix B. It is anticipated that the Bonds will be ready for delivery through the facilities of DTC in New York, New York, or to the Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about November 24, 2015.

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

Dated: November 16, 2015

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

*The information set forth herein has been obtained by the County from County records and from other sources that the County believes to be reliable, but the County does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.*

*The County makes no representation regarding the accuracy or completeness of the information provided in Appendix F—Book-Entry System, which has been furnished by DTC.*

*This Official Statement is not to be construed as a contract or agreement between the County and purchasers or owners of any of the Bonds.*

*The public offering prices corresponding to the yields set forth on the cover page of this Official Statement may be changed from time to time by the initial purchaser(s) of the Bonds (the “Purchaser”). The Purchaser may offer and sell the Bonds to certain dealers, unit investment trusts, or money market funds at prices lower than the public offering prices set forth on the cover page of this Official Statement.*

*Certain statements contained in this Official Statement, including the appendices, reflect not historical facts but forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.*

*CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers shown on the cover page are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by Standard & Poor’s. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The County takes no responsibility for the accuracy of such CUSIP numbers.*

*No website of the County or any other entity is part of this Official Statement, and investors should not rely on information presented on the County’s website, or any other website referenced herein, in determining whether to purchase the Bonds. Information appearing on any such website is not incorporated by reference in this Official Statement*

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**KING COUNTY, WASHINGTON  
500 FOURTH AVENUE  
SEATTLE, WASHINGTON 98104**

**KING COUNTY EXECUTIVE**

Dow Constantine

**METROPOLITAN KING COUNTY COUNCIL**

Larry Phillips	Chair
Jane Hague	Vice Chair
Joe McDermott	Vice Chair
Rod Dembowski	Councilmember
Reagan Dunn	Councilmember
Larry Gossett	Councilmember
Kathy Lambert	Councilmember
Dave Upthegrove	Councilmember
Pete von Reichbauer	Councilmember

**OTHER ELECTED OFFICIALS**

Dan Satterberg	Prosecuting Attorney
Lloyd Hara	Assessor
John Urquhart	Sheriff
Sherril Huff	Director of Elections

**DIRECTOR OF FINANCE AND BUSINESS OPERATIONS DIVISION  
DEPARTMENT OF EXECUTIVE SERVICES**

Ken Guy

**CLERK OF THE METROPOLITAN KING COUNTY COUNCIL**

Anne Noris

**BOND COUNSEL**

Foster Pepper PLLC

**FINANCIAL ADVISOR TO THE COUNTY**

Piper Jaffray & Co./Seattle-Northwest Division

**REGISTRAR**

Washington State Fiscal Agent  
(Currently U.S. Bank National Association)

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## **OFFICIAL STATEMENT**

### **KING COUNTY, WASHINGTON**

<b>\$50,000,000</b>	<b>\$50,000,000</b>
<b>JUNIOR LIEN SEWER REVENUE BONDS</b>	<b>JUNIOR LIEN SEWER REVENUE BONDS</b>
<b>SERIES 2015A</b>	<b>SERIES 2015B</b>

### **INTRODUCTION**

This Official Statement contains certain information concerning the issuance by King County, Washington (the “County”), of its Junior Lien Sewer Revenue Bonds, Series 2015A (the “2015A Bonds”), and Junior Lien Sewer Revenue Bonds, Series 2015B (the “2015B Bonds”) (together, the “Bonds”). The Bonds are issued under and in accordance with the provisions of chapters 35.58, 36.67, and 39.46 of the Revised Code of Washington (“RCW”) and the County Charter, and are authorized under the provisions of County Ordinance 18141, passed on October 26, 2015 (the “Bond Ordinance”), and Motion 14459 of the County Council passed on November 16, 2015 (the “Sale Motion”). A summary of the Bond Ordinance is attached as Appendix A.

This Official Statement describes the Bonds only during the Initial Period.

Quotations, summaries, and explanations of constitutional provisions, statutes, resolutions, ordinances, and other documents in this Official Statement do not purport to be complete and are qualified by reference to the complete text of such documents, which may be obtained from the Finance and Business Operations Division of the Department of Executive Services, 500 Fourth Avenue, Room 600, Seattle, Washington 98104. Capitalized terms that are not defined herein have the same meanings as set forth in the Bond Ordinance or Sale Motion.

### **THE BONDS**

#### **Description**

The Bonds of each series will be dated the date of their initial delivery, and will mature on the date and bear interest for the Initial Period at the rates set forth on the cover page of this Official Statement. The Bonds will be issued initially as Long-Term Rate Bonds and will bear interest, from the Closing Date, payable on November 16, 2016 (the “Long-Term Rate Mandatory Purchase Date”), and computed on the basis of a 360-day year of twelve 30-day months from their dated date. The Bonds of each series will be fully registered as to both principal and interest and will be in the denomination of \$5,000 or any integral multiple thereof. The Bonds initially will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company (“DTC”). See “Book-Entry System.”

The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (the “State”), currently U.S. Bank National Association (the “Registrar”). For so long as all of the Bonds are registered in the name of DTC or its nominee, payments of principal thereof and interest thereon will be made in accordance with the operational arrangements of DTC referred to in the Letter of Representations between the County and DTC. DTC, in turn, is

obligated to remit such principal and interest to DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described herein in Appendix F—Book-Entry System.

### **Long-Term Rate Bonds**

The Bonds of each series initially will bear interest at the applicable Long-Term Rate shown on the cover page of this Official Statement during the Initial Period. The Initial Period will commence on the Closing Date and end on the Long-Term Rate Mandatory Purchase Date.

### **Mandatory Tender of the Bonds**

The Bonds are subject to mandatory tender for purchase by the Tender Agent (initially, the Registrar), at a price equal to the principal amount of the Bonds (the “Purchase Price”) on the Long-Term Rate Mandatory Purchase Date. *No Liquidity Facility secures the payment of the Purchase Price of the Bonds on the Long-Term Rate Mandatory Purchase Date. The failure of the County to pay the Purchase Price of the Bonds as and when due on the Long-Term Rate Mandatory Purchase Date constitutes a default.*

The Registrar is required to give Electronic Notice, confirmed by first class mail, of mandatory tender for purchase of Bonds to each Registered Owner not less than 15 days prior to the Long-Term Rate Mandatory Purchase Date at their addresses as they appear on the Bond Register as of the date the notice is prepared. The notice of mandatory tender for purchase is required to:

- (i) specify the Long-Term Rate Mandatory Purchase Date;
- (ii) state that the Bonds are subject to mandatory tender for purchase on the Long-Term Rate Mandatory Purchase Date;
- (iii) state that Registered Owners and Beneficial Owners may not elect to retain Bonds;
- (iv) state that all Bonds are required to be delivered to the designated office of the Tender Agent not later than 1:00 p.m., New York City time, on the Purchase Date;
- (v) state that if the Registered Owner of any Bond fails to deliver the Bond to the Tender Agent for purchase on the Long-Term Rate Mandatory Purchase Date, and if the Tender Agent is in receipt of funds sufficient to pay the Purchase Price, the Bond will nevertheless be deemed purchased on the Long-Term Rate Mandatory Purchase Date and ownership of the Bond will be transferred to the purchaser thereof;
- (vi) state that any Registered Owner that fails to deliver any Bond will have no further rights thereunder or under the Bond Ordinance except the right to receive the Purchase Price upon presentation and surrender of the Bond to the Tender Agent, and that the Registrar will place a stop transfer against the Bond on the Bond Register; and
- (vii) state that the Bonds will be purchased if money sufficient to effect such purchase has been provided from the remarketing of the Bonds or funds provided by the County.

The Bonds must be delivered by the Registered Owners to the Tender Agent (together with necessary assignments and endorsements) not later than 1:00 p.m., New York City time, on the Long-Term Rate Mandatory Purchase Date. Bonds for which notice of mandatory tender for purchase has been duly delivered but that are not delivered for purchase on or prior to the Long-Term Rate Mandatory Purchase Date, and for which there has been irrevocably deposited in escrow with the Tender Agent an amount sufficient to pay the Purchase Price, will be deemed to have been tendered to the Tender Agent for purchase, and Registered Owners will not be entitled



to any payment (including any interest to accrue on or after the Purchase Date) other than the Purchase Price, and such Bonds will not be entitled to any benefits of the Bond Ordinance, except for payment of the Purchase Price out of the money deposited in the Purchase Fund for such payment.

Not later than 3:00 p.m., New York City time, on the Long-Term Rate Mandatory Purchase Date, the Tender Agent is required to pay the Purchase Price of the Bonds to the Registered Owners (and not the Beneficial Owners) thereof (upon surrender thereof for payment of the Purchase Price), from the following sources and in the following order of priority: (i) proceeds of remarketing the Bonds; and (ii) amounts paid by the County to the Tender Agent for the purchase of such Bonds.

If the funds available for the purchase of a series of Bonds on the Long-Term Rate Mandatory Purchase Date are insufficient to purchase all of the Bonds of such series, then no purchase of any Bonds of such series will occur on the Long-Term Rate Mandatory Purchase Date and, on the Long-Term Rate Mandatory Purchase Date, the Tender Agent is required to return to the Registered Owners all of the Bonds of such series that were tendered. Bonds of a series that are not purchased on the Long-Term Rate Mandatory Purchase Date will continue to bear interest at the applicable Long-Term Rate until the date that all of the Bonds of such series have been purchased. The Registrar is required to notify the Registered Owners of at their addresses as they appear on the Bond Register on the date of the notice, by Electronic Notice, confirmed by first class mail, as soon as practicable.

### **Conversion of the Interest Rate Mode**

On the Long-Term Rate Mandatory Purchase Date, at the option of the County, all (but not less than all) of the Bonds of a series may be converted to bear interest at the Daily Rate, the Weekly Rate, an Index Floating Rate, the Short-Term Rate, another Long-Term Rate, or the Fixed Rate.

The Conversion will not take effect if:

- (i) the County withdraws notice of the Conversion not later than the Business Day preceding the date on which the interest rate for the new Interest Rate Mode is to be determined;
- (ii) the Calculation Agent or the Remarketing Agent, as applicable, fails to determine, when required, the interest rate for the new Interest Rate Mode;
- (iii) the notice of Conversion required to be given to Registered Owners is not given when required;
- (iv) the County fails to deliver to the Registrar or the Remarketing Agent, on or before the Conversion Date, an opinion of Bond Counsel to the effect that the Conversion is authorized by the Bond Ordinance and will not, in and of itself, cause the interest on the Bonds to be includable in gross income for federal income tax purposes;
- (v) sufficient funds are not available by 12:00 p.m., New York City time, on the Conversion Date to purchase all of the Bonds required to be purchased on the Conversion Date; or
- (vi) not all of the Bonds required to be marketed on the Conversion Date are remarketed in the new Interest Rate Mode.

If any of these events occur, the Conversion will not take place and the Bonds will continue to bear interest at the applicable Long-Term Rate until the Bonds have been remarketed.

### **No Redemption of the Bonds**

The Bonds are not subject to redemption prior to the Long-Term Rate Mandatory Purchase Date.

### **Open Market Purchase of the Bonds**

The County has reserved the right and option to purchase any or all of the Bonds in the open market or offered to the County at any time at any price acceptable to the County plus accrued interest to the date of purchase.

### **Refunding or Defeasance of the Bonds**

The County may issue refunding obligations pursuant to State law or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include (i) paying when due the principal of and interest on any or all of the Bonds (the “Defeased Bonds”), (ii) redeeming the Defeased Bonds prior to their maturity, and (iii) paying the costs of the refunding or defeasance. If the County sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance (the “Trust Account”) money and/or Government Obligations, as defined below, maturing at a time or times and bearing interest in amounts sufficient to redeem, refund, or defease the Defeased Bonds in accordance with their terms, then all right and interest of the Owners of the Defeased Bonds in the covenants of the Bond Ordinance and in the funds and accounts obligated to the payment of the Defeased Bonds will cease and become void. Thereafter, the Registered Owners of Defeased Bonds will have the right to receive payment of the principal of and interest on the Defeased Bonds solely from the Trust Account, and the Defeased Bonds will be deemed no longer outstanding. In that event, the County may apply money remaining in any fund or account (other than the Trust Account) established for the payment or redemption of the Defeased Bonds to any lawful purpose.

Unless otherwise specified by the County in a refunding or defeasance plan, notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner prescribed above for the redemption of Bonds.

“Government Obligations” has the meaning given in chapter 39.53 RCW, as now in existence or hereafter amended, and currently means (i) direct obligations of or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, federal land banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation to the extent insured or guaranteed as permitted under any other provision of State law.

### **Book-Entry System**

*Book-Entry Bonds.* The Bonds initially will be registered in the name of Cede & Co., as the nominee of DTC. Each Bond registered in the name of DTC or its nominee will be held fully immobilized in book-entry only form by DTC in accordance with the provisions of the Letter of Representations. Neither the County nor the Registrar will have any obligation to DTC participants or the persons for whom they act as nominees regarding accuracy of any records

maintained by DTC or its participants. Neither the County nor the Registrar will be responsible for any notice that is permitted or required to be given to a Registered Owner except such notice as is required to be given by the Registrar to the Securities Depository.

For so long as the Bonds are registered in the name of DTC, DTC or its nominee will be deemed to be the Registered Owner for all purposes under the Bond Ordinance, and all references to Registered Owners will mean the Securities Depository and will not mean the Beneficial Owners. Registered ownership of any Bond registered in the name of DTC or its nominee may not be transferred except (i) to any successor Securities Depository, (ii) to any substitute Securities Depository appointed by the County, or (iii) to any person if the Bond is no longer to be held by a Securities Depository

*The County makes no representation as to the accuracy or completeness of information in Appendix F provided by DTC. Purchasers of the Bonds should confirm its contents with DTC or its participants.*

*Termination of Book-Entry System.* Upon the resignation of DTC or upon a termination of the services of DTC by the County, the County may appoint a substitute Securities Depository. If DTC resigns and the County does not appoint a substitute Securities Depository, or the County terminates the services of DTC, the Bonds no longer will be held in book-entry only form and the registered ownership of each Bond may be transferred to any person as provided in in the Bond Ordinance.

## **USE OF PROCEEDS**

### **Purpose**

The Bonds are being issued to provide all or a portion of the funds necessary to pay the principal of and interest on the County's outstanding Sewer Revenue Bond Anticipation Notes, Commercial Paper Series A, and to pay the costs of issuing the Bonds.

## Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

<b>SOURCES OF FUNDS</b>	<b>2015A BONDS</b>	<b>2015B BONDS</b>	<b>TOTAL</b>
Par Amount of Bonds	\$ 50,000,000	\$ 50,000,000	\$ 100,000,000
Reoffering Premium	799,500	799,500	1,599,000
Total Sources of Funds	<u>\$ 50,799,500</u>	<u>\$ 50,799,500</u>	<u>\$ 101,599,000</u>
<b>USES OF FUNDS</b>			
Deposit to Commercial Paper Redemption Fund	\$ 50,000,000	\$ 50,000,000	\$ 100,000,000
Deposit to Junior Lien Bond Fund	706,835	706,835	1,413,670
Payment of Costs of Issuance <sup>(1)</sup>	92,665	92,665	185,330
Total Uses of Funds	<u>\$ 50,799,500</u>	<u>\$ 50,799,500</u>	<u>\$ 101,599,000</u>

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

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### Limited Obligations

The Bonds are obligations only of the Junior Lien Bond Fund. The Bonds are not obligations of the State or any political subdivision thereof other than the County. Neither the full faith and credit nor the taxing power of the County or the State or any political subdivision thereof is pledged to the payment of the Bonds. Payment of the Bonds is not secured by any debt service reserve.

### Pledge of and Lien on Revenue of the System

The amounts covenanted in the Bond Ordinance to be paid out of Revenue of the System into the Junior Lien Bond Fund and the accounts therein constitute a lien and charge on Revenue of the System that is secured by a lien and charge on Revenue of the System that is:

- (i) junior, subordinate, and inferior to Operating and Maintenance Expenses;
- (ii) junior, subordinate, and inferior to the lien and charge on such Revenue of the System for the payments required to be made into the Parity Bond Fund and the accounts therein;
- (iii) junior, subordinate, and inferior to the lien and charge on such Revenue of the System for the payments required to be made into the Parity Lien Obligation Fund and the accounts therein;
- (iv) equal to the lien and charge on such Revenue of the System to pay and secure the payment of the outstanding Junior Lien Obligations and any Additional Junior Lien Obligations; and
- (v) superior to all other liens and charges of any kind or nature, including the lien and charge on such Revenue of the System to pay and secure the payment of Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, SRF Loans and Public

Works Trust Fund Loans, all of which are described below under “Outstanding Sewer System Obligations.”

For information on the Sewer System, including the sources of Revenue of the System, see “The Sewer System,” particularly the information therein under the subheadings “The Participants” and “Sewer Rates.”

### **Flow of Funds**

Revenue of the System is required to be deposited into the Revenue Fund and applied in the following order of priority:

- (i) to pay all Operating and Maintenance Expenses;
- (ii) to make all required deposits into the Debt Service Account in the Parity Bond Fund to provide for the payment of principal of and interest on Parity Bonds as the same become due and payable and to make any Payment Agreement Payments with respect to any Parity Payment Agreements;
- (iii) to make all payments required to be made pursuant to a reimbursement agreement or agreements (or other equivalent documents) in connection with Qualified Insurance or a Qualified Letter of Credit; provided that if there is not sufficient money to make all payments under such reimbursement agreements, the payments will be made on a pro rata basis;
- (iv) to establish and maintain the Parity Bond Reserve Account (including making deposits into such account and paying the costs of obtaining Qualified Insurance or a Qualified Letter of Credit therefor);
- (v) to make all required payments of principal and interest on the Parity Lien Obligations and to make any Payment Agreement Payments with respect to any Parity Lien Obligation Payment Agreements;
- (vi) to make all required payments of principal of and interest on the Junior Lien Obligations (including the Bonds) as the same become due and payable, to make all Payment Agreement Payments with respect to any Payment Agreements entered into with respect to Junior Lien Obligations, and to make any payments required to be made to providers of any credit enhancements or liquidity facilities for Junior Lien Obligations;
- (vii) to make all required payments of principal of and interest on the Multi-Modal LTGO/Sewer Revenue Lien Obligations as the same become due and payable, to make all Payment Agreement Payments for any Payment Agreements entered into with respect to Multi-Modal LTGO/Sewer Revenue Bonds, and to make any payments required to be made to providers of credit enhancements or liquidity facilities for any Multi-Modal LTGO/Sewer Revenue Bonds;
- (viii) to make all required payments of principal of and interest on the Subordinate Lien Obligations as the same become due and payable;
- (ix) to make all required payments of principal of and interest on bonds, notes, warrants and other evidences of indebtedness, the lien and charge on Revenue of the System of which is junior and inferior to the Subordinate Lien Obligations, as the same become due and payable; and

- (x) to make all required payments of principal of and interest on the SRF Loans and the Public Works Trust Fund Loans.

Any surplus money that the County may have on hand in the Revenue Fund after making the required payments set forth above may be used by the County for any of the following purposes:

- (i) to make necessary improvements, additions and repairs to, and extensions and replacements of, the Sewer System;
- (ii) to purchase or redeem and retire sewer revenue bonds of the County;
- (iii) to make deposits into the Rate Stabilization Fund (see “Rate and Coverage Covenants—Rate Stabilization Fund”); or
- (iv) for any other lawful purposes of the County related to the Sewer System.

Such other lawful purposes of the County may include repayment of interfund borrowing.

### **Outstanding Sewer System Obligations**

The following table presents information on the outstanding obligations of the County’s Sewer System (“Sewer System Obligations”) as of November 1, 2015.

#### **OUTSTANDING SEWER SYSTEM OBLIGATIONS**

<b>Sewer System Obligations</b>	<b>Principal Amount of Sewer System Obligations</b>	
	<b>Outstanding</b>	<b>Final Maturity</b>
Parity Bonds <sup>(1)</sup>	\$ 2,530,165,000	2052
Parity Lien Obligations (LTGO) <sup>(2)</sup>	662,385,000	2039
Junior Lien Obligations <sup>(3)</sup>	300,000,000	2043
Multi-Modal LTGO/Sewer Revenue Bonds	100,000,000	2040
Subordinate Lien Obligations <sup>(4)</sup>	100,000,000	2016
SRF Loans and Public Works Trust Fund Loans <sup>(5)</sup>	<u>162,777,712</u>	2036
Total Sewer System Obligations Outstanding	<u><u>\$ 3,855,327,712</u></u>	

- (1) Includes the Sewer Improvement and Refunding Revenue Bonds, 2015, Series B (the “2015B Bonds”), expected to close on November 17, 2015, and excludes the bonds refunded by the 2015B Bonds.
- (2) Excludes \$3,010,000 of Limited Tax General Obligation Bonds (Federally Taxable Qualified Energy Conservation Bonds), Series 2012F (the “QECB Bonds”). While the Sewer System is responsible for paying debt service on the QECB Bonds, the Revenue of the System was not pledged to the payment of these bonds. Debt service payments will be made from Revenue of the System remaining at the bottom of the flow of funds listed above under “Flow of Funds” as another lawful purpose of the County related to the Sewer System.
- (3) Will increase by \$100,000,000 upon the closing of the Bonds.
- (4) The commercial paper program at this lien position has a maximum authorized principal amount of \$100,000,000, the full amount of which is outstanding and will be retired upon the closing of the Bonds.
- (5) As of November 3, 2015, does not include \$59.4 million in undrawn loan commitments from the Washington State Department of Ecology (“Ecology”). See “The Sewer System—Future Sewer System Financing Plans.”

*Source: King County Finance, Business and Operations Division*

**PARITY BONDS.** Including the 2015B Bonds and excluding the bonds refunded by the 2015B Bonds, the County has outstanding 17 series of Parity Bonds, which are sewer revenue bonds that are secured solely by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures the Parity Bonds is subordinate to the payment of Operating and Maintenance Expenses of the Sewer System and senior to the liens that secure all other Sewer System Obligations.

**PARITY LIEN OBLIGATIONS.** The County has outstanding six series of Parity Lien Obligations, which are limited tax general obligation bonds of the County that are additionally secured by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures the Parity Lien Obligations is subordinate to the lien that secures the Parity Bonds, but senior to the liens that secure the Junior Lien Obligations, the Multi-Modal LTGO/Sewer Revenue Bonds, the Subordinate Lien Obligations, and the SRF Loans and Public Works Trust Fund Loans.

**JUNIOR LIEN OBLIGATIONS.** Upon the closing of the Bonds, the County will have outstanding five series of Junior Lien Obligations, which are multimodal bonds that are payable from and secured by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures the Junior Lien Obligations is subordinate to the liens that secure the Parity Bonds and the Parity Lien Obligations, but senior to the liens that secure the Multi-Modal LTGO/Sewer Revenue Bonds, the Subordinate Lien Obligations, and the SRF Loans and Public Works Trust Fund Loans.

**MULTI-MODAL LTGO/SEWER REVENUE BONDS.** The County has outstanding two series of Multi-Modal LTGO/Sewer Revenue Bonds, which are limited tax general obligation bonds of the County that are additionally payable from and secured by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures the Multi-Modal LTGO/Sewer Revenue Bonds is subordinate to the liens that secure the Parity Bonds, the Parity Lien Obligations and the Junior Lien Obligations, but senior to the liens that secure the Subordinate Lien Obligations and the SRF Loans and Public Works Trust Fund Loans.

**SUBORDINATE LIEN OBLIGATIONS.** Upon the closing of the Bonds, the County will have no Subordinate Lien Obligations outstanding.

**SRF LOANS AND PUBLIC WORKS TRUST FUND LOANS.** The County has received loans from the State (administered by various State agencies) that are payable from and secured by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures these loans (the SRF Loans and the Public Works Trust Fund Loans) is subordinate to the liens that secure all other Sewer System Obligations.

*Credit Facilities.* The County has entered into various agreements establishing credit facilities with commercial banks that secure certain outstanding Sewer System Obligations. The County has also entered into agreements with direct purchasers of certain outstanding Sewer System obligations. Unless extended, each such credit facility terminates prior to the final maturity of the related obligations (or, in the case of the Subordinate Lien Obligations, prior to the final authorization date). A summary of the relevant Sewer System Obligations and related credit facility terms is shown in the following table.

### SUMMARY OF CREDIT FACILITIES

Series	Type of Sewer System Obligations	Amount Outstanding as of 10/1/2015	Type of Facility	Provider	Expiration	Term-Out Provision	Maturity
Sewer Revenue Bond Anticipation Notes Commercial Paper Series A <sup>(1)</sup>	Subordinate Lien Obligations	\$100,000,000	Line of Credit	Bayerische Landesbank Girozentrale	11/30/2015	Three Years	Various
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001 A&B	Junior Lien Obligations	\$100,000,000	Letter of Credit	Landesbank Hessen-Thuringen Girozentrale (Helaba)	9/30/2020	Three Years	01/01/2032
Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2010 A&B	Multi-Modal LTGO/Sewer Revenue Bonds	\$100,000,000	Standby Bond Purchase Agreement	State Street Bank and Trust Company	11/3/2017	Three Years	01/01/2040
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2011	Junior Lien Obligations	\$100,000,000	Bondholder's Agreement	US Bank National Association	05/01/2017	Three Years	01/01/2042
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2012	Junior Lien Obligations	\$100,000,000	Continuing Covenant Agreement	Wells Fargo Municipal Capital Strategies, LLC	12/27/2016	Three Years	01/01/2043

(1) To be retired with the proceeds of the Bonds on November 24, 2015.



The County currently intends to keep these obligations outstanding until the final maturity. However, if the County is unable to extend or replace any such credit facility, the provider of that credit facility is obligated to purchase the outstanding obligations secured thereby before that credit facility terminates. In that case, the County could be obligated to repay during a “term-out” period all principal of the obligations secured thereby before the stated final maturity dates. In addition, if fees for extensions or replacements of any such credit facility increase substantially or such extensions or replacements otherwise cease to benefit the County, the County may seek to refund with or convert the obligations secured by that credit facility to fixed rate bonds, which may increase debt service associated with those obligations above the amount that is currently projected by the County. See “The Sewer System—Debt Service Requirements Payable from Sewer Revenues.”

### **Agreements With Participants**

*Service Agreements.* The Service Agreements with the Municipal Participants (described below under “The Sewer System—The Participants”) contain provisions that are uniform in effect with respect to the facilities to be provided, delivery and acceptance of sewage, and payment for sewage disposal. The Service Agreements with the non-Municipal Participants, which accounted for approximately 0.53% of the sewage disposal revenues in the year ended December 31, 2014, do not differ substantially from the Service Agreements with the Municipal Participants. The rates set by Municipal Participants for sewer service to their customers are not subject to the jurisdiction of the Washington Utilities and Transportation Commission. Under Washington law, the Municipal Participants have various remedies for the enforcement of delinquent bills, including placing liens on the property of delinquent customers.

The Service Agreements uniformly provide that the County will receive all sewage collected by the Participants in the service area of the Sewer System and will treat and dispose of such sewage. In return, the Participants will deliver their sewage to the Sewer System and pay the County for all costs incurred in providing sewage disposal services, including the debt service on all obligations secured by Revenue of the System.

All of the Service Agreements with the Municipal Participants extend to at least July 1, 2036. Since 2002, the County has been in the process of negotiating extensions of the Service Agreements with the Participants. These negotiations continue. Extensions through July 1, 2056, have been signed by the cities of Renton, Tukwila, Pacific, Issaquah, Kirkland, and Carnation, the Alderwood Water & Wastewater District, the Vashon Sewer District, and the Muckleshoot Indian Tribe, which together provided 14.81% of the sewage disposal revenues in the year ended December 31, 2014. The requirement for Municipal Participants within the County to remain customers of the Sewer System beyond the expiration of existing Service Agreements is described below under “Agency Customer Continuation Requirement.”

*Validity and Enforceability.* The common provisions of the Service Agreements (i) provide for the delivery of sewage to the Sewer System by each Participant and the acceptance of such sewage by the County for treatment and disposal, and (ii) establish the method for determining Sewage Disposal Charges and for making payment thereof. In 1960, the Service Agreement with the City of Seattle (“Seattle”) (containing the essential common provisions of all the Service Agreements) was held valid by an *en banc* decision of the Supreme Court of the State of

Washington (*Municipality of Metropolitan Seattle v. City of Seattle*, 57 Wn.2d 446, 357 P.2d 863 (1960)).

*Agency Customer Continuation Requirement.* By Ordinance 15757, passed on May 7, 2007, the County Council invoked its authority under RCW 35.58.200(3) to require that each current Municipal Participant within the County continue as an “Agency Customer” (a wholesale customer of the Sewer System not subject to a Service Agreement) following expiration of its Service Agreement so long as bonds issued to finance the capital projects in the Regional Wastewater Services Plan (“RWSP”), which include the Bonds, remain outstanding. See “The Sewer System—The Participants.” In accordance with RCW 35.58.200(4), Ordinance 15757 also established a monthly sewer rate for Agency Customers, including Municipal Participants within the County, which are required to connect to the Sewer System, and Municipal Participants outside the County and non-Municipal Participants, which are not required to connect to the Sewer System unless a Service Agreement is in effect. Municipal Participants outside the County and Non-Municipal Participants contributed 5.9% of the sewage disposal revenues in the year ending December 31, 2014. The formula for the monthly rate charged Agency Customers under Ordinance 15757 is identical to the formula set forth in the Service Agreements.

### **Rate and Coverage Covenants**

The County has covenanted in the Bond Ordinance that it will establish, maintain, and collect rates and charges for sewage disposal service for each calendar year that are fair and nondiscriminatory and adequate to provide the County with Revenue of the System sufficient to:

- (i) pay all Operating and Maintenance Expenses during such calendar year,
- (ii) make required debt service payments on the Bonds and other Parity Bonds and make Payment Agreement Payments under any Parity Payment Agreements,
- (iii) pay punctually all amounts described in paragraphs (iii) through (x) under “Flow of Funds” due during such calendar year, and
- (iv) pay any and all amounts that the County is now or may hereafter become obligated by law or contract to pay during such calendar year from the Revenue of the System.

