

## OFFICIAL STATEMENT

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

**Moody's: Aa2**  
**S&P: AA**

See "Other Information—Ratings" herein.

*In the opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, under existing law and subject to certain qualifications described herein, the interest on the Bonds is excludable from gross income for federal income tax purposes. In addition, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. See "Legal and Tax Information—Tax Matters."*

### **KING COUNTY, WASHINGTON JUNIOR LIEN SEWER REVENUE REFUNDING BONDS (MANDATORY PUT BONDS)**

**SERIES 2020A**  
**\$100,295,000**  
**CUSIP NUMBER: 495290BC1**

**SERIES 2020B**  
**\$100,295,000**  
**CUSIP NUMBER: 495290BD9**

**DATED: Date of Initial Issuance and Delivery**

**DUE: 2020A Bonds: January 1, 2032**  
**2020B Bonds: January 1, 2042**

King County, Washington (the "County"), will issue its Junior Lien Sewer Revenue Refunding Bonds (Mandatory Put Bonds), Series 2020A (the "2020A Bonds"), and Junior Lien Sewer Revenue Refunding Bonds (Mandatory Put Bonds), Series 2020B (the "2020B Bonds"), as fully registered bonds which, when issued, will be registered in the name of Cede & Co., as Bond Owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Together, the 2020A Bonds and the 2020B Bonds are referred to in this Official Statement as the "Bonds." DTC will act as initial Securities Depository for the Bonds. Purchasers will not receive certificates representing their interest in the Bonds purchased. For so long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

The Bonds of each Series initially will bear interest at a Term Rate, subject to conversion to other Modes and, while bearing interest at the Term Rates, will be issuable in authorized denominations of \$5,000 or any integral multiple thereof within a Series, with interest paid semi-annually on each January 1 and July 1, commencing on January 1, 2021, as further provided in the Mode Agreement between the County and U.S. Bank National Association, as Registrar and Paying Agent, dated as of July 1, 2020, for the applicable Series (each, a "Mode Agreement").

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), serving as registrar, authenticating agent, paying agent, transfer agent, and tender agent for the Bonds (the "Registrar" and "Paying Agent"). For so long as the Bonds remain in a "book-entry only" transfer system, the Registrar will make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to the DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds, as described herein under Appendix H—Book-Entry System.

The 2020A Bonds are being issued to provide funds to refund the County's Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, and to pay the costs of issuing the 2020A Bonds. The 2020B Bonds are being issued to provide funds to refund the County's Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2011, and to pay the costs of issuing the 2020B Bonds.

The Bonds are subject to optional and mandatory redemption prior to maturity and to mandatory purchase as described herein.

The Bonds are payable from and secured by a pledge of revenues of the Sewer System ("Revenue of the System"). The lien and charge of the Bonds on Revenue of the System is (i) subject to the payment of Operating and Maintenance Expenses of the Sewer System, (ii) subordinate to the lien and charge securing the Parity Bonds and the Parity Lien Obligations, (iii) equal to the lien and charge securing the outstanding Junior Lien Obligations and any issued in the future, and (iv) superior to all other liens and charges on such revenue, including the lien and charge on such revenue securing any Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, the SRF Loans, and the Public Works Trust Fund Loans, as such terms are defined in the Ordinance described herein. The Bonds are special limited obligations of the County, and 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. **By their purchase of the Bonds, Bondowners are deemed to consent to springing amendments to the Ordinance. See Appendix A.**

This Official Statement describes the Bonds only during the Initial Term Rate Period and should not be relied upon if the Bonds are converted to any other Mode or a subsequent Term Mode.

The Bonds are offered when, as and if issued, subject to approval of legality by Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. The form of Bond Counsel's opinion is attached hereto as Appendix C. Certain other legal matters will be passed upon for the County by Pacifica Law Group LLP as Disclosure Counsel to the County. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Seattle, Washington. It is anticipated that the Bonds in definitive book-entry form 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 July 14, 2020.

*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.*

**J.P. Morgan**

Dated: June 30, 2020

*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 H—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 set forth on page i of this Official Statement may be changed from time to time by the Underwriter of the Bonds. The Underwriter may offer and sell such Series to certain dealers, unit investment trusts, or money market funds at prices lower than the public offering prices set forth on page i of this Official Statement.*

*The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.*

*The County has prepared certain forecasted financial information included in this Official Statement. The prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information but, in the view of the County, was prepared based on reasonable assumptions. However, this prospective financial information is not fact and should not be relied upon as indicative of future results. Readers of this Official Statement are cautioned not to place undue reliance on the forecasted or prospective financial information. No independent accountant (i) has compiled, examined, or performed any procedures with respect to the forecasted or prospective financial information contained in this Official Statement, (ii) has expressed any opinion or any form of assurance on such information or its achievability, or (iii) assumes any responsibility for or any association with the prospective or forecasted financial information.*

*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. The County is not obligated to update, or otherwise revise, the financial projections or the specific portions presented in this Official Statement to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions are shown to be in error.*

*The websites of the County, any County department or agency, the City of Seattle, and the Municipal Securities Rulemaking Board are not 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.*

*CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers herein are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright 2020, CGS. All rights reserved. CUSIP numbers are provided for convenience of reference only and are subject to change. Neither the County nor the Underwriter take any responsibility for the accuracy of such CUSIP numbers.*

## **MATURITY SCHEDULE**

**\$100,295,000**

### **JUNIOR LIEN SEWER REVENUE REFUNDING BONDS, SERIES 2020A (MANDATORY PUT BONDS)**

#### ***Term Mode Bonds***

Maturity Date:	January 1, 2032
Initial Term Rate:	0.625%
Initial Term Yield:	0.625%
Price:	100%
Scheduled Mandatory Purchase Date:	January 1, 2024
Par Call Date:	July 1, 2023

**\$100,295,000**

### **JUNIOR LIEN SEWER REVENUE REFUNDING BONDS, SERIES 2020B (MANDATORY PUT BONDS)**

#### ***Term Mode Bonds***

Maturity Date:	January 1, 2042
Initial Term Rate:	0.875%
Initial Term Yield:	0.875%
Price:	100%
Scheduled Mandatory Purchase Date:	January 1, 2026
Par Call Date:	April 1, 2025

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

**KING COUNTY EXECUTIVE**

Dow Constantine

**METROPOLITAN KING COUNTY COUNCIL**

Claudia Balducci	Chair
Reagan Dunn	Vice Chair
Joe McDermott	Vice Chair
Rod Dembowski	Councilmember
Jeanne Kohl-Welles	Councilmember
Kathy Lambert	Councilmember
Dave Upthegrove	Councilmember
Pete von Reichbauer	Councilmember
Girmay Zahilay	Councilmember

**OTHER ELECTED OFFICIALS**

Dan Satterberg	Prosecuting Attorney
John Wilson	Assessor
Mitzi Johanknecht	Sheriff
Julie Wise	Director of Elections

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

Ken Guy

**CLERK OF THE METROPOLITAN KING COUNTY COUNCIL**

Melani Pedroza

**BOND COUNSEL/DISCLOSURE COUNSEL**

Pacifica Law Group LLP  
Seattle, Washington

**UNDERWRITER'S COUNSEL**

Orrick, Herrington & Sutcliffe LLP  
Seattle, Washington

**MUNICIPAL ADVISOR TO THE COUNTY**

Piper Sandler & Co.  
Seattle, Washington

**REGISTRAR AND PAYING AGENT**

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

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## OFFICIAL STATEMENT

### KING COUNTY, WASHINGTON JUNIOR LIEN SEWER REVENUE REFUNDING BONDS (MANDATORY PUT BONDS)

**SERIES 2020A**  
**\$100,295,000**

**SERIES 2020B**  
**\$100,295,000**

## INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County, Washington (the “County”), of \$200,590,000 aggregate principal amount of its Junior Lien Sewer Revenue Refunding Bonds (Mandatory Put Bonds), Series 2020A (the “2020A Bonds”), and Junior Lien Sewer Revenue Refunding Bonds (Mandatory Put Bonds), Series 2020B (the “2020B Bonds”). Together, the 2020A Bonds and the 2020B Bonds are referred to in this Official Statement as the “Bonds” and separately as a “Series.”

The Bonds are issued under the provisions of chapters 35.58, 36.67, 39.46, and 39.53 of the Revised Code of Washington (“RCW”) and the County Charter. The Bonds are authorized by County Ordinance 18898, passed by the County Council on May 22, 2019 (the “Ordinance”), and, as authorized by the Ordinance, a Mode Agreement with respect to the 2020A Bonds, dated as of July 1, 2020 (the “2020A Mode Agreement”), between the County and U.S. Bank National Association (the “Registrar” and “Paying Agent”), and a Mode Agreement with respect to the 2020B Bonds, dated as of July 1, 2020 (the “2020B Mode Agreement,” and together with the 2020A Mode Agreement, the “Mode Agreements”), between the County and the Registrar/Paying Agent. Capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as set forth in the Ordinance. Additional capitalized terms used but not defined herein for a Series of the Bonds have the same meanings set forth in the Mode Agreement for that Series. See Appendix A—Summary of Certain Definitions and Other Bond Provisions of the Ordinance and Appendix B—Form of Mode Agreement.

The Bonds will be issued in authorized denominations of \$5,000 or any integral multiple thereof within a Series (“Authorized Denominations”). The Bonds will be initially issued in the Term Mode bearing interest at a fixed (non-variable) rate. See Appendix B—Form of Mode Agreement and “The Bonds—General.”

The County may elect to convert either or both Series of the Bonds to a Daily Mode, Weekly Mode, Commercial Paper Mode, Index Floating Mode, Fixed Mode, or another Term Mode (each, a “Mode”). See “The Bonds—Conversion of Bonds to Other Modes.”

***This Official Statement describes the Bonds only in the Initial Term Rate Period.***

Information contained herein has been obtained from County officers, employees, records, and other sources the County believes to be reliable. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or Owners of any of the Bonds.

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 King County Treasury Operations Section, 500 Fourth Avenue, Room 600, Seattle, Washington, 98104.

**The outbreak of the 2019 novel coronavirus (“COVID-19”) is a significant event that has had and will have ongoing, material effects on the finances, operations, and economy of the County. Historic information in this Official Statement about the finances and operations of the Sewer System and the County predate the outbreak of COVID-19 and should be considered in light of the possible or probable negative effects the COVID-19 pandemic may have on the current and future finances and operations of the Sewer System and economy of the County and the State of Washington (the “State”). See “The Sewer System—Impact of COVID-19” and “—Possible Financial Impacts of COVID-19” herein for current information and expectations about the effects of COVID-19, including on projected revenues of the Sewer System. See also “King County—Impact of COVID-19” for a discussion of the effects of COVID-19 on the operations of the County.**

## **THE BONDS**

*See Appendix A—Summary of Certain Definitions and Other Bond Provisions of the Ordinance and Appendix B—Form of Mode Agreement for the definitions of certain terms used in this section of the Official Statement and for additional information concerning the Modes.*

The following information concerning the Bonds describes the Bonds in the Term Mode during the Initial Term Rate Period only and does not purport to describe information concerning the Bonds while bearing interest in a subsequent period or any other interest rate mode authorized under the Ordinance. Prior to any conversion of the Bonds from the initial Term Mode to a different interest rate mode, the Bonds will be subject to mandatory tender for purchase. In connection with the remarketing of the Bonds after such mandatory tender, the County will provide to prospective investors a remarketing memorandum or other disclosure document setting forth the material terms of the interest rate mode or modes into which the Bonds will be converted.

### **General Terms**

The Bonds of each Series will mature on January 1 in the years shown on the cover page of this Official Statement. Each Series of the Bonds will bear interest at its applicable fixed Term Rate as set forth on page i for the duration of the Initial Term Rate Period, subject to prior optional redemption or conversion to a new Term Rate Period or to another interest rate mode, as described herein. This Official Statement describes the Bonds only during the Initial Term Rate Period.

The Bonds will be issued in Authorized Denominations of \$5,000 and any integral multiple of \$5,000 thereof within a Series. The Bonds will bear interest at the respective initial Term Rate for a Series, payable on each Interest Payment Date. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months during the Term Rate Period. Interest is paid to the registered owners as of the Record Date, which for the Bonds in the Term Rate Period is the 15th day of the month immediately preceding the applicable Interest Payment Date.



The Bonds of each Series are subject to mandatory purchase on the Scheduled Mandatory Purchase Date, are subject to conversion on or after the respective Par Call Date to a new Term Mode, Daily Mode, Weekly Mode, Commercial Paper Mode, Index Rate Mode, or Fixed Mode, and are subject to optional redemption on or after the applicable Par Call Date for that Series as set forth in the Mode Agreement. See page i of this Official Statement for the maturity date, Initial Term Rate and yield, price, Scheduled Mandatory Purchase Date, and Par Call Date for each Series of the Bonds. See “—Special Considerations Relating to a Future Remarketing of the Bonds” below.

### **Book-Entry System**

*Book-Entry Form.* The Bonds will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as bond owner and nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will act as initial Securities Depository for the Bonds. The Bonds so registered will be held fully immobilized in book-entry form by the Securities Depository in accordance with the provisions of the Letter of Representations. Neither the County nor the Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the accuracy of any records maintained by DTC or any DTC participant as to the Bonds or the payment by DTC or any DTC participant of any amount in respect of the principal or redemption price of or interest on the Bonds. Neither the County nor the Registrar will be responsible for any notice that is permitted or required to be given to Beneficial Owners (except any such notices as must be given by the County to the Registrar or to DTC), the selection by DTC or by any DTC participant of any person to receive payment in the event of a partial redemption of the Bonds, or any consent given or other action taken by DTC as the Owner of the Bonds.

While the Bonds are held by DTC in a Book-Entry System, purchases of the Bonds, in Authorized Denominations, may be made through brokers and dealers, who must be or act through DTC Participants. Registered ownership of such immobilized Bonds, or any portions thereof, may not thereafter be transferred except (i) to any successor Securities Depository or its nominee, provided that any such successor must be qualified under any applicable laws to provide the service proposed to be provided by it; (ii) to any substitute Securities Depository appointed by the County as provided under “—Substitute Depository”; or (iii) to any person as provided under “—Termination of Book-Entry System.”

### **Conversion of Bonds to Other Modes; Rescission of Conversion Notice**

The Paying Agent will provide notice of the County’s election to effect a conversion of a Series of the Bonds on or after the respective Par Call Date to a new Mode not less than 20 days prior to the proposed Conversion Date, as directed in writing by the County. At the direction of the Finance Director and in his or her sole discretion, the notice of Conversion may be combined with the notice of mandatory tender as provided in the Mode Agreement. The notice to be provided to the Registered Owner(s) of the affected Series of the Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) must state, if applicable, that the Beneficial Owners may not elect to retain ownership of the Bonds.

In connection with a Conversion to another Interest Rate Period, the notice of the Paying Agent is required to contain information specific to the Mode into which the Bonds will be converted, as further described in the Mode Agreement.

The County may rescind any election to effect a Conversion by delivering to the Paying Agent and Moody's and S&P, on or prior to 10:00 a.m., New York Time, on the second Business Day preceding a proposed Conversion Date, a notice to the effect that the County has determined to rescind its election to effect such Conversion. If the County rescinds its election to effect a Conversion of a Series of the Bonds, then such Series will continue to bear interest at the applicable Term Rate.

### **Redemption of the Bonds**

While in the initial Term Mode, the 2020A Bonds are subject to redemption at the option of the County on any Business Day on and after July 1, 2023 (the "2020A Bonds Par Call Date"), in whole or in part, at a price equal to 100% of the principal amount of the 2020A Bonds called for redemption, plus accrued interest thereon, if any, to the date fixed for redemption, without premium. The 2020A Bonds also are subject to redemption at the option of the County on their Mandatory Purchase Date.

While in the initial Term Mode, the 2020B Bonds are subject to redemption at the option of the County on any Business Day on and after April 1, 2025 (the "2020B Bonds Par Call Date"), in whole or in part, at a price equal to 100% of the principal amount of the 2020B Bonds called for redemption, plus accrued interest thereon, if any, to the date fixed for redemption, without premium. The 2020B Bonds also are subject to redemption at the option of the County on their Mandatory Purchase Date.

*Notice and Effect of Redemption; Conditional Redemption.* The County will give the Registrar sufficient notice of any redemption of Bonds to permit the Registrar to give notice to DTC at least 20 days prior to the proposed Redemption Date for the Bonds. ***No notice of redemption is required to be given for a redemption occurring on a Mandatory Purchase Date.*** Notice of any redemption will be provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations, and, except as provided in an undertaking to provide continuing disclosure under the Rule, the County will provide no additional published or other notice.

Each notice of redemption will state: (i) the Redemption Date, (ii) the Redemption Price, (iii) the CUSIP numbers of the Bonds being redeemed, (iv) if less than all outstanding Bonds are to be redeemed, identification information and principal amounts of the Bonds to be redeemed, (v) the dated date of the Bonds, (vi) the rate of interest for each Bond being redeemed, (vii) that the Bonds are to be surrendered for payment at the principal office of the Registrar, (viii) any condition to such redemption, (ix) that on the Redemption Date, upon the satisfaction of any such condition, the Redemption Price will become due and payable upon each Bond or portion called for redemption and interest will cease to accrue from the Redemption Date, (x) the date of the notice, and (xi) any other information needed to identify the Bonds being redeemed. These requirements are deemed complied with when notice is mailed, whether or not it is actually received by the owner.

Unless any condition for redemption is not satisfied, the County will provide funds to the Registrar that, in addition to other money, if any, held by the Registrar, will be sufficient to redeem on the Redemption Date all Bonds to be redeemed. From the Redemption Date, interest on all such paid and redeemed Bonds will cease to accrue.

### **No Optional Tender for Purchase**

During the Term Rate Period, the Bonds are *not* subject to optional tender for purchase by the Registered Owners or Beneficial Owners.

### **Mandatory Tender for Purchase**

On a Mandatory Purchase Date, the affected Bonds are subject to mandatory tender for purchase by the Bond Registrar at a price equal to 100% of the stated principal amount to be purchased plus accrued interest, if any.

*Conversion On Redemption Date On or After the Par Call Date.* During the Term Rate Period, the County has the right on or after the respective Par Call Date of a Series of the Bonds to effect a conversion of such Series from bearing interest at the respective Term Rate to bearing interest in any other Interest Rate Mode authorized in the Ordinance, including another Term Rate, by optionally redeeming such Bonds on or after the respective Par Call Date. If the County elects to redeem all or a portion of a Series on such Conversion Date, the affected Bonds would be subject to mandatory tender for purchase on the Conversion Date.

*End of the Term Rate Period.* Each Series of the Bonds is subject to mandatory tender for purchase during the applicable Term Rate Period on the Scheduled Mandatory Purchase Date. On such Scheduled Mandatory Purchase Date for a Series of the Bonds, the County may effect a conversion of such Series to another Interest Rate Mode authorized in the Ordinance (which could be the Term Mode for another Term Rate Period) or may redeem or refund such Series. During the Initial Term Rate Period, the Bonds are not Eligible Delayed Remarketing Bonds (e.g., the Bonds are subject to a hard put). The County is required to purchase the Bonds on the Mandatory Purchase Date from the proceeds of the remarketing of such Bonds, proceeds of refunding bonds issued by the County, or other legally available County funds. A failure of the County to pay the Purchase Price of the Bonds when the same becomes due and payable is a Default under the Ordinance.

*Notice of Mandatory Purchase.* No notice is required to be provided for the Scheduled Mandatory Purchase Date. In connection with other Mandatory Purchase Dates, the Registrar will give notice of such mandatory purchase by mail to the Owners of the Bonds subject to mandatory purchase no less than 20 days prior to the date of such mandatory purchase. In the Initial Term Rate Period, for example, notice would be given in connection with a mandatory tender for purchase on a Conversion Date on or after the Par Call Date. Any notice will state the Mandatory Purchase Date, the Purchase Price, the numbers of the Bonds to be purchased if less than all of the Bonds owned by such Owner are to be purchased, and that interest on Bonds subject to mandatory purchase will cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any Bond will not affect the validity of the mandatory purchase of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner or Beneficial Owner.

*Notice of Conversion.* The County will be required to give written notice to the Notice Parties of its intention to effect a change in the Interest Rate Mode from the Term Mode (for purposes of this paragraph, the “Current Mode”) to another Interest Rate Mode (for purposes of this paragraph, the “New Mode”). Such notice will be accompanied by a Favorable Opinion of Bond Counsel. The notice to the Notice Parties will also state whether a Liquidity Facility or Credit Enhancement will be in effect with respect to the applicable Bonds following such change and the identity of any provider of such Liquidity Facility or Credit Enhancement. Notice of the proposed change in

Interest Rate Mode will be given by the Registrar to the Owners of the applicable Bonds not later than the 20th day next preceding the proposed Conversion Date; provided, however, that no notice need be given for a proposed Conversion Date occurring on the Scheduled Mandatory Purchase Date. Such notice will state: (i) the Interest Rate Mode to which the conversion will be made and the proposed Conversion Date; (ii) in the case of a change from any Interest Rate Mode, that the applicable Bonds will be subject to mandatory purchase on the proposed Conversion Date (regardless of whether all of the conditions to the change in the Interest Rate Mode are satisfied) and the Purchase Price of the applicable Bonds; and (iii) information with respect to the required delivery of bond certificates and payment of the Purchase Price, unless a Book-Entry System is in effect.

In the case of a change from the Term Mode to another Interest Rate Mode, or from the Term Mode in the Initial Term Rate Period to the Term Mode in another Term Rate Period, the proposed Conversion Date will be limited to any date on which the applicable Bonds are subject to optional redemption or to the Scheduled Mandatory Purchase Date, as the case may be. Such Bonds will be purchased on that proposed Conversion Date at a Purchase Price equal to 100% of the principal amount thereof.

*Failure to Satisfy Conditions Precedent to an Interest Rate Conversion.* In the case of a failed change in Interest Rate Mode, the applicable Bonds will stay in the Term Mode for an Interest Period ending on the following Interest Payment Date.

### **Special Considerations Relating to a Future Remarketing of the Bonds**

The following factors should be considered with respect to the ability of the County to remarket a Series of the Bonds on its Scheduled Mandatory Purchase Date (or on a Conversion Date occurring on or after the respective Par Call Date).

*A Remarketing Agent will be Selected and Paid by the County.* After this initial issuance of the Bonds, there will be no Remarketing Agent in place. Upon an election to effect a conversion of a Series to a Flexible Mode, Daily Mode, Weekly Mode, Index Rate Mode, a new Term Mode, or Fixed Rate Mode, the County may be required to retain a Remarketing Agent, the selection of which will be within the County's sole discretion, consistent with the Ordinance. The Remarketing Agent's responsibilities will include remarketing the Bonds, as further described in this Official Statement. The Remarketing Agent will be appointed by the County prior to the Mandatory Purchase Date and paid by the County for its services. As a result, the interests of the Remarketing Agent may differ from those of the Registered Owners or Beneficial Owners of the Bonds.

*The Remarketing Agent May Purchase the Bonds for Its Own Account.* The Remarketing Agent will be permitted, but is not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, may acquire such tendered Bonds in order to achieve a successful remarketing of the Bonds. The Remarketing Agent, however, will not be obligated to purchase the Bonds and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling the Bonds other than in connection with a tender and remarketing. Such purchases and sales may be at or below par. The Remarketing Agent, however, will not be required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure with respect to the Bonds. The purchase of the Bonds by the Remarketing Agent may

create the appearance that there is greater third-party demand for the Bonds in the market than is actually the case.

*The Bonds May be Offered at Different Prices on Any Date.* The Remarketing Agent may or may not be able to remarket the Bonds on a scheduled Mandatory Purchase Date at par, and the Remarketing Agent may sell the Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing in which it does not have third-party buyers for all of the Bonds at the Purchase Price. In the event a Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including any Scheduled Mandatory Purchase Date, at a discount to the stated principal amount to some investors.

*The Ability to Sell the Bonds May Be Limited.* During the Term Rate Period, the Registered Owners of the Bonds do not have the right to optionally tender their Bonds for purchase through a tender process. Investors who purchase the Bonds, whether through the initial remarketing or otherwise, should not assume that they will be able to sell their Bonds other than on the Scheduled Mandatory Purchase Date.

*The Remarketing Agent May Be Removed, Resign, or Cease Remarketing.* The Remarketing Agent will be appointed by the County prior to the Purchase Date. The Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, subject to the terms of the Remarketing Agreement, without a successor being named under certain circumstances. The Remarketing Agreement will be negotiated between the County and the Remarketing Agent, each acting in its sole discretion subject to the minimum qualifications of a Remarketing Agent set forth in the Ordinance.

### **Purchase of Bonds**

The County reserves the right to purchase Bonds at any time as a legal investment for funds of the County including but not limited to funds held by the County for the Investment Pool described in Appendix E.

### **Defeasance of Bonds**

If money and/or noncallable Government Obligations maturing at such time or times and bearing interest to be earned thereon in amounts (together with such money, if necessary) sufficient to redeem and retire, refund or defease part or all of the Bonds in accordance with their terms are set aside in a special account of the County to effect such redemption and retirement, and such money and the principal of and interest on such Government Obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for, and such Bonds will cease to be entitled to any lien, benefit, or security of the Ordinance except the right to receive the money so set aside and pledged, and such Bonds will be deemed not to be outstanding under the Ordinance.

For purposes of the Bonds, “Government Obligations” is defined in the Ordinance to mean direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

## USE OF PROCEEDS

Proceeds from the sale of the Bonds, along with a cash contribution from the County, will be used to refund the County's Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, and Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2011, as shown below under "—Refunding Plan," on the date of delivery of the Bonds, and to pay the costs of issuing the Bonds.