The County has further covenanted in the Bond Ordinance to establish, maintain, and collect rates and charges for sewage disposal service that, together with the interest to be earned on investments made of money in the Revenue Fund, Parity Bond Fund, Parity Lien Obligation Bond Fund, Junior Lien Bond Fund, and Construction Account will provide in each calendar year Net Revenue, after deducting therefrom amounts required in such year to pay Annual Debt Service on Parity Bonds and Parity Lien Obligations, in an amount equal to at least 1.10 times the amounts required to pay Annual Debt Service for all Junior Lien Obligations for that year.

*Rate Stabilization Fund.* The County established the Rate Stabilization Fund in 2005. The County may from time to time appropriate or budget amounts in the Revenue Fund for deposit in the Rate Stabilization Fund, as provided in the Bond Ordinance, and may from time to time withdraw amounts therefrom for deposit in the Revenue Fund to prevent or mitigate sewer rate increases or for other lawful purposes of the County related to the System, including calculations of Net Revenue and Revenue of the System for the purposes of satisfying requirements of the Bond Ordinance.

For any fiscal year, (i) amounts withdrawn from the Revenue Fund and deposited into the Rate Stabilization Fund for that fiscal year must be subtracted from Net Revenue for that fiscal year, and (ii) amounts withdrawn from the Rate Stabilization Fund and deposited in the Revenue Fund for that fiscal year may be added to Revenue of the System for that fiscal year.

The County made its first deposit into the Rate Stabilization Fund in 2005. During 2014, \$18.0 million was withdrawn from the Rate Stabilization Fund to mitigate sewer rate increases. As of December 31, 2014, the balance in the Rate Stabilization Fund was \$34.25 million. The County expects to utilize all of these funds by the end of 2020 to mitigate sewer rate increases. The County does not anticipate making any withdrawals from the Rate Stabilization Fund in 2015.

### **Additional Obligations of the System**

*Senior Lien Obligations.* The County reserves the right to issue additional Parity Bonds and Parity Lien Obligations on the applicable terms and conditions set forth in the ordinances authorizing issuance of the Parity Bonds and Parity Lien Obligations then outstanding. See “The Sewer System—Financial Policies.”

*Additional Junior Lien Obligations.* The County reserves the right to issue Additional Junior Lien Obligations, but only if such Additional Junior Lien Obligations are issued for the purpose of refunding any Junior Lien Obligations then outstanding or for any lawful purpose of the County related to the System and the following conditions are met:

- (i) At the time of issuing such Additional Junior Lien Obligations, there is no default in the payment of the principal of or interest on any Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, SRF Loans or Public Works Trust Fund Loans.
- (ii) The County has on file one of the following certificates:
  - (a) A certificate of the Finance Director showing that Net Revenue in any 12 consecutive months out of the most recent 18 months preceding the issuance of such Additional Junior Lien Obligations, based on financial statements of the System prepared by the County and after deducting therefrom the Senior Lien Payments required in each calendar year during the life of such Additional Junior Lien Obligations, will be at least equal to 1.10 times the Annual Debt Service for the proposed Additional Junior Lien Obligations and all Junior Lien Obligations then outstanding in each year during the life of such Additional Junior Lien Obligations; or
  - (b) A certificate from a Professional Utility Consultant (which certificate may not be dated more than 90 days prior to the date of delivery of such Additional Junior Lien Obligations) showing that, in his or her professional opinion, the Net Revenue, estimated on the basis of all factors as he or she may consider reasonable, for each of the five calendar years following the year in which such Additional Junior Lien Obligations are to be issued, after deducting therefrom Senior Lien Payments for each such year, will be at least equal to 1.10 times the Annual Debt Service for the proposed Additional Junior Lien Obligations and all Junior Lien Obligations then outstanding in each of those five years.

## THE SEWER SYSTEM

The sewerage system provided by the County is wholesale in character, covering construction, operation, and maintenance of main trunk and interceptor sewers, pumping stations, and treatment plants. In 1994, the County assumed the rights, powers, functions, and obligations of the Municipality of Metropolitan Seattle (“Metro”), which had developed and operated a regional system for the collection and treatment of sewage. Metro’s sewer utility function was integrated as a division into the County’s Department of Natural Resources, now known as the Department of Natural Resources and Parks.

The County’s Wastewater Treatment Division (“WTD”) is one of four divisions in the Department of Natural Resources and Parks (“DNRP”). The four divisions in DNRP perform tasks ranging from improving water quality to enhancing parks and trails, protecting citizens from flooding, restoring crucial fish and wildlife habitat, and recycling and reusing wastewater and solid waste byproducts. Its overall mission is to safeguard the environment, ensure public safety, and preserve the region’s quality of life. Brief biographies of key officials in DNRP and WTD are provided below.

*Christie True, Director, DNRP.* Ms. True was appointed to this position in 2010. She previously served as WTD’s Division Director and is a 29-year veteran of the County, where she started her career as a water quality technician. In 2006, she was named Local Official of the Year by the National Home Builders for her work on the Brightwater project. Ms. True received her bachelor’s degree in Environmental Studies from Western Washington University’s Huxley College.

*Pam Elardo, P.E., WTD Division Director.* Ms. Elardo was appointed to this position in 2010. She has been with WTD since 2001, supervising the Permitting and Right-of-Way unit during the planning and design of Brightwater, overseeing its Asset Management Program, and serving as Manager of the West Point Treatment Plant. Before working at WTD, she worked with Ecology for 14 years. She is a licensed Professional Engineer and certified Group IV Wastewater Treatment Plant Operator. Ms. Elardo has a B.S. degree in Chemical Engineering from Northwestern University and an M.S. in Civil and Environmental Engineering from the University of Washington.

*Sandra Kilroy, WTD Assistant Division Director.* Ms. Kilroy was appointed to this position in 2011. She has been with the County for more than 20 years. Prior to her work in WTD, she served as Manager of the Regional Services Section of the Water and Land Resources Division in DNRP. Prior to her career with the County, she was an Environmental Planner with the Puget Sound Water Quality Authority. Ms. Kilroy has a B.S. in Environmental Science and Forestry from the State University of New York and a Master of Marine Affairs from the University of Washington.

*Timothy Aratani, WTD Finance Manager.* Mr. Aratani was appointed to this position in 2000. He has been with the County for more than 27 years. Prior to joining WTD, he served as Finance Manager for the Solid Waste Division in DNRP. Mr. Aratani has a B.A. in Accounting from the University of Washington and an M.B.A. from the University of Puget Sound.

## **The Facilities**

The Sewer System has been designated by the County as its Water Quality Enterprise. Distributed over a 424-square-mile service area, the Sewer System collected and treated 181 million gallons of sewage per day (“mgd”) from approximately 1.6 million residents in 2014. The major wastewater facilities include three secondary treatment plants (West Point in Seattle, South in Renton, and Brightwater in south Snohomish County), 391 miles of conveyance lines, 47 pump stations, and 25 regulator stations. Other facilities include four combined sewer overflow (“CSO”) treatment plants, 38 CSO control locations, and secondary treatment plants on Vashon Island and in Carnation.

## **The Participants**

As the successor to Metro, the County has assumed by operation of law Metro’s rights and obligations under its Service Agreements with 34 Municipal Participants and three non-Municipal Participants (each, a “Participant”). The Municipal Participants accounted for approximately 99.47% of the sewage disposal revenues in the year ended December 31, 2014, and the non-Municipal Participants accounted for 0.53%.

*Municipal Participants.* The 34 Municipal Participants (33 cities and sewer districts in King County, south Snohomish County and northern Pierce County, and the Muckleshoot Indian Tribe) contract with the County for sewage treatment services. The Municipal Participants within King County are required to continue as Agency Customers in the absence of a Service Agreement. See “Security and Sources of Payment for the Bonds—Agreements with Participants—Agency Customer Continuation Requirement.” The division of responsibility between the County and the Municipal Participants and their respective obligations are set forth in the Service Agreements. See “Security and Sources of Payment for the Bonds—Agreements with Participants.”

Each Municipal Participant and each current Municipal Participant within the County that would be required to continue as an Agency Customer is required to deliver to the Sewer System all of the sewage and industrial wastes collected by it from its service area. The County is required to accept such sewage and wastes for treatment subject to reasonable rules and regulations. The County may not directly accept sewage or wastes from any person, firm, corporation, or governmental agency that is within the boundaries of, or is delivering sewage into, the local sewerage facilities of any Municipal Participant without the consent of such Municipal Participant. A Municipal Participant or current Municipal Participant within the County that would be required to continue as an Agency Customer cannot deliver sewage to another agency without the consent of the County.

*Non-Municipal Participants.* The County also provides sewage treatment and disposal services to three small non-Municipal Participants, pursuant to Service Agreements that do not differ substantially from the Service Agreements with the Municipal Participants, and to certain other small customers.

*Customers and Residential Customer Equivalents.* The number of Residential Customers and Residential Customer Equivalents (“RCEs”) reported by each Participant as of December 31, 2014, is presented in the following table.

**SEWER SYSTEM PARTICIPANTS AS OF DECEMBER 31, 2014**

<b>Municipal Participants--Cities</b>	<b>Single Family Residential Customers</b>	<b>RCE<sup>(1)</sup></b>	<b>Total Customers</b>	<b>Percentage of Total (%)</b>
Algona	1,024	319	1,343	0.18
Auburn	12,414	18,031	30,445	4.19
Bellevue	33,438	29,848	63,286	8.71
Black Diamond	772	246	1,018	0.14
Bothell	4,695	3,267	7,962	1.10
Brier <sup>(2)</sup>	1,523	268	1,791	0.25
Carnation	674	247	921	0.13
Issaquah	5,171	5,559	10,730	1.48
Kent	12,371	23,486	35,857	4.94
Kirkland	9,111	5,689	14,800	2.04
Lake Forest Park	3,409	600	4,009	0.55
Mercer Island	7,075	1,812	8,887	1.22
Pacific	1,593	986	2,579	0.35
Redmond	14,214	15,775	29,989	4.13
Renton	14,519	15,186	29,705	4.09
Seattle <sup>(3)</sup>	142,584	147,143	289,727	39.88
Tukwila	955	6,689	7,644	1.05
<b>Subtotal</b>	<b>265,542</b>	<b>275,151</b>	<b>540,693</b>	<b>74.42</b>
<b>Municipal Participants--Sewer Districts and Tribe</b>				
Alderwood Water & Wastewater District <sup>(2)</sup>	27,277	13,271	40,548	5.58
Cedar River Water & Sewer District	3,931	1,423	5,354	0.74
Coal Creek Utility District	2,845	918	3,763	0.52
Cross Valley Water District <sup>(2)</sup>	0	334	334	0.05
Highlands Sewer District	106	0	106	0.01
Lakehaven Utility District	875	6	881	0.12
Muckleshoot Indian Tribe	244	77	321	0.04
NE Sammamish Sewer & Water District	4,647	133	4,780	0.66
Northshore Utility District	19,022	10,435	29,457	4.05
Olympic View Water & Sewer District <sup>(2)</sup>	201	0	201	0.03
Ronald Wastewater District	15,017	4,503	19,520	2.69
Sammamish Plateau Water & Sewer District	9,540	4,011	13,551	1.87
Skyway Water & Sewer District	3,862	1,407	5,269	0.73
Soos Creek Water & Sewer District	30,488	5,430	35,918	4.94
Valley View Sewer District	6,720	8,752	15,472	2.13
Vashon Sewer District	377	511	888	0.12
Woodinville Water District	2,319	3,294	5,613	0.77
<b>Subtotal</b>	<b>127,471</b>	<b>54,505</b>	<b>181,976</b>	<b>25.05</b>
<b>Non-Municipal Participants and Other Customers</b>				
	0	3,916	3,916	0.54
<b>Total</b>	<b>393,013</b>	<b>333,572</b>	<b>726,585</b>	<b>100.00</b>

## **NOTES TO TABLE:**

- (1) RCEs include multifamily, commercial, and industrial customers and are customer units based on water consumption.
- (2) These Participants are outside the County and, unless a Service Agreement is in effect, are not required to connect to the Sewer System. See “Security and Sources of Payment for the Bonds—Agreements with Participants—Agency Customer Continuation Requirement.”
- (3) Financial and operating information about Seattle’s drainage and wastewater system may be found in Seattle’s most recent official statement and continuing disclosure filings for its drainage and wastewater revenue bonds, on file with the MSRB at <http://emma.msrb.org>. Seattle’s comprehensive annual financial reports may also be obtained on its web site at [www.seattle.gov/cafrs](http://www.seattle.gov/cafrs). Neither of these web sites is incorporated into this Official Statement by reference.

*Source: King County Wastewater Treatment Division*

## **Sewer Rates**

The County annually adopts a monthly charge (the “Sewer Rate”) for sewage disposal. The Sewer Rate is set by the County at a level that is intended to provide the County with money sufficient, together with other sources of Revenue of the System, to pay all costs of the Sewer System, including debt service on all obligations payable from Revenue of the System, and to satisfy the County’s debt service coverage policies. The Service Agreements specify that the Sewer Rate for the next succeeding calendar year must be determined prior to July 1 of each year.

The monthly Sewer Rate is applied to each single family residence (“Residential Customers”) and to an RCE value of each 750 cubic feet of water consumption by all other customers such as multifamily, commercial, and industrial properties. Each Participant and Agency Customer is billed monthly an amount based upon the adopted Sewer Rate and the number of Residential Customers at the end of the second previous calendar quarter and the average number of RCEs for multifamily, commercial, and industrial accounts for the four calendar quarters beginning five quarters prior to the current quarter. Monthly billings in the fourth quarter of 2015, for example, are based on the number of Residential Customers as of June 30, 2015, and the average number of RCEs beginning with the third quarter of 2014 through the second quarter of 2015.

Each Municipal Participant irrevocably obligates and binds itself to pay its sewage disposal charge (the “Sewage Disposal Charge”) out of the gross revenues of its sewerage utility. Each Municipal Participant further binds itself to establish, maintain, and collect sewerage charges that will at all times be sufficient to pay all costs of maintenance and operation of its sewerage utility, including the Sewage Disposal Charge payable to the County under the Service Agreement, and sufficient to pay the principal of and interest on any revenue bonds of such Municipal Participant that will constitute a charge upon such gross revenue. The Sewage Disposal Charge paid by such Municipal Participant to the County must constitute an expense of maintenance and operation of such Municipal Participant’s sewerage utility. Each of the Service Agreements requires that the Municipal Participant provide in the issuance of its sewer revenue bonds that expenses of maintenance and operation of its sewerage utility be paid before payment of principal and interest on its sewer revenue bonds.

The payment by each Participant and Agency Customer is due on the last day of the month. The County may charge interest at 6% on any amount remaining unpaid for 15 days after the due date and may enforce payment by any remedy available by law or equity.

*Adopted Sewer Rates.* The adopted monthly Sewer Rates for each Residential Customer or RCE for the years 2010 through 2016 are set forth in the following table.

**SEWER RATES FOR  
RESIDENTIAL CUSTOMERS OR  
RESIDENTIAL CUSTOMER EQUIVALENTS**

<b>Effective Date (January 1)</b>	<b>Rate (\$/month)</b>	<b>Percentage Change</b>
2010	\$ 31.90	--
2011	36.10	13.2%
2012	36.10	--
2013	39.79	10.2
2014	39.79	--
2015	42.03	5.6
2016	42.03	--

*Source:* King County Wastewater Treatment Division

*Projected Sewer Rates.* The following table shows current Sewer Rate projections for the years 2017 through 2020. The projections are for planning purposes only and are based on rate increases, subject to County Council approval, that would produce Revenue of the System sufficient, together with any planned withdrawals from the Rate Stabilization Fund, to meet the County's debt service coverage policy for all obligations payable from Revenue of the System. This results in a level of coverage that would exceed the County's debt service coverage policy for Parity Bonds and Parity Lien Obligations. See "Financial Policies." Under the Service Agreements, the County Council must formally adopt the Sewer Rate each year. The Sewer Rates established by the County Council do not require the approval of the Washington Utilities and Transportation Commission or the Participants or Agency Customers.

**PROJECTED SEWER RATES  
FOR RESIDENTIAL CUSTOMERS  
OR RESIDENTIAL CUSTOMER EQUIVALENTS**

<b>Effective Date (January 1)</b>	<b>Rate (\$/month)</b>	<b>Percentage Change</b>
2017	\$ 43.46	3.4%
2018	43.88	1.0
2019	44.94	2.4
2020	46.04	2.4

*Source:* King County Wastewater Treatment Division

### **Sewer Operating Revenues**

The monthly Sewer Rates described above consistently account for more than 83% of the total operating revenue.

The next largest single source of operating revenue is the capacity charge, which has been imposed since 1990 on customers who establish new connections to the Sewer System. Annual capacity charge revenues have averaged 14% of total operating revenue between 2010 and 2014. The table below shows the number of new capacity charge connections for the past five years.



## HISTORICAL CAPACITY CHARGE NEW CONNECTIONS

<u>Year</u>	<u>Connections</u>
2010	6,974
2011	5,855
2012	7,915
2013	7,224
2014	10,767

The capacity charge imposed on customers who establish new connections to the Sewer System in 2015 is \$57.00 per month for 15 years from the commencement of service. A capacity charge of \$58.70 per month for customers who establish new connections to the Sewer System beginning in 2016 has been adopted and is used in current projections. State law imposes limitations on the calculation of capacity charges, but capacity charges do not require the approval of the Washington State Utilities and Transportation Commission.

The County allows the capacity charge to be prepaid on a discounted basis at the customer's option. From 2005 through 2013, the discount rate was 5.5%. To provide a more stable, long-term revenue stream, the County established new code provisions in 2013 that allow the annual updating of the discount rate based on the 15-year mortgage and 10- and 20-year investment rates, with the discount rate being updated in December of each year. These changes became effective on January 1, 2014 with resulting discount rates of 3.3% in 2014 and 3.0% in 2015.

A number of other charges, including fees paid by septage haulers for treatment, payments for the by-products of the sewage treatment process, and surcharges imposed for high strength and heavy metal discharges into the Sewer System, collectively account for approximately 3% of operating revenue.

### **Financial Policies**

*Coverage Policy.* The County Council is obligated by applicable bond covenants to set rates and charges for sewage disposal service at a level adequate to provide Net Revenue equal to at least 1.15 times the amounts required to pay debt service on both Parity Bonds and Parity Lien Obligations. See "Security and Sources of Payment for the Bonds—Rate and Coverage Covenants." The County Council's policy is to achieve debt service coverage of at least 1.25 times, which is higher than what is required by the bond covenants, on both Parity Bonds and Parity Lien Obligations.

To further strengthen the financial position of the Sewer System, the County established in 2001 the policy of setting Sewer Rates and other charges at a level that would achieve an overall debt service coverage target of 1.15 times coverage on all Sewer System Obligations (see "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations"), in addition to continuing to satisfy the existing policy of providing at least 1.25 times coverage on Parity Bonds and Parity Lien Obligations.

*Reserve Policy.* In 2001, the County Council established an operating liquidity reserve, equal to \$5.0 million plus 10% of annual operating expenses, and an emergency capital reserve equal to \$15 million. These policies were revised and finalized by the County Council in 2012. As of October 1, 2015, these reserves were fully funded, with balances of \$17.4 million and \$15 million, respectively.

### **Sewer System Interfund Borrowing**

During construction of the Brightwater treatment plant, which was completed in 2012, the Sewer System periodically used interfund borrowing from other County funds held in the King County Investment Pool (the “Investment Pool”) to provide interim financing for its capital improvement program pending the issuance of long-term bonds. (See “King County–King County Investment Pool.”) Such borrowings were fully repaid using the proceeds of the subsequent bond issue. No loans remain outstanding. The Sewer System did not conduct any interfund borrowing in 2014.

In July 2015, the Sewer System received authorization for \$49.5 million of interfund borrowing from the Investment Pool and, as of October 31, 2015, has borrowed \$33.8 million against this authorization. The Sewer System expects to borrow an additional \$10 million from the Investment Pool through the closing date of the Bonds.

In 2008, the Investment Pool provided a \$100 million operating loan to the Sewer System for the retirement of two series of MBIA-insured variable rate demand bonds. The Sewer System made five \$20 million annual principal payments, plus interest of \$1.3 million in 2009 and \$0.3 million in 2010, on the operating loan from Revenue of the System that otherwise would have been used as a funding source for the Sewer System’s capital program. The final payment was made in early 2013.

### **Historical Customers, Revenues, and Expenses**

The following table sets forth a summary of customers, revenues and expenses of the Sewer System.

**HISTORICAL FINANCIAL STATEMENTS**  
**(\$ EXPRESSED IN THOUSANDS) (FISCAL YEAR ENDING DECEMBER 31)**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Residential Customer and Residential Customer					
Equivalents (RCEs) (annual average, rounded)	704,400	707,300	708,900	718,160	725,844
Percentage Annual Increase	0.09%	0.41%	0.23%	1.31%	1.07%
Operating Revenues					
Sewage disposal fees	\$ 269,534	\$ 306,407	\$ 307,167	\$ 342,850	\$ 346,591
Capacity charge revenues	41,363	48,693	51,411	58,660	59,533
Other operating revenues	9,778	7,830	9,398	10,126	12,444
Total Operating Revenues	\$ 320,675	\$ 362,930	\$ 367,976	\$ 411,636	\$ 418,568
Operating Expenses	\$ 103,682	\$ 103,995	\$ 114,939	\$ 117,183	\$ 124,201
Net Operating Revenue	\$ 216,993	\$ 258,935	\$ 253,037	\$ 294,453	\$ 294,367
Interest Income	\$ 3,426	\$ 2,725	\$ 1,697	\$ 2,682	\$ 2,822
Rate Stabilization <sup>(1)</sup>	(15,850)	(25,500)	13,900	10,350	18,000
Net Revenue Available for Debt Service	\$ 204,569	\$ 236,160	\$ 268,634	\$ 307,485	\$ 315,189
Debt Service					
Parity Bonds <sup>(2)</sup>	\$ 118,817	\$ 132,664	\$ 157,117	\$ 172,959	\$ 175,463
Parity Lien Obligations <sup>(2)</sup>	26,838	32,910	38,626	43,064	43,756
Subordinate Debt Service <sup>(3)</sup>	12,182	12,769	14,087	15,039	16,592
Total Debt Service	\$ 157,837	\$ 178,343	\$ 209,830	\$ 231,062	\$ 235,811
Debt Service Coverage					
On Parity Bonds	1.72	1.78	1.71	1.78	1.80
On Parity Bonds and Parity Lien Obligations	1.40	1.43	1.37	1.42	1.44
On All Sewer System Obligations	1.30	1.32	1.28	1.33	1.34

## NOTES TO TABLE:

- (1) Withdrawals from (deposits into) the Rate Stabilization Fund.
- (2) The amounts for Parity Bonds shown in the table exclude payments from capitalized interest reserves of \$23.5 million in 2010, \$23.3 million in 2011, and \$7.3 million in 2012, and for Parity Lien Obligations exclude payments from capitalized interest reserves of \$12.2 million in 2010 and \$6.1 million in 2011.
- (3) Subordinate Debt Service consists of debt service on Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, SRF Loans and Public Works Trust Fund Loans.

*Source: Audited Financial Statements and financial records of the Water Quality Enterprise Fund 2010-2014, Finance and Business Operations Division*

## Management Discussion of 2014 Sewer System Financial Results

The Sewer System's net operating revenue (excluding depreciation expense) in both 2013 and 2014 was \$294.4 million. Total operating revenues increased from \$411.6 million to \$418.6 million, while operating expenses (excluding depreciation) increased from \$117.2 million to \$124.2 million.

*Revenues.* The \$7.0 million increase in operating revenue in 2014 from 2013 was due to growth in the number of RCEs, increases in other operating revenue, and a small increase in capacity charge revenue. The monthly Sewer Rate in 2014 was \$39.79 per RCE, unchanged from the rate in 2013. Operating revenue increased by \$3.7 million with the addition of 7,684 RCEs, a 1.1% increase from 2013, compared to the 1.3% increase in the previous year. Other operating revenue increased by \$2.3 million, primarily from the sale of electricity to Seattle City Light from the co-generation facility that went into service in January 2014. Capacity charge revenue increased by \$0.9 million in 2014. An increase of \$4.8 million in billings and other revenues from 11,296 new connections in 2014 was offset by a \$3.9 million decrease in early payoff revenues.

*Expenses.* Overall, operating expenses of the Sewer System, excluding depreciation, increased \$7.0 million to \$124.2 million in 2014, a 6.0% increase. Of this amount, \$3.9 million represents an increase in labor expenses due to a reallocation of labor costs to operations, implementation of a succession plan, and new labor agreements for WTD's work force and higher staffing levels through the filling of previously vacant positions. Increases in non-labor costs were \$3.1 million and included higher information technology costs associated with system upgrades, expansion of the water quality monitoring program, additional supply and maintenance costs for recently completed capital projects, unexpected repairs to centrifuges and raw sewage pumps at the treatment plants, office relocation costs, and an increase in electricity expense due to higher usage arising from influent storm water from heavy rains.

*Interest Income.* Interest income increased to \$2.8 million in 2014 from \$2.7 million in 2013. The monthly average yield in 2013 and 2014 was 0.46%.

*Rate Stabilization Fund.* During 2014, \$18 million was withdrawn from the Rate Stabilization Fund to mitigate Sewer Rate increases. This amount has been included in 2014 operating revenues for the purpose of computing debt service coverage ratios.

*Debt Service Coverage.* The Sewer System achieved a coverage ratio of 1.44x on the combined debt service of Parity Bonds and Parity Lien Obligations in 2014, exceeding the 1.25x minimum coverage target stipulated by the County's adopted financial policies. The debt service coverage

ratio of 1.34x on all Sewer System Obligations in 2014 exceeded the 1.15x minimum coverage target stipulated by the County's adopted financial policies.

## **2015 Drought**

On May 15, 2015, the Washington State Governor (the "Governor") expanded an existing drought emergency to encompass the entire State, including WTD's service area. In response to the drought, Seattle and the Cascade Water Alliance (the "Alliance") (which supplies water to seven Municipal Participants that comprised approximately 20% of Sewer Rate revenues in 2014) activated Phase II of their water shortage plans on August 11, 2015, calling for customers to take voluntary measures to reduce water consumption by 10%. On October 21, 2015, Seattle stated that the region had reduced its water use by 12% in the previous ten weeks.

As of November 2, 2015, reservoirs for Seattle (which serves as the wholesale supplier of water to the Alliance) were at 90% of their 30-year average level for this time of year. Seattle has stated that continued water use reductions are needed until fall rains return and reservoirs are back to normal levels.

Reductions in residential consumption have no financial impact on the Sewer System, as residential customers are billed at a fixed monthly rate. In 2014, 54% of sewage disposal fees from Municipal Participants were derived from residential customers. The impact of the drought on RCEs from multifamily, commercial, and industrial consumers will not be known until the second half of November, when their usage is reported to WTD by the Municipal Participants. Were Seattle, the Alliance, and the remainder of WTD's customers to continue voluntary or initiate mandatory restrictions through the end of the fourth quarter of 2015, a 14% reduction in multifamily, commercial, and industrial usage would reduce total RCEs in 2016 by approximately 9,000 over what was forecast when the 2016 Sewer Rate was adopted. Revenues from Municipal Participants would be reduced by approximately 1.2% or \$4.5 million. Financial projections presented in the "Summary of Projected Sewer System Customers, Revenues and Expenses" herein incorporate this reduction.

How long voluntary measures will continue and whether mandatory restrictions will be initiated will depend on levels of rain and snowfall over the coming months and cannot be predicted at this time. In the event of continued reductions in consumption in 2016, WTD anticipates that it would make additional withdrawals from its Rate Stabilization Fund to make up the shortfall in revenues. See "Security and Sources of Payment for the Bonds—Rate and Coverage Covenants—Rate Stabilization Fund."

## **Projected Customers, Revenues, and Expenses**

The following table sets forth a summary of the County's most recent projections of the Sewer System's customers, revenues, and expenses for the fiscal years ending December 31, 2015, through December 31, 2020. Notes for this table are provided on the page following the table.

The revenues that are projected in the following table reflect the assumed monthly Sewer Rates presented in the previous table labeled "Projected Sewer Rates for Residential Customers or Residential Customer Equivalents." These projected Sewer Rates are designed to produce Net Revenue sufficient, together with any planned withdrawals from the Rate Stabilization Fund, to satisfy the debt service coverage targets stipulated by the County's adopted financial policies.

Projections for 2015 are based on year-to-date unaudited revenues and expenses through September and WTD's projections for the remaining three months of the year. The Sewer System is expected to generate net operating revenues of \$308.1 million in 2015, an increase of \$13.8 million from 2014. Total operating revenues are projected to increase to \$442.4 million from \$418.6 million in 2014, while operating expenses are projected to increase to \$134.3 million from \$124.2 million in 2014.

The \$23.9 million projected increase in operating revenues for 2015 is due to the increase in the Sewer Rate along with growth in RCEs and higher capacity charge revenues. The 5.6% increase in the Sewer Rate is expected to increase revenues from sewer disposal fees by \$19.4 million, while the 1.10% increase in RCEs is expected to increase sewer disposal fee revenues by \$4.0 million. A 3% increase in the capacity charge rate and continued growth in new connections (8,092 for the first eight months of 2015 compared to 7,593 for the same period in 2014) is expected to increase capacity charge revenues by \$1.7 million. Other operating revenues are expected to decrease by \$1.3 million in 2015 as the County is unlikely to receive any royalties from timber sales from the State as it did in 2014.

Operating expenses of the Sewer System, excluding depreciation, are projected to increase \$10.1 million to \$134.3 million in 2015, an 8.1% increase. Most of the increase (\$5.4 million) is due to increases in planned maintenance at Sewer System facilities, additional costs for chemicals, biosolids operations, electricity and other utilities, increased information technology costs associated with financial system upgrades, additional operating costs for recently completed capital projects, and planned repairs to centrifuges and raw sewage pumps at the treatment plants. Intergovernmental expenses are expected to increase by \$2.7 million from 2014 levels. Another \$2.0 million of the increase is due to the newly created WaterWorks Grant program, which authorizes up to 1.5% of Sewer System's annual operating budget for grants to non-profits, local governments, and tribes for activities and projects that will improve water quality within WTD's service area and benefit Sewer System ratepayers.