### Sources and Uses of Funds

The proceeds from the Bonds and other available funds of the County are expected to be applied as follows:

**TABLE 1**  
**SOURCES AND USES OF FUNDS**

<b>SOURCES OF FUNDS</b>	<b>SERIES 2020A</b>	<b>SERIES 2020B</b>	<b>TOTAL</b>
Par Amount of Bonds	\$100,295,000.00	\$100,295,000.00	\$200,590,000.00
Cash Contribution from County	-	88,472.22	88,472.22
Total Sources of Funds	<u>\$100,295,000.00</u>	<u>\$100,383,472.22</u>	<u>\$200,678,472.22</u>
<b>USES OF FUNDS</b>			
Redemption of Refunded Bonds	\$100,000,000.00	\$100,088,472.22	\$200,088,472.22
Issuance Expenses <sup>(1)</sup>	295,000.00	295,000.00	590,000.00
Total Uses of Funds	<u>\$100,295,000.00</u>	<u>\$100,383,472.22</u>	<u>\$200,678,472.22</u>

- (1) Includes rating agency fees, Municipal Advisor fees, underwriter's discount, legal fees, printing costs, other costs of issuing the Bonds and administering the refunding, and additional proceeds.

### Refunding Plan

A portion of the proceeds from the sale of the 2020A Bonds will be used to redeem the County's outstanding Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B (the "2020A Refunded Bonds"), and a portion of the proceeds of the 2020B Bonds will be used to redeem the County's outstanding Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2011 (the "2020B Refunded Bonds"). Together, the 2020A Refunded Bonds and the 2020B Refunded Bonds are referred to as the "Refunded Bonds."

Table 2 provides information on the Refunded Bonds.

**TABLE 2  
REFUNDED BONDS**

Bond Component	Maturity Date	Interest Rate (%)	Par Amount	Redemption Date	Redemption Price (%)	CUSIP Number
2020A Refunded Bonds						
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A						
Term	1/1/2032	variable	\$ 50,000,000	8/3/2020	100	495289 WP1
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001B						
Term	1/1/2032	variable	<u>\$ 50,000,000</u>	8/3/2020	100	495289 WQ9
Total 2020A Refunded Bonds			\$ 100,000,000			
2020B Refunded Bonds						
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2011						
Term	1/1/2042	variable	<u>100,000,000</u>	7/14/2020	100	495290 AY4
Total 2020B Refunded Bonds			\$ 100,000,000			

*Procedure.* The County will deposit the proceeds of the Bonds to a special account of the County to be applied solely to the payment of the Refunded Bonds and the payment of Bond issuance costs.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **Limited Obligations**

The Bonds are special limited obligations of the County, and 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. Tax revenues of the County may not be used directly or indirectly to secure or guarantee the payment of the principal of or interest on the Bonds.

### **Lien and Charge on Revenue of the System**

The amounts covenanted to be paid out of Revenue of the System, as defined below, into a special fund of the County known as the Junior Lien Obligation Redemption Fund (the “Junior Lien Bond Fund”) constitute a lien and charge on Revenue of the System subordinate to the lien and charge securing Operating and Maintenance Expenses, the Parity Bonds and the Parity Lien Obligations, equal to the lien and charge securing the Junior Lien Obligations outstanding and issued in the future, and superior to all other liens and charges on such revenue, including the lien and charge on such revenue securing any Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, the State Revolving Fund (“SRF”) Loans, and the Public Works Trust Fund Loans, all of which are described below under “Outstanding Sewer System Obligations.”

State law provides that the owner of a bond such as the Bonds, the payment of which is pledged from a special fund, has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under State law, any bond owner may bring an action to compel a county to set aside and pay into the special fund, such as the Junior Lien Bond Fund, the amount that a county is obligated to set aside and pay therein.

“Sewer System” is defined as “System” in the Ordinance and 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 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 (the “Comprehensive Plan”).

“Revenue of the System” means all the earnings, revenues, and money received by the County from or on account of the operations of the Sewer System and the income from the investment of money in the Water Quality Operating Account (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 Sewer System or (ii) any Debt Service Offsets. For certain purposes described in the Ordinance, as summarized in Appendix A, deposits from the Rate Stabilization Fund into the Revenue Fund may be included in calculations of “Revenue of the System.”

“Operating and Maintenance Expenses” means all normal expenses incurred by the County in causing the Sewer 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.

### **Flow of Funds**

Revenue of the System is required to be deposited into the Revenue Fund as collected and used only for the following purposes and in the following order of priority as further provided in the Ordinance:

- (i) to pay all Operating and Maintenance Expenses;
- (ii) to make required debt service payments on the Parity Bonds and to make Payment Agreement Payments under any Parity Payment Agreements;
- (iii) to make required payments pursuant to any reimbursement agreements in connection with any surety bond or letter of credit for the Parity Bond Reserve Account;
- (iv) to establish and maintain the Parity Bond Reserve Account;
- (v) to make required debt service payments on Parity Lien Obligations and to make Payment Agreement Payments under any Parity Lien Obligation Payment Agreements;
- (vi) to make required debt service payments on the Bonds and other Junior Lien Obligations, to make Payment Agreement Payments under any Junior Lien Payment Agreements, and to make any required payments to providers of credit enhancement or liquidity facilities providers for any Junior Lien Obligations;
- (vii) to make required debt service payments on the Multi-Modal LTGO/Sewer Revenue Bonds, to make Payment Agreement Payments entered into with respect to the Multi-Modal LTGO/Sewer Revenue Bonds, and to make any required payments to providers of credit enhancement or liquidity facilities for any Multi-Modal LTGO/Sewer Revenue Bonds;
- (viii) to make required debt service payments on the Subordinate Lien Obligations;



- (ix) to make required debt service payments on indebtedness secured by a lien on Revenue of the System that is junior and inferior to the Subordinate Lien Obligations; and
- (x) to make required debt service payments on the SRF Loans and 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 Stabilization Fund”); or
- (iv) for any other lawful purposes of the County related to the Sewer System.

### **Outstanding Sewer System Obligations**

Table 3 presents information on the outstanding obligations of the Sewer System (“Sewer System Obligations”). See Table 12—“Scheduled Debt Service on All Obligations of the Sewer System” under “The Sewer System—Debt Service Requirements Payable From Revenue of the System.”

**TABLE 3**  
**OUTSTANDING SEWER SYSTEM OBLIGATIONS**  
(as of June 30, 2020)

<b>Sewer System Obligations</b>	<b>Amount Outstanding</b>	<b>Final Maturity</b>	<b>Ratings</b>
Parity Bonds (Senior Lien) <sup>(1)</sup>	\$ 2,236,565,000	2052	Aa1/AA+
Parity Lien Obligations (LTGO)	581,150,000	2039	Aaa/AAA
Junior Lien Obligations <sup>(2)</sup>	300,590,000	2043	Aa2/AA
Multi-Modal LTGO/Sewer Revenue Bonds	246,320,000	2046	Aaa/AAA
SRF Loans and Public Works Trust Fund Loans <sup>(3)</sup>	226,173,853	2054	
Total Sewer System Obligations Outstanding <sup>(4)</sup>	<u>\$ 3,590,798,853</u>		

- (1) Excludes \$134.5 million in undrawn loan commitments from the U.S. Environmental Protection Agency (“EPA”) through its Water Infrastructure Finance and Innovation Act (“WIFIA”) loan program. See “The Sewer System—Future Sewer System Financing Plans—WIFIA Bond.” The County plans to price approximately \$180 million in additional Parity Bonds (Senior Lien) on or about July 21, 2020. See “—Future Sewer System Financing Plans.”
- (2) Includes the Bonds; excludes the Refunded Bonds.
- (3) Excludes \$10.5 million in undrawn loan commitments from the Washington State Department of Ecology (“Ecology”) and the Washington State Public Works Board (“PWB”). See “The Sewer System—Future Sewer System Financing Plans.”
- (4) Excludes \$3,010,000 of Limited Tax General Obligation Bonds (Federally Taxable Qualified Energy Conservation Bonds), Series 2012F (the “QECB Bonds”). Although debt service on the QECB Bonds is paid from Revenue of the System, the County has not pledged Revenue of the System to the payment of the QECB Bonds. Debt service payments on the QECB Bonds will be made from Revenue of the System remaining at the bottom of the flow of funds described above under “Pledge of Sewer Revenues” as a lawful purpose of the County related to the Sewer System.

*Source: King County Finance and Business Operations Division*

**PARITY BONDS.** Including the WIFIA Bond, which is yet to be drawn upon, the County has outstanding 18 series of Parity Bonds (not including the additional Parity Bonds expected to price on or about July 21, 2020 (see “—Future Sewer System Financing Plans)), which are sewer revenue bonds that are payable from and secured solely by a lien and charge 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 and senior to the liens that secure all other Sewer System Obligations.

**PARITY LIEN OBLIGATIONS.** The County has outstanding seven series of Parity Lien Obligations, which are limited tax general obligation bonds of the County that are additionally secured by a lien and charge 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, any Subordinate Lien Obligations, and the SRF Loans and PWTF Loans.

**JUNIOR LIEN OBLIGATIONS.** As of the date of delivery of the Bonds, the County will have outstanding three series of Junior Lien Obligations (including the Bonds and excluding the Refunded Bonds), which are sewer revenue bonds that are secured solely by a lien and charge 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, any Subordinate Lien Obligations, and the SRF Loans and PWTF Loans.

**MULTI-MODAL LTGO/SEWER REVENUE BONDS.** The County has outstanding four series of Multi-Modal LTGO/Sewer Revenue Bonds, which are limited tax general obligation bonds of the County that are additionally secured by a lien and charge 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 any Subordinate Lien Obligations and the SRF Loans and PWTF Loans.

**SUBORDINATE LIEN OBLIGATIONS.** The County currently has no Subordinate Lien Obligations outstanding.

**SRF LOANS AND PWTF LOANS.** The County has received loans from the State (administered by various State agencies) that are secured solely by a lien and charge on Revenue of the System. The lien on Revenue of the System that secures these loans (the SRF Loans and the PWTF Loans) is subordinate to the liens that secure all other Sewer System Obligations.

See “The Sewer System—Debt Service Requirements Payable from Revenue of the System.”

*Variable Rate Debt.* The Junior Lien Obligations and the Multi-Modal LTGO/Sewer Revenue Bonds (together, the “Variable Rate Bonds”) currently collectively comprise the outstanding variable rate debt of the Sewer System.

County financial policies limit variable rate debt to no more than 20% of total Outstanding Sewer System Obligations. In practice, variable rate debt has been limited to approximately 15% of total Outstanding Sewer System Obligations.

Although all Variable Rate Bonds have bullet maturities, the financial plans since the adoption of the 2017 Sewer Rate provide for the amortization of outstanding Variable Rate Bonds through optional redemptions that begin ten years prior to their final maturity dates. Such planned optional redemptions are excluded from Table 12—“Scheduled Debt Service on All Outstanding Obligations of the Sewer System” under “The Sewer System.”

*Credit Agreements and Put Bonds.* The County has entered into various agreements establishing liquidity or credit facilities to support certain Variable Rate Bonds. The County has also entered into various agreements for the direct purchase of certain other Variable Rate Bonds. Each such agreement terminates prior to the final maturity of the related obligations.

If the County is unable to extend or replace any such agreement, or if certain Variable Rate Bonds cannot be remarketed, the County will be obligated to repay all principal of such bonds during a “term-out” period prior to the stated final maturity date. In addition, if the pricing for extensions

or replacements of any such agreement increases substantially or such extensions or replacements otherwise cease to benefit the County, the County may refund or retire the obligations or convert the obligations to fixed rate bonds. In any such circumstances, debt service associated with those obligations may exceed the amount that is currently projected by the County.

Each of the credit agreements includes events of default (or events of termination) and remedies. Events of default currently include certain cross defaults, judgments against the County, involuntary acceleration of debt secured by Revenue of the System, and the downgrade below certain thresholds of ratings of limited tax or general obligations of the County or debt secured by Revenue of the System. Remedies included in the current credit agreements, or available pursuant to a “most-favored nation” provision, in some cases include acceleration or a requirement that the County immediately pay the outstanding principal amount of bank bonds, as well as other available legal and equitable remedies, including the right of mandamus against the County and its officials. Upon the redemption of the Refunded Bonds, the credit agreements associated with the Refunded Bonds will terminate. Upon such refunding, events of default in connection with the remaining credit agreements will include certain cross defaults, judgments against the County, and the downgrade below certain thresholds of ratings of limited tax or general obligations of the County or debt secured by Revenue of the System. The Bonds are not subject to acceleration.

A summary of the relevant Variable Rate Bonds and terms of the related credit agreements is shown in Table 4.

Additionally, the County has marketed certain of its Variable Rate Bonds as put bonds (such as the Bonds) in a Term Mode. These bonds are subject to mandatory purchase on predetermined dates. If the County is unable to redeem or remarket the bonds on or before the respective mandatory purchase date, the County will become subject to certain step-up pricing provisions. See Table 5 for related optional and mandatory purchase dates and associated step-up pricing provisions.

**TABLE 4**  
**SUMMARY OF CREDIT AGREEMENTS**

Series	Type of Sewer System Obligations	Outstanding as of 6/30/2020	Type of Agreement	Provider	Expiration	Term-Out Provision <sup>(1)</sup>	Maturity
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and B <sup>(2)</sup>	Junior Lien Obligations	\$100,000,000	Letter of Credit	Landesbank Hessen-Thüringen Girozentrale (Helaba)	9/30/2020	Three Years	1/1/2032
Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2017A and B	Multi-Modal LTGO/Sewer Revenue Bonds	\$98,225,000	Continuing Covenant Agreement	State Street Public Lending Corporation	4/5/2021	Three Years	1/1/2040
Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2019A and B	Multi-Modal LTGO/Sewer Revenue Bonds	\$148,095,000	Standby Bond Purchase Agreement	TD Bank N.A.	6/26/2024	Three Years	1/1/2046

(1) Subject to conditions under the agreements.

(2) Being refunded with a portion of the proceeds of the 2020A Bonds. See “Use of Proceeds—Refunding Plan.”

**TABLE 5**  
**SUMMARY OF PUT BONDS**

Series	Type of Sewer System Obligations	Outstanding as of 6/30/2020	Optional Redemption	Mandatory Purchase	Step-Up Provision	Maturity
Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011 <sup>(1)</sup>	Junior Lien Obligations	\$100,000,000	on and after 6/1/2020	12/1/2020	6% for first 90 days following the Mandatory Purchase Date, 8% thereafter	1/1/2042
Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012	Junior Lien Obligations	\$100,000,000	on and after 3/1/2021	12/1/2021	6% for first 90 days following the Mandatory Purchase Date, 8% thereafter	1/1/2043

(1) Being refunded with a portion of the proceeds of the 2020B Bonds. See “Use of Proceeds—Refunding Plan.”

## **Agreements With Participants**

As the successor to the Municipality of Metropolitan Seattle (“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”). See “The Sewer System—The Participants.”

*Service Agreements.* All of the Service Agreements with the Municipal Participants (described below under “The Sewer System—The Participants”) are essentially the same with respect to the facilities to be provided, terms for delivery and acceptance of sewage, and payment for sewage disposal. The Service Agreements with the non-Municipal Participants, which accounted for approximately 0.61% of sewage disposal revenues in the year ended December 31, 2019, 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 are to deliver their sewage to the Sewer System and pay the County Sewage Disposal Charges to cover all costs incurred in providing sewage disposal services. Although the Participants’ payment obligations are sized to reflect operations and maintenance, reserves, repair and replacement costs, and debt service on all obligations secured by Revenue of the System, the Participants are not directly obligated to pay the principal of or interest on the Bonds or other obligations payable from 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 are pending until further developments in the Clean Water Plan. See “—Regional Wastewater Services and Clean Water Plans.” Extensions through July 1, 2056, have been signed by the cities of Carnation, Issaquah, Kirkland, Pacific, Renton, and Tukwila, the Alderwood Water & Wastewater District, the Vashon Sewer District, and the Muckleshoot Indian Tribe, which collectively provided 15.9% of sewage disposal revenues in the year ended December 31, 2019. 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 (described below under “The Sewer System—Sewer Rates”) 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 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 of the County, 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 6.6% of sewage disposal revenues in the year ending December 31, 2019. 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 Ordinance to establish, maintain, and collect rates and charges for sewage disposal in each calendar year that are fair and nondiscriminatory and adequate to provide the County with Revenue of the System sufficient to pay all Operating and Maintenance Expenses during that year, to pay all debt service, and to make all debt service reserve deposits required by the Ordinance or any other ordinance authorizing obligations of the County payable from Revenue of the System as described in paragraphs ii through x under “Pledge of Sewer Revenues,” and to pay any and all amounts that the County is now or may hereafter become obligated by law or contract to pay during that calendar year from the Revenue of the System.

The County has further covenanted in the 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, Multi-Modal LTGO/Sewer Revenue 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 the Annual Debt Service for all Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds for that year. See Appendix A—Summary of Certain Definitions and Other Bond Provisions of the Ordinance.

*Rate Stabilization Fund.* The County established the Sewer Rate Stabilization Fund (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 in accordance with the order of priority described above in “Pledge of Sewer Revenues,” and may from time to time withdraw amounts therefrom for deposit in the Revenue Fund to prevent or mitigate sewer rate increases or for any other lawful purposes of the County related to the Sewer System.

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 deposits into the Rate Stabilization Fund between 2005 and 2011. From 2012 to 2014, the County withdrew \$42.25 million from the Rate Stabilization Fund to mitigate sewer rate increases. In 2015, the County contributed \$12 million to the Rate Stabilization Fund as a result of favorable operating performance and savings achieved through debt refundings. As of May 31, 2020, the balance in the Rate Stabilization Fund was \$46.25 million. The County projects that it will make a \$30 million deposit into the Rate Stabilization Fund in 2025. See Table 11—“Projected Financial Statements” under “The Sewer System—Projected Customers, Revenues, and Expenses.”

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

*Senior Lien Bonds.* In the Ordinance, the County reserves the right to issue additional Parity Bonds and Parity Lien Obligations on the terms and conditions set forth in the ordinances authorizing the issuance of the Parity Bonds and Parity Lien Obligations.

*Future Junior Lien Obligations.* In the Ordinance, the County also reserves the right to issue Future Junior Lien Obligations, but only if such Future Junior Lien Obligations are issued (i) for the purpose of refunding any then outstanding Junior Lien Obligations or Multi-Modal LTGO/Sewer Revenue Bonds, or (ii) for any lawful purpose of the County related to the Sewer System, and the following conditions are met:

- (i) At the time of issuing such Future Junior Lien Obligations, there will be no default in the payment of the principal of or interest on any Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, or Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, the Public Works Trust Fund Loans or the SRF Loans.
- (ii) The County will have on file one of the following:
  - (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 Future Junior Lien Obligations, based on financial statements of the Sewer System prepared by the County and after deducting therefrom the Senior Lien Payments required in each calendar year during the life of such Future Junior Lien Obligations, will be at least equal to 1.10 times the Annual Debt Service for the proposed Future Junior Lien Obligations and all then outstanding Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds in each year during the life of such additional Multi-Modal LTGO/Sewer Revenue Bonds; 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 Future 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 next following the year in which such Future 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 Future Junior Lien Obligations and all then outstanding Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds in each of those five years.

Nothing in the Ordinance prevents the County from issuing revenue bonds, notes or other obligations that are a charge upon the 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.

As described in the Mode Agreement, by their purchase of the Bonds, Bondowners are deemed to consent to certain springing amendments to the Ordinance, which among other things allow for the amortization of Balloon Maturity Bonds over an Assumed Amortization Period not longer than the lesser of: (i) the useful life, as of the date of designation, of the assets being financed, and (ii) 75 years. These amendments are shown in bold, double-underlined text in Appendix A—Summary of Certain Definitions and Other Bond Provisions of the Ordinance—Certain Definitions.

## **THE SEWER SYSTEM**

### **Impact of COVID-19**

In response to the COVID-19 pandemic, Governor Inslee issued a Stay Home, Stay Healthy Proclamation on March 23, 2020, followed by the closing of all non-essential businesses on March 25, 2020. The State is currently following a phased re-opening approach.

The COVID-19 pandemic has not impacted the ability of the County’s Wastewater Treatment Division (“WTD”) to continue full operations of its wastewater conveyance and treatment systems, and WTD continues to meet or exceed all discharge permit requirements. WTD has been maintaining required staffing levels; all operations and maintenance is continuing as planned and without deferrals; critical parts, materials, and chemicals continue to be delivered without delays; and social distancing practices, personal protective gear requirements, and daily disinfection of shared work spaces have been implemented at work sites to keep workers safe from infection. WTD has verified with chemical vendors that it is a priority customer due to the need to maintain essential services and, therefore, WTD has delivery priority over vendors’ other customers. The COVID-19 outbreak is ongoing, and its dynamic nature leads to uncertainties. The County cannot predict the magnitude of the effect that the outbreak and the governmental and regulatory responses thereto will have on the Sewer System or the County. See “—Possible Financial Impacts of COVID-19” and “King County—Impact of COVID-19.”

At this time, the Sewer System is not receiving any federal or State aid related to the COVID-19 pandemic.

### **General Information**

The sewage 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 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 (“DNRP”).

WTD is one of four divisions in the 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. The DNRP’s 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 31-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 County's Brightwater treatment plant project. Ms. True received her bachelor's degree in Environmental Studies from Western Washington University's Huxley College.

*Mark Isaacson, WTD Division Director.* Mr. Isaacson was appointed to this position in October 2016, having previously served as Director of the Department's Water and Lands Resources Division ("WLRD") for 11 years and as its Assistant Director for three years. Prior to serving at WLRD, he worked at WTD and began his career with the County in 1993. Mr. Isaacson has an M.A. in Public Administration from the University of Washington and a Bachelor of Environmental Studies from the University of California at Santa Barbara.

*Bruce Kessler, P.E., WTD Assistant Division Director.* Mr. Kessler was appointed to this position in May 2017. He has been with WTD for more than 13 years in various capacities, including Assistant Manager at the Brightwater treatment plant and Engineering Unit Manager. He negotiated revisions to the Brightwater discharge permit with Ecology and the 2016 Joint Project Agreement for the Ship Canal Water Quality Combined Sewer Overflow Project with Seattle. He has been actively involved in the Division's asset management and resiliency and recovery programs. Mr. Kessler is a licensed Professional Engineer and has a B.S. in Civil Engineering from North Carolina State University.

*Hiedi Popochock, WTD Finance Manager.* Ms. Popochock was appointed to this position in September 2018. She has been with the County for four years, working as part of the central staff for the County Council. She served as the committee lead for the Council's Government Accountability and Oversight Committee and was the lead for the Council's 2017-2018 Physical Environment Budget Panel. Prior to working with the County, she served as a senior budget analyst for Snohomish County and held finance positions at the cities of Bellevue and Kirkland. Ms. Popochock has B.A. degrees in Law, Societies, and Justice and Sociology from the University of Washington and a M.A. in Public Administration from Seattle University.

## **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 an average of 161 million gallons of sewage per day ("mgd") from approximately 1.8 million residents in 2019. The major wastewater facilities include three major secondary treatment plants (West Point in Seattle, South in Renton, and Brightwater in south Snohomish County), 397 miles of conveyance lines, 48 pump stations, and 25 regulator stations. Other facilities include four combined sewer overflow ("CSO") treatment plants, four CSO storage facilities, 39 CSO outfall 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 99.4% of sewage disposal revenues in the year ended December 31, 2019, and the non-Municipal Participants accounted for 0.6%.

*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. Pursuant to Ordinance 15757, the Municipal Participants within King County are required to continue as Agency Customers in the absence of a Service Agreement. 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 sewage 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 single family residences (“Residential Customers”) and Residential Customer Equivalents (“RCEs”) (together, the “Customers”) reported by each Participant as of December 31, 2019, is presented in Table 6.

**TABLE 6**  
**SEWER SYSTEM PARTICIPANTS AS OF DECEMBER 31, 2019**

	Single Family Residential Customers	RCE <sup>(1)</sup>	Total Customers	Percentage of Total (%)
<b>Municipal Participants-Cities</b>				
Algona	1,034	365	1,399	0.18
Auburn	13,231	17,281	30,512	4.01
Bellevue	32,540	26,418	58,958	7.74
Black Diamond	1,025	160	1,185	0.16
Bothell	4,747	4,622	9,369	1.23
Brier <sup>(2)</sup>	1,564	287	1,851	0.24
Carnation	873	226	1,099	0.14
Issaquah	6,793	5,554	12,347	1.62
Kent	13,131	22,195	35,326	4.64
Kirkland	9,931	6,566	16,497	2.17
Lake Forest Park	3,588	508	4,096	0.54
Mercer Island	7,176	1,175	8,351	1.10
Pacific	1,533	1,185	2,718	0.36
Redmond	15,148	16,666	31,814	4.18
Renton	16,040	15,186	31,226	4.10
Seattle <sup>(3)</sup>	152,575	150,014	302,589	39.74
Tukwila	1,033	6,591	7,624	1.00
<b>Subtotal</b>	<b>281,962</b>	<b>274,999</b>	<b>556,961</b>	<b>73.15</b>
<b>Municipal Participants-Sewer Districts and Tribe</b>				
Alderwood Water & Wastewater District <sup>(2)</sup>	33,946	13,914	47,860	6.29
Cedar River Water & Sewer District	4,117	1,367	5,484	0.72
Coal Creek Utility District	3,127	1,682	4,809	0.63
Cross Valley Water District <sup>(2)</sup>	-	513	513	0.07
Highlands Sewer District	104	2	106	0.01
Lakehaven Utility District	1,022	13	1,035	0.14
Muckleshoot Indian Tribe	301	77	378	0.05
NE Sammamish Sewer & Water District	4,717	138	4,855	0.64
Northshore Utility District	19,832	12,654	32,486	4.27
Olympic View Water & Sewer District <sup>(2)</sup>	207	-	207	0.03
Ronald Wastewater District	15,125	3,874	18,999	2.50
Sammamish Plateau Water & Sewer District	11,179	5,241	16,420	2.16
Skyway Water & Sewer District	3,926	859	4,785	0.63
Soos Creek Water & Sewer District	32,292	7,278	39,570	5.20
Valley View Sewer District	7,096	8,779	15,875	2.08
Vashon Sewer District	415	581	996	0.13
Woodinville Water District	2,873	2,531	5,404	0.71
<b>Subtotal</b>	<b>140,279</b>	<b>59,503</b>	<b>199,782</b>	<b>26.24</b>
<b>Non-Municipal Participants and Other Customers</b>				
	-	4,673	4,673	0.61
<b>Total</b>	<b>422,241</b>	<b>339,175</b>	<b>761,416</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 [www.emma.msrb.org](http://www.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).