Interest income is expected to be \$1.8 million in 2015, a decrease of \$1.0 million from 2014. Additional interest income from a higher than expected average annual interest rate on the Investment Pool (0.55% in 2015 compared to 0.46% in 2014) is offset by a lower average investment balance in 2015 due to the expenditure of bond-financed construction funds in 2014 and interfund borrowing from the Investment Pool in the second half of 2015.

The County does not expect any withdrawals from the Rate Stabilization Fund in 2015.

*Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," and "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.*

**SUMMARY OF PROJECTED SEWER SYSTEM  
CUSTOMERS, REVENUES, AND EXPENSES  
(\$ EXPRESSED IN THOUSANDS) (FISCAL YEAR ENDING DECEMBER 31)<sup>(1)</sup>**

	2015 <sup>(2)</sup>	2016	2017	2018	2019	2020
Residential Customer and Residential Customer Equivalents (average for year, rounded) <sup>(3)</sup>	733,796	726,316	730,674	734,327	738,366	742,944
Percentage Annual Increase	1.10%	-1.02%	0.60%	0.50%	0.55%	0.62%
Sewerage Treatment Fees <sup>(4)</sup>	\$ 370,097	\$ 366,325	\$ 381,079	\$ 386,670	\$ 398,173	\$ 410,455
Capacity Charge Revenues	61,238	63,035	66,943	71,093	75,501	80,182
Other Operating Revenues	11,094	10,656	11,000	11,330	11,670	12,020
Total Operating Revenues	\$ 442,429	\$ 440,016	\$ 459,022	\$ 469,093	\$ 485,344	\$ 502,657
Operating Expenses	134,300	141,440	146,752	151,730	157,799	164,111
Net Operating Revenue	\$ 308,129	\$ 298,576	\$ 312,270	\$ 317,363	\$ 327,545	\$ 338,546
Interest Income <sup>(5)</sup>	\$ 1,764	\$ 2,511	\$ 3,736	\$ 5,458	\$ 8,638	\$ 11,374
Rate Stabilization <sup>(6)</sup>	-	1,350	1,375	10,004	10,761	10,761
Net Revenue Available for Debt Service	\$ 309,893	\$ 302,437	\$ 317,381	\$ 332,825	\$ 346,944	\$ 360,681
Debt Service						
Parity Bonds <sup>(7)</sup>	\$ 167,694	\$ 165,944	\$ 173,912	\$ 181,763	\$ 193,641	\$ 206,217
Parity Lien Obligations	41,217	54,025	54,247	54,199	54,133	53,564
Subordinate Debt Service <sup>(8)</sup>	20,694	42,223	47,822	53,451	53,915	53,853
Total Debt Service	\$ 229,604	\$ 262,191	\$ 275,981	\$ 289,413	\$ 301,690	\$ 313,634
Debt Service Coverage						
On Parity Bonds	1.85	1.82	1.82	1.83	1.79	1.75
On Parity Bonds and Parity Lien Obligations	1.48	1.37	1.39	1.41	1.40	1.39
On All Sewer System Obligations	1.35	1.15	1.15	1.15	1.15	1.15

**NOTES TO TABLE:**

- (1) Totals may not add due to rounding.
- (2) Projections for 2015 are based on unaudited financial statements for the nine months ending September 30, 2015, and estimated results for the remainder of 2015.
- (3) For an explanation of the decrease in RCEs for 2016, see “2015 Drought” herein.
- (4) Based on adopted and projected Sewer Rates and rates for capacity charges. See “Sewer Rates—Adopted Sewer Rates” and “—Projected Sewer Rates.”
- (5) Based on the Investment Pool earning at annual rates of 0.55% in 2015, 0.70% in 2016, 1.00% in 2017, 1.48% in 2018, 2.10% in 2019, and 2.62% in 2020. Projected Investment Pool earnings rates are from the County’s Office of Economic and Financial Analysis.
- (6) Withdrawals from the Rate Stabilization Fund.
- (7) Projections include the issuance of the 2015B Bonds and assume the issuance of additional Parity Bonds with 30-year terms as follows: \$90 million in 2016 at an assumed rate of 5.5% and, at an assumed rate of 6% thereafter, \$41 million in 2017, \$108 million in 2018, \$163 million in 2019, and \$173 million in 2020. Includes the savings associated with the refunding of the bonds refunded by the 2015B Bonds. See “Future Sewer System Financing Plans.”
- (8) Subordinate Debt Service consists of debt service on Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations (collectively, the “Variable Rate Obligations”), and SRF Loans and Public Works Trust Fund Loans. Assumes payment of interest only on the outstanding and additional Variable Rate Obligations and refinancing of the 2015 Junior Lien Obligation in 2016.

Projections include the issuance of \$49 million of Variable Rate Obligations in 2018, \$20 million in 2019, and \$16 million in 2020. See “Future Sewer System Financing Plans.” Variable rate interest expense for 2015 is based on a rate of 1.05%. Debt service on the Bonds is based on an interest rate of 0.50% for 2016. The projections assume interest rates on Variable Rate Obligations (other than the Bonds) of 4.95% in 2016 and 5.40% thereafter, which are equal to 90% of the assumed long-term rate for additional Parity Bonds. See footnote 7 to this table.

Projections include debt service on \$107.5 million of SRF Loan commitments from Ecology for projects in 2015, 2016, and 2017. The County signed agreements with Ecology for \$67.5 million of loans in April 2015, with terms of 20 years and a rate of 2.7%, of which \$8.1 million has been drawn upon. The County received funding offers of \$40 million with terms of 20 years and a rate of 2.40% from Ecology in July 2015, and expects to sign loan agreements by the end of 2015. See “Future Sewer System Financing Plans.”

*Source: King County Wastewater Treatment Division*

**Debt Service Requirements Payable from Sewer Revenues**

The following table sets forth the scheduled amounts required to be paid from Revenue of the System in each year for all the Sewer System Obligations. Notes to this table are found on the following page.



**SCHEDULED DEBT SERVICE ON ALL OBLIGATIONS OF THE SEWER SYSTEM  
(Fiscal Years Ending December 31)**

Year Ending December 31 <sup>(1)</sup>	Parity Bonds <sup>(2)</sup>	Parity Lien Obligations	Junior Lien Obligations			Multi-Modal LTGO/Sewer <sup>(3)</sup>	Subordinate Lien Obligations <sup>(4)</sup>	Public Works		
			Outstanding <sup>(3)</sup>	2015A Bonds	2015B Bonds			Trust Fund and SRF Loans <sup>(5)</sup>	QECB Bonds <sup>(6)</sup>	Total
2015	\$ 167,694,305	\$ 40,346,734	\$ 3,191,667	\$ -	\$ -	\$ 1,050,000	\$ 100,962,500	\$ 14,282,420	\$ 66,220	\$ 327,593,846
2016	164,709,775	53,163,625	115,308,333	50,977,778	50,977,778	4,950,000	-	14,760,129	66,220	454,913,638
2017	164,711,700	53,146,050	16,200,000	-	-	5,400,000	-	14,669,868	66,220	254,193,838
2018	164,709,825	53,125,775	16,200,000	-	-	5,400,000	-	14,654,454	66,220	254,156,274
2019	164,711,525	53,090,775	16,200,000	-	-	5,400,000	-	14,696,278	66,220	254,164,798
2020	164,710,725	52,550,775	16,200,000	-	-	5,400,000	-	14,198,623	66,220	253,126,343
2021	164,709,863	52,517,200	16,200,000	-	-	5,400,000	-	13,787,041	66,220	252,680,324
2022	164,711,788	52,498,475	16,200,000	-	-	5,400,000	-	12,734,570	3,076,220	254,621,053
2023	164,712,313	52,462,625	16,200,000	-	-	5,400,000	-	11,739,595	-	250,514,533
2024	164,711,188	52,435,625	16,200,000	-	-	5,400,000	-	11,730,651	-	250,477,464
2025	164,710,938	52,474,625	16,200,000	-	-	5,400,000	-	10,359,360	-	249,144,923
2026	164,711,163	52,437,250	16,200,000	-	-	5,400,000	-	7,080,393	-	245,828,806
2027	164,713,500	52,404,750	16,200,000	-	-	5,400,000	-	6,655,532	-	245,373,782
2028	164,712,350	52,363,250	16,200,000	-	-	5,400,000	-	6,211,962	-	244,887,562
2029	164,713,825	52,398,750	16,200,000	-	-	5,400,000	-	5,249,783	-	243,962,358
2030	164,710,463	39,865,988	16,200,000	-	-	5,400,000	-	5,246,993	-	231,423,444
2031	164,713,188	52,974,013	116,200,000	-	-	5,400,000	-	4,103,760	-	343,390,961
2032	164,711,081	52,922,188	10,800,000	-	-	5,400,000	-	4,035,943	-	237,869,212
2033	164,709,888	44,912,525	10,800,000	-	-	5,400,000	-	4,033,486	-	229,855,899
2034	164,710,119	19,892,600	10,800,000	-	-	5,400,000	-	1,715,887	-	202,518,606
2035	132,404,475	19,916,225	10,800,000	-	-	5,400,000	-	536,622	-	169,057,322
2036	131,101,500	19,950,725	10,800,000	-	-	5,400,000	-	434,941	-	167,687,166
2037	131,182,169	19,970,400	10,800,000	-	-	5,400,000	-	-	-	167,352,569
2038	131,253,125	19,997,100	10,800,000	-	-	5,400,000	-	-	-	167,450,225
2039	131,269,138	-	10,800,000	-	-	105,400,000	-	-	-	247,469,138
2040	131,290,944	-	10,800,000	-	-	-	-	-	-	142,090,944
2041	114,479,500	-	110,800,000	-	-	-	-	-	-	225,279,500
2042	87,980,900	-	105,400,000	-	-	-	-	-	-	193,380,900
2043	87,822,800	-	-	-	-	-	-	-	-	87,822,800
2044	84,559,700	-	-	-	-	-	-	-	-	84,559,700
2045	84,508,600	-	-	-	-	-	-	-	-	84,508,600
2046	80,503,500	-	-	-	-	-	-	-	-	80,503,500
2047	57,241,625	-	-	-	-	-	-	-	-	57,241,625
2048	28,260,750	-	-	-	-	-	-	-	-	28,260,750
2049	28,257,750	-	-	-	-	-	-	-	-	28,257,750
2050	10,358,000	-	-	-	-	-	-	-	-	10,358,000
2051	10,358,250	-	-	-	-	-	-	-	-	10,358,250
Total	\$ 4,760,042,248	\$ 1,067,818,048	\$ 774,900,000	\$ 50,977,778	\$ 50,977,778	\$ 230,200,000	\$ 100,962,500	\$ 192,918,291	\$ 3,539,760	\$ 7,232,336,403

## **NOTES TO TABLE:**

- (1) January 1 payments shown in the prior year.
- (2) Includes debt service on the 2015B Bonds and excludes debt service on the bonds refunded by the 2015B Bonds.
- (3) Annual interest expense for the Junior Lien Obligations and the Multi-Modal LTGO/Sewer Bonds is based on a rate of 1.05% in 2015. The projections assume interest rates on Variable Rate Obligations (other than the Bonds) of 4.95% in 2016 and 5.40% thereafter, which are equal to 90% of the assumed long-term rate for additional Parity Bonds. The outstanding Junior Lien Obligations have bullet maturities in 2032, 2042, and 2043. The Bonds have a bullet maturity in 2046 but will be subject to mandatory tender on November 16, 2016. The Multi-Modal LTGO/Sewer Bonds have a bullet maturity in 2040.
- (4) The Subordinate Lien Obligations consist of the commercial paper notes that are scheduled to be retired on November 24, 2015, from the proceeds of the Bonds. Interest expense on the Subordinate Lien Obligations for 2015 is based on an interest rate of 1.05%. See “Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations—Credit Facilities.”
- (5) Excludes debt service on \$59.4 million of outstanding loan commitments from Ecology. See “The Sewer System—Future Sewer System Financing Plans.”
- (6) Revenue of the System is not pledged to the payment of the QECB Bonds. See “Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations.” Annual interest expense excludes the federal subsidy that is expected to be received.

## **Regional Wastewater Services Plan**

The County Council adopted the RWSP in 1999. The RWSP can be amended by an ordinance adopted by the County Council and has been amended seven times since 1999, to modify policies providing guidance to the Sewer System. The RWSP outlines a number of important projects, programs, and policies for the County to implement through 2030 in order to continue to protect public health and water quality and ensure sufficient wastewater capacity to meet future growth needs. Major RWSP projects include the building of Brightwater, the County's third regional treatment plant (which began operation in 2012); improvements to the County's regional conveyance system to meet the 20-year peak flow storm design standard and accommodate increased flows where needed; and construction of CSO control projects. The RWSP also includes projects to control infiltration and inflow, process biosolids, and produce reclaimed water. See “Capital Improvement Plan.”

## **Brightwater Project**

*Overview.* The largest component of the RWSP is the Brightwater treatment and collection system, which began full operation in October 2012. The Brightwater treatment plant is located in unincorporated Snohomish County east of State Highway SR-9, just north of the City of Woodinville. The treatment plant is able to treat an average of 36 mgd of wastewater, with a peak flow capacity of 100 mgd.

The conveyance system is composed of large-diameter tunnels that convey wastewater to the Brightwater treatment plant and transport treated effluent to a newly constructed outfall in Puget Sound near Point Wells. The conveyance tunnels are approximately 13 miles in total length. The conveyance system also includes an influent pump station in Bothell and ancillary facilities that include structures to collect or divert flow from existing sewers into the Brightwater system. The project also includes a reclaimed water pipeline system designed to facilitate the reuse of the highly treated effluent produced by the treatment plant.

*Costs.* The County's most recent estimate is that total Brightwater project costs, including the treatment plant, conveyance system, and outfalls, will be approximately \$1.86 billion.

*Project Status.* The Brightwater treatment plant and conveyance system began full operation in October 2012. Site restoration and construction of permanent odor control facilities at the Ballinger Way and North Kenmore tunnel portals were completed in October 2013. The remaining Brightwater-related construction work in 2014 and 2015 entails permit-required wetland restoration work at the North Kenmore portal site, insurance claim-funded replacement of improperly designed motors and flywheels at the influent pumping station, and construction of a small field shelter at the treatment plant required by a mitigation agreement. The wetlands work was completed during the first quarter of 2015. Replacement of the influent pumping station motors and flywheels, including testing and startup, was also completed during the first quarter of 2015. Field shelter construction is scheduled to be completed by December 2015 and will mark the end of all Brightwater-related construction.

In 2010, the County initiated litigation against Vinci Construction Grands Projets/Parsons RCI/Frontier-Kemper ("VPFK"), the contractor originally responsible for the mining of the two central tunnel conveyance segments. The County prevailed in its lawsuit against the contractor and was awarded \$144 million in damages and attorneys' fees in early 2013. The contractor and surety providers appealed this award to the Washington State Court of Appeals in 2014. The Washington State Court of Appeals upheld the \$144 million award to the County in a ruling issued November 9, 2015. The contractor has 30 days from the issuance of the ruling to file an appeal to the Washington State Supreme Court.

### **Combined Sewer Overflow Projects**

CSOs are untreated discharges of wastewater and stormwater into water bodies during heavy rainfall events when combined sewers are full. Combined sewers, which carry both wastewater and stormwater, exist in many parts of older cities across the nation, including Seattle. Stormwater can cause extreme variations in wastewater flows, resulting in the need for large wastewater facilities and in challenges to the treatment process. To avoid sewer backups into homes, businesses, and streets during heavy rainfall events, combined sewers in Seattle sometimes overflow into Puget Sound, the Duwamish Waterway, Elliott Bay, Lake Union, the Lake Washington Ship Canal, and Lake Washington. Within the County wastewater service area, CSOs exist only within Seattle. Based on agreements made at the start of the regional system in 1958, both the County and Seattle are responsible for CSOs and are working to control them under long-term CSO control plans.

The County currently has 38 CSO facilities plus four CSO treatment facilities which control overflows of stormwater mixed with sewage that still occur in older parts of Seattle during heavy rains. An aggressive and continuous effort conducted in cooperation with Seattle has resulted in a 50% reduction in CSOs in 2014 from the baseline volume established in 1980 through 1983.

In July 2013, the County entered into a consent decree with the U.S. Department of Justice, the Environmental Protection Agency (the "EPA") and Ecology to undertake and construct nine facility projects to control the remaining 14 uncontrolled overflow locations in the system by 2030. The consent decree is consistent with the Long-Term Control Plan approved by the County Council in September 2012.

Critical milestones outlined in the consent decree have to date been met. Two projects (Hanford No. 1 and Georgetown) are now in the design phase, with expenditures totaling \$16.2 million through September 2015. The County submitted the facility plan to EPA for Hanford No. 1 in October 2014 and for Georgetown in November 2015. Facility plans are required by the consent decree to be submitted for the other seven projects through 2026.

The County and Seattle are currently negotiating a joint agreement to implement a project that will control County overflows at its 3rd Avenue West and 11th Avenue Northwest locations (see Figure 1) and four of the overflow locations designated in Seattle's consent decree. Seattle will serve as lead agency for design and construction of a 2.7-mile, approximately 14-foot-diameter storage tunnel (the "Joint Project") that will capture and control an estimated 15.4 million gallons of stormwater mixed with sewage from the six combined sewer overflow sites during a storm event. The Joint Project is being pursued to reduce community and environmental impacts in the project area and provide operational efficiencies.

The County has a 35% financial share of the Joint Project, which is estimated to cost \$147 million through 2025. These costs have been reflected in the table titled "Capital Improvement Plan—Projected Expenditures" in place of the costs for the 3rd Avenue West and 11th Avenue Northwest projects. The County expects to conclude the joint agreement with Seattle by the end of 2015 and a \$10 million supplemental appropriation for the Joint Project for the current biennium is expected to be introduced in 2015 to cover initial costs. The County will request an administrative or non-material change to its federal consent decree in the first quarter of 2016 in order to define the Joint Project with Seattle as the project that will control the County's 3rd Avenue West and 11th Avenue Northwest CSO basins. An administrative change to the County's consent decree may be accomplished by a written request from the County and agreement by EPA and Ecology and does not require court approval.

Figure 1 below shows the approximate locations of the nine CSO control projects included in the Long-Term Control Plan as well as the four "Beach" CSO projects, consisting of North Beach, South Magnolia, Murray, and Barton, which were underway prior to the Control Plan development.

**FIGURE 1: CURRENT AND FUTURE PROJECTS OF THE CSO SYSTEM**

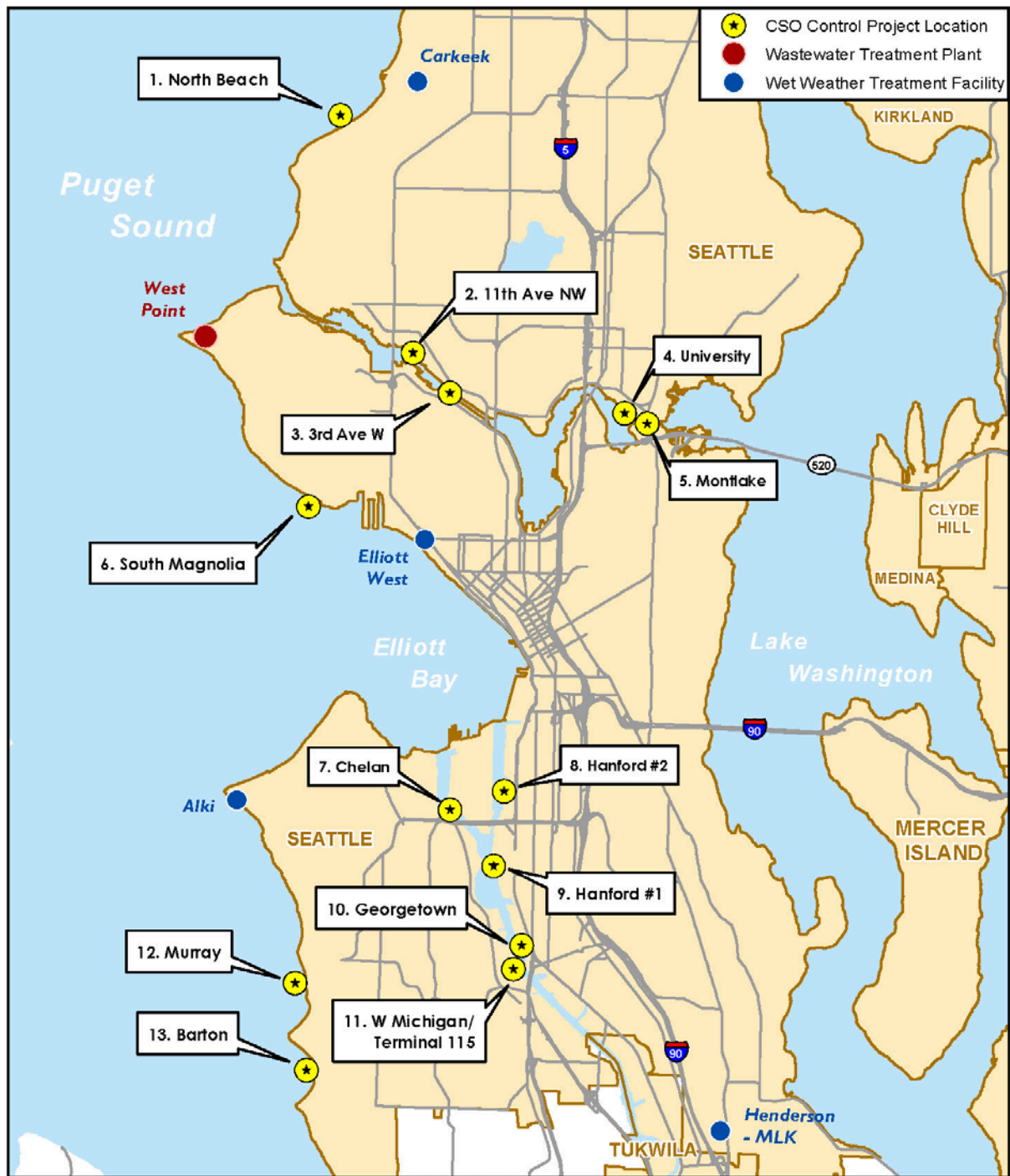


Diagram is not to scale.

Source: King County Wastewater Treatment Division

## Capital Improvement Plan

As shown in the following table, the Sewer System's capital improvement plan ("CIP") for the period 2015-2020 is comprised of three distinct elements. In addition to CSO control projects and other RWSP projects, the Sewer System expects to spend significant amounts annually for other capital improvements and the replacement of existing assets pursuant to its capital asset management plans.

**CAPITAL IMPROVEMENT PLAN—PROJECTED EXPENDITURES<sup>(1)</sup>**  
**(\$000)**

Year	Regional Water Services Plan		Other Improvements and	
	CSO	Other RWSP <sup>(2)</sup>	Asset Management	Total
2015	\$ 57,344	\$ 33,123	\$ 72,008	\$ 162,475
2016	58,990	38,073	77,738	174,801
2017	50,790	44,280	96,053	191,123
2018	51,559	63,891	85,595	201,046
2019	64,978	57,506	101,820	224,304
2020	82,731	62,312	86,432	231,475
Total	\$ 366,392	\$ 299,186	\$ 519,646	\$ 1,185,224
2020-2030	\$ 529,155	\$ 379,930	\$ 929,038	\$ 1,838,123

- (1) Expenditures in 2015-2020 are in nominal dollars; expenditures in 2021-2030 are in constant 2015 dollars. For determining revenue requirements, the figures shown for capital expenditures during the period 2015-2020 are adjusted assuming 85% of projected budget expenditures occur in this period, with the remainder of budgeted 2015-2020 expenditures expected to occur in the 2021-2030 period.
- (2) Includes conveyance system improvements that expand system capacity, and planned expansion of the South treatment plant late in the forecast period.

Source: King County Wastewater Treatment Division

## Future Sewer System Financing Plans

The current financial plan for the Sewer System through 2020 includes issuance of the 2015B Bonds and anticipates the issuance of approximately \$575 million of additional Parity Bonds and approximately \$85 million of additional variable rate Junior Lien Obligations for new money purposes from 2016 through 2020 to provide continued funding for the CIP. Another \$111 million of the CIP is expected to be funded from loan commitments from Ecology that the County has executed (\$67.5 million) or expects to execute (\$40.0 million) by the end of 2015. The balance of the CIP through 2020 is expected to be funded from Net Revenue.

The County Council authorized the issuance of up to \$350 million in Parity Bonds and Parity Lien Obligations for new money purposes through October 10, 2017 (of which \$71,900,000 of the 2015B Bonds were the first issuance), and an unlimited amount of Parity Bonds and Parity Lien Obligations to refund outstanding obligations of the County payable from Revenue of the System through December 31, 2017.

From 2021 through 2030, approximately 73% of the CIP is expected to be financed through the issuance of additional debt and the remaining 27% financed with Net Revenue.

## **Environmental Regulation**

*Federal Clean Water Act.* The Clean Water Act requires that all discharges of pollutants be permitted under the National Pollutant Discharge Elimination System (“NPDES”) program administered by EPA, which has delegated to Ecology authority to administer NPDES permits in Washington.

Ecology renewed the West Point treatment plant NPDES permit and the South treatment plant NPDES and reclaimed water permits in 2014. These permits cover the treatment plants and their conveyance systems for a period of five years and expire in January 2020 for West Point and July 2020 for the South Treatment Plant. All secondary treatment effluent limits and general requirements remained the same as in the previous permits. Some additional data requirements were added for the CSO Treatment facilities, and two studies requirements were added for the Elliott West CSO Treatment facility. All such sampling and reporting continue to be performed on time and in full.

The NPDES permit for the Vashon treatment plant was renewed in July 2011 and expires in August 2016. The Carnation treatment plant’s NPDES and reclaimed water permits were combined and renewed in December 2013 and will expire in December 2018. The NPDES and reclaimed water permits for Brightwater were issued in June 2011 and expire in July 2016. Applications for renewal of the Brightwater and Vashon permits were required in June and July 2015, respectively, and were submitted on time.

All five of the wastewater treatment plants are currently meeting permit effluent limits.

*Nutrient Removal Standards.* The reduction of nutrient discharges from all point and non-point sources has been identified as a major policy initiative by EPA and the Puget Sound Partnership’s Action Agenda for Puget Sound (a National Estuary Program). A significant number of water bodies nationwide, including some Puget Sound locations, experience low dissolved oxygen that at times fails to meet water quality standards. Ecology is currently undertaking two studies investigating whether nitrogen loading from wastewater and other sources of nutrients is affecting Puget Sound waters. If these studies indicate that County treatment plants cause or contribute to water quality impairment, the County may be required to identify how nitrogen levels in treatment plant effluent can be reduced. Ecology is also currently analyzing the technical and financial feasibility of requiring nutrient removal at all treatment plants in the State. These evaluations and studies will require a significant period of time before conclusions can be drawn or regulations promulgated.

*Superfund Liability.* The Comprehensive Environmental Response, Compensation and Liability Act of 1980 created the federal Superfund, the program administered by EPA that addresses abandoned hazardous waste sites. The two basic kinds of liability described under the Superfund law are liability related to historic contamination and liability related to damages to natural resource values.

In 2001, EPA listed the Lower Duwamish Waterway south of downtown Seattle as a Superfund site. More than 140 Potentially Responsible Parties (“PRPs”) have been notified by EPA that they may have liability for cleanup actions in the Lower Duwamish Waterway. The County, Seattle, the Port of Seattle, and the Boeing Company (the “Respondents”), four of the larger PRPs, signed an Administrative Settlement Agreement Order on Consent (“AOC”) with EPA

and Ecology to perform a remedial investigation and feasibility study along the Lower Duwamish Waterway.

Under the AOC, the Respondents were responsible for conducting and paying for studies known as the Duwamish Remedial Investigation, Feasibility Study, and Engineering and Cost Analyses. These studies have been completed, and EPA issued the draft Proposed Clean-Up Plan in February 2013. In November 2014, EPA issued a Record of Decision delineating the full extent of cleanup actions and the total liability of all PRPs. The final clean-up is estimated to cost approximately \$395 million (2011 dollars). The scheduled 17-year duration comprises seven years of active clean-up and ten years of monitoring.

The Record of Decision does not specify the allocation of these total costs to the individual PRPs. The County entered into a liability allocation agreement with 30 other parties to specify a process for determining shares of the past and future cleanup costs. This process is expected to determine each individual PRP's share of the total clean-up cost, including the County's, by 2018. Further information regarding existing and potential environmental remediation liabilities is contained in Appendix C—King County Water Quality Enterprise Fund 2014 Audited Financial Statements—Note 7.

The Natural Resource Trustees released a Lower Duwamish River Natural Resource Damage Assessment Programmatic Restoration Plan and Programmatic Environmental Impact Statement in 2009, which estimated natural resource damages in the Lower Duwamish and began discussions with landowners and dischargers along the river. The County settled a natural resource damages claim for the Lower Duwamish and Elliott Bay in 1990, and that settlement will enter into any subsequent estimates of residual liability the County may have.

*Endangered Species Act.* The federal Endangered Species Act (“ESA”) includes requirements that the County consult with the National Marine Fisheries Service or the United States Fish and Wildlife Service (together, the “Services”) about Sewer System capital projects that receive federal funding or federal permits. Since Chinook salmon from rivers and streams flowing into Puget Sound were listed as threatened in 1999, the consultation process has changed significantly and become more complicated, time-consuming, and expensive.

Initially, the County sought to obtain long-term programmatic agreements with the Services covering ESA compliance for all Sewer System capital projects. After more than five years spent pursuing these long-term programmatic agreements, the County determined that completing ESA consultations on individual projects was preferable to pursuing long-term programmatic agreements such as a habitat conservation plan or programmatic biological assessment. Since that time other species have also been listed as threatened. The County continues to comply with ESA through the traditional consultation process on a project-by-project basis.

*Revisions to State Water Quality Standards.* On September 15, 2015, EPA published in the Federal Register a proposed rule that would revise the current human health water quality criteria applicable to the State. The proposed rule is intended to set levels that will adequately protect State residents from exposure to toxic pollutants. The proposed criteria include a significant revision to the fish consumption rate term in the equation used to calculate water quality standards. As proposed, these criteria would increase the strictness of human health water quality standards. If any federal or new State water quality standards are adopted, the Sewer



System's secondary and CSO treatment facilities must operate in compliance with all standards that apply to those discharges.