*Source: King County Wastewater Treatment Division*

## Sewer Rates

The County annually adopts a monthly charge (the “Sewer Rate”), which is used to calculate Sewage Disposal Charges (defined below), for sewage disposal. 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.

The Sewer Rate is set by the County at a level that is intended, at a minimum, 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 for all obligations payable from Revenue of the System. 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 Residential Customer 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 first quarter of 2020, for example, were based on the number of Residential Customers as of September 30, 2019, and the average number of RCEs beginning with the fourth quarter of 2018 through the third quarter of 2019.

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 and Proposed Sewer Rates.* The adopted monthly Sewer Rates for each Residential Customer and RCE for the years 2012 through 2021 are set forth in Table 7.

**TABLE 7  
SEWER RATES FOR  
RESIDENTIAL CUSTOMERS AND  
RESIDENTIAL CUSTOMER EQUIVALENTS**

<b>Effective Date (January 1)</b>	<b>Rate (\$/month)</b>	<b>Percentage Change (%)</b>
2012	\$ 36.10	--
2013	39.79	10.2%
2014	39.79	--
2015	42.03	5.6
2016	42.03	--
2017	44.22	5.2
2018	44.22	--
2019	45.33	2.5
2020	45.33	--
2021	47.37	4.5

*Source:* King County Wastewater Treatment Division

*Projected Sewer Rates.* Table 8 shows the County’s current Sewer Rate projections for the years 2022 through 2026. The projections are for planning purposes only and subject to County Council approval. See “—Financial Policies” and “—Projected Customers, Revenues, and Expenses” for further discussion regarding these projections.

**TABLE 8  
PROJECTED SEWER RATES  
FOR RESIDENTIAL CUSTOMERS  
AND RESIDENTIAL CUSTOMER EQUIVALENTS**

<b>Effective Date (January 1)</b>	<b>Rate (\$/month)</b>	<b>Percentage Change (%)</b>
2022	\$ 47.37	--
2023	52.23	10.25%
2024	52.23	--
2025	57.58	10.25
2026	57.58	--

*Source:* King County Wastewater Treatment Division

As discussed under “Projected Customers, Revenues and Expenses” the projected Sewer Rate for 2022 may be revisited after the impacts of the COVID-19 pandemic can be assessed. See “—Impact of COVID-19.” The projected Sewer Rates shown in the table above are based on funding the capital improvement program as presented in Table 13. Capital spending is expected to increase significantly after adoption of the Clean Water Plan, and the rate proposal for 2023 is expected to include additional rate impacts for these costs. See “—Regional Wastewater Services and Clean Water Plans” and “—Capital Improvement Plan.”

## Sewer System Operating Revenues

Sewage Disposal Charges, based on the adopted Sewer Rates described above, contributed on average 80% of Sewer System operating revenues between 2015 and 2019.

The next-largest single source of Sewer System operating revenues is the capacity charge, which has been imposed by County ordinance since 1990 on Customers who establish new connections to the Sewer System. Annual capacity charge revenues have averaged 17% of total Sewer System operating revenues between 2015 and 2019. Table 9 shows the number of new capacity charge connections for the past five years.

**TABLE 9  
HISTORICAL NEW CAPACITY CHARGE CONNECTIONS**

<u>Year</u>	<u>Connections</u>
2015	11,676
2016	10,743
2017	12,484
2018	12,906
2019	12,513

Capacity charges are based upon the year of connection and remain fixed for a term of 15 years. The capacity charge assessed for Customers who establish new connections to the Sewer System in 2020 is \$66.35 per month, compared to \$64.50 for Customers who established service in 2019. The County has adopted a capacity charge of \$68.34, a 3.0% increase, for 2021. State law authorizes WTD to collect capacity charges subject to certain restrictions, but capacity charges do not require the approval of the Washington State Utilities and Transportation Commission or the Participants or Agency Customers.

Provisions that expand the low-income housing rate classification, establish new reductions in capacity charges for shelter housing for homeless people, and permit qualified low-income seniors and disabled people to defer payment of the capacity charge through a low-interest lien became effective in January 2020.

Changes in the capacity charge rate structure have been proposed to more equitably assess wastewater flow capacity demand based on a review of customer classification criteria. The proposed changes were developed to be revenue-neutral, meaning that they will impact how the charge is allocated to different building types, not the amount of revenue that WTD will collect. Due to the impact of COVID-19, County Council action on these changes is not expected until late 2020 or early 2021.

In April 2020, WTD began offering additional payment options for capacity charge customers that have been financially impacted by the COVID-19 outbreak. These include:

- (i) Deferral of one capacity charge invoice for up to one year.
- (ii) Flexible payment plan offerings including due date extensions with no interest and late fee penalties.
- (iii) Suspension of “Intent to File Lien” notifications to delinquent customers during this time.

As of May 31, 2020, WTD has outstanding 49 deferrals in the amount of \$128,900. Capacity charge payments more than 90 days in arrears are \$6.8 million as of May 31, 2020, compared to \$6.7 million as of December 31, 2019, and \$6.3 million as of May 31, 2019. Capacity charge payments less than 90 days in arrears are \$4.0 million as of May 31, 2020, compared to \$3.5 million as of December 31, 2019, and \$3.3 million as of May 31, 2019. See “—Impact of COVID-19.”

The County allows the capacity charge to be prepaid on a discounted basis at the customer’s option. The annual discount rate is set to reflect the 15-year mortgage rate and the yields on the 10- and 20-year Treasury bonds. The discount rate was 3.2% in 2019 and is 2.6% in 2020.

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 have accounted for approximately 3% of operating revenue between 2015 and 2019.

### **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, together with certain interest earnings, to pay debt service on both Parity Bonds and Parity Lien Obligations. Under the Ordinance, the County has covenanted to establish, maintain, and collect rates and charges for sewage disposal service that, together with interest to be earned on investments, 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 the Annual Debt Service for all Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds for that year. 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 and higher than what is required by the covenant in the Ordinance on Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds.

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 at least 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.

In proceedings for the adoption of the 2021 Sewer Rate, the County Council was presented with projected Sewer Rates that, after payment of operating expenses and debt service, would provide an amount that would equal 40% of projected capital expenditures through 2026. These Sewer Rates would provide projected coverage ratios on all Sewer System Obligations between 1.45 and 1.57 times. The Sewer Rates that appear in Table 8—“Projected Sewer Rates for Residential Customers and Residential Customer Equivalents” are based on rate increases that are subject to County Council approval and have been used to determine operating revenues from Sewage Disposal Charges in “Projected Customers, Revenues, and Expenses.”



*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 reviewed and affirmed by the County Council in 2012. As of May 31, 2020, these reserves were fully funded, with balances of \$20.4 million and \$15 million, respectively.

### **Sewer System Interfund Borrowing**

The Sewer System periodically uses interfund borrowing from other County funds held in the King County Investment Pool (the “Investment Pool”) to provide interim financing for its capital improvement plan (“CIP”) pending the issuance of long-term bonds or the receipt of SRF Loan funds. (See “King County–King County Investment Pool.”) Such borrowings are to be fully repaid upon the receipt of the subsequent bond proceeds or SRF Loan funds. There are currently no such loans outstanding. In 2015, the Sewer System borrowed \$40.1 million from the Investment Pool, fully repaying the principal with proceeds of the County’s Sewer Improvement and Refunding Revenue Bonds, 2015, Series B. In 2019, the Sewer System had, but did not utilize, authorization to draw \$35 million from the Investment Pool. The Sewer System does not anticipate utilizing interfund borrowing for operating or capital purposes in response to the effects of COVID-19. See “—Impact of COVID-19.”

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

Table 10 sets forth a summary of customers, revenues and expenses, and debt service coverage of the Sewer System. The debt service coverage calculations shown in Table 10 are based on provisions of the applicable bond ordinances, incorporating data from the audited financial statements and financial records of the Sewer System.

**TABLE 10**  
**HISTORICAL FINANCIAL STATEMENTS**  
**(\$ EXPRESSED IN THOUSANDS) (FISCAL YEAR ENDING DECEMBER 31)**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Residential Customer and Residential Customer Equivalents (RCEs) (Annual Average, Rounded)	736,090	756,430	756,916 <sup>(1)</sup>	760,571	763,436
Percentage Annual Increase	1.41%	2.76%	0.06%	0.48%	0.38%
Operating Revenues					
Sewage Disposal Charges	\$371,253	\$381,513	\$401,650	\$403,589	\$415,279
Capacity Charge Revenues	62,479	71,200	82,615	86,836	102,146
Other Operating Revenues	11,673	11,828	18,308	19,125	19,024
Total Operating Revenues	\$445,405	\$464,541	\$502,573	\$509,550	\$536,449
Operating Expenses <sup>(2)</sup>	(128,926)	(136,321)	(148,199)	(152,589)	(154,272)
Net Operating Revenue	\$316,479	\$328,220	\$354,374	\$356,961	\$382,177
Interest Income <sup>(3)</sup>	2,863	4,549	6,055	8,956	10,765
Rate Stabilization <sup>(4)</sup>	(12,000)	-	-	-	-
Net Revenue Available for Debt Service	\$307,342	\$332,769	\$360,429	\$365,917	\$392,942
Debt Service					
Parity Bonds	\$167,694	\$160,957	\$159,761	\$163,967	\$171,321
Parity Lien Obligations	40,348	53,164	52,650	49,121	41,539
Subordinate Debt Service <sup>(5)</sup>	18,318	21,316	26,277	33,139	35,174
Total Debt Service	\$226,360	\$235,437	\$238,688	\$246,227	\$248,034
Debt Service Coverage <sup>(6)</sup>					
On Parity Bonds	1.83	2.07	2.26	2.23	2.29
On Parity Bonds and Parity Lien Obligations	1.48	1.55	1.70	1.72	1.85
On All Sewer System Obligations	1.36	1.41	1.51	1.49	1.58

## NOTES TO TABLE:

- (1) The small (0.06%) increase in billed RCEs in 2017 reflects non-recurring adjustments to Sewage Disposal Charges relating to prior periods that increased revenues by \$1.9 million in 2016 and decreased revenues by \$2.0 million in 2017. When billed RCEs are adjusted for these prior period changes, total RCEs increased by 0.60%, to 757,240 in 2017 from 752,710 in 2016.
- (2) Excludes depreciation and amortization expense along with non-cash accounting adjustments for pension and other employee benefit costs.
- (3) Excludes unrealized gains and losses that are included in the audited financial statements.
- (4) Withdrawals from (deposits into) the Rate Stabilization Fund.
- (5) Subordinate Debt Service consists of debt service on the Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, and SRF Loans and PWTF Loans. The amount shown in the table for 2016 excludes \$1.4 million for Subordinate Debt Service, representing excess premium on the Junior Lien Sewer Revenue Bonds, Series 2015A and 2015B, that was deposited in the Bond Fund.
- (6) Operating Revenues and Expenses in the 2017 and 2018 Audited Financial Statements exclude \$10 million of expenses associated with repairs at the West Point treatment plant (“West Point”) and an insurance advance of \$12.5 million in 2017 and a final insurance settlement of \$10 million in 2018. These amounts, with other items, were reported as nonoperating revenues and expenses and have been excluded from the computation of debt service coverage in 2017 and 2018. See “West Point Flooding Accident” herein.

*Source: Audited Financial Statements and financial records of the Water Quality Enterprise Fund 2015-2019, Finance and Business Operations Division*

## Management Discussion of 2019 Sewer System Financial Results

The Sewer System’s net operating revenue (excluding depreciation expense) in 2019 was \$382.2 million, a 7.1%, or \$25.2 million, increase from the \$357.0 million of net operating revenue in 2018. Total operating revenues increased by \$26.9 million, or 5.3%, to \$536.4 million from \$509.5 million, while operating expenses (excluding depreciation) increased by \$1.7 million, or 1.1%, to \$154.3 million in 2019 from \$152.6 million in 2018.

**Revenues.** The \$26.9 million, or 5.3%, increase in operating revenue in 2019 from 2018 can be attributed to a 2.5% increase in the Sewer Rate to \$45.33 from \$44.22 in 2018, growth in RCEs, and increases in capacity charge and other operating revenues. Sewage Disposal Charges increased by \$11.7 million, or 2.9%, compared to 2018 due to a 2.5% rate increase and a 0.38% increase in the number of RCEs. Capacity charge revenues increased by 17.6%, or \$15.3 million, to \$102.1 million in 2019 from \$86.8 million in 2018. On-going billings from new and existing customers increased by \$6.4 million to \$69.4 million, or 10.1%, from 2018, while revenues from early payoffs increased by \$9.2 million, or 41.7%, to \$31.2 million in 2019. Other operating revenues decreased by \$0.1 million, or 0.5%, to \$19 million.

**Expenses.** Operating expenses of the Sewer System, excluding depreciation and adjusted for non-cash accounting adjustments associated with employee benefits, increased \$1.7 million to \$154.3 million in 2019, an increase of 1.1%. Labor expenses of \$61.4 million in 2019 increased by \$2.9 million, or 5.0%, from 2018 because of general wage and benefit increases and budgeted increases for both temporary and new positions. Utility and service costs decreased by \$2.4 million, or 6.3%, to \$35.6 million in 2019 from \$38.0 million in 2018. Intergovernmental expenses of \$39.5 million in 2019 increased by \$0.1 million from 2018.

*Interest Income.* Interest income increased by \$1.8 million to \$10.8 million in 2019 due to higher average yields in the Investment Pool (2.25% in 2019; 1.73% in 2018), offset by a slightly lower average monthly balance (\$505 million in 2019; \$531 million in 2018).

*Debt Defeasance.* In October 2019, the County used \$96.3 million of operating cash and excess cash in its Parity Bond Reserve Account to purchase Treasury securities and defease \$22.5 million of outstanding Sewer Revenue and Refunding Bonds, Series 2012C and \$64.6 million of 2012B and 2012C LTGO Refunding Bonds (Payable from Sewer Revenues).

*Debt Service Coverage.* The Sewer System achieved a coverage ratio of 1.85x on the combined debt service of Parity Bonds and Parity Lien Obligations in 2019, exceeding the 1.25x minimum coverage target stipulated by the County’s adopted financial policies. The debt service coverage ratio of 1.58x on all Sewer System Obligations in 2019 exceeded the 1.15x minimum coverage target stipulated by the County’s adopted financial policies.

### **West Point Flooding Accident**

On February 9, 2017, a partial interruption of power supply occurred at the West Point treatment plant resulting in major equipment failure and culminating in flooding of the plant, the emergency bypass of the treatment system, and the discharge into Puget Sound of an estimated 235 million gallons of stormwater mixed with untreated sewage. Because of the accident, WTD was unable to meet the discharge limits required by West Point’s National Pollutant Discharge Elimination System (“NPDES”) permit until May 11, 2017, when biological treatment processes were fully restored. Ecology assessed a \$361,000 penalty against the County for permit violations and required six corrective actions at West Point, which WTD completed by February 2019.

WTD incurred \$23.8 million in operating and capital costs to remediate damage at West Point in 2017 and 2018. In December 2018, it reached a final settlement of \$22.5 million with its insurer for the damage that was sustained from the flood. Neither the insurance settlements nor the costs have been included in the calculation of debt service coverage that appears in Table 10—“Historical Financial Statements.”

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

Table 11 sets forth a summary of WTD’s projections of the Sewer System’s Customers, Revenue of the System, and Operating and Maintenance Expenses for the fiscal years ending December 31, 2020, through December 31, 2026. Notes for Table 11 are provided on the page following the table.

The COVID-19 pandemic began impacting the region during the development of the 2021 Sewer Rate and capacity charge proposal and insufficient data were available to make reasonable estimates of any potential revenue losses that might occur in 2020 or 2021. Projected revenues do not include any potential revenue losses from COVID-19 or any mitigation strategies that may be developed, including cost reductions and draws on the Rate Stabilization Reserve in 2020 or 2021. With time, WTD and the County Council will have better information on the impacts of COVID-19 that will inform recommendations and a decision on the rate increase for 2022 that will be made in June 2021. See Table 8—“Projected Sewer Rates for Residential Customers and Residential Customer Equivalents” and “—Possible Financial Impacts of COVID-19.”

The revenues that are projected in Table 11 reflect the assumed monthly Sewer Rates presented in Table 8—“Projected Sewer Rates for Residential Customers and Residential Customer Equivalents.” These projected Sewer Rates are designed to produce Net Revenue sufficient to satisfy the debt service coverage targets stipulated by the County’s adopted financial policies and the 40% average cash-funding target for the CIP presented to the County Council in proceedings for the adoption of the 2021 Sewer Rate.

Estimates for 2020 are based on year-to-date unaudited revenues and expenses through May 2020 and WTD’s projections for the remainder of the year. The Sewer System is expected to generate net operating revenue of \$359.8 million in 2020, a decrease of \$22.4 million, or 5.9%, from \$382.2 million in 2019. Total operating revenues are projected to decrease by \$7.8 million, or 1.5%, to \$528.7 million in 2020 from \$535.6 million in 2019, while operating expenses are projected to increase by \$14.6 million, or 9.5%, to \$168.9 million in 2020 from \$154.3 million in 2019.

Revenues from Sewage Disposal Charges are projected to increase by \$2.6 million, or 0.6%, from 2019 due to projected growth of 0.63% in RCEs. Annual growth in RCEs is expected to be 0.52% beginning in 2021, which is closer to recent historical average growth rates.

Capacity Charge Revenues are expected to decrease by \$9.8 million, or 9.6%, from 2019 due to an exceptionally high amount of early payoffs in 2019, which increased by \$9.2 million, or 41.7%, from 2018. The \$0.5 million, or 2.9%, projected decrease in Other Operating Revenues for 2020 reflects lower projected sales of Renewable Identification Numbers (“RINs”) from WTD’s contract with IGI Resources, Inc. and methane gas. Annual revenues from the sale of RINs are projected to be approximately \$2.3 million in 2020 (almost \$0.5 million less than 2019 sales), \$3.1 million in 2021, and \$1.5 million in 2022, the final year of the contract. No RINs sales are projected after 2022 and Other Operating Revenues are projected to grow at a 3.0% annual rate from 2023 through 2026.

Operating expenses for 2020 of \$168.9 million is the amount that was included in the adopted 2019-2020 budget for 2020.

Interest income is expected to be \$6.9 million in 2020, a decrease of \$3.9 million from 2019, as the lower expected average interest rate on WTD funds in the Investment Pool (1.40% projected for 2020, compared to 2.25% in 2019) is being offset by a higher average annual balance. See “Management Discussion of 2019 Sewer System Financial Results.”

As of May 31, 2020, unrestricted cash balances included approximately \$74.8 million in the operating fund and \$45.6 million in the capital fund.

In anticipation of higher levels of capital spending after 2026, WTD expects to increase the Rate Stabilization Fund in 2025 and make draws in 2028 and 2029 that will reduce the level of rate increases for those years, but that will maintain the fund at its current level of approximately \$46.3 million.

Total debt service is projected to increase from \$248.0 million in 2019 to \$310.2 million in 2026. The increase is related to the issuance of new debt to provide funding for WTD’s capital program, as shown in Table 13, in accordance with estimates given to the County Council with the adoption

of the 2021 Sewer Rate. See “The Sewer System—Financial Policies.” See also “—Capital Improvement Plan” and “—Future Sewer System Financing Plans.”

### **Possible Financial Impacts of COVID-19**

*The following section provides a calculation of debt service coverage, for illustrative purposes only, on all Sewer System Obligations based on specific decreases in RCEs and capacity charge revenues that could arise from COVID-19. These decreases are not intended to be a forecast of the impact of COVID-19 and are provided solely to demonstrate the effect on debt service coverage of decreases in RCEs and capacity charge revenues under the illustrative scenarios. Based on revenues through May 2020 and timing delays in WTD’s billing cycle, insufficient time has elapsed since the closing of non-essential businesses on March 25, 2020, for WTD to estimate what decreases in Sewer Disposal Charges and Capacity Charge Revenues may occur as a result of COVID-19.*

WTD does not expect that COVID-19 will have a significant impact on Sewage Disposal Charges in 2020 because of the stability of its Residential Customer base and the averaging over four quarters of RCEs from commercial, multi-family, and industrial customers. Approximately 55% of Sewage Disposal Charges in 2019 were derived from the number of Residential Customers of Municipal Participants and these charges are not impacted by changes in water consumption. In June 2020, billings to Municipal Participants are comprised of 422,241 Residential Customers and this number is not expected to decrease due to COVID-19. The Service Agreements do not allow Municipal Participants to defer payments to WTD for deferrals that they have provided to their retail customers.

WTD’s billings for RCEs are based on the average of reported RCEs for four calendar quarters ending with the second previous calendar quarter. RCE-based Sewer Disposal Charges through June 2020 have not been impacted by COVID-19 business closures because they are based on water consumption through the fourth quarter of 2019. Reports-to-date from Municipal Participants for the quarter ending March 31, 2020, show an increase of 1,225 Residential customers from December 31, 2019, and a 0.90% increase in RCEs compared to the first quarter of 2019.

The impact of COVID-19 business closures that began on March 25, 2020, will be seen in RCEs for the second quarter of 2020. Municipal Participants will not be reporting this data to WTD until August 15, 2020. Second-quarter RCEs will be included in billings beginning with the fourth quarter of 2020 through the third quarter of 2021. Preliminary data from three Municipal Participants that account for approximately 55% of RCEs show a decrease in April 2020 RCEs ranging from 5% to 18% from April 2019. Because billings for RCEs are averaged over four quarters, only one fourth of any decrease in the second quarter RCEs will impact Sewage Disposal Charges in 2020.

WTD has calculated that a 20% decrease in RCEs beginning in the second quarter of 2020 and extending through the first quarter of 2021 would reduce Sewage Disposal Charges shown in Table 11 by \$1.6 million in 2020 (a 0.4% decrease) and \$34.1 million in 2021 (a 7.8% decrease). These calculations assume no increases in new Residential Customers from estimates reported for the first quarter of 2020. From 2017 through 2019, the average quarterly increase in new Residential Customers was 991.

Through May 2020, capacity charge revenues from regular billings and early payoffs totaled \$37.3 million, a \$1.6 million, 4.1% decrease compared to the first five months of 2019. While recurring billings of \$29.8 million have increased by \$2.0 million compared to 2019, early payoffs of \$7.4 million have decreased by \$3.6 million from 2019. Projections for Capacity Charge Revenues in Table 11 for 2020 and 2021 are based on recurring billings of \$70.0 million in each year (\$69.4 million in 2019) and early payoffs of \$22.3 million in 2020 and \$25.8 million in 2021 (\$31.9 million in 2019). Early payoffs would be reduced by \$11.2 million in 2020 and \$10.3 million in 2021 if there is a 50% reduction in early payoffs in 2020 and a 40% reduction in early payoffs in 2021.

In 2020, a \$1.6 million decrease in Sewage Disposal Charges and an \$11.2 million decrease in Capacity Charge Revenues would reduce Net Revenue Available for Debt Service by \$12.7 million and reduce debt service coverage on all Sewer System Obligations to 1.41x from the 1.46x that is projected in Table 11.

In 2021, a \$34.1 million decrease in Sewage Disposal Charges and a \$10.3 million decrease in Capacity Charge Revenues would reduce Net Revenue Available for Debt Service by \$44.4 million and reduce debt service coverage on all Sewer System Obligations to 1.37x from the 1.55x that is projected in Table 11.