EPA is accepting comments on the proposed rule through December 28, 2015. EPA has stated that, if the State submits final criteria for its review, it will act upon the State's submission prior to any final action on EPA criteria and that if it approves criteria submitted by the State, the corresponding federal criteria will not be finalized.

In February 2015, the Governor announced proposed revisions to State water quality standards that would create Washington State Human Health Criteria but withdrew the proposal in August 2015. The County had participated in the State's stakeholder advisory process on those proposed revisions during the past two years. On October 8, 2015, the Governor directed Ecology to draft a new human health water quality criteria rule that is intended to preserve the State's decision-making control over how to meet federal requirements. Ecology's proposed rule is expected to be available for public comment in early 2016.

The County will continue to evaluate the potential effects of any proposed changes on effluent discharges.

### **Strategic Climate Action Plan**

In 2012, the County adopted a Strategic Climate Action Plan (the "SCAP") that outlined initiatives to reduce greenhouse gas ("GHG") emissions and prepare for the impacts of climate change in County operations and throughout the community. The goals of the SCAP are to increase the use and efficiency of transportation choices, reduce non-renewable energy use, support healthy and productive farms and forests, minimize consumption and waste of materials, and safeguard facilities and infrastructure from anticipated environmental change. The SCAP requires County divisions to analyze capital improvement projects for opportunities to reduce energy use and GHG emissions and to incorporate building efficiency standards into capital improvement planning.

In furtherance of the SCAP, in February 2015, the County required WTD to achieve carbon neutrality in its operations by 2025. WTD has estimated that in 2012, 70% of its GHG emissions were already being offset through the application of biosolids as a soil amendment on farms and forests (which stores carbon in the soil and keeps it out of the atmosphere) and through the capturing of methane gas that is produced from two of WTD's digesters for use or sale as renewable energy. The fuel mix of WTD's energy suppliers has a significant impact on the quantity of WTD's GHG emissions. Based on emissions data from its energy suppliers published in 2013, the most recent year available, and other factors, WTD estimates that 90% of its GHG emissions have been offset.

WTD is developing processes to evaluate the energy savings and GHG emission reductions from changes in its operations and its capital improvement program and is identifying programs and projects that are needed to achieve carbon neutrality by 2025. While the costs of current carbon reduction initiatives are reflected in WTD's CIP, additional costs that may be incurred to achieve carbon neutrality by 2025 cannot be determined at this time.

## **Earthquakes and Climate Change**

The Sewer System is located above or near a number of geological faults capable of generating significant earthquakes. The Puget Sound region is characterized by geotechnical conditions that could result in areas of liquefaction and landslide in an earthquake. In anticipation of such potential disasters, the County designs and constructs Sewer System facilities to the seismic codes in effect at the time the projects are designed. Although the County has implemented disaster preparedness plans, there can be no assurance that these or any additional measures will be adequate in the event a natural disaster occurs, nor that costs of preparedness measures will be as currently anticipated. Further, damage to components of the Sewer System could cause a material increase in costs for repairs or a corresponding material adverse impact on Revenue of the System. The County is not obligated under the Bond Ordinance to maintain earthquake insurance on the Sewer System, and the County does not now and does not plan to maintain earthquake insurance sufficient to replace all components of the Sewer System.

Rising sea levels and changing regional rainfall patterns, such as an increase in winter rainstorm frequency or intensity, are potential climate change impacts for the Sewer System. Sea level rise has been incorporated as a factor in the siting and planning of new facilities since 2008, when WTD evaluated the potential for sea level rise to flood existing coastal facilities and found that the risk of flooding at WTD facilities is expected to remain low until at least after 2050. WTD and the King County Water and Land Resources Division have also contracted with researchers at the University of Washington to develop new projections for precipitation in the region. WTD staff plan to use the results of this research, to be completed in 2017, to model the possible impacts of these changes on wastewater conveyance and treatment.

## **KING COUNTY**

### **General**

As a general purpose government, the County provides roads, solid waste disposal, flood control, certain airport facilities, public health and other human services, park and recreation facilities, courts, law enforcement, agricultural services, property tax assessment and collection, fire inspection, planning, zoning, animal control, and criminal detention and rehabilitative services. In addition, with its assumption of the Municipality of Metropolitan Seattle in 1994, the County provides transit and wastewater treatment services (collectively, the “metropolitan functions”). Certain of these services are provided on a County-wide basis and certain others only to unincorporated areas.

### **Organization of the County**

The County is organized under the executive-council form of government and operates under a Home Rule Charter adopted by a vote of the electorate in 1968. The County Executive, the Metropolitan King County Council (the “County Council”), the Prosecuting Attorney, the County Assessor (the “Assessor”), the Director of Elections, and the Sheriff are all elected to four-year terms.

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

instruments. All County employees report to the County Executive except those appointed by the County Council, Superior and District Courts, Prosecuting Attorney, Assessor, Director of Elections, or Sheriff.

*County Council.* The County Council is the policy-making legislative body of the County. The nine Councilmembers are elected by district to four-year staggered terms and serve on a full-time basis. The County Council sets tax levies, makes appropriations, and adopts and approves the operating and capital budgets for the County.

*Superior and District Courts.* The State Constitution provides for the existence of county superior courts as the courts of general jurisdiction. The County currently has 53 superior court judges who are elected to four-year terms and 21 district court judges who are elected to four-year terms.

### **County's Budget Process**

Revenue forecasts are developed by the County's independent Office of Economic and Financial Analysis and submitted to the King County Forecast Council for approval. The Forecast Council consists of the County Executive, two Councilmembers, and the Director of the Office of Performance, Strategy and Budget.

The County's Office of Performance, Strategy and Budget, under the direction of the County Executive, has the responsibility for (i) preparation and management of the operating and capital budgets, (ii) expenditure and revenue policy, and (iii) planning and growth management. Beginning in 2014 for the 2015/2016 biennium, the County has implemented the adoption of biennial budgets for all agencies.

These budgets must be presented to the County Council on or before September 27 of each year, as appropriate. The County Council holds public hearings and may increase or decrease proposed appropriations. Any changes in the budget must be within the revenues and reserves estimated as available, or the revenue estimates must be changed by an affirmative vote of at least six Councilmembers. The County Executive has general and line-item veto power over appropriation ordinances approved by the County Council. Each appropriation ordinance establishes a budgeted level of authorized expenditures that may not be exceeded without County Council approval of supplemental appropriation ordinances. The County Executive, within the restrictions of any provisos of the appropriation ordinances, may establish and amend line-item budgets as long as the total budget for each appropriation unit does not exceed the budgeted level of authorized expenditures. By an affirmative vote of at least six Councilmembers, the County Council may override any general or line-item veto by the County Executive.

### **Finance and Business Operations Division**

The Finance and Business Operations Division is comprised of five sections. The Treasury Operations Section manages the receipt and investment of assigned revenues due to the County or to other agencies for which the section performs the duties of treasurer and is responsible for the issuance and administration of the County's debt. The Financial Management Section is responsible for the accounting and disbursing of assigned public funds. The other sections are responsible for administering the County's payroll and benefits and for managing the County's procurement and contracting practices.

## **Auditing**

The financial statements of the Water Quality Enterprise as of and for the fiscal year ended December 31, 2014, attached as Appendix C, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing herein. The Water Quality Enterprise has not requested that Moss Adams LLP provide permission for inclusion of its report on the audited financial statements in this Official Statement, and Moss Adams LLP has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.

Legal compliance and fiscal audits of all County agencies are conducted by examiners from the State Auditor's office. The County is audited annually. The most recent State Auditor's Report is for the year ended December 31, 2014, and is incorporated into the County's 2014 Comprehensive Annual Financial Report.

The County's Comprehensive Annual Financial Report in its entirety may be accessed on the internet at the following link:

*<http://www.kingcounty.gov/operations/Finance/FMServices/CAFR.aspx>*

or obtained from the Financial Management Section at the King County Finance and Business Operations Division, 500 Fourth Avenue, Room 600, Seattle, Washington 98104. See the County's 2014 Comprehensive Annual Financial Report.

## **King County Investment Pool**

The Investment Pool invests cash reserves for all County agencies and approximately 100 special purpose districts and other public entities such as fire, school, sewer, and water districts, and other public authorities. It is one of the largest investment pools in the State, with an average asset balance of more than \$5.0 billion during the past year. Assets of all County agencies typically comprise between 35% and 40% of the Investment Pool.

The Executive Finance Committee establishes the County's investment policy and oversees the portfolio to ensure that specific holdings comply with both the investment policy and State law. The Investment Pool is allowed to invest only in certain types of highly-rated securities, including certificates of deposit, U.S. Treasury obligations, federal agency obligations, municipal obligations, repurchase agreements, and commercial paper. A summary of the current investment policy is attached as Appendix D.

The County has commissioned an outside financial consultant, Public Financial Management ("PFM"), to conduct quarterly reviews of all assets in the Investment Pool. In its most recent assessment, as of September 30, 2015, PFM concluded that "the County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality." The most recent portfolio review can be obtained at the following website,:

*<http://www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx>*

## County Employees

The number of full- and part-time employees of the County at year-end is shown below:

COUNTY EMPLOYEES		
<u>Year</u>	<u>Full-time</u>	<u>Part-time</u>
2010	13,658	1,202
2011	13,314	870
2012	13,293	828
2013	13,540	894
2014	13,319	866

*Source: King County Finance and Business Operations Division—Payroll Systems and Operations Sections*

The County's Office of Labor Relations negotiates, implements, and administers 79 collective bargaining agreements with 33 unions covering the terms of employment for the County's approximately 12,000 represented employees. The County is working under a two-year coalition agreement from January 1, 2015, through December 31, 2016, covering the majority of labor contracts and a total of 5,370 employees. The agreement calls for a fixed cost-of-living wage increase of 2% in 2015 and 2.25% in 2016. A majority of other unions not part of the coalition have agreed to those same terms. Agreements reached that did not match the coalition terms include the Police Officer Guild, which calls for a 2% increase in both 2015 and 2016; the King County Corrections Guild, which calls for a 2% increase in 2015 and a 2.5% increase in 2016; and the Amalgamated Transit Union, the largest union in the County representing about 3,700 employees, which calls for a 1.48% increase in 2015 and a 1.10% increase in 2016. There are a few small units that are currently in negotiations. All ratified agreements are submitted to the County Council for adoption.

There have been no strikes or work stoppages by County employees during the last ten years.

## Retirement Programs

Full-time County employees are covered by one of the following retirement systems:

NUMBER OF EMPLOYEES AS OF DECEMBER 31, 2014		RETIREMENT SYSTEM
47		Seattle City Employees Retirement System ("SCERS")
734		State of Washington—Law Enforcement Officers and Fire Fighters Retirement System ("LEOFF")
350		State of Washington—Public Safety Employees Retirement System ("PSERS")
All Others (11,848)		State of Washington—Public Employees Retirement System ("PERS")

*Source: King County Finance and Business Operations Division—Financial Management and Payroll Systems and Operations Sections*

The County administers payroll deductions under these retirement programs and remits the deductions together with County contributions to the respective retirement systems annually.

Substantially all full-time and qualifying part-time employees of the County participate in one of the retirement plans listed in the table titled "Overview of Retirement Plans" below. PERS, PSERS, and LEOFF are State-wide governmental retirement systems administered by the State's

Department of Retirement Systems (“WSDRS”). SCERS is a retirement plan administered by Seattle in accordance with Seattle Municipal Code Chapter 4.36. County employees who are former employees of Seattle Transit are covered by SCERS, as are King County Health Department employees.

#### OVERVIEW OF RETIREMENT PLANS

Retirement System/Plan	Administered by	Plan Type	Benefit Type	Plan Status
PERS - Plan 1	WSDRS	Cost-sharing multiple-employer retirement system	Defined Benefit	Closed in 1977
PERS - Plan 2	WSDRS	Cost-sharing multiple-employer retirement system	Defined Benefit	Open
PERS - Plan 3	WSDRS	Cost-sharing multiple-employer retirement system	Defined Benefit/Defined Contribution Hybrid	Open
PSERS - Plan 2	WSDRS	Cost-sharing multiple-employer retirement system	Defined Benefit	Open
LEOFF - Plan 1	WSDRS	Cost-sharing multiple-employer retirement system	Defined Benefit	Closed in 1977
LEOFF - Plan 2	WSDRS	Cost-sharing multiple-employer retirement system	Defined Benefit	Open
SCERS	City of Seattle	Single-employer retirement plan	Defined Benefit	Open

*Source: State Department of Retirement Systems and SCERS*

In June 2012, GASB approved Statement Nos. 67 and 68 that modify the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. The WSDRS-administered plans and SCERS will be subject to GASB 67; the County will be subject to GASB 68. GASB 67 is effective for Fiscal Year 2014; GASB 68 is effective for Fiscal Year 2015.

Each biennium, the State Legislature establishes contribution rates for the WSDRS-administered retirement plans. The SCERS Retirement Board of Administration establishes the contribution rates for the SCERS plan. The actuarial assumptions used in the most recent rate calculations are summarized in the following table:

## ACTUARIAL ASSUMPTIONS FOR FUNDING CALCULATIONS

	<b>WSDRS- Administered Plans</b>	<b>SCERS</b>
Investment return	7.80% <sup>(1)</sup>	7.50%
General salary increases	3.75%	4.00%
Consumer Price Index increase	3.00%	3.25%
Annual growth in membership	0.95% <sup>(2)</sup>	0.50%

(1) Assumed rate of 7.50% for LEOFF Plan 2.

(2) Assumed rate of 1.25% for LEOFF.

*Source: 2014 Actuarial Valuation from the Office of the State Actuary and SCERS January 1, 2015, Actuarial Valuation*

The County's employer and employee contribution rates and contribution amounts for all systems for the fiscal year ended December 31, 2014, and current contribution rates for 2015 are shown in the table below:

### COUNTY CONTRIBUTION RATES AND AMOUNTS

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>	<b>PSERS Plan 2</b>	<b>SCERS</b>
2014 Employer Contribution Rate	9.21% <sup>(1)</sup>	9.21% <sup>(1)</sup>	9.21% <sup>(1)</sup>	0.18% <sup>(1)</sup>	5.23% <sup>(1)(2)</sup>	10.54% <sup>(1)</sup>	12.89%
2014 Employee Contribution Rate	6.00% <sup>(3)</sup>	4.92% <sup>(3)</sup>	Varies <sup>(3)(4)</sup>	0.00%	8.41%	6.36%	10.03%
2014 Employer Contribution Amount (000)	\$2,244	\$73,115	\$12,793	\$1	\$4,325	\$3,064	\$620
2014 Employee Contribution Amount (000)	1,472	39,281	9,824	-	6,954	1,850	436
Total 2014 Contribution Amount (000)	\$3,716	\$112,396	\$22,617	\$1	\$11,279	\$4,914	\$1,056
Current 2015 Employer Contribution Rate	11.18% <sup>(1)(5)</sup>	11.18% <sup>(1)(5)</sup>	11.18% <sup>(1)(5)</sup>	0.18% <sup>(1)</sup>	5.23% <sup>(1)(2)</sup>	11.54% <sup>(1)(5)</sup>	15.23%
Current 2015 Employee Contribution Rate	6.00% <sup>(3)</sup>	6.12% <sup>(3)(5)</sup>	Varies <sup>(3)(4)</sup>	0.00%	8.41%	6.59% <sup>(5)</sup>	10.03%

(1) The employer contribution rate includes an employer administrative expense fee of 0.18%.

(2) The State contributed an additional 3.36%.

(3) Under the Judicial Benefit Multiplier Program, County judges participating in PERS Plans 1, 2, and 3 may pay higher employee rates in exchange for enhanced benefits.

(4) The employee contributions to PERS Plan 3, which may range between 5% and 15% of employees' compensation, are paid into a defined contribution plan rather than funding a defined retirement benefit.

(5) New contribution rates became effective July 1, 2015.

*Sources: King County, WSDRS, and SCERS*

**WSDRS-Administered Plans.** Under State statute, contribution rates for WSDRS-administered plans are adopted by the State Pension Funding Council ("PFC") (and, for LEOFF 2, by the LEOFF 2 Board) in even-numbered years for the next ensuing State biennium. The rate-setting process begins with an actuarial valuation by the Office of the State Actuary, which makes non-binding recommendations to the Select Committee on Pension Policy, which then recommends contribution rates to the PFC and the LEOFF 2 Board. No later than the end of July in even-numbered years, the PFC and LEOFF 2 Board adopt contribution rates, which are subject to revision by the State Legislature. The County has met its funding obligations to these systems when they have come due. While the County's contributions represent its full current liability

under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates.

To calculate the funded status, the WSDRS-administered plans compare the Actuarial Value of Assets (“AVA”) to the Entry Age Normal (“EAN”) liabilities. The EAN cost method projects future benefits under the plans, using salary growth and other assumptions, and applies the service that has been earned as of the valuation date to determine accrued liabilities. The AVA is calculated using a methodology that smooths the effect of short-term volatility in the Market Value of Assets (“MVA”) by deferring a portion of the annual investment gains or losses over a period of up to eight years. This helps limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in the MVA. Additional information on this measure is provided in the 2014 Actuarial Valuation Report (published September 2015), which can be found on the Office of the State Actuary’s website at

[http://osa.leg.wa.gov/Actuarial\\_Services/Publications/Valuations.htm](http://osa.leg.wa.gov/Actuarial_Services/Publications/Valuations.htm).

*SCERS.* To calculate the funded status of the SCERS plan, the assets are valued using a five-year smoothing method based on the difference between the expected market value and the actual market value of the assets in each year. The actuarial liabilities include the actuarial present value of all future benefits expected to be paid with respect to each member. For an active member, this value includes a measure of both benefits already earned and future benefits to be earned. Additional information on this measure is provided in the January 1, 2015, Actuarial Valuation Report (published May 26, 2015), which can be found on the SCERS website at

[http://www.seattle.gov/retirement/Actuarial\\_Reports.htm](http://www.seattle.gov/retirement/Actuarial_Reports.htm).

*Retirement System Funded Status.* Information regarding the funded status from the most recent actuarial report for each system is shown in the following table:

**RETIREMENT SYSTEM FUNDED STATUS<sup>(1)</sup>**  
(dollar amounts in millions)

	Administered by	Most Recent Actuarial Valuation Report	Actuarial Accrued Liability(a)	Actuarial Valuation of Assets(b) <sup>(2)</sup>	UAAL <sup>(3)</sup> (a-b)	Funded Ratio (b/a)	Plan Status
PERS - Plan 1	WSDRS	As of 6/30/2014	\$ 12,720	\$ 7,761	\$ 4,959	61%	Closed in 1977
PERS - Plan 2/3	WSDRS	As of 6/30/2014	29,321	26,386	2,935	90%	Open
PSERS - Plan 2	WSDRS	As of 6/30/2014	291	278	13	96%	Open
LEOFF - Plan 1	WSDRS	As of 6/30/2014	4,323	5,499	(1,177)	127%	Closed in 1977
LEOFF - Plan 2	WSDRS	As of 6/30/2014	8,069	8,638	(569)	107%	Open
SCERS	City of Seattle	As of 1/1/2015	3,433	2,267	1,166	66%	Open

(1) Reflects the full retirement systems, not the County’s share of each system.

(2) Asset valuations incorporate the smoothing of investment gains and losses.

(3) Unfunded actuarial accrued liability.

*Sources:* 2014 Actuarial Valuation from the Office of the State Actuary and SCERS January 1, 2015, Actuarial Valuation

As shown in the above table, the funded status on an actuarial basis for some plans is greater than 100%, while others are underfunded. Other than PERS Plans 2 and 3, assets from one plan may not be used to fund benefits for another plan.



Retirement funds for the WSDRS-administered plans are invested by the Washington State Investment Board. SCERS plan funds are invested at the direction of the SCERS Retirement Board of Administration.

The table below shows historical investment returns for retirement funds held in these plans.

#### **HISTORICAL ONE-YEAR INVESTMENT RETURNS ON RETIREMENT FUNDS**

<b>Year</b>	<b>WSDRS- Administered Plans<sup>(1)</sup></b>	<b>SCERS<sup>(2)</sup></b>
2005	13.1%	8.1%
2006	16.7%	13.9%
2007	21.3%	7.3%
2008	-1.2%	-26.8%
2009	-22.8%	10.8%
2010	13.2%	13.2%
2011	21.1%	0.0%
2012	1.4%	14.0%
2013	12.4%	15.5%
2014	17.1%	5.7%

(1) As of June 30.

(2) As of December 31.

For more information on employee retirement plans, see the County's 2014 Comprehensive Annual Financial Report.

#### **Other Post-Employment Benefits**

The King County Health Plan (the "Health Plan") is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees and employees. LEOFF Plan 1 retirees are not required to contribute to the Health Plan. Entry into LEOFF Plan 1 is now closed. All other retirees are required to pay the COBRA rate associated with the elected plan. The County's liability for other post-employment benefits ("OPEB") is limited to the direct Health Plan subsidy associated with LEOFF Plan 1 retirees and the implicit rate subsidy for other Health Plan retiree participants, which is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. For the fiscal year ended December 31, 2014, the County contributed an actuarially estimated \$5.1 million to the Health Plan. The County's contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to prefund benefits. For the fiscal year ended December 31, 2014, the County's annual OPEB cost (expense), which is calculated based on the annual required contribution of the County, was \$11.8 million and the County's net OPEB obligation was \$59.6 million. The Health Plan liability is based on a computed annual required contribution that includes the current period's service cost and an amount to amortize unfunded accrued liabilities.

For additional information regarding the County's OPEB liability, see the County's 2014 Comprehensive Annual Financial Report.

### **Risk Management and Insurance**

The County has a separate division that is responsible for claims handling, insurance, and loss control programs. The County has implemented a program of self-insurance to cover general and automobile liability, Health Department professional malpractice, police professionals, and public officials' errors and omissions. The County has excess liability coverage that currently provides \$92.5 million in limits above a \$7.5 million per occurrence self-insured retention for the above exposures.

Insurance policies currently in force covering major exposure areas are as follows:

<b>COVERAGE</b>	<b>LIMITS</b>
Combined Property Damage and Extra Expense for covered County property (includes \$100 million earthquake and \$250 million flood; terrorism is included in overall limit)	\$500 million
Airport Liability	\$300 million
Airport Property Damage and Extra Expense for covered airport property (includes \$50 million earthquake and \$100 million flood)	\$160 million
Airport Property Damage Terrorism for covered airport property	\$250 million
Fiduciary Liability	\$20 million
Employee Dishonesty	\$2.5 million
Aviation (Police Helicopter) Program	\$50 million
Excess Workers' Compensation	Statutory above \$2,500,000 deductible per occurrence
Marine Liability	\$150 million

The cash balance in the Insurance Fund was \$103.7 million as of December 31, 2014. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2014, was \$72.8 million.

For additional information, see the County's 2014 Comprehensive Annual Financial Report.

### **Emergency Management and Preparedness**

The County's Office of Emergency Management ("OEM") is responsible for managing and coordinating the County's resources and responsibilities in dealing with all aspects of emergencies. It also provides regional leadership in developing operational and communication strategies among cities, tribes, private businesses, and other key stakeholders within the County. The OEM prepares for emergencies, trains County staff in emergency response, provides education to the community about emergency preparedness, plans for emergency recovery, and works to mitigate known hazards. It has identified and assessed many types of hazards that may impact the County, including geophysical hazards (e.g., earthquakes, seismic seiches, landslides, tsunamis, volcanic eruptions, and lahars), infectious disease outbreaks, intentional hazards (e.g., terrorism and civil disorder), transportation incidents, fires, hazardous materials, and unusual

weather conditions (e.g., floods, snow, extreme temperatures, water shortages, and wind storms). However, the County cannot anticipate all potential hazards and their impacts on people, property, the environment, the local economy, and the County's finances.

## **INITIATIVES AND REFERENDA**

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

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

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

Under the County Charter, County voters may initiate County legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the County Council from becoming law. The County Charter also permits legislation to be proposed by cities in the County, provided that at least one half of the cities in the County support the proposal.

## **LEGAL AND TAX INFORMATION**

### **Litigation**

There is no litigation pending questioning the validity of the Bonds or the power and authority of the County to issue the Bonds or seeking to enjoin the issuance of the Bonds.

The County is party to litigation in its normal course of business. See Appendix C—King County Water Quality Enterprise Fund 2014 Audited Financial Statements—Note 12. The County and its agencies are also party to litigation involving tort claims. Information provided under “King County—Risk Management and Insurance” describes the County's self-insurance program and the insurance policies that cover pending tort litigation. The County expects that the amount of the Insurance Fund and County insurance coverage, together with routinized budget practices, are sufficient to cover all costs associated with known tort litigation pending. Although the County cannot predict the amount of damages that may be payable, if any, in its

litigation, the County does not believe that any pending litigation would materially adversely affect the ability of the County to pay when due the principal of or interest on the Bonds.

### **Approval of Counsel**

Legal matters incident to the authorization, issuance and sale of the Bonds by the County are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel. The form of the opinion of Bond Counsel is attached as Appendix B. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of the initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result.

### **Potential Conflicts of Interest**

The fees of Bond Counsel and the Financial Advisor are contingent upon the sale of the Bonds. From time to time, Bond Counsel serves as counsel to the Financial Advisor and other parties that may be involved with the Bonds with respect to transactions other than the issuance of the Bonds.

### **Limitations on Remedies and Municipal Bankruptcy**

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

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

A municipality such as the County must be specifically authorized under State law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). Washington State law permits any "taxing district" (defined to include counties) to voluntarily petition for relief under a predecessor to the Bankruptcy Code. A creditor, however, cannot bring an involuntary bankruptcy proceeding under the Bankruptcy Code against a municipality, including the County. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

Under Chapter 9, creditors secured by a pledge of "special revenues" are granted special protection in cases brought by municipalities, including the right to continue to receive payments under legal documents such as the Bond Ordinance. The definition of "special revenues" includes "receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or

systems.” Under Chapter 9, the pledge and the right to continued receipt of payment of the Revenue of the System is fully enforceable if a bankruptcy court determines that the Revenue of the System is considered “special revenues” under Chapter 9 and that the pledge of the Revenue of the System pursuant to the Bond Ordinance is valid and binding under Chapter 9.

Chapter 9 further provides that special revenues acquired by a debtor after the commencement of the bankruptcy case remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement of the case, and that any such lien on special revenues (other than municipal betterment assessments) derived from a project or system are subject to the necessary operating expenses of such project or system.

Unless a debtor under Chapter 9 consents or the plan approved by the bankruptcy court so provides, the court may not interfere with (i) any of the political or governmental powers of the debtor, (ii) any of the property or revenues of the debtor or (iii) the debtor’s use or enjoyment of any income-producing property.

Although State statute provides for a lien on the Revenue of the System to secure payment of the Bonds, no provision of State law provides for perfection of the lien under the Uniform Commercial Code of the State.

The opinions to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors’ rights, and also to the exercise of judicial discretion in accordance with general principles of equity. The form of legal opinion of Bond Counsel is attached as Appendix B.

## **Tax Exemption**

*Exclusion from Gross Income.* In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

*Continuing Requirements.* The County is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the Bonds and the facilities financed or refinanced with proceeds of the Bonds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The County has covenanted in the Bond Ordinance to comply with those requirements, but if the County fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the County’s compliance with such requirements.

*Corporate Alternative Minimum Tax.* While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by

corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

*Tax on Certain Passive Investment Income of S Corporations.* Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

*Foreign Branch Profits Tax.* Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

*Possible Consequences of Tax Compliance Audit.* The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

### **Certain Other Federal Tax Consequences**

*Bonds Not "Qualified Tax Exempt Obligations" for Financial Institutions.* Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax exempt obligations," only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The County is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

*Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies.* Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax exempt interest received during the taxable year.

*Effect on Certain Social Security and Retirement Benefits.* Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

*Other Possible Federal Tax Consequences.* Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds should consult their own tax advisors.

*Potential Future Federal Tax Law Changes.* Current and future legislative proposals, if enacted into law, may directly or indirectly cause interest on the Bonds to be subject in whole or in part to federal income taxation, may prevent the Beneficial Owners of the Bonds from realizing the full benefits of the current federal tax status of interest on the Bonds, or may affect, perhaps significantly, the market value or marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding the potential impact of any pending or proposed legislation or regulations.

*Original Issue Premium.* The Bonds have been sold at prices reflecting original issue premium (“Premium Bonds”). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser’s basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

## **CONTINUING DISCLOSURE UNDERTAKING**

In accordance with paragraph (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as the same may be amended from time to time (“Rule 15c2-12”), the County will enter into the following written undertaking for the benefit of the owners and Beneficial Owners of the Bonds.

### **Financial Statements/Operating Data**

The County agrees to provide or cause to be provided to the MSRB the following annual financial information and operating data for the prior fiscal year (commencing in 2016 for the fiscal year ended December 31, 2015):

- (i) annual financial statements, which may or may not be audited, of the County’s Water Quality Enterprise prepared in accordance with the Budget Accounting and Reporting System (“BARS”) prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statutes) and generally of the type attached as Appendix C;
- (ii) the amount of outstanding Parity Bonds; and
- (iii) information regarding customers, revenues and expenses of the Sewer System, as set forth in the table titled “Historical Financial Statements.”

Items (ii) and (iii) are required only to the extent that such information is not included in the annual financial statements.

The annual information and operating data described above will be provided on or before the end of seven months after the end of the County’s fiscal year. The County’s fiscal year currently ends on December 31. The County may adjust its fiscal year by providing written notice to the MSRB. In lieu of providing the annual financial information and operating data, the County may make specific reference to other documents available to the public on the MSRB’s internet web site or filed with the SEC.

If not provided as part of the annual financial information discussed above, the County will provide to the MSRB the audited annual financial statements of the County’s Water Quality Enterprise prepared in accordance with BARS when and if available.

The County agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information and operating data described above on or prior to the date set forth above.

### **Specified Events**

The County further agrees to provide or cause to be provided to the MSRB in a timely manner, not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following specified events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;



- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to the rights of Bondholders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of the County or any obligated person;
- (xiii) the consummation of a merger, consolidation or acquisition involving the County or an obligated person or the sale of all or substantially all of the assets of the County or an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Solely for purposes of disclosure and not intending to modify the undertaking, the County advises with reference to item (iii) that no debt service reserves secure the payment of the Bonds.