**TABLE 11**  
**PROJECTED FINANCIAL STATEMENTS**  
**(\$ EXPRESSED IN THOUSANDS) (FISCAL YEAR ENDING DECEMBER 31)<sup>(1)</sup>**

	2020 <sup>(2)</sup>	2021	2022	2023	2024	2025	2026
Residential Customer and Residential							
Customer Equivalents (Average for Year, Rounded)	768,212	772,207	776,222	780,259	784,316	788,394	792,494
Percentage Annual Increase	0.63%	0.52%	0.52%	0.52%	0.52%	0.52%	0.52%
Monthly Sewer Rate	\$45.33	\$ 47.37	\$ 47.37	\$ 52.23	\$ 52.23	\$ 57.58	\$ 57.58
Percentage Annual Increase	0.00%	4.50%	0.00%	10.25%	0.00%	10.25%	0.00%
Operating Revenues							
Sewage Disposal Charges <sup>(3)</sup>	\$ 417,877	\$ 438,953	\$ 441,236	\$ 488,988	\$ 491,531	\$ 544,749	\$ 547,582
Capacity Charge Revenues	92,302	95,800	99,086	102,113	106,158	111,264	116,856
Other Operating Revenues	18,481	19,814	18,730	17,662	18,192	18,738	19,300
Total Operating Revenues	\$ 528,660	\$ 554,567	\$ 559,052	\$ 608,763	\$ 615,881	\$ 674,751	\$ 683,737
Operating Expenses <sup>(4)</sup>	(168,886)	(173,116)	(181,872)	(191,617)	(203,127)	(213,388)	(221,835)
Net Operating Revenue	\$ 359,774	\$ 381,450	\$ 377,180	\$ 417,146	\$ 412,754	\$ 461,363	\$ 461,902
Interest Income <sup>(5)</sup>	\$ 6,906	\$ 3,663	\$ 1,984	\$ 2,035	\$ 2,284	\$ 2,695	\$ 3,448
Rate Stabilization	-	-	-	-	-	(30,000)	-
Net Revenue Available for Debt Service	\$ 366,679	\$ 385,114	\$ 379,164	\$ 419,182	\$ 415,038	\$ 434,058	\$ 465,351
Debt Service							
Parity Bonds <sup>(6)</sup>	\$ 167,233	\$ 160,989	\$ 162,596	\$ 175,893	\$ 189,218	\$ 200,264	\$ 221,009
Parity Lien Obligations	50,755	52,965	52,947	50,669	50,642	50,680	50,641
Subordinate Debt Service <sup>(7)</sup>	32,355	35,215	42,093	38,169	40,659	37,639	38,548
Total Debt Service	\$ 250,343	\$ 249,168	\$ 257,636	\$ 264,732	\$ 280,520	\$ 288,584	\$ 310,198
Debt Service Coverage							
On Parity Bonds	2.19	2.39	2.33	2.38	2.19	2.17	2.11
On Parity Bonds and Parity Lien Obligations	1.68	1.80	1.76	1.85	1.73	1.73	1.71
On All Sewer System Obligations	1.46	1.55	1.47	1.58	1.48	1.50	1.50



#### NOTES TO TABLE:

- (1) Totals may not add due to rounding.
- (2) Projections for 2020 are based on unaudited financial statements for the five months ending May 2020, and estimated results through December.
- (3) Based on adopted and projected Sewer Rates and rates for capacity charges. See “—Sewer Rates—Adopted Sewer Rates” and “—Projected Sewer Rates.”
- (4) Operating expenses in 2021 and 2022 are based on the Sewer System’s preliminary operating budget that is being developed for the County Council. Operating expenses after 2022 are assumed to increase at an annual rate of 4% through 2026, along with operating costs increases for new facilities that are expected to go into service.
- (5) Based on the Investment Pool earning at projected annual rates of 1.40% in 2020, 0.80% in 2021, 0.55% in 2022, 0.53% in 2023, 0.56% in 2024, 0.64% in 2025, and 0.74% in 2026. Projected Investment Pool earnings rates are from the County’s Office of Economic and Financial Analysis.
- (6) Projections assume draws on the \$134.5 million WIFIA Bond of \$52.4 million in 2022 and \$82.1 million in 2023 at its 3.06% interest rate and issuance of additional Parity Bonds with 30-year terms at a 3.50% rate in 2020 in the amount of \$182 million and at 5% interest rates thereafter in the amount of \$166 million in 2023, \$205 million in 2024, \$170 million in 2025, and \$342 million in 2026, which includes an expected \$96 million WIFIA loan for the Joint Ship Canal project at a rate of 3%. Beginning in 2021, annual Parity Debt has been reduced by \$0.7 million to reflect a proposed defeasance of certain outstanding Parity Bonds that may occur at the end of 2020.
- (7) Subordinate Debt Service consists of debt service on the Variable Rate Bonds and the SRF Loans and PWTF Loans.

Projections assume the issuance of \$64 million of Variable Rate Bonds between 2020 and 2026 along with the issuance and redemption of \$156 million of Variable Rate Bonds to provide financing for WIFIA Loan projects on an interim basis pending the final drawdown of those loans after project completion. See “—Future Sewer System Financing Plans.” The projections assume an aggregate average interest rate on Variable Rate Bonds of 1.75% in 2020, 2.04% in 2021, 2.68% in 2022 and 2023, 3.09% in 2024 and 2025, and 3.50% in 2026. See Table 12—“Scheduled Debt Service on All Obligations of the Sewer System,” footnote 2.

Projections include debt service on \$57.6 million of signed and pending loan commitments from Ecology and the PWB. Signed loan commitments include \$13.5 million from Ecology for a 30-year term at a rate of 2.6%, two loans totaling \$2.0 million from the PWB at an average rate of 0.81% with five-year terms, and a \$5.0 million, 20-year PWB loan at a rate of 1.58%. WTD has also received a \$37.1 million funding offer from Ecology for a 30-year loan at a rate of 2.70%. See “—Future Sewer System Financing Plans.”

*Source: King County Wastewater Treatment Division*

#### **Debt Service Requirements Payable from Revenue of the System**

Table 12 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 Table 12 are provided on the following page.

**TABLE 12**  
**SCHEDULED DEBT SERVICE ON ALL OBLIGATIONS OF THE SEWER SYSTEM<sup>(1)</sup>**  
**(FISCAL YEAR ENDING DECEMBER 31)**

Year Ending December 31 <sup>(1)</sup>	Parity Bonds	Parity Lien Obligations	Junior Lien Obligations		Multi-Modal LTGO/Sewer <sup>(2)</sup>	SRF Loans and PWTF Loans <sup>(4)</sup>	QECB Bonds <sup>(5)</sup>	Total
			Outstanding <sup>(2)</sup>	The Bonds <sup>(3)</sup>				
2020	\$ 162,063,750	\$ 50,754,550	\$ 4,924,727	\$ 697,886	\$ 4,310,600	\$ 22,454,708	\$ 66,220	\$ 245,272,441
2021	156,110,725	52,965,225	2,773,260	1,504,425	5,024,928	22,328,278	66,220	240,773,061
2022	156,114,100	52,946,500	2,680,000	1,504,425	6,601,376	21,349,194	3,076,220	244,271,815
2023	156,113,875	50,669,275	2,680,000	1,504,425	6,601,376	20,347,065	-	237,916,016
2024	156,107,125	50,642,275	3,090,000	4,387,906	7,611,288	20,460,556	-	242,299,150
2025	156,109,125	50,680,275	3,090,000	4,387,906	7,611,288	19,069,894	-	240,948,488
2026	156,112,125	50,641,400	3,500,000	7,020,650	8,621,200	15,813,441	-	241,708,816
2027	151,262,750	50,606,775	3,500,000	7,020,650	8,621,200	15,382,387	-	236,393,762
2028	151,203,200	48,831,575	3,500,000	7,020,650	8,621,200	14,936,237	-	234,112,862
2029	140,934,625	57,373,900	3,500,000	7,020,650	8,621,200	13,967,729	-	231,418,104
2030	145,629,050	59,059,925	3,500,000	7,020,650	8,621,200	13,958,616	-	237,789,441
2031	155,891,700	49,794,350	3,500,000	107,315,650	8,621,200	12,809,040	-	337,931,940
2032	157,823,825	48,515,075	3,500,000	3,510,325	8,621,200	12,734,885	-	234,705,310
2033	157,844,950	40,501,800	3,500,000	3,510,325	8,621,200	12,726,073	-	226,704,348
2034	158,353,625	21,262,350	3,500,000	3,510,325	8,621,200	10,402,123	-	205,649,623
2035	134,664,850	29,975,975	3,500,000	3,510,325	8,621,200	9,315,991	-	189,588,341
2036	133,153,975	30,010,975	3,500,000	3,510,325	8,621,200	6,975,058	-	185,771,533
2037	133,229,200	30,029,400	3,500,000	3,510,325	8,621,200	3,318,445	-	182,208,570
2038	133,406,575	19,997,100	3,500,000	3,510,325	8,621,200	1,835,317	-	170,870,517
2039	133,410,525	-	3,500,000	3,510,325	106,846,200	995,217	-	248,262,267
2040	123,807,500	-	3,500,000	3,510,325	5,183,325	741,732	-	136,742,882
2041	108,865,625	-	3,500,000	103,805,325	5,183,325	742,207	-	222,096,482
2042	86,519,400	-	103,500,000	-	5,183,325	742,695	-	195,945,420
2043	86,362,550	-	-	-	5,183,325	743,195	-	92,289,070
2044	83,101,200	-	-	-	5,183,325	743,710	-	89,028,235
2045	83,047,350	-	-	-	153,278,325	744,239	-	237,069,914
2046	79,040,250	-	-	-	-	744,779	-	79,785,029
2047	55,781,875	-	-	-	-	745,336	-	56,527,211
2048	26,799,875	-	-	-	-	745,906	-	27,545,781
2049	26,796,375	-	-	-	-	746,492	-	27,542,867
2050	10,358,000	-	-	-	-	747,092	-	11,105,092
2051	10,358,250	-	-	-	-	660,741	-	11,018,991
2052	-	-	-	-	-	557,926	-	557,926
Total	\$ 3,766,377,925	\$ 845,258,700	\$ 178,737,987	\$ 291,804,124	\$ 435,877,606	\$ 280,586,304	\$ 3,208,660	\$ 5,801,851,306

**NOTES TO TABLE:**

- (1) January 1 payments shown in the prior year.
- (2) The projections assume an aggregate average interest rate on the Variable Rate Bonds of 1.75% in 2020, 2.04% in 2021, 2.68% in 2022 and 2023, 3.09% in 2024 and 2025, and 3.50% thereafter. The Junior Lien Obligations have bullet maturities in 2032, 2042, and 2043. The Multi-Modal LTGO/Sewer Revenue Bonds have bullet maturities in 2040 and 2046. Projections exclude planned optional redemptions of Variable Rate Bonds prior to their final maturity dates. See “—Financial Policies—Variable Rate Debt” and “Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations—Summary of Credit Agreements.”
- (3) Includes interest on the Bonds at their Initial Term Rates through their Mandatory Put Dates and an assumed rate (for the purposes of this table) of 3.50% thereafter. The 2020A Bonds have a bullet maturity in 2032 and the 2020B Bonds have a bullet maturity in 2042.
- (4) Does not include debt service on \$10.5 million in undrawn, signed loan commitments from Ecology and the PWB that are expected to be drawn upon through 2024. See “The Sewer System—Future Sewer System Financing Plans.”
- (5) Although debt service on the QECB Bonds is paid from Revenue of the System, the County has not pledged Revenue of the System to the payment of the QECB Bonds. See “Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations.” Annual interest expense does not include the federal subsidy that is expected to be received.

**Regional Wastewater Services and Clean Water Plans**

The RWSP guides improvements to the regional wastewater system to ensure the continuation of high-quality wastewater treatment services in the future. The RWSP was adopted in 1999 establishing a number of programs to guide long-term planning and investments in wastewater infrastructure. RWSP Program Updates and periodic reviews are carried out to ensure that wastewater infrastructure planning and investments are based on current data.

WTD completed a summary report in November 2019 that assessed the flows, loadings, and limitations of the treatment processes at each of the regional treatment plants. The report found that most of the capacity limitations for all three regional plants are projected to occur in the 2030s and are related to digestion and secondary treatment processes. WTD will continue addressing many of the findings and recommendations from the study through the proposed Treatment Planning Program, to begin with the next budget cycle in 2021, as well as within the Clean Water Plan. The Treatment Planning Program will comprehensively and strategically integrate capacity, regulatory, asset management, and other needs into WTD’s near-term and long-term treatment planning at both the facility (treatment plant) and regional system level.

The Conveyance System Improvement (“CSI”) program focuses on guiding major upgrades and improvements to County-owned regional wastewater conveyance facilities. The facilities consist of the pumping stations and pipes that transport wastewater from the local systems to the regional treatment facilities. The current CIP includes 12 CSI construction and design projects with estimated spending of \$368 million through 2026. See “—Capital Improvement Plan.”

In May 2017, WTD completed an assessment of the County’s separated sewer system (located outside of Seattle) and identified components of the system that, through 2060, were projected to fall below the County’s 20-year peak flow planning standard. Forty-one conveyance system improvements were identified, one of which is in the current CIP. Decisions on when specific CSI

improvements will be included in future CIPs will be made as part of WTD's planning and capital budgeting activities.

Over the next three years, WTD's new Comprehensive Plan is intended to define regional water quality investments over both near-term (up to ten years) and long-term time horizons (ten to 40 years) (the "Clean Water Plan"). The Clean Water Plan will explore the complicated and expensive demands that WTD is facing, which include regional growth, aging infrastructure, current and potential regulatory regimes, affordability of service, natural disasters, and climate change. The new plan is intended to provide a prioritized list of water quality investments for WTD to undertake to achieve the best water quality outcome for those investments.

Much of the development of the Clean Water Plan is expected to be completed by the end of 2021. Milestones for plan development include a Draft and Final Environmental Impact Statement following the Washington State Environmental Policy Act, as well as a Draft Clean Water Plan for discussion. During 2022, the plan will be submitted to the County Council for review and approval. The final plan will serve as a guide to near- and long-term investments in the regional wastewater system.

### **Combined Sewer Overflow Projects**

CSOs are untreated discharges of mixed stormwater and diluted wastewater into water bodies during heavy rainfall events when the capacity of the existing sewer system is 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 damage to the regional sewer system and treatment plants 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 a portion of Seattle. Based on agreements made at the start of the regional system in 1958, depending on the size of the drainage basin, either the County or Seattle is responsible for CSOs, and both entities are working to control them under separate long-term CSO control plans.

The County currently has 39 CSO outfall locations and four CSO treatment facilities which control overflows that still occur in some older parts of Seattle during heavy rains. Past investments have resulted in a reduction in untreated CSOs from a baseline of 2.3 billion gallons per year (based on data from 1980 to 1983) to about one billion gallons in a typical year of rainfall (based on long-term averages). The County's combined sewer system discharged 752 million gallons of untreated CSOs in 2019 and 839 million gallons in 2018.