### **Additional Information About the Undertaking**

*EMMA; Format for Filings with the MSRB.* Until otherwise designated by the MSRB or the SEC, any information or notices submitted to the MSRB in compliance with Rule 15c2-12 are to be submitted through the MSRB's Electronic Municipal Market Access system, currently located at [www.emma.msrb.org](http://www.emma.msrb.org), which web site is not incorporated into this Official Statement by reference. All notices, financial information, and operating data required by the undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to the undertaking must be accompanied by identifying information as prescribed by the MSRB.

*Termination/Modification of Undertaking.* The County's obligations to provide annual financial information and notices of specified events will terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. The undertaking, or any provision thereof, will be null and void if the County (i) obtains an opinion of nationally recognized bond counsel to the effect that those portions of Rule 15c2-12 which require the undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) notifies the MSRB of such opinion and the cancellation of the undertaking.

The County may amend the undertaking, and any provision of the undertaking may be waived, with an approving opinion of nationally recognized bond counsel and in accordance with Rule 15c2-12.

In the event of any amendment or waiver of a provision of the undertaking, the County will describe such amendment or waiver in the next annual report, and will include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change will be given in the same manner as for a specified event under the captions “Specified Events” above, and (ii) the annual report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

*Bond Owners’ Remedies Under the Undertaking.* The right of any owner or Beneficial Owner of Bonds to enforce the provisions of the undertaking will be limited to a right to obtain specific enforcement of the County’s obligations thereunder, and any failure by the County to comply with the provisions of the undertaking will not be an event of default with respect to the Bonds. For purposes of the undertaking, “Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

*Prior Compliance.* The County has entered into written undertaking under Rule 15c2-12 with respect to all of its obligations subject thereto. The County believes that it has not failed to comply, in all material respects, with the obligations contained within such undertaking for the previous five years.

## **OTHER BOND INFORMATION**

### **Ratings**

The Bonds have been rated “MIG 1” and “SP-1+” by Moody’s Investors Service and Standard & Poor’s Ratings Services, respectively. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

### **Financial Advisor**

The County has retained Piper Jaffray & Co./Seattle-Northwest Division, Seattle, Washington, as financial advisor (the “Financial Advisor”) in connection with the preparation of the County’s financing plans and with respect to the authorization and issuance of the Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make any independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is a full service

investment banking firm that provides financial advisory and underwriting services to state and local governmental entities. While under contract to the County, the Financial Advisor may not participate in the underwriting of any County debt.

### **Purchaser of the Bonds**

The Bonds are being purchased by Morgan Stanley (the “Purchaser”). Each series of the Bonds is being purchased at a price of \$50,794,500, and will be reoffered at a price of \$50,799,500. The Purchaser may offer and sell each series of the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices corresponding to the yields set forth on the cover page of this Official Statement, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

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

### **Official Statement**

At the time of the delivery of the Bonds, one or more officials of the County will furnish a certificate stating that to the best of his or her knowledge and belief at the time of delivery of the Bonds, this Official Statement did not and does not contain any untrue statements of material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in any material respect.

The County has authorized the execution and delivery of this Official Statement.

KING COUNTY, WASHINGTON

By: \_\_\_\_\_ /s/ Ken Guy

Ken Guy

Director of Finance and Business Operations Division  
Department of Executive Services

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**APPENDIX A**  
**SUMMARY OF BOND ORDINANCE**

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## **SUMMARY OF THE BOND ORDINANCE**

Ordinance 18141 of the County, passed by the County Council on October 26, 2015 (the “Bond Ordinance”), authorizes the issuance of the Bonds in the aggregate principal amount of \$100,000,000 to pay all or a portion of the principal of and interest on the outstanding Commercial Paper Notes and to pay the costs of issuing the Bonds.

Certain provisions of the Bond Ordinance are summarized herein. Please refer to the Bond Ordinance for full and complete statements of those provisions and for other provisions relating to the Bonds. Copies of the Bond Ordinance are available on request to Piper Jaffray & Co., Seattle-Northwest Division, 1420 Fifth Avenue, Suite 4300, Seattle, Washington 98101, or to the Finance and Business Operations Division of the County.

Many of the capitalized words or phrases used in this summary and elsewhere in this Official Statement are defined in the Bond Ordinance. Certain of those definitions are summarized below.

### **Certain Definitions**

“Accreted Value” means, for any Capital Appreciation Bonds, as of any date of calculation, the sum of the amounts set forth in the ordinance, resolution or motion authorizing such bonds as the amounts representing the initial principal amount of such bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, as provided in the ordinance, resolution or motion authorizing the issuance of such bonds; provided, that if such calculation is not made as of a compounding date, such amount will be determined by straight-line interpolation as of the immediately preceding and the immediately succeeding compounding dates.

“Additional Junior Lien Obligations” means those revenue bonds or other revenue obligations that may be issued by the County after the issuance of the Bonds with a lien on Revenue of the System equal to the lien thereon of the Bonds.

“Annual Debt Service” means, for designated obligations of the System, with respect to any calendar year, the sum of the following:

1. The interest on such designated obligations due (i) on all interest payment dates (other than January 1) in such calendar year, and (ii) on January 1 of the next succeeding calendar year, plus any Payment Agreement Payments due on such dates in respect of Payment Agreements for such designated obligations and minus any Payment Agreement Receipts due in such period in respect of Payment Agreements for such designated obligations. For purposes of calculating the amounts required to pay interest on such designated obligations, capitalized interest, accrued interest paid to the County upon the issuance of such designated obligations, and Debt Service Offsets pledged to the payment of such designated obligations will be excluded. The amount of interest deemed payable on any such designated obligations bearing interest at a variable rate will be calculated on the assumption that the interest rate on such designated obligations would be equal to the rate that is 90% of the average Bond Buyer Revenue Bond Index or comparable index during the fiscal quarter preceding the quarter in which the calculation is made; provided, that for purposes of determining actual compliance in

any past calendar year with the rate covenants made in the Bond Ordinance, the actual amount of interest paid on any issue of variable rate obligations will be taken into account.

2. The principal due (at maturity or upon mandatory redemption prior to maturity) for such designated obligations (i) on all principal payment dates (other than January 1) of such calendar year and (ii) on January 1 of the next succeeding calendar year.

3. An amount for assumed payments of principal of any of such designated obligations that are Balloon Maturity Bonds calculated for the applicable calendar year by amortizing the then outstanding principal amount of such designated obligations in accordance with a maturity schedule not exceeding 30 years from the date of issuance of such Balloon Maturity Bonds and resulting in approximately level debt service based on their actual interest rates (if such designated obligations bear interest at fixed rates) or on the assumed interest rate calculated as provided in paragraph 1 of this definition (if such designated obligations bear interest at a variable rate).

In the case of Capital Appreciation Bonds, the Accreted Value due at maturity or upon mandatory redemption must be included in the calculation of Annual Debt Service, and references in the Bond Ordinance to principal include the Accreted Value due at maturity or upon the mandatory redemption of any Capital Appreciation Bonds.

Notwithstanding the foregoing, debt service on any such designated obligations with respect to which a Payment Agreement is in force will be calculated by the County to reflect the net economic effect of the terms of such designated obligations and the applicable Payment Agreement, in accordance with the requirements set forth in the proceedings authorizing the issuance of such designated obligations.

“Balloon Maturity Bonds” means any obligations of the System, the entire principal amount of which is due at maturity without serial bond payments or sinking fund redemption payments.

“Beneficial Owner” means, with respect to a Bond, the owner of the beneficial interest in that Bond.

“Bondowners’ Trustee” means the bank or financial institution selected by the Registered Owners of the Bonds.

“Capital Appreciation Bonds” means any Parity Bonds the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such Parity Bonds; provided, that Parity Bonds may be deemed to be Capital Appreciation Bonds for only a portion of their term pursuant to the ordinance, resolution or motion authorizing their issuance. On the date on which Parity Bonds no longer are Capital Appreciation Bonds, they will be deemed outstanding in a principal amount equal to their Accreted Value.

“Commercial Paper Notes” means the King County, Washington, Sewer Revenue Bond Anticipation Notes, Commercial Paper Series A.



“Comprehensive Plan” means the County’s comprehensive water pollution abatement plan authorized by RCW 35.58.200 and defined in Section 28.82.150 of the King County Code as the Comprehensive Sewage Disposal Plan adopted by Resolution No. 23 of the Metro Council on April 22, 1959, and all amendments thereto, together with any amendments hereafter approved by ordinance of the County.

“Credit Enhancement” means any letter of credit, insurance policy, surety bond, line of credit or other instrument then in effect that secures or guarantees the payment of principal of and interest on any series of the Bonds.

“Credit Facility” means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (but not including a Payment Agreement), satisfactory to the County, that is provided by a commercial bank, insurance company or other financial institution with a current long-term rating (or whose obligations thereunder are guaranteed by a financial institution with a long-term rating): (i) from Moody’s and S&P not lower, when issued, than the credit rating of any series of Parity Bonds, to provide support for a series of Parity Bonds, and includes any substitute therefor in accordance with the provisions of the ordinance providing for the issuance of Parity Bonds supported by a Credit Facility, or (ii) from Fitch, Moody’s and S&P not lower, when issued, than the credit rating of any series of Parity Lien Obligations, to provide support for a series of Parity Lien Obligations, and includes any substitute therefor in accordance with the provisions of the ordinance providing for the issuance of Parity Lien Obligations supported by a Credit Facility.

“Credit Provider” means any bank, insurance company, pension fund or other financial institution that provides a Credit Enhancement for any series of the Bonds.

“Debt Service Offset” means receipts of the County that are (i) legally available to pay debt service on obligations payable from Revenue of the System, including without limitation federal interest subsidy payments, and (ii) pledged to the payment of obligations payable from Revenue of the System.

“Future Parity Bonds” means any sewer revenue bonds, warrants or other obligations that may be issued in the future with a lien on Revenue of the System equal to the lien thereon of the Parity Bonds.

“Junior Lien Obligations” means (i) the County’s Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, dated August 15, 2001, authorized by Ordinances 14171 and 14172, (ii) the County’s Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011, dated October 26, 2011, authorized by Ordinance 17202, (iii) the County’s Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, dated December 27, 2012, authorized by Ordinance 17495, (iv) the Bonds and (v) any Additional Junior Lien Obligations.

“Liquidity Facility” means any letter of credit, line of credit, standby purchase agreement or other instrument then in effect that provides for the payment of the purchase price of Bonds upon the tender thereof if remarketing proceeds are insufficient therefor.

“Liquidity Provider” means any bank, insurance company, pension fund or other financial institution that provides a Liquidity Facility.

“Multi-Modal LTGO/Sewer Revenue Bonds” means the County’s Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2010A and Series 2010B, and any additional limited tax general obligation bonds of the County payable from Revenue of the System and having the same lien on Revenue of the System as those bonds.

“Net Revenue” means Revenue of the System less Operating and Maintenance Expenses.

“Operating and Maintenance Expenses” means all normal expenses incurred by the County in causing the System to be maintained in good repair, working order and condition and includes payments to any private or governmental agency for the operation or maintenance of facilities or for the disposal of sewage but excludes any allowance for depreciation.

“Owner” means, with respect to a Bond, without distinction, the Beneficial Owner or the Registered Owner.

“Parity Bonds” means any Future Parity Bonds and the following outstanding sewer revenue bonds of the County:

<b>Designation</b>	<b>Ordinance</b>	<b>Date of Issue</b>	<b>Original Principal</b>
2006 Bonds	15385	5/16/2006	\$124,070,000
2006 (2nd) Bonds	15385	11/30/2006	193,435,000
2007 Bonds	15758	6/26/2007	250,000,000
2008 Bonds	16133	8/14/2008	350,000,000
2009 Bonds	16133	8/12/2009	250,000,000
2010 Bonds	16868	7/29/2010	334,365,000
2011 Bonds	16868	1/25/2011	175,000,000
2011B Bonds	17111	10/5/2011	494,270,000
2011C Bonds	17111	11/1/2011	32,445,000
2012 Bonds	17111	4/18/2012	104,445,000
2012B Bonds	17111	8/2/2012	64,260,000
2012C Bonds	17111	9/19/2012	65,415,000
2013A Bonds	17111	4/9/2013	122,895,000
2013B Bonds	17599	10/29/2013	74,930,000
2014A Bond	17599	7/18/2014	75,000,000
2014B Bonds	17599	8/12/2014	192,460,000
2015A Bonds	17599	2/18/2015	474,025,000
2015B Bonds	18111	11/17/2015	93,345,000

“Parity Bonds” also include any Parity Payment Agreements and parity reimbursement agreements entered into with the provider of a Credit Facility securing any Parity Bonds.

“Parity Lien Obligation Payment Agreement” means a Payment Agreement under which the County’s payment obligations are expressly stated to constitute a charge and lien on Revenue of the System equal in rank with the charge and lien on Revenue of the System securing amounts

required to be paid into the Parity Lien Obligation Bond Fund to pay and secure the payment of principal of and interest on the Parity Lien Obligations.

“Parity Lien Obligations” means the following outstanding sewer revenue bonds of the County, together with any sewer revenue bonds, warrants or other obligations that may be issued in the future with a lien on Revenue of the System equal to the lien thereon of such bonds:

<b>Designation</b>	<b>Ordinance</b>	<b>Date of Issue</b>	<b>Original Principal</b>
Series 2008	15779	2/21/2008	\$236,950,000
Series 2009	16133	4/8/2009	300,000,000
Series 2012	17111	4/18/2012	68,395,000
Series 2012B	17111	8/2/2012	41,725,000
Series 2012C	17111	9/19/2012	53,405,000
Series 2015A	17599	2/18/2015	247,825,000

“Parity Lien Obligations” also include any Parity Lien Obligation Payment Agreements and parity reimbursement agreements entered into with the provider of a Credit Facility securing any Parity Lien Obligations.

“Parity Payment Agreement” means a Payment Agreement under which the County’s payment obligations are expressly stated to constitute a charge and lien on Revenue of the System equal in rank with the charge and lien on Revenue of the System securing amounts required to be paid into the Parity Bond Fund to pay and secure the payment of principal of and interest on the Parity Bonds.

“Payment Agreement” means, to the extent permitted from time to time by applicable law, a written agreement entered into by the County (i) in connection with or incidental to the issuance, incurring or carrying of bonds or other obligations of the County secured in whole or in part by a lien on Revenue of the System; (ii) for the purpose of managing or reducing the County’s exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes; (iii) with a Qualified Counterparty; and (iv) which provides, on either a current or forward basis, for an exchange of payments determined in accordance with a formula specified therein.

“Payment Agreement Payments” means the amounts periodically required to be paid by the County to the Qualified Counterparty pursuant to a Payment Agreement. The term “Payment Agreement Payments” does not include any termination payment required to be paid with respect to a Payment Agreement.

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

“Professional Utility Consultant” means a licensed professional engineer, a certified public accountant, or other independent person or firm selected by the County having a favorable reputation for skill and experience with sewer systems of comparable size and character to the System in such areas as are relevant to the purposes for which they are retained.

“Public Works Trust Fund Loans” means loans to the County by the State Department of Commerce under the Public Works Trust Fund loan program pursuant to loan agreements in effect as of the date of the Bond Ordinance and any loan agreements thereafter entered into by the County under the Public Works Trust Fund loan program, the repayment obligations of which are secured by a lien on Revenue of the System equal to the lien thereon established by such loan agreements.

“Qualified Counterparty” means with respect to a Payment Agreement an entity (i) whose senior long-term debt obligations, other senior unsecured long-term obligations or claims-paying ability or whose payment obligations under a Payment Agreement are guaranteed by an entity whose senior long-term debt obligations, other senior unsecured long-term obligations or claims-paying ability are rated (at the time the Payment Agreement is entered into) at least as high as A3 by Moody’s and A- by S&P (and A- by Fitch for any Parity Lien Obligation Payment Agreement), or the equivalent thereof by any successor thereto, and (ii) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

“Qualified Insurance” means (i) so long as any Parity Bonds designated as 2006 Bonds, 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, any unconditional municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States or by a service corporation acting on behalf of one or more such insurance companies, which insurance company or service corporation is rated in one of the two highest rating categories by Moody’s, S&P, and any other rating agency then maintaining a rating on the Parity Bonds, provided that as of the time of issuance of such policy or surety bond, such insurance company or companies maintain a policy owner’s surplus in excess of \$500,000,000; and (ii) from and after such time as no Parity Bonds designated as 2006 Bonds, 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, any unconditional municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States or by a service corporation acting on behalf of one or more such insurance companies, which insurance company or service corporation, as of the time of issuance of such policy or surety bond, is then rated in one of the two highest rating categories by Moody’s, S&P, and any other rating agency then maintaining a rating on the Parity Bonds and maintains a policy owner’s surplus in excess of \$500,000,000.

“Qualified Letter of Credit” means any irrevocable letter of credit issued by a bank for the account of the County and for the benefit of the registered owners of Parity Bonds, provided that such bank maintains an office, agency or branch in the United States, and provided further, that as of the time of issuance of such letter of credit, such bank is currently rated in one of the two highest rating categories by Moody’s, S&P, and any other rating agency then maintaining a rating on the Parity Bonds.

“Registered Owner” means, with respect to a Bond, the person in whose name that Bond is registered on the Bond Register.

“Revenue of the System” means all the earnings, revenues and money received by the County from or on account of the operations of the System and the income from the investment

of money in the Revenue Fund or any account within such fund, but does not include (i) any money collected pursuant to the Service Agreements applicable to administrative costs of the County other than costs of administration of the System or (ii) any Debt Service Offsets. For certain purposes described in the Bond Ordinance, deposits from the Rate Stabilization Fund into the Revenue Fund may be included in calculations of “Revenue of the System.”

“Securities Depository” means DTC, any successor thereto, any substitute securities depository selected by the County that is qualified under applicable laws and regulations to provide the services proposed to be provided by it, or the nominee of any of the foregoing.

“Senior Lien Payments” means, for any calendar year, the sum of the following: (i) Annual Debt Service for such year for the Parity Bonds and Parity Lien Obligations then outstanding; and (ii) any other payments required to be made during such year that are described in paragraphs (ii) through (v) in “Security and Sources of Payment for the Bonds—Flow of Funds.”

“Service Agreements” means the sewage disposal agreements entered into between the County and municipal corporations, persons, firms, private corporations, or governmental agencies providing for the disposal by the County of sewage collected from such contracting parties.

“SRF Loans” means loans to the County by the State Department of Ecology pursuant to loan agreements in effect as of the date of the Bond Ordinance and any loans and loan agreements thereafter entered into by the County under the State water pollution control revolving fund loan program, the repayment obligations of which are secured by a lien on Revenue of the System equal to the lien thereon established by such loan agreements.

“Subordinate Lien Obligations” means the Commercial Paper Notes and any revenue bonds or other revenue obligations that may be issued by the County in the future with a lien on Revenue of the System equal to the lien thereon of the Commercial Paper Notes.

“System” means the sewers and sewage disposal facilities now or hereafter acquired, constructed, used or operated by the County for the purpose of carrying out the Comprehensive Plan.

“Term Bonds” means those Bonds identified as such pursuant to the Sale Motion, the principal of which is amortized by a schedule of mandatory redemptions, payable from the Junior Lien Bond Fund, prior to their maturity.

### **Revenue—Priority of Payment**

All Revenue of the System is to be deposited into the Revenue Fund and used and applied in the order of priority described in “Security and Sources of Payment for the Bonds—Flow of Funds.”

## **Covenants and Representations**

*Rate and Coverage Covenants.* The rate and coverage covenants applicable to the Bonds are described in “Security and Sources of Payment for the Bonds—Rate and Coverage Covenants.”

*Maintenance and Operation.* The County will cause the System and the business in connection therewith to be operated in a safe, sound, efficient, and economic manner in compliance with all health, safety, and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the County’s operation of the System, and will cause the System to be maintained, preserved, reconstructed, expanded and kept, with all appurtenances and every part and parcel thereof, in good repair, working order and condition, and will from time to time cause to be made, without undue deferral, all necessary or proper repairs, replacements and renewals, so that all times the operation of the System will be properly and advantageously conducted.

*Books and Records.* The County will cause proper books of record and accounts of operation of the System to be kept, including an annual financial report.

*Annual Audit.* The County will cause its books of accounts, including its annual financial report, to be audited annually by the State auditor’s office or other State department or agency as may be authorized and directed by law to make such audits, or if such an audit is not made for twelve months after the close of any fiscal year of the County, by a certified public accountant. The County will furnish the audit to the Owner of any Bond upon written request therefor.

*Insurance.* The County will at all times carry fire and extended coverage and such other forms of insurance on such of the buildings, equipment, facilities and properties of the System as under good practice are ordinarily carried on such buildings, equipment, facilities and properties by municipal or privately owned utilities engaged in the operation of sewer systems and will also carry adequate public liability insurance at all times, provided that the County may, if deemed advisable by the County Council, institute or continue a self insurance program for any or all of the aforementioned risks.

*Construction.* The County will cause the construction of any duly authorized and ordered portions of the Comprehensive Plan to be performed and completed within a reasonable time and at the lowest reasonable cost.

*Collection of Revenue.* The County will operate and maintain the System and conduct its affairs so as to entitle it at all times to receive and enforce payment to it of sewage disposal charges payable (i) pursuant to the ordinance or ordinances establishing a tariff of rates and charges for sewage disposal services and (ii) under any Service Agreement that the County has now or may hereafter enter into and to entitle the County to collect all revenues derived from the operation of the System. The County will not release the obligations of any person, corporation or political subdivision under such tariff of rates and charges or the Service Agreements and will at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the County and of the Registered Owners of the Bonds under or with respect thereto.

In accordance with RCW 35.58.200(3), the County will require any County, city, special district or other political subdivision to discharge to the System all sewage collected by that entity from any portion of the Seattle metropolitan area that can drain by gravity flow into facilities of the System that serve such areas if the County Council declares that the health, safety or welfare of the people within the metropolitan area require such action.

*Legal Authority.* The County has full legal right, power and authority to adopt the Bond Ordinance, to sell, issue and deliver the Bonds as provided in the Bond Ordinance, and to carry out and consummate all other transactions contemplated by the Bond Ordinance.

*Due Authorization.* By all necessary official action prior to or concurrently with the passage of the Bond Ordinance, the County has duly authorized and approved the execution and delivery of, and the performance by the County of its obligations contained in, the Bonds and in the Bond Ordinance and the consummation by it of all other transactions necessary to effectuate the Bond Ordinance in connection with the issuance of Bonds, and such authorizations and approvals are in full force and effect and have not been amended, modified or supplemented in any material respect.

*Binding Obligation.* The Bond Ordinance constitutes a legal, valid and binding obligation of the County.

*No Conflict.* The County's adoption of the Bond Ordinance and its compliance with the provisions contained therein will not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, ordinance, motion, agreement or other instrument to which the County is a party or to which the County or any of its property or assets are otherwise subject, nor will any such adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the County or under the terms of any such law, regulation or instrument, except as may be provided by the Bond Ordinance.

*Performance Under Bond Ordinance.* None of the proceeds of the Bonds will be used for any purpose other than as provided in the Bond Ordinance, and the County will not suffer any amendment or supplement to the Bond Ordinance, or any departure from the due performance of the obligations of the County thereunder, that might materially adversely affect the rights of the Registered Owners from time to time of the Bonds.

*Sale or Disposition of Property.* The County will not sell or voluntarily dispose of all of the operating properties of the System unless provision is made for payment into the applicable debt service funds of a sum sufficient to pay the principal of and interest on all outstanding Parity Bonds, Parity Lien Obligations and Junior Lien Obligations in accordance with the terms thereof, nor will the County sell or voluntarily dispose of any part of the operating properties of the System unless the County has first complied with any applicable covenants of the Parity Bonds and Parity Lien Obligations.

*Tax Covenants.* The County covenants not to take any action, or knowingly omit to take any action within its control, that if taken or omitted would cause the interest on the Bonds to be

includable in gross income, as defined in Section 61 of the Code, for federal income tax purposes. If the County does not qualify for an exception to the requirements of Section 148(f) of the Code relating to the payment of arbitrage rebate to the United States with respect to a series of Bonds, the County will take all necessary steps to comply with the requirement that certain amounts earned by the County on the investment of the “gross proceeds” of that series of Bonds (within the meaning of the Code) be rebated.

### **Additional Parity Bonds and Parity Lien Obligations**

The County reserves the right to issue additional Parity Bonds and Parity Lien Obligations on the applicable terms and conditions set forth in the ordinances authorizing issuance of the Parity Bonds and Parity Lien Obligations then outstanding.

### **Additional Junior Lien Obligations**

The County reserves the right to issue Additional Junior Lien Obligations, but only if such Additional Junior Lien Obligations are issued (i) for the purpose of refunding any Junior Lien Obligations then outstanding or (ii) for any lawful purpose of the County related to the System and the following conditions are met:

1. At the time of issuing such Additional Junior Lien Obligations, there is no default in the payment of the principal of or interest on any Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, SRF Loans or Public Works Trust Fund Loans.

2. The County has on file one of the following certificates:

- (a) a certificate of the Finance Director showing that Net Revenue in any 12 consecutive months out of the most recent 18 months preceding the issuance of such Additional Junior Lien Obligations, based on financial statements of the System prepared by the County and after deducting therefrom the Senior Lien Payments required in each calendar year during the life of such Additional Junior Lien Obligations, will be at least equal to 1.10 times the Annual Debt Service for the proposed Additional Junior Lien Obligations and all Junior Lien Obligations then outstanding in each year during the life of such Additional Junior Lien Obligations; or

- (b) A certificate from a Professional Utility Consultant (which certificate may not be dated more than 90 days prior to the date of delivery of such Additional Junior Lien Obligations) showing that in his or her professional opinion the Net Revenue, estimated on the basis of all factors as he or she may consider reasonable, for each of the five calendar years following the year in which such Additional Junior Lien Obligations are to be issued, after deducting therefrom Senior Lien Payments for each such year, will be at least equal to 1.10 times the Annual Debt Service for the proposed Additional Junior Lien Obligations and all Junior Lien Obligations then outstanding in each of those five years.



Nothing contained in the Bond Ordinance prevents the County from issuing revenue bonds, notes or other obligations that are a charge on Revenue of the System junior or inferior to the payments required to be made therefrom into the Junior Lien Bond Fund to pay and secure the payment of any Junior Lien Obligations.

### **Payment Agreements**

*General.* To the extent and for the purposes permitted from time to time by State law, the County may enter into Payment Agreements with respect to the Bonds, subject to the conditions described below and in other provisions of the Bond Ordinance. “Payment Agreements” include agreements providing for an exchange of payments based on interest rates (known as interest rate swaps) or providing for ceilings or floors on such payments. Each Payment Agreement must set forth the manner in which the Payment Agreement Payments and the Payment Agreement Receipts will be calculated and a schedule of payment dates. Prior to entering into a Payment Agreement, the County Council must pass an ordinance authorizing such agreement and setting forth such provisions as the County deems necessary or desirable and are not inconsistent with the provisions of the Bond Ordinance.

*Calculation of Debt Service with Respect to Payment Agreements.* For purposes of the Bond Ordinance, debt service on Bonds with respect to which a Payment Agreement is in force will be calculated to reflect the net economic effect on the County intended to be produced by the terms of such Bonds and the Payment Agreement. In calculating such amounts, the County will be guided by the following requirements.

The amount of interest deemed to be payable on any Bonds with respect to which a Payment Agreement is in force will be an amount equal to the amount of interest that would be payable at the rate or rates stated in those Bonds plus Payment Agreement Payments minus Payment Agreement Receipts.

For any period during which Payment Agreement Payments are not taken into account in calculating interest on any outstanding Bonds because the Payment Agreement is not then related to any outstanding Bonds, Payment Agreement Payments on that Payment Agreement will be calculated based upon the following assumptions: (i) If the County is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified Counterparty is obligated to make payments based on a variable rate index, payments by the County will be based on the assumed fixed payor rate, and payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable rate index specified by the Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made; and (ii) if the County is obligated to make Payment Agreement Payments based on a variable rate index and the Qualified Counterparty is obligated to make payments based on a fixed rate, payments by the County will be based on a rate equal to the average rate determined by the variable rate index specified by the Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made, and the Qualified Counterparty will make payments based on the fixed rate specified by the Payment Agreement.

*Termination Payments.* The County’s authorizations of Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, and

Subordinate Lien Obligations do not provide for termination payments with respect to any Payment Agreement to have a lien on Revenue of the System senior to the lien thereon of such Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, or Subordinate Lien Obligations. Therefore any termination payments with respect to a Payment Agreement would have a lien position junior to the lien on Revenue of the System of all such Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, and Subordinate Lien Obligations.

### **Bondowners' Trustee**

Upon the occurrence of a "default" described below and so long as such default is not remedied, and subject to the rights of any Credit Provider, a Bondowners' Trustee may be appointed for the Registered Owners of the Bonds by the Registered Owners of a majority in principal amount of the Bonds then outstanding, notification thereof having been given to the County. Any Bondowners' Trustee must be a bank or trust company organized under the laws of a state or a national banking association. The fees and expenses of the Bondowners' Trustee must be borne by the Registered Owners of the Bonds and not by the County. The bank or trust company acting as the Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed, by the Registered Owners of a majority in principal amount of the Bonds then outstanding. The Bondowners' Trustee may resign upon 60 days' notice and a new Bondowners' Trustee appointed by the Registered Owners of a majority in principal amount of the Bonds then outstanding; provided, that no such resignation or removal will be effective until a successor Bondowners' Trustee has been appointed and has delivered to the County and the Registered Owners of the Bonds then outstanding a written instrument of acceptance of the duties and responsibilities of the Bondowners' Trustee under the Bond Ordinance.

The Bondowners' Trustee appointed in such manner, and each successor thereto, will be a trustee for the Registered Owners of all the Bonds then outstanding and is empowered to exercise all the rights and powers conferred in the Bond Ordinance on the Bondowners' Trustee.

Subject to the rights of the Credit Provider, if any, upon the happening of a default and during the continuation thereof, the Bondowners' Trustee may, and upon the written request of the Registered Owners of not less than 25% in principal amount of the Bonds then outstanding must, take such steps and institute such suits, actions or other proceedings as it may deem appropriate for the protection and enforcement of the rights of such Registered Owners to collect any amounts due and owing to or from the County, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in the Bond Ordinance or in the Bonds.

Subject to the rights of the Credit Provider, if any, no Registered Owner of any Bonds has any right to institute any action, suit or proceedings at law or in equity for the enforcement of the same unless a default has happened and is continuing; a Bondowners' Trustee has been appointed, such Registered Owner previously has given to the Bondowners' Trustee written notice of the default as to which such suit, action or proceeding is to be instituted, Registered Owners of not less than 25% in principal amount of the Bonds then outstanding, after the occurrence of such default, have made written request of the Bondowners' Trustee and have

afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action or proceedings, the Bondowners' Trustee has been offered security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

Subject to the rights of the Credit Provider, if any, the Bondowners' Trustee may waive any past default and its consequences, except a default in the payment of the principal of or premium, if any, or interest on any of the Bonds.

### **Defaults**

Any one or more of the following will constitute a "default":

1. The County fails to make payment of the principal of any Bond when the same becomes due and payable, whether by maturity or scheduled redemption prior to maturity;
2. The County fails to make payment of the interest on any Bond when the same becomes due and payable;
3. The County defaults in the observance or performance of any other covenant, condition or agreement on the part of the County contained in the Bond Ordinance, and such default has continued for a period of 90 days; or
4. The County (i) admits in writing its inability to pay its debts generally as they become due; (ii) files a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law; (iii) makes an assignment for the benefit of its creditors; (iv) consents to the appointment of a receiver for the whole or any substantial part of the System; or (v) consents to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the County or of the whole or any substantial part of the System.

### **Supplemental Ordinances**

*Without Bondowner Consent.* The County Council from time to time and at any time may adopt an ordinance or ordinances supplemental to the Bond Ordinance which supplemental ordinance or ordinances thereafter will become a part of the Bond Ordinance, without the consent of Registered Owners of any of the Bonds, for any one or more of the following purposes:

1. To add to the covenants and agreements of the County in the Bond Ordinance such other covenants and agreements thereafter to be observed that will not adversely affect the interests of the Registered Owners of any Bonds, or to surrender any right or power reserved in the Bond Ordinance to or conferred upon the County;
2. To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in the Bond Ordinance in regard to matters or questions arising under the Bond Ordinance as the County Council may deem

necessary or desirable and not inconsistent with the Bond Ordinance and that will not adversely affect the interest of the Registered Owners of any Bonds;

3. To modify, alter, amend, supplement or restate the Bond Ordinance in any and all respects necessary, desirable or appropriate to satisfy the requirements of any rating agency to obtain or maintain a rating on the Bonds as the County deems necessary, provided that such action does not impair the security of the Bond Ordinance or materially adversely affect the interests of the Registered Owners of the Bonds; or

4. For any purpose, on any date all Bonds are subject to mandatory or optional tender for purchase, in each case after written notice of such amendment has been given by first class mail to each Registered Owner of the Bonds not less than 30 days prior to such purchase date.

*With Bondowner Consent.* With the consent of the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding, the County Council may adopt an ordinance or ordinances supplemental to the Bond Ordinance for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Bond Ordinance, except as described below.

No supplemental ordinance entered into pursuant to these provisions may:

1. Extend the fixed maturity of any Bonds, or reduce the rate of interest thereon, or extend the time of payments of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, or amend provisions governing the mandatory or optional tender for purchase or redemption of Bonds, without the consent of the Registered Owner of each Bond so affected; or

2. Reduce the aforesaid percentage of Registered Owners of Bonds required to approve any such supplemental ordinance, without the consent of the Registered Owners of all Bonds then outstanding.

The Credit Provider, if any, will be entitled to consent, on behalf of the Registered Owners of any Bonds secured by Credit Enhancement provided by such Credit Provider, to the adoption by the County Council of any ordinance or ordinances supplemental to the Bond Ordinance for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Bond Ordinance.

Any amendment or supplement to the Bond Ordinance requires the prior written consent of any Credit Provider and Liquidity Provider if the rights of such Credit Provider or Liquidity Provider, as the case may be, will be adversely affected thereby.

**APPENDIX B**  
**FORM OF BOND COUNSEL OPINION**

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FOSTER PEPPER PLLC

[FORM OF BOND COUNSEL OPINION]

[Date]

King County, Washington

Re: King County, Washington  
Junior Lien Sewer Revenue Bonds, Series 2015A and Series 2015B

We have served as bond counsel to King County, Washington (the “County”), in connection with the issuance of the above-referenced bonds (the “Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the County pursuant to Ordinance 18141, passed by the Metropolitan King County Council on October 26, 2015, and Motion 14459, passed by the Metropolitan King County Council on November 16, 2015 (collectively, the “Bond Legislation”), to pay all or a portion of the principal of and interest on the County’s outstanding Sewer Revenue Bond Anticipation Notes, Commercial Paper Series A, and to pay the costs of issuing the Bonds, all as set forth in the Bond Legislation.

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

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

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

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchasers thereof and full payment therefor, it is our opinion that under existing law:

1. The County is a duly organized and legally existing corporate body politic under the laws of the State of Washington.

2. The Bonds have been duly authorized and executed by the County and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the ordinances and motions of the County relating thereto.

3. The Bonds constitute valid and binding obligations of the County payable solely out of the Revenue of the System to be paid into a special fund of the County known as the “King County, Washington, Junior Lien Obligation Redemption Fund” (the “Junior Lien Bond Fund”), enforceable in accordance with their terms, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors’ rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

4. The County has obligated and bound itself in the Bond Legislation to set aside and pay into the Junior Lien Bond Fund out of Revenue of the System amounts sufficient, together with accrued interest, if any, received at the time of delivery of any series of Bonds and deposited therein, income from the investment of money in the Junior Lien Bond Fund, and any other money on deposit in the Junior Lien Bond Fund and legally available, to pay the Bonds as the same become due and payable.

5. The amounts covenanted in the Bond Legislation to be paid out of Revenue of the System into the Junior Lien Bond Fund and the accounts therein constitute a lien and charge on Revenue of the System junior, subordinate and inferior to Operating and Maintenance Expenses; junior, subordinate and inferior to the lien and charge on such Revenue of the System for the payments required to be made into the Parity Bond Fund and the accounts therein; junior, subordinate and inferior to the lien and charge on such Revenue of the System for the payments required to be made into the Parity Lien Obligation Fund and the accounts therein; equal to the lien and charge on such Revenue of the System to pay and secure the payment of the outstanding Junior Lien Obligations and any Additional Junior Lien Obligations; and superior to all other liens and charges of any kind or nature, including, inter alia, the lien and charge on such Revenue of the System to pay and secure the payment of Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, SRF Loans and Public Works Trust Fund Loans.

6. The Bonds are not general obligations of the County.



7. Assuming compliance by the County after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

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

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

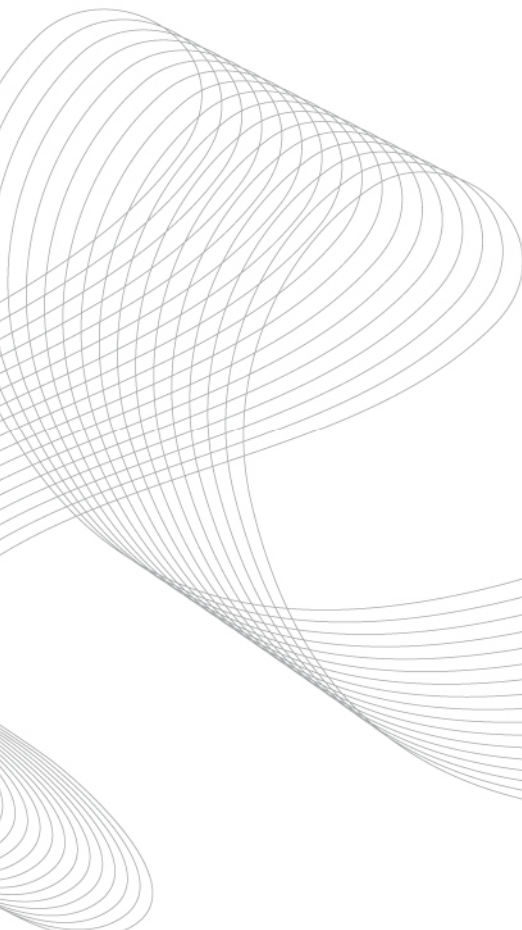
Respectfully submitted,

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**APPENDIX C**

**KING COUNTY WATER QUALITY ENTERPRISE FUND  
2014 AUDITED FINANCIAL STATEMENTS**

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

King County Water Quality  
Enterprise Fund (An Enterprise  
Fund of King County, Washington)

December 31, 2014 and 2013

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

To the Metropolitan King County Council  
Seattle, Washington

### **Report on Financial Statements**

We have audited the accompanying financial statements of the King County Water Quality Enterprise Fund (Water Quality), which comprise the statements of net position as of December 31, 2014 and 2013, 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 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 the King County Water Quality Enterprise Fund as of December 31, 2014 and 2013, 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 on pages 3 through 11 be presented to supplement the financial statements. Such 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 audits were conducted for the purpose of forming an opinion on Water Quality's financial statements. The Supplemental Schedule of Net Revenues Available for Debt Service is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental schedule has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*Moss Adams LLP*

Seattle, Washington  
May 13, 2015



## **KING COUNTY WATER QUALITY ENTERPRISE FUND MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The management of King County Water Quality Enterprise Fund (Water Quality) presents to readers of its financial statements this narrative overview and analysis of its activities and financial performance for the fiscal years ended December 31, 2014 and 2013.

### **THE SEWER SYSTEM**

Water Quality provides regional wastewater treatment services to Western Washington in King County, part of Snohomish County, and part of Pierce County with a service area encompassing over 415 square miles. The major wastewater treatment facilities include three secondary treatment plants at West Point in Seattle, South Plant in Renton and the Brightwater Treatment Plant located near Woodinville and two smaller secondary treatment plants at Vashon Island and Carnation, 391 miles of interceptors, 47 pump stations, and 25 regulator stations. Other facilities include four combined sewer overflow treatment plants (CSO) and 38 CSO control locations. The sewer system collected and treated an average of 186 million gallons per day in 2014 from approximately 1.5 million residents.

### **FINANCIAL HIGHLIGHTS**

During 2014, Water Quality provided sewage treatment services to 725,844 residential customer equivalents (RCE) compared to 718,160 in 2013 and 708,900 in 2012. An RCE is one single-family residence or an equivalent unit of 750 cubic feet of monthly water consumption for all other customers such as multifamily residential, commercial, and industrial properties. The capacity charge program added 10,767 new connections to its customer billing base in 2014. The program added 7,224 and 7,915 new connections in 2013 and 2012, respectively. In 2014, the average flow of the five treatment plants was 186 million gallons per day (MGD) with a peak daily flow of 541 MGD. Maximum system capacity remained at 895 MGD in 2014 and 2013. The average daily flow fluctuated between a low of 167 MGD in 2013 and a peak of 186 MGD in 2014. The annual fluctuation in flows largely depends on the amount of annual precipitation.

In 2014, Resource Recovery delivered 119,325 tons compared to 115,801 tons in 2013 of Loop® biosolids to customers for use in forest management, agriculture, and composting. Approximately 75 million gallons compared to 65 million gallons in 2013 of Class A reclaimed water was distributed for irrigation, urinals/toilets, municipal purposes, and wetland enhancement and about 700 million gallons of filtered, treated wastewater were used for internal treatment plant processes. The reclaimed water permitted capacity at South Plant is 1.2 MGD and the Brightwater reclaimed water distribution capacity is 21 MGD. Water Quality sold 1.9 million therms of natural gas to Puget Sound Energy from the South Treatment Plant, and produced 16.9 million kilowatt hours of electricity from digester gas at the West Point Treatment Plant, which was sold to Seattle City Light. In 2013, Water Quality sold 1.5 million therms of natural gas to Puget Sound Energy and 6.5 million kilowatt hours of electricity produced from digester gas. Increased electricity production from digester gas resulted from the 2014 completion of the Waste-to-Energy project at West Point Treatment Plant.

## **KING COUNTY WATER QUALITY ENTERPRISE FUND MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Industrial Pretreatment Program conducted 347 inspections and took 1,700 compliance samples in 2014 compared to 363 inspections and 1,610 compliance samples taken in 2013. The program currently tracks 514 facilities with discharge authorization permits and 121 significant industrial users.

Water Quality currently has 38 combined sewer overflow facilities plus 4 CSO treatment facilities. An aggressive effort conducted in concert with the City of Seattle has resulted in a significant reduction in combined sewer overflows from a baseline of 2.3 billion gallons per year in years 1980-1983 to an average of 800 million gallons per year. Currently there are six projects underway of the 14 remaining projects from the Regional Wastewater Services Plan (RWSP).

In 2012, the Environmental Protection Agency (EPA) entered into a consent decree with Water Quality to reduce CSO overflows by 2030 based on Water Quality's 2012 Amended Long-term CSO Control Plan outlining the remaining CSO projects. The consent decree includes an option to develop an integrated plan which may result in lower costs to complete the CSO program. The EPA and Washington Department of Ecology will monitor Water Quality's progress with CSO control and work closely with the enterprise going forward to achieve acceptable CSO levels.

In 1999, the Metropolitan King County Council adopted the RWSP to construct additional capacity, protect public health and provide for future projected population growth in its service area through 2030. Major RWSP projects include the building of the Brightwater Treatment Plant, improvements to the regional Conveyance system, construction of 21 CSO control projects, and expansion of the South Treatment Plant to 135 million gallons per day capacity by 2029. The RWSP also includes projects to control infiltration and inflow into the Conveyance system, process additional biosolids, and produce additional reclaimed water. Total capital program expenditures were \$155.4 million in 2014 and \$163.5 million in 2013.

Water Quality operating revenues increased by 3.3 percent to \$435.8 million in 2014 from \$422 million in 2013 while operating expenses before depreciation and amortization increased by 6.1 percent to \$124.2 million in 2014 from \$117.1 million in 2013.

The monthly sewer rate stayed the same at \$39.79 per RCE in 2014. In 2013, it increased from \$36.10 to \$39.79. The capacity charge rate increased to \$55.35 per RCE in 2014 from \$53.50 in 2013. Capacity charge revenues increased 1.4 percent to \$59.6 million in 2014 from \$58.8 million in 2013. The RCE's billed for sewer treatment services increased to 725,844 in 2014 from 718,160 in 2013. The rate stabilization reserve decreased to \$34.3 million in 2014 from \$52.3 million in 2013. This decrease of \$18 million in the reserve balance increases operating revenues for the year and has been included in the calculation of debt service coverage for 2014. Future deposits to the rate stabilization reserve will decrease operating revenues and debt service coverage in the year of the deposit. Withdrawals will have the opposite effect of increasing operating revenues and debt service coverage in the year the rate stabilization reserve is reduced.

## **KING COUNTY WATER QUALITY ENTERPRISE FUND**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

The rate stabilization reserve, as mandated by the Metropolitan King County Council as part of its rate setting activities, requires Water Quality to set aside a portion of current revenue for future periods in order to moderate the impact of rate increases over time.

Water Quality issued \$267.5 million in Sewer Revenue and Refunding Bonds in 2014, including \$5.3 million for new construction. This resulted in \$32.0 million in savings over the lives of the refunded issues or \$21.6 million in present value of debt service savings. This compares to \$197.8 million of Sewer Revenue and Refunding Bonds issued in 2013, including \$50.0 million for new construction and \$3.0 million in additional bond reserves. Additionally in 2014, \$22.3 million in low interest state loans were received at rates between 0.5 percent and 2.82 percent compared to \$19.6 million received in 2013.

The results of operations for 2014 and 2013 produced a debt service coverage ratio on senior lien debt of 1.44 and 1.42, respectively, exceeding the coverage covenant requirement of 1.15 in both years. The total debt coverage ratio of 1.33 in 2014 and in 2013 exceeded the 1.15 policy minimum in both years.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to Water Quality's basic financial statements. The basic financial statements are comprised of the comparative statements of net position; statements of revenues, expenses and changes in net position; statements of cash flows; and the notes to the financial statements, which explain certain elements of the financial statements in greater detail.

#### **REQUIRED FINANCIAL STATEMENTS**

Water Quality's financial statements provide information with respect to all of its activities using accounting methods similar to those used by private-sector companies. The statements provide both long-term and short-term information about Water Quality's financial status.

The comparative statement of net position presents information on all of Water Quality's assets, liabilities and deferred inflows/outflows of resources, with the difference presented as net position as of each year-end. Over time, the statements demonstrate Water Quality's financial health by providing a basis for the reader to evaluate capital structure, liquidity, and financial flexibility.

The two most recent years' operating and non-operating revenues and expenses of Water Quality are accounted for in the statements of revenues, expenses and changes in net position. The statements illustrate the current and prior period results of operations and recovery of costs by receipt of fees, and are instrumental in demonstrating Water Quality's continued creditworthiness. All changes in net position are reported as soon as the underlying event occurs, irrespective of the timing of related cash flows. The receipt of monthly sewage treatment charges provides the principal support for Water Quality's activities. Sewage treatment charges of \$364.6 million (including the rate stabilization transfer) provided 83.7 percent of operating revenues in 2014 and \$353.3 million provided 83.7 percent of operating revenues in 2013. Water Quality is a wholesale provider of sewage treatment services to 34 municipal and 3 non-municipal participants in King, Pierce, and Snohomish counties. The receipt of the monthly payments is governed by service agreements, the majority of which expire in July 2036.

## KING COUNTY WATER QUALITY ENTERPRISE FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

---

The statements of cash flows report cash receipts, cash payments, and net changes in cash derived from operations, financing, and investment activities. From the statements, the reader can discern Water Quality's sources and applications of cash during 2014 and 2013, reasons for differences between operating cash flows and operating income, and the effect on the statements of net position from investing, capital, and financing activities.

The notes to financial statements provide additional information essential to obtain a full understanding of the data provided in the basic statements.

In the following comparative analysis of the financial statements, percentages and ratios were calculated and rounded using the actual detail from the financial statements.

#### FINANCIAL ANALYSIS OF THE STATEMENTS OF NET POSITION

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2014	2013	2012
Current assets	\$ 407.5	\$ 457.9	\$ 304.8
Noncurrent assets	216.8	236.0	249.7
Capital assets	4,122.9	4,128.4	4,141.2
Other	97.8	95.9	82.3
Total assets	4,845.0	4,918.2	4,778.0
Deferred outflows of resources	101.9	92.0	94.4
Total assets and deferred outflows of resources	4,946.9	5,010.2	4,872.4
Current liabilities	434.8	435.6	295.9
Long term liabilities	3,922.7	3,962.4	3,952.8
Total liabilities	4,357.5	4,398.0	4,248.7
Deferred inflows of resources	34.3	52.3	62.6
Total liabilities and deferred inflows of resources	4,391.8	4,450.3	4,311.3
Net position-net investment in capital assets	210.4	206.9	200.1
Net position-restricted	205.3	203.3	254.8
Net position-unrestricted	139.4	149.7	106.2
Total net position	\$ 555.1	\$ 559.9	\$ 561.1

Net position serves as a useful indicator of Water Quality's financial position. As of December 31, 2014 and 2013, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$555.1 million and \$559.9 million, respectively.

## KING COUNTY WATER QUALITY ENTERPRISE FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

---

Of the total Water Quality assets and deferred outflows of resources, 83.3 percent or \$4,122.9 million were invested in capital assets such as treatment plants, pumping and regulator stations, interceptors, and other equipment at year-end 2014. For the year-end 2013, 82.4 percent or \$4,128.4 million were invested in capital assets. Water Quality uses its capital assets to provide wholesale wastewater collection and treatment services in King, Pierce, and Snohomish counties. Current operating and debt service requirements are met by operating and non-operating revenues composed of monthly sewage treatment charges, a capacity charge for new customers, other special-handling charges, miscellaneous operating revenues, and investment earnings.

The net position decreased by 0.9 percent or \$4.8 million in 2014 to \$555.1 million from \$559.9 million in 2013. Restricted net position increased by 1.0 percent or \$2.0 million in 2014 to \$205.3 million from \$203.3 million in 2013. The unrestricted net position decreased by \$10.3 million in 2014 to \$139.4 million from \$149.7 million in 2013.

The net position decreased by 0.2 percent or \$1.2 million in 2013 from \$561.1 million in 2012. The restricted net position decreased by \$51.5 million in 2013 from \$254.8 million in 2012. The unrestricted net position increased by \$43.5 million in 2013 from \$106.2 million in 2012.

#### FINANCIAL ANALYSIS OF THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2014	2013	2012
Sewage treatment fees	\$ 346.6	\$ 343.0	\$ 307.2
Rate stabilization	18.0	10.3	13.9
Capacity charge revenue	59.4	58.8	51.4
Other revenue	11.8	9.9	9.4
Operating revenues	435.8	422.0	381.9
Operating expenses	290.8	278.2	252.4
Operating income	145.0	143.8	129.5
Non operating (expenses)	(149.8)	(145.3)	(136.3)
Grant revenues	-	0.3	-
Change in net position	(4.8)	(1.2)	(6.8)
Net position beginning of year	559.9	561.1	567.9
Net position end of year	<u>\$ 555.1</u>	<u>\$ 559.9</u>	<u>\$ 561.1</u>

While the statements of net position show changes in assets, liabilities, deferred inflows/outflows of resources and net position, the statements of revenues, expenses and changes in net position provide insight into the source of these changes.

## KING COUNTY WATER QUALITY ENTERPRISE FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

---

During 2014, operating revenues increased by 3.3 percent or \$13.8 million to \$435.8 million from \$422.0 million in 2013. Operating expenses increased by 4.5 percent or \$12.6 million to \$290.8 million in 2014 from \$278.2 million in 2013.

In 2013, operating revenues increased by 10.5 percent or \$40.1 million to \$422.0 million from \$381.9 million in 2012. Operating expenses increased by 10.2 percent or \$25.8 million from \$252.4 million in 2012.

The operating revenues and expenses were driven by:

- In 2014, sewer disposal fees increased \$11.3 million or 3.2 percent to \$364.6 million from \$353.2 million in 2013 due to an increase in the number of RCE's, higher capacity charge revenue, increased sales of renewable energy, and use of the rate stabilization fund.
- Chemical expenses decreased by 7.6 percent or about \$573 thousand in 2014 to \$7.0 million primarily due to reduced spending on carbon in 2014. Chemical expenses increased by 14.5 percent or about \$1.0 million in 2013 to \$7.5 million.
- Utility and Service expenses increased by 1.8 percent or \$517 thousand to \$28.6 million for 2014 from \$28.1 million in 2013. Utility and Service expenses decreased by 0.4 percent or \$994 thousand to \$28.1 million for 2013 from \$28.2 million in 2012. Electricity expenses increased by 5.4 percent or \$689 thousand to \$13.5 million in 2014 after decreasing by 5.1 percent or \$692 thousand to \$12.8 million in 2013. Electricity usage was driven up in 2014 due to influent storm water from heavy rains.
- Intergovernmental expenses decreased by 5.1 percent or \$1.7 million in 2014 to \$31.6 million from \$33.3 million in 2013, due primarily to a reduction in equipment rental. Intergovernmental expenses increased by 5.0 percent or \$1.5 million in 2013 to \$33.3 million from \$31.8 million in 2012. In general, contributors to increases here are reflected in central charges relating to support of the 2012 Oracle system conversion.
- Water Quality collected a monthly sewage treatment charge of \$39.79 per RCE in 2014 and 2013, and in 2012, \$36.10. Sewer disposal revenues before rate stabilization increased by 1.0 percent or \$3.6 million in 2014 to \$346.6 million. Sewer disposal revenues before rate stabilization increased by 11.6 percent or \$35.8 million to \$343.0 million in 2013 from \$307.2 million in 2012.
- Other operating revenues, including capacity charges for new customers and other treatment charges, increased by 3.6 percent or \$2.5 million in 2014 to \$71.2 million from \$68.7 million in 2013. These revenues increased by 13.0 percent or \$7.9 million in 2013 to \$68.7 million from \$60.8 million in 2012. Capacity charge early payoff revenues were 23.5 percent or \$14.0 million of total capacity charge revenues in 2014, while in 2013, capacity charge early payoff revenues were 30.9 percent or \$18.1 million of the annual total. Actual new capacity charge connections were 10,767 in 2014 and 7,224 in 2013.

## **KING COUNTY WATER QUALITY ENTERPRISE FUND**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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- Net non-operating revenues and expenses increased by 3.1 percent or \$4.5 million to \$149.8 million in 2014 from \$145.3 million in 2013. Contributors to changes in the numbers were increased investment earnings offset by loss on disposal of capital assets. Net non-operating revenues and expenses increased by 6.6 percent or \$9.0 million to \$145.3 million in 2013 from \$136.3 million in 2012.
- No capital grant revenues were received from federal and state agencies in 2014 reflecting a decrease of \$300 thousand from 2013. Capital grant revenues received from federal and state agencies increased by \$300 thousand in 2013 from zero in 2012. Low interest loans have largely replaced grants as the primary method of state agency support in recent years.
- Depreciation and amortization expense increased by 3.2 percent or \$5.0 million in 2014 compared to 17.4 percent or \$23.6 million in 2013. Completed capital projects contribute to increases in depreciation expense.

#### **CAPITAL ASSETS**

At December 31, 2014, Water Quality's investment in capital assets, net of accumulated depreciation, was \$4,122.9 million, reflecting a decrease of \$5.5 million or 0.13 percent less than the balance at December 31, 2013. This decrease represents plant in service retirements and an increase in depreciation from Brightwater Treatment Plant and Conveyance capitalizations. Capital assets net decrease from December 31, 2012 to December 31, 2013 was \$12.8 million or 0.31 percent.

Large 2014 construction project expenditures include:

- \$20.9 million for Magnolia CSO Control & Improvements
- \$11.3 million for Murray CSO Control & Improvements
- \$9.1 million for West Point Dewatering & Energy Improvements
- \$8.2 million for West Point Influent Screen Improvements
- \$7.5 million for North Beach CSO Control & Improvements

Large 2013 construction project expenditures include:

- \$6.2 million for West Point Liquids Control System Replacement
- \$7.7 million for West Point Influent Screen Improvements
- \$11.2 million for Barton Pump Station Upgrade
- \$16.3 million for Ballard Siphon Replacement
- \$19.8 million spent toward the Brightwater Conveyance project

For more detailed information on capital assets, refer to Note 6 in the financial statements.

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### DEBT ADMINISTRATION

Water Quality issued \$75.0 million of sewer revenue and refunding bonds in June 2014 with an average life of 30.6 years at an average rate of 5.0 percent and an effective rate of 4.2 percent, and \$192.5 million of revenue refunding bonds in August 2014 with an average life of 14.5 years at an average rate of 4.35 percent and effective rate of 3.36 percent.

Water Quality issued \$122.9 million of revenue refunding bonds in April 2013 with an average life of 12.8 years at an average rate of 4.97 percent and an effective rate of 3.3 percent and \$74.9 million of revenue and refunding bonds in October 2013 with an average life of 14.6 years at an average rate of 4.91 percent and effective rate of 4.05 percent.

Water Quality received \$22.3 million in low-interest loans from the State of Washington in 2014 and \$19.6 million in 2013. The new loans carry below-market rates between 0.5 percent and 2.82 percent with repayment terms up to 20 years.

Water Quality has \$2.8 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2014 and had \$2.9 billion outstanding at the end of 2013. Revenue bonds are repaid from and secured by a pledge of earnings, revenues and money received by Water Quality from or on account of operation of the sewer system, including receipts from sewage treatment fees, and other income of Water Quality. Revenue bonds are not guaranteed by the full faith and credit of King County.

At the end of 2014, Water Quality has \$780.0 million of general obligation bonds and variable rate general obligation bonds outstanding and had \$788.0 million of general obligation bonds and variable rate general obligation bonds outstanding at the end of 2013. Although repaid from a portion of receipts from sewage treatment fees and other income, the full faith and credit of King County guarantees repayment of principal and interest on general obligation bonds.

King County received long-term ratings of AAA from Standard and Poor's for the multimodal limited tax general obligation bond issued in January 2010 and "Aa1" from Moody's Investor's with short-term ratings of "VMIG 1" and "A-1+". At the time of the issuance of the sewer revenue bonds in 2014 and 2013, Water Quality's bond ratings were:

**Moody's Investor's Service**  
Aa2

**Standard & Poor's**  
AA+

As required by bond covenant, Water Quality maintains a bond reserve account, which is funded by cash balances. At December 31, 2014, the cash balance in the reserve account was \$174.1 million and \$175.5 million at the end of 2013. In addition to bond covenant reserves, Water Quality also maintains financial policy reserves. At December 31, 2014 and 2013, respectively, the rate stabilization, liquidity, and asset management financial policy reserves totaled \$66.7 million and \$84.3 million.

For more detailed information on debt, refer to the notes to the financial statements.



## KING COUNTY WATER QUALITY ENTERPRISE FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

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### DEBT SERVICE COVERAGE RATIOS

	<u>FY 2014</u>	<u>FY 2013</u>
Parity Debt	1.44	1.42
Total Debt	1.33	1.33

Two debt service coverage ratios closely monitored by bond rating agencies are coverage on parity debt and coverage on total debt. By bond ordinance, Water Quality sets sewer rates at a level adequate to provide net revenue equal to at least 1.15 times the annual debt service requirement on parity debt. Water Quality has an adopted policy to achieve a ratio of at least 1.25 on parity debt or 0.10 above the ratio required by bond ordinance. Since 2001, Water Quality established a minimum coverage policy of 1.15 on total debt to further strengthen coverage performance.

### REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of Water Quality's financial condition as of the years ended December 31, 2014 and 2013. Questions concerning this report or requests for additional information should be addressed to Pete Anthony, Chief Accountant for King County, 500 Fourth Avenue, Room 653, Seattle, WA 98104.

**KING COUNTY WATER QUALITY ENTERPRISE FUND**  
**STATEMENTS OF NET POSITION**  
**(in thousands)**

	December 31,	
	2014	2013
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 204,064	\$ 262,151
Restricted cash and cash equivalents	146,651	148,177
Accounts receivable, net	44,081	36,222
Due from other funds	1,150	3,994
Due from other governments, net	3,782	-
Inventory of supplies	7,672	7,252
Prepayments	85	59
	<u>407,485</u>	<u>457,855</u>
<b>NONCURRENT ASSETS</b>		
Cash and cash equivalents	<u>216,868</u>	<u>236,072</u>
Capital assets		
Building and land improvements	1,939,307	1,895,310
Artwork	5,572	5,579
Infrastructure and right of way	2,266,997	2,154,089
Plant in service and other equipment	1,074,386	1,081,146
Less accumulated depreciation	<u>(1,700,893)</u>	<u>(1,575,767)</u>
	3,585,369	3,560,357
Land and easements	254,713	251,860
Construction work in progress	<u>282,785</u>	<u>316,142</u>
	<u>4,122,867</u>	<u>4,128,359</u>
Other noncurrent		
Prepayments	425	863
Regulatory assets - environmental remediation	63,303	59,591
Other utility assets, net of amortization	29,835	31,001
Other assets	<u>4,200</u>	<u>4,438</u>
	<u>97,763</u>	<u>95,893</u>
Total assets	4,844,983	4,918,179
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on refunding	<u>101,942</u>	<u>92,008</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 4,946,925</u>	<u>\$ 5,010,187</u>

**KING COUNTY WATER QUALITY ENTERPRISE FUND**  
**STATEMENTS OF NET POSITION (CONTINUED)**  
**(in thousands)**

	December 31,	
	2014	2013
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 27,283	\$ 30,204
Retainage payable	2,352	881
Due to other funds	-	5
Interest payable	79,115	81,418
Wages and benefits payable	2,210	4,256
Compensated absences	565	572
Taxes payable	17	7
Unearned revenue	1,628	1,328
Notes payable	100,000	100,000
State loans payable	11,133	9,323
General obligation bonds payable	9,000	8,750
Revenue bonds payable	51,615	48,880
Environmental remediation costs	5,632	5,715
Deposit and other liability	144,299	144,302
	<u>434,849</u>	<u>435,641</u>
<b>NONCURRENT LIABILITIES</b>		
Compensated absences, net	10,919	10,740
Other post-employment benefits	1,351	1,195
State loans payable, net	147,920	137,349
General obligation bonds payable, net	770,505	779,505
Revenue bonds payable, net	2,762,190	2,817,205
Unamortized bond premium and discount	190,669	177,554
Environmental remediation costs, net	39,168	38,845
	<u>3,922,722</u>	<u>3,962,393</u>
<b>Total liabilities</b>	4,357,571	4,398,034
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Regulatory credit - rate stabilization	34,250	52,250
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>4,391,821</u>	<u>4,450,284</u>
<b>NET POSITION</b>		
Net investments in capital assets	210,360	206,943
Restricted for		
Debt service	182,618	183,822
Regulatory assets and environmental liabilities	22,704	19,469
Unrestricted	139,422	149,669
<b>Total net position</b>	<u>\$ 555,104</u>	<u>\$ 559,903</u>

**KING COUNTY WATER QUALITY ENTERPRISE FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**(in thousands)**

	Years Ended December 31,	
	2014	2013
OPERATING REVENUES		
Sewage disposal fees	\$ 364,591	\$ 353,200
Other operating revenues	71,197	68,786
Total operating revenues	<u>435,788</u>	<u>421,986</u>
OPERATING EXPENSES		
Sewage treatment, disposal, and transmission	100,473	94,081
General and administrative	23,728	23,102
Environmental related amortization	2,581	2,041
Depreciation and amortization	163,976	158,947
Total operating expenses	<u>290,758</u>	<u>278,171</u>
OPERATING INCOME	<u>145,030</u>	<u>143,815</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	3,856	272
Interest expense	(150,007)	(150,706)
Loss on disposal and impairment of capital assets	(3,001)	(792)
Other	(677)	5,928
Total nonoperating expenses	<u>(149,829)</u>	<u>(145,298)</u>
LOSS BEFORE GRANTS AND CONTRIBUTIONS	(4,799)	(1,483)
CAPITAL GRANT REVENUES	<u>-</u>	<u>260</u>
CHANGE IN NET POSITION	(4,799)	(1,223)
NET POSITION		
Beginning of year	<u>559,903</u>	<u>561,126</u>
End of year	<u>\$ 555,104</u>	<u>\$ 559,903</u>

**KING COUNTY WATER QUALITY ENTERPRISE FUND**  
**STATEMENTS OF CASH FLOWS**  
**(in thousands)**

	Years Ended December 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 414,909	\$ 423,020
Cash payments to suppliers for goods and services	(79,950)	(81,251)
Cash payments for employee services	(48,703)	(38,836)
Settlement receipts	-	144,299
Other payments	(5,957)	(5,117)
Net cash provided by operating activities	<u>280,299</u>	<u>442,115</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grant and subsidy received	65	72
Transfers out	(173)	(70)
Interfund loan principal paid	-	(20,158)
Assistance to other agencies	(17)	(103)
Net cash used in noncapital financing activities	<u>(125)</u>	<u>(20,259)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital and other utility assets	(154,085)	(134,409)
Proceeds from disposal of capital assets	23	19
Principal paid on capital debt	(67,331)	(51,593)
Interest paid on capital debt	(169,072)	(164,300)
Proceeds of new bond issuance	5,275	52,990
Proceeds of state loans	22,343	19,597
Capital grants received	-	260
Net cash used in capital and related financing activities	<u>(362,847)</u>	<u>(277,436)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	<u>3,856</u>	<u>272</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(78,817)</u>	<u>144,692</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>646,400</u>	<u>501,708</u>
End of year	<u>\$ 567,583</u>	<u>\$ 646,400</u>

**KING COUNTY WATER QUALITY ENTERPRISE FUND**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**(in thousands)**

	Years Ended December 31,	
	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 145,030	\$ 143,815
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	163,976	158,947
Other nonoperating revenue	1,646	6,279
Changes in assets		
Accounts receivable	(7,859)	6,670
Due from other funds	2,892	(2,027)
Inventory of supplies	(420)	(280)
Prepayments	(40)	127
Other assets	(3,476)	(12,435)
Changes in liabilities		
Accounts payable	(2,783)	(1,944)
Retainage payable	(17)	(36)
Due to other funds	(5)	(844)
Taxes payable	10	4
Unearned revenue	300	463
Wages and benefits payable	(1,523)	(150)
Compensated absences	172	63
Other post-employment benefits	156	155
Other liabilities	240	153,658
Changes in deferred inflows of resources		
Rate stabilization	(18,000)	(10,350)
Total adjustments	135,269	298,300
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 280,299	\$ 442,115

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:**

Water Quality issued bonds in 2014 to refund debt issued from 2004 to 2008. The \$295.1 million proceeds were placed in escrow for the defeasance and purchase of \$270.9 million of outstanding bond principal and \$22.8 million of interest.

Water Quality issued bonds in 2013 to refund debt issued from 2003 to 2006. The \$171.2 million proceeds were placed in escrow for the defeasance of \$163.1 million of outstanding bond principal and \$8.1 million of interest.

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 - Operations and Accounting Policies

**Summary of Operations** - The King County Water Quality Enterprise Fund (Water Quality) is an enterprise fund operated by the King County Department of Natural Resources and Parks in accordance with Chapter 35.58 of the Revised Code of Washington (RCW) to provide sewage treatment and water pollution abatement services to the urbanized areas of King County, Washington (the County).

Water Quality is an integral part of the County reporting entity and is included, as an enterprise fund, in the County's comprehensive annual financial report. As an enterprise fund, Water Quality is funded and operated separately from other operations of the County. Revenues, bond proceeds, and grants are restricted by purpose. Accordingly, Water Quality maintains separate accounting records and issues stand-alone financial statements.

Water Quality has long-term sewage disposal agreements with the cities and sewer districts that operate sewage collection systems within its service area. The monthly sewage disposal charge to the contracting cities and districts is based on Water Quality's estimated annual monetary requirements, including operating costs and debt service. Revenues from Water Quality's largest customer, the City of Seattle (Seattle Public Utilities), represent approximately 40 percent of total sewage disposal fees in 2014 and in 2013.

Water Quality purchases goods and services from other County agencies, including reimbursement of the County's general fund for a share of general government. Expenses incurred in doing business with other County agencies amounted to \$31.6 million and \$33.3 million in 2014 and 2013, respectively.

**Significant Accounting Policies** - Water Quality is accounted for using the flow of economic resources measurement focus similar to that of a private enterprise organized for profit. Water Quality's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Water Quality, regardless of the timing of cash flows, applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

- a. *Cash and Cash Equivalents* - Water Quality considers as cash and cash equivalents all balances held with the King County Treasurer in the King County Investment Pool (the Pool), cash with escrow agents or held in trust, and petty cash. Unrealized gain or loss on Water Quality's proportionate share of the Pool is reported as a component of investment earnings.
- b. *Due From and To Other Funds, Interfund Loans and Advances* - Due from and to other funds consists of current receivables and payables from or to other funds within the County. They typically arise from interfund goods and service transactions and reimbursements.

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 - Operations and Accounting Policies (Continued)

Interfund loans receivable and payable or advances from and to other funds represent authorized short-term and long-term, respectively, lending and borrowing arrangements within the County.

- c. *Inventory of Supplies* - Inventory is recorded at the lower of cost or market using the weighted-average cost method. Materials and supplies are expensed as consumed. Inventory is written off in the year that it is determined obsolete.
- d. *Restricted Assets* - In accordance with Water Quality's bond resolutions, state law, King County codes, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes, including bond and state loan reserves.
- e. *Capital Assets* - Capital assets are stated at cost, less accumulated depreciation and amortization. Water Quality's capitalization threshold is: equipment at \$5 thousand; software and intangible assets at \$500 thousand, and buildings and improvements at \$100 thousand. Provision for depreciation and amortization are made on a straight-line basis over the estimated useful lives of Water Quality's capital assets as follows:

<u>Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	
other than building	10 - 75 years
Cars, vans, and trucks	5 - 10 years
Data processing equipment	3 - 10 years
Heavy equipment	5 - 25 years
Sewer lines	20 - 50 years
Shop equipment	5 - 20 years
Software	3 - 10 years
Intangibles	35 years

Water Quality capitalizes certain interest income and expense related to borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax free borrowings. Total interest incurred was \$165.5 million and \$165.7 million, respectively, during the years ended December 31, 2014 and 2013, respectively, of which \$11.5 million and \$11.3 million, respectively, was capitalized.

Repairs and maintenance are expensed as incurred; major renewals, replacements, and betterments are capitalized.

Water Quality annually reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable.



# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 - Operations and Accounting Policies (Continued)

- f. *Compensated Absences* - Employees earn vacation based upon their date of hire and years of service. They may accumulate a maximum of 480 hours or as bargained for by represented employees. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees or their beneficiaries are paid 35 percent of the accrued unused sick leave upon retirement or death. No amounts are paid for unused sick leave upon termination. Vacation pay and a portion of sick leave liabilities, including payroll taxes, are accrued.

Water Quality accrues estimated excess compensation liabilities to the Washington State Department of Retirement Systems based on an employee's accrued vacation and sick leave. An excess compensation liability is incurred when an employee whose retirement benefits are based in part on excess compensation receives a termination or severance payment defined by the State as excess compensation. This includes, but is not limited to, a cash-out of unused annual leave in excess of 240 hours and a cash-out of any other form of leave.

- g. *Rebatable Arbitrage* - Water Quality's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exceptions rules are met. The liability is recognized during the period the excess interest is earned.
- h. *Deferred Outflows and Inflows of Resources* - Deferred outflows of resources represent consumption of resources that is applicable to future reporting periods and deferred inflows of resources represent acquisition of resources that is applicable to future reporting periods.
- i. *Operating and Nonoperating Revenues and Expenses* - Operating revenues result from exchange transactions of Water Quality's activities. Expenses associated with providing wastewater treatment services and operating Water Quality's treatment facilities are considered operating. Nonoperating revenues result from nonexchange transactions such as operating subsidies and investment earnings.

Water Quality provides water treatment services to cities and sewer districts and recognizes revenue when such service is provided. Additionally, the capacity charge revenue is generated from new connections to the sewer system. Both water treatment service and capacity charge rates are authorized by ordinances passed by the King County Council. Water treatment service and capacity charge revenues are recorded through cycle billings rendered to customers monthly. Water Quality accrues and records unbilled water service and capacity charge revenues in the financial statements for services provided from the date of the last billing to year end.

## KING COUNTY WATER QUALITY ENTERPRISE FUND

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1 - Operations and Accounting Policies (Continued)

- j. *Debt-related Amortization* - Bond premiums, discounts and refunding losses and gains are amortized over the life of the bonds using the outstanding principal balance method.
- k. *Capital Grant Revenues* - Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, grant revenues are reported separately from operating and nonoperating revenues as capital grant revenues. Water Quality received capital grant revenues of \$260 thousand for the year ended December 31, 2013.
- l. *Net Position* - Resources set aside for debt services and other obligations, net of related liabilities, are classified as restricted net position on the statements of net position as their use is limited by externally-imposed restrictions. Net investments in capital assets are reported as a separate component of net position. Any net position not subject to classification as restricted or invested in capital assets are reported as unrestricted.
- m. *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 the amounts reported in the financial statements. Specific estimates have been made in the areas of allowance for uncollectible accounts, environmental remediation costs, useful lives of capital assets, and future interest rates. Actual results could differ from these estimates.
- n. *Reclassification* - Certain reclassifications have been made to the prior year statements to conform to the current year presentation.

**New Accounting Standards** - The following GASB pronouncements are effective for 2014 financial reporting of Water Quality.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Guarantees*, was issued in April 2013. The standard provides guidance on accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The statement is effective for periods beginning after June 15, 2013. It was early adopted in 2013 and had no impact on Water Quality's financial statements.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting related to government combinations and disposals of government operations. There were no transactions in Water Quality during 2014 that relate to this new guidance. This statement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1 - Operations and Accounting Policies (Continued)**

GASB Statement No. 67, *Financial Reporting for Pension Plans – An amendment of GASB Statement 25*, replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement does not directly apply to Water Quality since its pension benefits are administered by the Washington Public Employees Retirement System (PERS) and other pension plan trusts. The statement is effective for financial statements for fiscal years beginning after June 15, 2013.

GASB Statement No. 65, *Items Previously Reported as Asset and Liabilities*, was issued in March 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. Water Quality adopted the standard in 2013 and restated its prior financial statements to comply with the requirements.

### **Note 2 - Deposits and Investments**

The King County Treasurer is the custodian of Water Quality's cash. Water Quality's cash on deposit with the King County Treasurer is pooled with cash from other County funds and other jurisdictions and are either deposited in the County's bank account or invested by the County. The King County Investment Pool (the Pool) functions essentially as a demand deposit account where Water Quality receives an allocation of its proportionate share of pooled earnings as interest.

The Pool is administered by the King County Treasury Operations Section and is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC consists of the Chair of the County Council, the County Executive, the Director of Office of Performance, Strategy and Budget, and the Director of the Finance and Business Operations Division, or their designees. All investments are subject to written policies adopted by the EFC. The EFC reviews Pool performance monthly.

The County has deposit and investment policies addressing risks that have the potential to result in losses of deposits and investments. All deposits not insured by the Federal Depositary Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC), a statutory authority established under chapter 39.58 RCW that governs public depositaries and provides that "All public funds deposited in public depositaries, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter." Effective July 1, 2009, all public depositaries were required to pledge securities at 100% of their public deposits not covered by FDIC insurance.

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

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### Note 2 - Deposits and Investments (Continued)

The PDPC constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositaries within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance. The custodial credit risk for deposits is the risk that Water Quality's deposits may not be returned to it in the event of a bank failure. Assessing Water Quality's risk exposure, Water Quality's cash and cash equivalents balance of \$567.6 million and \$646.4 million were fully insured and collateralized as of December 31, 2014 and 2013, respectively.

**Credit Risk - Investments:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of December 31, 2014, the Pool was not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office. The main Pool's policies limit the maximum amount that can be invested in various securities. At 2014 and 2013 year-end the Pool was in compliance. The Pool's actual composition, as of December 31, 2014, consisted of Repurchase Agreements, 2.7 percent, Commercial Paper, 3.1 percent, U.S. Agency Discount Notes, 10.7 percent, Bank Notes, 3.3 percent, U.S. Treasury Notes, 35.1 percent, U.S. Agency Notes, 34.3 percent, U.S. Agency Collateralized Mortgage Obligations, 0.2 percent, and the State Treasurer's Investment Pool, 10.6 percent. The December 31, 2013 composition comprised Repurchase Agreements, 0.9 percent, Commercial Paper, 0.5 percent, U.S. Agency Discount Notes, 7.5 percent, U.S. Treasury Notes, 21.5 percent, U.S. Treasury Zero Coupon Notes, 0.5 percent, U.S. Agency Notes, 50.6 percent, U.S. Agency Collateralized Mortgage Obligations, 0.2 percent, and the State Treasurer's Investment Pool, 18.3 percent.

**Custodial Credit Risk - Investments:** Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. County policy mandates that all security transactions, including repurchase agreements, are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party custodian banks. Exempt from the DVP policy are Certificates of Deposits (CDs) and funds placed with the State of Washington Local Government Investment Pool.

**Concentration of Credit Risk - Investments:** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issue. At 2014 year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issues: Federal Home Loan Mortgage Corporation-11.3 percent, Federal National Mortgage Association-13.1 percent, Federal Home Loan Bank-13.6 percent, Federal Farm Credit Bank-7.1 percent and Wells Fargo Bank-5.0 percent. The issues with concentrations greater than 5 percent of the pool portfolio at 2013 year-end were as follows: Federal Home Loan Mortgage Corporation-14.7 percent, Federal National Mortgage Association-13.7 percent, Federal Home Loan Bank-20.5 percent, and Federal Farm Credit Bank-9.3 percent.

## KING COUNTY WATER QUALITY ENTERPRISE FUND

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 2 - Deposits and Investments (Continued)**

**Interest Rate Risk - Investments:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The policy limit for the Pool's maximum effective duration is 1.5 years, and 40 percent of the Pool's total value in securities must have a maturity of 12 months or fewer. Securities in the portfolio cannot have an average life greater than five years at purchase. The combined effective duration of the liquidity and core portfolios was 1.261 years and 1.299 years, respectively, at December 31, 2014 and 2013.

The Pool has four impaired commercial paper investments which have completed enforcement events. The County completed the restructuring of three of the four securities in 2008 and completed the restructuring of the fourth security in 2009. Between 2008 and 2010, the County initiated lawsuits seeking recovery for losses associated with all four of the impaired investments. In 2012, the County settled the litigation concerning Mainsail and Victoria, and executed a settlement with three of the defendants in the lawsuits concerning Rhinebridge. The net settlement payments have been distributed to each pool participant. In 2013, the County received final settlement payments for the litigation concerning Rhinebridge and Cheyne and has distributed the net settlement payments to each pool participant. The majority of remaining settlement amounts are associated with VFNC Trust (Victoria). During 2014, the County received cash distributions monthly from VFNC Trust and distributed them to pool participants. The monthly distribution is expected to continue for at least the next five years. The County chose not to discount these future cash flows because of extremely low interest rates.

Water Quality's share of the unrealized loss from the Pool's impaired investments was \$485 thousand at December 31, 2014 and \$609 thousand at December 31, 2013. Losses from impaired investments are offset against other investment earnings.

#### **Note 3 - Restricted Assets**

A significant portion of Water Quality's assets is restricted as to use by legal and contractual provisions and by fiscal management policy. Restricted assets comprise \$363.5 million at December 31, 2014 and \$384.2 million at December 31, 2013 to comply with bond covenants and other requirements.

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

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### Note 3 - Restricted Assets (Continued)

The details of restricted and unrestricted cash and cash equivalents as of December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Unrestricted Cash and Cash Equivalents		
Operating Funds	\$ 21,411	\$ 21,545
Construction Funds	11,417	35,901
Bond Proceeds Committed to Construction	-	35,753
Bond Funds	138,816	136,808
Policy Reserves	32,420	32,144
Total Unrestricted Cash and Cash Equivalents	<u>204,064</u>	<u>262,151</u>
Restricted Cash and Cash Equivalents		
Bond Reserves	174,094	175,547
SRF Loan Reserves	8,524	8,275
Retainage	2,352	881
Rate Stabilization Reserve	34,250	52,250
Legally Restricted Funds	144,299	147,296
Total Restricted Cash and Cash Equivalents	<u>363,519</u>	<u>384,249</u>
Total Cash and Cash Equivalents	<u>\$ 567,583</u>	<u>\$ 646,400</u>

### Note 4 - Risk Management

Water Quality is exposed to a wide range of risks of loss, including those related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Water Quality participates in three County internal service funds to account for and finance its (1) property/casualty, (2) workers' compensation, and (3) employee medical and dental benefits, through self-insurance programs. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

During 2014 and 2013, Water Quality claims paid by the Insurance Fund of King County were \$1.5 million and \$1.0 million, respectively. In the past three years there was no occurrence that resulted in payment in excess of the self-insured retention of \$7.5 million.

## KING COUNTY WATER QUALITY ENTERPRISE FUND

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 4 - Risk Management (Continued)**

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments, for paying claim settlements, and for purchasing certain policies. The County's internal service funds assess premiums attributable to Water Quality on the basis of claims experience, actuarial evaluation of future claims risk, and adequacy of available reserves. Premiums are recorded as an expense in the year paid or accrued.

Water Quality retains all risk associated with environmental claims.

#### **Note 5 - Long-Term Liabilities and Notes Payable**

**Sewer Revenue Bonds** - As of December 31, 2014, bonds outstanding include \$2,813.8 million of serial and term bonds maturing from January 1, 2015 through January 1, 2052, bearing interest at stated rates of 1.00 percent to 5.75 percent per annum.

On July 8, 2014, the County issued \$75.0 million in sewer revenue refunding bonds, 2014A, with an effective interest cost of 4.2 percent to purchase \$75.0 million of outstanding sewer revenue bonds, 2007, with an average coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the old debt by \$3.5 million. The transaction resulted in an economic gain of \$5.3 million, the difference between the present values of the old and new debt service payments and the difference between the issue price of the 2014A bond and the purchase price of the 2007 bond.

On August 12, 2014, the County issued \$192.5 million in sewer revenue bonds, 2014B, with an effective interest cost of 3.4 percent to advance refund \$195.9 million of outstanding sewer revenue bonds, 2004B, 2006-1, 2006-2, 2007 and 2008 bonds, with an average coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the old debt by \$15.8 million. This advance refunding was undertaken to reduce total debt service payments by \$32.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$20.1 million.

On April 9, 2013, Water Quality issued \$122.9 million in sewer revenue refunding bonds, Series A, with an effective interest rate of 3.3 percent to advance refund \$107.0 million of outstanding sewer revenue bonds, Series 2003 and 2006, and \$28.9 million of limited tax GO (Sewer Revenue) bonds, Series 2005A, with an average coupon interest rate of 4.9 percent. The reacquisition price exceeded the net carrying amount of the old debt by \$5.0 million. This advance refunding was undertaken to reduce total debt service payments by \$35.3 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$21.8 million.

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

### Note 5 - Long-Term Liabilities and Notes Payable (Continued)

On October 29, 2013, Water Quality issued \$74.9 million in sewer revenue bonds, Series B, of which \$25.5 million was refunding with an effective interest rate of 2.6 percent to advance refund \$27.2 million of outstanding sewer revenue bonds, Series 2004B, with an average coupon interest rate of 4.4 percent. The reacquisition price exceeded the net carrying amount of the old debt by \$437 thousand. This advance refunding was undertaken to reduce total debt service payments by \$2.7 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$2.3 million.

Bond issues provide funding for Water Quality's construction plan. Certain serial bonds may not be redeemed prior to maturity; other bonds may be redeemed after the lapse of specific periods of time. Amounts from the sewer revenue bond fund may be used to purchase term bonds prior to maturity.

The bonds are secured by a pledge of the revenue of the sewer system subject to payment of all operating and maintenance expenses of the sewer system. Payments from revenues of Water Quality are required to be made to the sewer revenue bond fund to pay interest and retire serial or term bonds on or before maturity. The amount required in the cash reserves and surety policies are based on the highest year of debt service over the life of all outstanding revenue bonds. As of December 31, 2014, Water Quality is in compliance with the combined amount required for the reserve and surety policies. The following table summarizes Water Quality's revenue bonds (in thousands):

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2014
2001A-B Jr Lien Variable	1/1/32	(variable)	\$ 100,000	\$ 100,000
2006 Refunding	1/1/36	5.00%	124,070	24,070
2006 (2nd Series) Refunding	1/1/36	3.50-5.00%	193,435	128,765
2007	1/1/47	5.00%	250,000	144,335
2008	1/1/48	5.00-5.75%	350,000	309,750
2009	1/1/42	4.00-5.25%	250,000	247,290
2010	1/1/50	2.00-5.00%	334,365	323,355
2011	1/1/41	5.00-5.125%	175,000	171,795
2011 Series B	1/1/41	1.00-5.00%	494,270	436,450
2011 Series C	1/1/35	3.00-5.00%	32,445	32,445
2011 Sewer Jr Lien Variable	1/1/42	(variable)	100,000	100,000
2012A Refunding	1/1/52	5.00%	104,445	104,445
2012B Refunding	1/1/35	4.00-5.00%	64,260	64,260
2012C Refunding	1/4/33	2.50-5.00%	65,415	65,415
2012 Sewer Jr Lien Variable	1/1/43	(variable)	100,000	100,000
2013A Refunding	1/1/35	2.00-5.00%	122,895	119,495
2013B Revenue and Refunding	1/1/44	2.00-5.00%	74,930	74,475
2014A Refunding	1/1/47	5.00%	75,000	75,000
2014B Refunding	7/1/35	1.00-5.00%	192,460	192,460
			<u>\$ 3,202,990</u>	<u>\$ 2,813,805</u>



# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

### Note 5 - Long-Term Liabilities and Notes Payable (Continued)

**General Obligation Bonds** - As of December 31, 2014, bonds outstanding include \$779.5 million of serial and term bonds maturing January 1, 2015 through 2040, bearing interest at stated rates of 2.00 percent to 5.25 percent per annum.

Certain serial bonds cannot be redeemed prior to maturity; other bonds may be redeemed after the lapse of specific periods of time.

The following table summarizes Water Quality's general obligation bonds (in thousands):

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2014
2008 LTGO	1/1/34	3.25-5.25%	\$ 236,950	\$ 219,505
2009B LTGO	7/1/39	5.00-5.25%	300,000	294,105
2010A-B Multi-Modal LTGO	1/1/40	(variable)	100,000	100,000
2012A LTGO	1/1/25	2.00-5.00%	68,395	67,755
2012B LTGO	1/1/29	5.00%	41,725	41,725
2012C LTGO	1/1/34	5.00%	53,405	53,405
2012F LTGO	12/1/22	2.20%	3,010	3,010
			<u>\$ 803,485</u>	<u>\$ 779,505</u>

**State Loans** - Water Quality has received loans from the Washington Department of Ecology under the Water Pollution Control State Revolving Fund Loan Program and the Washington Public Works Trust Fund. The loans require annual payments of principal and interest from 2015 through 2034 and bear interest at stated rates from 0.00 percent to 3.10 percent. As of December 31, 2014, the balance due on all state loans is \$159.1 million. Water Quality maintains separate cash reserves of \$8.5 million as of December 31, 2014. These reserves are treated as restricted, being required under the Revolving Fund Loan Program. At December 31, 2014, the required principal and interest payments for all classes of long-term debt are as follows (in thousands):

Year(s) Beginning	Revenue Bonds		General Obligation Bonds		State Loans		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
January 1, 2015	\$ 51,615	\$ 132,362	\$ 9,000	\$ 38,146	\$ 11,133	\$ 3,009	\$ 245,265
January 1, 2016	52,110	131,172	9,420	37,708	11,625	2,822	244,857
January 1, 2017	43,895	129,000	21,000	36,972	11,731	2,626	245,224
January 1, 2018	49,485	126,909	22,030	35,894	11,916	2,427	248,661
January 1, 2019	50,255	124,643	23,110	34,767	12,162	2,223	247,160
January 1, 2020—2024	278,680	585,242	136,750	154,635	54,534	8,108	1,217,949
January 1, 2025—2029	361,840	507,137	170,395	116,454	30,270	3,751	1,189,847
January 1, 2030—2034	555,595	396,756	196,060	71,169	15,682	922	1,236,184
January 1, 2035—2039	417,275	270,366	91,740	34,639	-	-	814,020
January 1, 2040—2044	613,885	147,778	100,000	4,428	-	-	866,091
January 1, 2045—2049	293,915	43,507	-	-	-	-	337,422
January 1, 2050—2052	45,255	2,588	-	-	-	-	47,843
	<u>\$ 2,813,805</u>	<u>\$ 2,597,460</u>	<u>\$ 779,505</u>	<u>\$ 564,812</u>	<u>\$ 159,053</u>	<u>\$ 25,888</u>	<u>\$ 6,940,523</u>

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

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### Note 5 - Long-Term Liabilities and Notes Payable (Continued)

The future annualized interest payments for the variable rate revenue bonds are based on an interest rate of 5.40 percent, which represents 90 percent of the Revenue Bond Index assumed by the County for long-term financial planning purposes.

**Commercial Paper (Notes Payable)** - In December 1995, Water Quality initiated a commercial paper program that gives Water Quality the ability to issue up to \$100.0 million. The program is supported by an annually renewable line of credit that expires November 30, 2015. As of December 31, 2014, \$100.0 million was issued and outstanding under this program. The commercial paper has maturities ranging between 61 and 92 days and is classified as a current liability of Water Quality's operating fund. Changes in short-term note payables for the year ended December 31, 2014 and 2013 were as follows (in thousands):

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014
Commercial paper	<u>\$ 100,000</u>	<u>\$ 411,110</u>	<u>\$ (411,110)</u>	<u>\$ 100,000</u>
	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
Commercial paper	<u>\$ 100,000</u>	<u>\$ 544,440</u>	<u>\$ (544,440)</u>	<u>\$ 100,000</u>

**Variable Rate General Obligation and Revenue Bonds** - The variable rate bonds, 2001 Series A and Series B revenue bonds are supported by a periodically renewable letter of credit that expires December 31, 2015. The variable rate bonds, 2010 Series A and Series B general obligation bonds are supported by a Standby Bond Purchase Agreement that expires November 3, 2017. The variable rate bonds, 2011 and 2012 Sewer Jr Lien VRDM, do not have a liquidity facility.

**Financial Policy Reserves** - In addition to bond reserves related to Sewer Revenue Bonds, Water Quality maintains liquidity and asset management reserves totaling \$32.4 million at December 31, 2014.

**Compliance with Bond Resolutions** - With respect to the year ended December 31, 2014, Water Quality complied with all financial covenants stipulated by its bond resolutions.

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

### Note 5 - Long-Term Liabilities and Notes Payable (Continued)

**Changes in Long-Term Liabilities** - Long-term liability activity for the years ended December 31, 2014 and 2013 was as follows (in thousands):

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Bonds payable	\$ 3,654,340	\$ 267,460	\$ (328,490)	\$ 3,593,310	\$ 60,615
Bond premiums and discounts	177,554	33,209	(20,094)	190,669	-
Total bonds payable	3,831,894	300,669	(348,584)	3,783,979	60,615
State loans	146,672	22,343	(9,962)	159,053	11,133
Compensated absences	11,312	10,465	(10,293)	11,484	565
Other post-employment benefits	1,195	219	(63)	1,351	-
Environmental remediation	44,560	5,180	(4,940)	44,800	5,632
Total long-term liabilities	<u>\$ 4,035,633</u>	<u>\$ 338,876</u>	<u>\$ (373,842)</u>	<u>\$ 4,000,667</u>	<u>\$ 77,945</u>

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Due Within One Year
Bonds payable	\$ 3,662,370	\$ 34,695	\$ (42,725)	\$ 3,654,340	\$ 57,630
Bond premiums and discounts	165,306	24,970	(12,722)	177,554	-
Total bonds payable	3,827,676	59,665	(55,447)	3,831,894	57,630
State loans	136,002	19,269	(8,599)	146,672	9,323
Compensated absences	11,249	9,985	(9,922)	11,312	572
Other post-employment benefits	1,040	219	(64)	1,195	-
Environmental remediation	35,201	13,952	(4,593)	44,560	5,715
Total long-term liabilities	<u>\$ 4,011,168</u>	<u>\$ 103,090</u>	<u>\$ (78,625)</u>	<u>\$ 4,035,633</u>	<u>\$ 73,240</u>

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

### Note 6 - Changes in Capital Assets

Changes in capital assets for the years ended December 31, 2014 and 2013 are shown in the following table (in thousands):

	Balance January 1, 2014	Increases	Decreases	Balance December 31, 2014
Land	\$ 240,391	\$ 2,602	\$ -	\$ 242,993
Easements	11,469	251	-	11,720
Construction work in progress	316,142	141,595	(174,952)	282,785
Total nondepreciable assets	<u>568,002</u>	<u>144,448</u>	<u>(174,952)</u>	<u>537,498</u>
Buildings	1,829,718	42,268	-	1,871,986
Improvements other than building	65,593	1,728	-	67,321
Artwork	5,579	52	(59)	5,572
Right of way	7,635	-	-	7,635
Infrastructure	2,146,454	112,908	-	2,259,362
Equipment	1,047,837	24,772	(33,826)	1,038,783
Software development	33,308	2,295	-	35,603
Total depreciable assets	<u>5,136,124</u>	<u>184,023</u>	<u>(33,885)</u>	<u>5,286,262</u>
Accumulated depreciation and amortization:				
Building	(557,275)	(49,423)	-	(606,698)
Improvements other than building	(20,830)	(2,433)	-	(23,263)
Artwork	(512)	(156)	-	(668)
Right of way	(491)	(218)	-	(709)
Infrastructure	(437,331)	(46,066)	-	(483,397)
Equipment	(536,948)	(55,549)	32,250	(560,247)
Software development	(22,380)	(3,531)	-	(25,911)
Total depreciation and amortization	<u>(1,575,767)</u>	<u>(157,376)</u>	<u>32,250</u>	<u>(1,700,893)</u>
Depreciable assets - net	<u>3,560,357</u>	<u>26,647</u>	<u>(1,635)</u>	<u>3,585,369</u>
Total capital assets - net	<u>\$ 4,128,359</u>	<u>\$ 171,095</u>	<u>\$ (176,587)</u>	<u>\$ 4,122,867</u>

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

### Note 6 - Changes in Capital Assets (Continued)

	Balance January 1, 2013	Increases	Decreases	Balance December 31, 2013
Land	\$ 233,194	\$ 7,197	\$ -	\$ 240,391
Easements	11,469	-	-	11,469
Construction work in progress	291,826	149,371	(125,055)	316,142
Total nondepreciable assets	<u>536,489</u>	<u>156,568</u>	<u>(125,055)</u>	<u>568,002</u>
Buildings	1,808,253	22,101	(636)	1,829,718
Improvements other than building	64,690	903	-	65,593
Artwork	5,520	59	-	5,579
Right of way	7,635	-	-	7,635
Infrastructure	2,123,831	22,683	(60)	2,146,454
Equipment	985,447	65,031	(2,641)	1,047,837
Software development	33,239	69	-	33,308
Total depreciable assets	<u>5,028,615</u>	<u>110,846</u>	<u>(3,337)</u>	<u>5,136,124</u>
Accumulated depreciation and amortization:				
Building	(511,896)	(45,586)	207	(557,275)
Improvements other than building	(18,457)	(2,373)	-	(20,830)
Artwork	(334)	(178)	-	(512)
Right of way	(273)	(218)	-	(491)
Infrastructure	(391,112)	(46,219)	-	(437,331)
Equipment	(482,972)	(55,098)	1,122	(536,948)
Software development	(18,845)	(3,535)	-	(22,380)
Total depreciation and amortization	<u>(1,423,889)</u>	<u>(153,207)</u>	<u>1,329</u>	<u>(1,575,767)</u>
Depreciable assets - net	<u>3,604,726</u>	<u>(42,361)</u>	<u>(2,008)</u>	<u>3,560,357</u>
Total capital assets - net	<u>\$ 4,141,215</u>	<u>\$ 114,207</u>	<u>\$ (127,063)</u>	<u>\$ 4,128,359</u>

### Note 7 - Environmental Remediation

Water Quality operations are subject to rules and regulations enacted by the Washington State Department of Ecology (DOE) and the U.S. Environmental Protection Agency (EPA).

Water Quality follows GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), which mandates the disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB 49 establishes five events, any one of which obligates Water Quality to record a liability for pollution remediation expenditures. Liabilities are related to ongoing projects, which include the sediment management of aquatic habitats along Elliot Bay and the clean-up of certain sites along the Lower Duwamish Waterway (LDW). Environmental remediation costs that incurred prior to implementation of GASB 49 were capitalized and amortized over 40 years.

## **KING COUNTY WATER QUALITY ENTERPRISE FUND**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 7 - Environmental Remediation (Continued)**

The Sediment Management Project has been approved by the Metropolitan King County Council as a self-obligated pollution remediation program. The LDW project became a Water Quality obligation when King County entered into an Administrative Order on Consent (AOC) with the DOE and EPA. This AOC also includes The Boeing Company, the City of Seattle and the Port of Seattle as parties conduct the studies on which to base the cleanup decision. Each party has agreed to pay one fourth of the costs under the AOC.

Both projects may result in additional cleanup efforts as a result of future regulatory orders. These potential cleanup liabilities cannot be currently estimated. Ongoing, regulatory action may identify other Potentially Responsible Parties (PRP) for the LDW cleanup.

There are no estimated recoveries at this time that will reduce the amount of Water Quality's pollution remediation obligations. The total environmental remediation liability at December 31, 2014 stands at \$44.8 million and \$44.6 million in 2013.

The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

The methodology for estimating liabilities continues to be based on Water Quality engineering analysis, program experience and cost estimates for the remediation activities scheduled to be undertaken in future years as programmed under Water Quality's Regional Wastewater Services Plan. Certain costs were developed by consulting engineers. Costs were estimated using the expected cash flow method set out by GASB 49. For the LDW project, a weighted average method is used to calculate the liability. The Sediment Management Plan does not employ weighted average cost estimation because the remaining work is well-defined and negates the utility of multiple estimates. The cost estimates continue to be re-measured as succeeding benchmarks are reached or when cost assumptions are modified. All pollution remediation obligations are being deferred as permitted by regulatory accounting standards (see Note 8 - Regulatory Assets and Credits).

#### **Note 8 - Regulatory Assets and Credits**

The King County Council has taken various regulatory actions resulting in differences between the recognition of revenues for rate-making purposes and their treatment under generally accepted accounting principles for nonregulated entities. Changes to these balances and their inclusion in rates may occur only at the direction of the Council.

**Rate Stabilization** - In 2005, the Council established a Rate Stabilization Reserve. This action created a deferred inflow of resource which deferred operating revenue to be set aside in a reserve and recognized in subsequent years to maintain stable sewer rates. The reserve was \$52.3 million in 2013 and decreased by \$18.0 million to \$34.3 million in 2014.

## KING COUNTY WATER QUALITY ENTERPRISE FUND

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 8 - Regulatory Assets and Credits (Continued)**

**Pollution Remediation** - In 2006, the Council approved the application of regulatory accounting to treat pollution remediation obligations as regulatory assets to allow for cost recovery through future rate increases. The portion of regulatory asset costs that have been accrued is being amortized over a recovery period of 30 years.

**Rainwise Program** - In 2013, the Council approved the application of regulatory accounting to treat program payments to Rainwise participants as regulatory assets to allow for cost recovery through future rate increases. The portion of regulatory asset costs that have been accrued is being amortized over a recovery period of 7 years.

#### **Note 9 - Employee Benefit Plans**

**Defined Benefit Pension Plans** - All full-time and qualifying part-time employees of Water Quality participate in the Public Employees' Retirement System (PERS). PERS is a statewide governmental retirement system administered by the State of Washington's Department of Retirement Systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees Retirement System** - The Washington State Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

## **KING COUNTY WATER QUALITY ENTERPRISE FUND**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 9 - Employee Benefit Plans (Continued)**

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee defined benefit contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include disability payments, an optional cost-of-living adjustment, and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest paid service months. There is no cap on years of service credit. PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age for each year before age 65.

If hired prior to May 1, 2013, PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire early under one of two provisions: with a benefit that is reduced by 3 percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules. PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.



# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

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### Note 9 - Employee Benefit Plans (Continued)

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. Employers do not contribute to the defined contribution benefits.

PERS Plan 3 defined contribution retirement benefits are dependent upon employee contributions and investment earnings on those contributions. The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit. PERS Plan 3 benefits are actuarially reduced to reflect the choice of a survivor benefit.

Plan 3 members are immediately vested in the defined contribution portion of their plan. PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 members who have at least 10 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an ERF that varies with age for each year before age 65. PERS Plan 3 members who have 30 or more years of service credit and are at least 55 years old can retire early by accepting the same reduction in benefits and conditions as those for PERS Plan 2 members.

PERS Plans 2 and 3 provide duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually, and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute.

Water Quality's contribution rates expressed as a percentage of covered payrolls as of December 31, 2014 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	9.21%	9.21%	9.21%
Employee	6.00%	4.92%	5.00%-15.00%

## KING COUNTY WATER QUALITY ENTERPRISE FUND

### NOTES TO FINANCIAL STATEMENTS

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#### Note 9 - Employee Benefit Plans (Continued)

The employer rates include the employer administrative expense fee currently set at 0.18 percent. PERS Plan 3 is the defined benefit portion only. The employee rates for PERS Plan 3 may vary from 5 percent to 15 percent based on the rate selected by the PERS 3 member.

Water Quality's required employer contributions for the years ended December 31 was (in thousands):

	PERS	
	Plan 1	Plans 2 and 3
2014	\$ 88	\$ 5,020
2013	\$ 93	\$ 4,353
2012	\$ 98	\$ 3,657

#### Note 10 - Other Post-Employment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, requires the County to accrue other post-employment benefits (OPEB) expenses related to its post-retirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded accrued liabilities. The liability is included in noncurrent liabilities on the statements of net position for Water Quality.

**Plan Description** - The King County Health Plan (the Health Plan) is a single-employer defined benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible employees. The Health Plan's actuary is Healthcare Actuaries and it does not issue a separate stand-alone financial report.

**Funding Policy** - Law Enforcement Officers' and Fire Fighters' Retirement System Plan (LEOFF) 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan. Water Quality contributed an estimated \$63 thousand and \$64 thousand to the Health Plan during both 2014 and 2013, respectively. The contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to advance fund the cost of benefits.

**Annual OPEB and Net OPEB Obligation** - The basis of the County's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, the actuary projects will cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**KING COUNTY WATER QUALITY ENTERPRISE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 10 - Other Post-Employment Benefits (Continued)**

Water Quality's allocated annual OPEB costs, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for the years ended December 31, 2014 and 2013 were as follows (in thousands):

	2014	2013
Normal cost - Unit Credit Method	\$ 193	\$ 193
Amortization of unfunded actuarial accrued liability (UAAL)	32	32
Annual Required Contribution (ARC)	225	225
Interest on net OPEB obligation	4	4
Adjustment to annual required contribution	(10)	(10)
Annual OPEB cost (expense)	219	219
Contributions made	(63)	(64)
Increase in net OPEB obligation	156	155
Net OPEB obligation - beginning of year	1,195	1,040
Net OPEB obligation - end of year	<u>\$ 1,351</u>	<u>\$ 1,195</u>

Water Quality's allocated annual OPEB costs, the percentage of annual OPEB costs contributed to the Health Plan, and the net OPEB obligation were as follows (in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 219	29.0%	\$ 1,351
12/31/2013	\$ 219	29.2%	\$ 1,195
12/31/2012	\$ 246	25.2%	\$ 1,040

**Required Supplementary Information: Funded Status and Funding Progress** - The funded status of the Health Plan as of December 31, 2014 and 2013 was as follows (in thousands):

	2014	2013	2012
Actuarial Value of Plan Assets	\$ -	\$ -	\$ -
Actuarial Accrued Liability (AAL)	167,420	167,420	178,502
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 167,420</u>	<u>\$ 167,420</u>	<u>\$ 178,502</u>
Funded Ratio (actuarial value assets/AAL)	0%	0%	0%
Covered Payroll (active plan members)	\$ 1,073,511	\$ 1,000,353	\$ 961,982
UAAL as a percentage of covered payroll (AAL less actuarial value of assets/UAAL)	15.6%	16.7%	18.6%

# KING COUNTY WATER QUALITY ENTERPRISE FUND

## NOTES TO FINANCIAL STATEMENTS

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### Note 10 - Other Post-Employment Benefits (Continued)

**Actuarial Methods and Assumptions** - The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the County and members of the Health Plan) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and Members of the Health Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2013 valuation used the projected unit credit actuarial cost method. The actuarial assumption included a 2.29 percent investment rate of return (net of administrative expenses) and an initial healthcare cost trend rate of 8.0 percent for KingCare medical, 7.0 percent for KingCare pharmacy, and 8.0 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 4.2 percent after 70 years and 7 years for medical and pharmacy, respectively. The miscellaneous trend rate is 7.0 percent, and the Medicare premium trend rate is 6.0 percent, for all years. All trend rates include a 3.0 percent inflation assumption. The amortization of the UAAL at transition uses a level dollar amount on an open basis. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 24 years.

### Note 11 - Interfund Balances and Transfers

Water Quality is an enterprise fund of the County and reports in its financial statements interfund balances and transfers as a result of intracounty activity with other County agencies.

**Interfund Balances** - The balances result from the time lag between the dates when interfund goods and services were provided or reimbursable expenditures incurred and when interfund payments were made, Water Quality reported total due from other funds of \$1.2 million at December 31, 2014. Water Quality had total due from other funds of \$4.0 million and due to other funds of \$5 thousand, respectively, at December 31, 2013.

**Interfund Transfers** - The King County Council approves ordinances and/or motions authorizing Water Quality to contribute and receive amounts to and from various County funds. During 2014 and 2013, the transfers from Water Quality to other funds were \$173 thousand and \$70 thousand, respectively.

### Note 12 - Commitments and Contingencies

**Construction and Maintenance Programs** - To ensure the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities, Water Quality is committed to expending approximately \$115.1 million on active construction contracts as of December 31, 2014.

## KING COUNTY WATER QUALITY ENTERPRISE FUND

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 12 - Commitments and Contingencies (Continued)**

**Contingencies and Claims** - There is no litigation or claim currently pending against the King County Water Quality Enterprise Fund in which, to management's knowledge, the likelihood of an unfavorable outcome with material damages assessed against the enterprise is considered "probable."

The following litigation, or potential litigation, may involve claims for material damages against the King County Water Quality Enterprise Fund for which Water Quality is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- An administrative order from the EPA that requires the County, the City of Seattle, the Boeing Company, and the Port of Seattle to conduct a feasibility study to determine the nature and extent of the contamination in the Lower Duwamish Waterway. The feasibility study has been issued in final form by EPA. EPA issued a Record of Decision in the later part of 2014. Due to the high level of legal and regulatory review for the County and other parties with the intention of entering into a settlement agreement and negotiating a consent decree with EPA, the County is unable to determine the schedule and cost of any required remediation or the extent of County responsibility.
- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. The King County Wastewater Treatment Division (WTD) has already performed interim cleanup costing \$3.6 million to comply with a formal agreement with the Washington State Department of Ecology, who reserves its rights to require additional remediation.
- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The parties have also agreed to share the cost of a supplemental investigation and feasibility study required by the U.S. Environmental Protection Agency. The agreement states that WTD has only a one-third pro rata share of the study costs and that portion is still potentially allocable among the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the study is completed.
- A series of requests for change orders and claims for damages from the prime contractor for the Brightwater Treatment Plant central conveyance system alleging differing site conditions and defective specifications. The County vigorously defended against the claims and filed suit alleging contract default by the contractor for failure to complete the contract work within time limits. The County received a jury verdict of \$155 million on December 21, 2012. The contractor received a verdict of \$26.2 million. Rulings on post-trial motions were issued on April 19, 2013, leaving in place the verdict amounts. The rulings also awarded the County additional \$14.7 million for its legal costs. The contractor has paid the net judgment amount and filed the appeal. The cash received is set aside and a liability recorded by Water Quality until the appeal is completed.

## **KING COUNTY WATER QUALITY ENTERPRISE FUND**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 13 - Subsequent Event**

In February 2015, Water Quality issued \$474.0 million of sewer revenue refunding bonds, 2015, series A, and \$247.8 million of limited tax general obligation (payable from sewer) refunding bonds, 2015, series A. The bonds bear interest at stated rates of 2.0 percent to 5.0 percent per annum. The proceeds from these bonds were used to refund all of the sewer revenue bonds, series 2007; a portion of sewer revenue bonds, series 2008 and series 2009; and a portion of the outstanding Limited Tax General Obligation Bonds (payable from sewer revenues), 2009.

**KING COUNTY WATER QUALITY ENTERPRISE FUND  
SUPPLEMENTAL INFORMATION  
SUPPLEMENTAL SCHEDULE OF NET REVENUES AVAILABLE FOR  
DEBT SERVICE (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2014**

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Water Quality is obligated by applicable bond ordinances to set sewage disposal rates at a level adequate to provide net revenue equal to at least 1.15 times the annual debt service requirements for sewer revenue and general obligation bonds payable from revenues of Water Quality. It is an adopted policy of Water Quality to achieve a debt service coverage ratio of 1.25.

Coverage (1.15 required by covenant, adopted policy 1.25) 1.44

In 2001, Water Quality adopted a new debt service target of 1.15 times the annual debt service for bonds, obligations, notes, and loans of Water Quality.

Coverage (1.15 adopted target) 1.33

Water Quality is required to generate revenues sufficient to pay all costs of operation of the sewage treatment system and debt service on obligations of Water Quality.

Coverage (1.00 required by covenant) 1.26

In 2001, Water Quality issued an additional tier of revenue bonds. The bond covenants of the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, require that sewage disposal rates provide net revenue equal to at least 1.10 times the annual debt service requirements for all Junior Lien obligations after payment of senior lien requirements. In 2010, Water Quality issued Multi-Modal Limited Tax General Obligation Sewer Revenue Bonds, series 2010A and 2010B which incorporate the identical requirement as Junior Lien obligations. In 2011 and 2012, Water Quality issued \$100M of Junior Lien Variable Rate Demand Sewer Revenue Bonds which incorporate the identical requirement as Junior Lien obligations.

Coverage (1.10 required by covenant) 31.95

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**APPENDIX D**

**SUMMARY OF KING COUNTY'S INVESTMENT POLICY**

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## SUMMARY OF KING COUNTY'S INVESTMENT POLICY

*Additional discussion of recent developments pertaining to the King County Investment Pool can be found under “King County—King County Investment Pool” in the body of this Official Statement.*

The Treasury Operations Section of the King County Finance and Business Operations Division administers the County's investments. Under Section 4.10 of the County Code, the Executive Finance Committee (the “Committee”) oversees the County's investment practices. The Committee consists of the Chair of the County Council or his or her designee, the County Executive or his or her designee, the Chief Budget Officer, and the County Director of the Finance and Business Operations Division.

The County's own funds are invested in the County's Residual Investment Pool (the “Investment Pool”). All investments of County funds are subject to written policies and procedures adopted by the Committee. The Committee reviews the performance of the Investment Pool on a monthly basis.

In addition to investing the County's own funds, the Treasury Operations Section also invests the funds of approximately 100 special purpose districts within the County for which the Treasury Operations Section serves as treasurer, including all school districts, fire protection districts, water districts, sewer districts, and hospital districts. Each district has the option either to invest in the Investment Pool or to direct the term and amount of each of its investments. To participate in the Investment Pool, a district must sign an inter-local agreement that governs their participation in the Investment Pool, and, to exit the Investment Pool, a district must provide the required notice prior to their anniversary date. The Treasury Operations Section selects the particular investment instruments.

The Investment Pool must maintain an effective duration of 1.5 years or less and 40% of its total value must be held in securities that mature in 12 months or less. As of September 30, 2015, the Investment Pool had a balance of \$5.6 billion and an effective duration of 0.99 years, and 56% of the portfolio had a maturity of 12 months or less.

Under State law and the County's current investment policy, subject to certain minimum credit and maximum maturity limitations as described therein, the County may invest in the following instruments:

- (i) up to 100% of the portfolio in U.S. Treasury or U.S. Agency securities;
- (ii) up to 25% of the portfolio in certificates of deposit (“CDs”) with institutions that are public depositaries in the State of Washington with a maximum of 5% per issuer across investment types;
- (iii) up to 25% of the portfolio in bankers' acceptances with a maximum of 5% per issuer across investment types;
- (iv) up to 100% of the portfolio in repurchase agreements, with a maximum of 25% exposure to any one repo counterparty, provided that the underlying security must be a U.S. Treasury or U.S. Agency and all underlying securities are held by a third party;

- (v) up to 25% in commercial paper with a maximum of 5% per issuer across investment types;
- (vi) up to 20% in general obligation municipal bonds with a maximum of 5% per issuer;
- (vii) up to 25% in mortgage-backed securities issued by agencies of the U.S. Government which pass the Federal Financial Institutions Examination Council (“FFIEC”) suitability test that banks use to determine lowest risk securities;
- (viii) up to 20% in bank corporate notes with a maximum of 5% per issuer across investment types; and
- (ix) up to 25% in the State’s Local Government Investment Pool.

The combined total of repurchase agreements greater than overnight, bankers’ acceptances, CDs, commercial paper, and bank corporate notes must not exceed 50% of Investment Pool assets. The County currently does not purchase structured notes or inverse floating rate notes, and has no intention of doing so in the near future.

The County’s entire investment policy is located on the County’s website at the following link:

*<http://www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx>*

**APPENDIX E**  
**DEMOGRAPHIC AND ECONOMIC INFORMATION**

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## DEMOGRAPHIC AND ECONOMIC INFORMATION

King County is the largest county in the State of Washington (the “State”) in population, number of cities and employment, and the fourteenth most populated county in the United States. Of the State’s population, nearly 30% reside in King County, and of the County’s population, 32% live in the City of Seattle (“Seattle”). Seattle is the largest city in the Pacific Northwest, the County seat, and the center of the County’s economic activity. Bellevue is the State’s fifth largest city and the second largest in the County, and is the center of the County’s eastside business and residential area.

### Population

Historical and current population figures for the State of Washington, the County, the two largest cities in the County, and the unincorporated areas of the County are given below.

#### POPULATION

<b>Year</b>	<b>Washington</b>	<b>King County</b>	<b>Seattle</b>	<b>Bellevue</b>	<b>Unincorporated King County</b>
1980 <sup>(1)</sup>	4,130,163	1,269,749	493,846	73,903	503,100
1990 <sup>(1)</sup>	4,866,692	1,507,319	516,259	86,874	NA
2000 <sup>(1)</sup>	5,894,121	1,737,034	563,374	109,827	349,773
2010 <sup>(1)</sup>	6,724,540	1,931,249	608,660	122,363	325,000
2011 <sup>(2)</sup>	6,767,900	1,942,600	612,100	123,400	285,265
2012 <sup>(2)</sup>	6,817,770	1,957,000	616,500	124,600	255,720
2013 <sup>(2)</sup>	6,882,400	1,981,900	626,600	132,100	253,100
2014 <sup>(2)</sup>	6,968,170	2,017,250	640,500	134,400	252,050
2015 <sup>(2)</sup>	7,061,410	2,052,800	662,400	135,000	253,280

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: State of Washington, Office of Financial Management

### Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division (“MD”) (the cities of Seattle, Bellevue, and Everett), the County, the State, and the United States.

#### PER CAPITA INCOME

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Seattle MD	\$ 50,644	\$51,370	\$53,391	\$56,267	\$58,483
King County	53,933	54,927	57,837	60,090	62,770
State of Washington	41,504	42,024	43,878	46,045	47,717
United States	38,637	39,791	41,560	43,735	44,765

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

## Construction

The table below lists the value of housing construction for which building permits have been issued by entities within King County. The value of public construction is not included in this table.

### RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multifamily Units		Total Value
	Number	Value	Number	Value	
2010	2,532	\$ 694,969,240	3,425	\$ 325,068,029	\$ 1,020,037,269
2011	2,765	785,840,283	3,378	431,699,572	1,217,539,855
2012	3,864	1,133,343,731	7,750	1,118,023,021	2,251,366,752
2013	4,419	1,419,065,243	7,858	1,053,237,846	2,472,303,089
2014	4,215	1,478,116,875	10,488	1,478,117,263	2,880,006,794
2014 <sup>(1)</sup>	3,239	1,099,290,308	7,686	986,266,109	2,085,556,417
2015 <sup>(1)</sup>	3,018	1,157,629,683	12,303	1,900,157,097	3,057,786,780

(1) Estimated through September.

Source: U.S. Bureau of the Census

## Retail Activity

The following table presents taxable retail sales in King County and Seattle.

### KING COUNTY AND SEATTLE TAXABLE RETAIL SALES

Year	King County	Seattle
2010	\$ 39,275,353,182	\$ 14,783,168,934
2011	40,846,119,020	15,751,585,858
2012	43,506,804,227	17,162,539,275
2013	46,601,198,766	18,258,200,683
2014	49,638,174,066	19,995,171,842
2014 <sup>(1)</sup>	23,147,821,324	9,284,611,849
2015 <sup>(1)</sup>	25,676,178,519	10,597,264,881

(1) Through second quarter.

Source: State Department of Revenue



## Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data in 2014.

### PUGET SOUND AREA MAJOR EMPLOYERS

<b><u>Employer</u></b>	<b><u>Employees<sup>(1)</sup></u></b>
The Boeing Company	81,900
Joint Base Lewis-McChord	56,000
Navy Region Northwest	43,000
Microsoft	43,000
University of Washington	30,200
Providence Health and Services	19,500
Wal-Mart Stores	19,400
Fred Meyer Stores	15,500
King County Government	14,400 <sup>(2)</sup>
City of Seattle	12,400 <sup>(3)</sup>
Franciscan Health System	12,400
U.S. Postal Service	11,700
Starbucks	11,200
MultiCare Health System	10,800
Swedish Health Services	10,700

(1) Does not include part-time or seasonal employment figures. Amazon.com Inc. did not participate in the survey that produced the table, but if it had, it is likely that it would have been ranked in this list of major employers.

(2) Source: King County. Figure includes temporary workers.

(3) Source: City of Seattle. Figure includes temporary workers.

Source: *Puget Sound Business Journal Book of Lists, 2015 (rounded)*

**KING COUNTY**  
**RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT**  
**AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT<sup>(1)</sup>**

	<b>Annual Average</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Civilian Labor Force	1,111,000	1,114,310	1,118,930	1,139,610	1,158,230
Total Employment	1,009,510	1,023,300	1,042,540	1,079,950	1,104,930
Total Unemployment	101,490	91,010	76,390	59,660	53,300
Percent of Labor Force	9.1%	8.2%	6.8%	5.2%	4.6%
<b>NAICS INDUSTRY</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total Nonfarm	1,134,767	1,153,692	1,181,900	1,232,500	1,278,033
Total Private	967,808	988,767	1,016,467	1,065,150	1,108,425
Goods Producing	148,158	148,942	154,375	159,483	168,283
Natural Resources and Mining	467	525	425	450	425
Construction	49,675	48,258	50,625	53,217	60,792
Manufacturing	98,017	100,192	103,308	105,800	107,025
Services Providing	986,608	1,004,750	1,027,525	1,073,017	1,109,750
Trade, Transportation, and Utilities	206,350	211,158	216,975	225,133	235,758
Information	79,408	80,183	81,058	82,258	85,583
Financial Activities	69,233	68,717	68,458	70,683	72,000
Professional and Business Services	176,675	184,567	192,408	200,217	207,933
Educational and Health Services	138,142	141,750	144,867	163,283	167,983
Leisure and Hospitality	108,700	111,075	114,933	119,858	124,883
Other Services	41,142	42,375	43,392	44,233	46,000
Government	166,958	164,925	165,433	167,350	169,608
Workers in Labor/Management Disputes	-	-	-	-	-
	<b>Sep 2015</b>				
Civilian Labor Force	1,175,916				
Total Employment	1,130,559				
Total Unemployment	45,357				
Percent of Labor Force	3.9%				

(1) Columns may not add to totals due to rounding.

Source: State Employment Security Department

**APPENDIX F**  
**BOOK-ENTRY SYSTEM**

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## **BOOK-ENTRY SYSTEM**

*The following information has been provided by DTC. The County makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered obligations, registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series of the Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Registrar or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the County or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the County or the Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.