In 2013, the United States District Court for the Western District of Washington (the "Court") approved a consent decree (the "2013 Consent Decree") between the County, the U.S. Department of Justice, EPA, and Ecology to undertake and construct nine capital projects to control 14 uncontrolled overflow locations in the system by 2030. The CSO control measures outlined in the 2013 Consent Decree were consistent with a Long-Term Control Plan ("LTCP") approved by the County Council in 2012.

Figure 1 shows the approximate locations of the nine CSO control projects included in the LTCP as well as the four "Beach" CSO projects, consisting of North Beach, South Magnolia, Murray,

and Barton, which were underway prior to the LTCP development. Except as noted for South Magnolia and Barton, the Beach projects have been completed and are operating. The Rainier Valley Wet Weather Storage Project achieved substantial completion on June 9, 2018, and began operation in winter 2018. Rainier Valley has since been monitored to ensure that it achieves the required regulatory performance standard. Construction on the Georgetown Wet Weather Treatment Station began in January 2018 and is expected to be completed in early 2022. The County is also working with Seattle on a project to control overflows at two locations (the “Joint Project”), as further described below). As allowed in the 2013 Consent Decree, the County is evaluating the use of green stormwater infrastructure for the sizing of facilities for the CSOs at University and Montlake.

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



Diagram is not to scale.

*Source: King County Wastewater Treatment Division*

The 2013 Consent Decree establishes critical milestones for the submission of facilities plans, completion of bidding, and completion of construction for all of the projects through 2030. All milestones required by the 2013 Consent Decree have been met to date. The 2013 Consent Decree also requires that the County prepare Supplemental Compliance Plans when performance criteria have not been met at the completed projects and other CSO outfall locations.

The South Magnolia Wet Weather Storage project did not achieve controlled status within one year of construction completion. Construction on South Magnolia was completed in December 2015, and the facility was apparently operating correctly until a conveyance pipe failure that completely prevented storm flows from reaching the storage tank was discovered in the fall of 2016.

WTD submitted a Supplemental Compliance Plan to Ecology and EPA in January 2017 (with an addendum containing the specific plan and schedule submitted in April 2018) outlining plans to bring the facility back into service and compliance. Remedial action was undertaken, and South Magnolia went back online in late December 2018 and has been operating as designed. Costs incurred for replacement of the damaged pipe were \$13.6 million and are net of a \$10.0 million insurance settlement that the County received in March 2020. The insurance settlement was received after the County had initiated a federal lawsuit against the contractor's provider of builders risk insurance, which it has withdrawn.

The Barton Street CSO project uses green stormwater infrastructure components (bioretention swales and associated drainage structures) within the impacted basin to reduce and delay flows to achieve CSO reductions. Because modeling showed that the post-project performance did not achieve the required average of one uncontrolled CSO event per year (for the most recent 20 years), a Supplemental Compliance Plan was filed in April 2018, as required by the 2013 Consent Decree, and was approved by Ecology in May 2018. Initial analysis showed the associated Barton pump station was not performing at its design capacity of 33 mgd, contributing to the project missing its performance requirement. Remedial work to address some electrical and controls optimization adjustments at the pump station is ongoing. Performance will be monitored and reported on in the 2019 and subsequent CSO/Consent Decree annual reports.

The Elliott West Wet Weather Station has experienced permit violations in recent years despite operating and capital projects designed to optimize facility performance. In an August 2019 letter to Ecology, WTD expressed a commitment to developing and implementing a compliance strategy for the Elliott West facility. WTD has proposed that an alternatives analysis be completed by mid-2021 to identify the best alternatives to improve compliance. Once the alternatives analysis is complete and the scope of the corrections understood, a draft facility plan will be submitted to Ecology for review and approval. WTD will not move into implementation or construction on this project until after completion of the Clean Water Plan and the update to the LTCP.

Projected CSO expenditures are included in Table 13 and total \$607 million for the period 2020 through 2026. Expenditures from 2020 through 2026 for the two largest projects currently in construction are \$140 million for the Joint Project (described below under “—Joint Project with Seattle”) and \$111 million for Georgetown. Design estimates for the Elliott West facility in the 2021-2022 biennium total \$12 million and include funding for the alternatives analysis and facility plan. Estimates will be updated for full project implementation as part of the 2023-2024 biennial budget process.

The CSO project costs have not been updated from 2018 forecasts and costs for the future projects are now estimated at \$1.9 billion or significantly higher through 2030, depending on alternative selection. These cost estimates are expected to escalate due to climate change, the difficulty of finding locations for facilities in a dense urban area, and the associated needs for more pumping

and conveyance and other system-wide changes that were not evident at the time the 2013 Consent Decree was approved by the Court. Cost estimate updates for the CSO program and a comprehensive evaluation of clean water investment priorities are part of the development of the Clean Water Plan described herein.

### **Request for 2013 Consent Decree Modification**

In January 2020, the County initiated negotiations to modify the 2013 Consent Decree to address changed conditions since the Consent Decree was signed. These changed conditions include substantially higher cost estimates for planned CSO control projects, climate change impacts, anticipated future increases in regulatory requirements for nutrient discharges to Puget Sound, and rate affordability. In the letter requesting negotiations to modify the 2013 Consent Decree, the County also requested an extension for two milestones associated with the Chelan Avenue CSO: the completion of bidding milestone by December 31, 2020 and the completion of construction milestone by December 31, 2023. The County is reviewing alternatives for controlling the CSOs in the Lower Duwamish area that may result in a more cost-effective CSO control measure for the Chelan CSO than the one identified in the Facility Plan. Extension of the Chelan milestones will allow for the planning process to be completed to determine the best project moving forward.

Any potential modification agreed to by EPA, Ecology, the U.S. Department of Justice, and the Court would also need King County Council approval.

### **Joint Project with Seattle**

On July 27, 2016, the County and Seattle signed a Joint Project Agreement (“JPA”) to implement a project to control County overflows at its 3rd Avenue West and 11th Avenue Northwest locations (see Figure 1) and four of Seattle’s overflow locations designated in its separate consent decree. Seattle is the lead agency for design and construction of a 2.7-mile long, 18-foot, 10-inch-inside-diameter storage tunnel to capture and store 29 million gallons of stormwater mixed with sewage from the six CSO sites during a storm event. The Joint Project is expected to reduce the total amount of uncontrolled current CSO discharges by approximately 75 million gallons and eliminate an average of 130 CSO events per year. The Joint Project is being implemented to reduce community and environmental impacts in the project area relative to separate individual agency projects and to realize operational efficiencies.

On October 25, 2016, the Court approved an “Agreed Non-Material Consent Decree Modification” filed by EPA, Ecology, the U.S. Department of Justice, and the County to incorporate the Joint Project as part of the original 2013 Consent Decree.

The current estimate for the total cost of the Joint Project is \$570 million. The County’s 35% share of the agreed elements of the Joint Project is currently \$179.3 million through 2025. Periodic assessments after the achievement of design and construction milestones may result in increases in the total costs and the County’s share. The County is also evaluating the purchase of additional storage capacity in the tunnel, which may also increase its costs.

Completion of the Joint Project is currently scheduled for April 2025, eight months before the construction completion milestone in the modified 2013 Consent Decree for the County.

## Capital Improvement Plan

As shown in Table 13, the Sewer System’s CIP for the period 2020-2026 includes three distinct elements. In addition to CSO control and CSI 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.

The CIP reflects a new investment priority strategy for asset management and includes more than 50 new projects within the CIP to address both the medium- and high-priority asset management inventory. Asset management is set to become the largest investment category by 2023, given the new priority assigned to those projects by WTD and its regional stakeholders.

Increases in the Monthly Sewer Rate that are less than what is shown in Table 8 may reduce projected spending on asset management projects and lengthen the period of time needed to complete all of the inventory of projects.

**TABLE 13**  
**CAPITAL IMPROVEMENT PLAN—PROJECTED EXPENDITURES<sup>(1)</sup>**  
**(\$000)**

Year	RWSP		Other Improvements and	
	CSO	CSI	Asset Management	Total
2020	\$ 93,583	\$ 29,509	\$ 97,698	\$ 220,789
2021	97,385	41,089	132,015	270,489
2022	86,454	65,594	147,869	299,917
2023	71,046	80,354	185,977	337,377
2024	65,321	77,803	188,591	331,715
2025	69,224	38,100	201,564	308,887
2026	124,048	35,753	249,113	408,914
Total	\$ 607,060	\$ 368,202	\$ 1,202,826	\$ 2,178,088

(1) Expenditures in 2020-2026 are in nominal dollars.

Note: totals may not add due to rounding.

Source: King County Wastewater Treatment Division

The capital expenditures shown above were used to develop projected Sewer Rates and the projections shown in Table 11 and are based on an expected accomplishment rate of 87% of total expenditures authorized in the County budget for WTD, including pending amendments. Changes in the scope and increases in the cost of projects may increase total capital spending, but increases that are expected to exceed 15% of a project’s budget must first be approved by the County Council. Additional capital spending, both prior to and after 2026, may also arise from new federal and State environmental regulations or new requirements in the permits for System facilities. See “Environmental Regulations.”

*West Seattle Bridge.* The West Seattle High-Rise Bridge (the “Bridge”), completed in 1984, is a seven-lane cantilevered bridge that crosses the West Duwamish Waterway to connect the communities of West Seattle to downtown Seattle. The Seattle Department of Transportation (“SDOT”) first noticed cracks in the concrete in 2013, and subsequent inspections have noted



increases in the cracks. On March 23, 2020, SDOT announced the closure of the Bridge to all traffic due to structural defects found on the main span of the Bridge, which will necessitate major repairs to or, potentially, demolition of the Bridge. The structural engineering firm WSP USA, partnering with SDOT, stated in a report dated May 15, 2020, that it is not currently able to indicate the likelihood of any of the potential failure scenarios.

The Sewer System has three major conveyance lines buried eight to 15 feet underneath a shorter span of the Bridge or alongside the Bridge. SDOT continues to assess the status of the Bridge and is working to stabilize the structure. WTD is currently working with an inter-agency task force led by the Seattle Office of Emergency Management to create a contingency plan in the event of Bridge failure. The task force includes a number of federal, State, and local agencies, including WTD. Although the conveyance lines are buried, the Bridge has a height of 140 feet and debris falling from that height has the potential for damaging these lines or preventing or delaying WTD from undertaking necessary repairs should damage occur.

WTD's current assessment is that it has the ability to divert flows from the area to protect public health; however, these diversions may result in controlled releases of partially treated or untreated wastewater into local water bodies. WTD is currently developing plans that would reduce or eliminate the amount of partially or untreated wastewater releases should flow diversion be required.

### **Future Sewer System Financing Plans**

The current financial plan for the Sewer System projects the issuance of approximately \$1.3 billion of additional debt to fund the CIP: \$1.2 billion of additional Parity Bonds (including draws on the WIFIA Bond described below, and approximately \$180 million of Parity Bonds expected to price on or about July 21, 2020), \$64.5 million of additional variable rate Junior Lien Obligations, and \$57.6 million from signed and pending loan commitments received from Ecology and the PWB. Offsetting this anticipated issuance of \$1.3 billion of additional debt are scheduled principal payments on outstanding obligations and the Bonds of \$756.4 million. The financial plan also includes the issuance and redemption of \$156 million of Variable Rate Bonds to provide financing for WIFIA Loan projects on an interim basis pending the final drawdown of those loans after project completion.

Other than such new money issuances and draws on the WIFIA Bond described below, when and if market conditions allow refunding of any outstanding bonds for the purpose of realizing debt service savings, the County may issue additional obligations to pursue such refundings.

The County may from time to time consider the defeasance of outstanding Parity and Parity Lien Bonds from operating cash as was done in 2019. See "Management Discussion of 2019 Sewer System Financial Results—Debt Defeasance."

*WIFIA Bond.* On April 19, 2018, the County entered into a WIFIA Loan Agreement for up to \$134.5 million (the "WIFIA Loan") with EPA (the "WIFIA Lender") to provide financing for the Georgetown Wet Weather Treatment Station. The WIFIA Loan is evidenced by the County's Sewer Revenue Bond, 2018 (WIFIA—N17107WA).

The WIFIA Bond is available to be drawn from time to time in an aggregate principal amount not to exceed \$134.5 million solely to pay project costs for Georgetown. The County expects to draw

on the WIFIA Bond in 2021. No draws are permitted after the date that is one year after substantial completion of the project, which is estimated to occur at the end of 2022. The WIFIA Bond has a final maturity date of January 1, 2051, unless earlier paid, with principal payment dates beginning on January 1, 2033. Amounts drawn bear interest at a fixed rate of 3.06%, except as described below. The WIFIA Bond is subject to prepayment at the option of the County at any time at par plus accrued interest to the date of prepayment.

The WIFIA Bond is a Parity Bond, entitled to all of the benefits of a Parity Bond, and payable solely from Net System Revenues and amounts in the Parity Bond Fund. In addition, draws on the WIFIA Bond are subject to conditions precedent (such as minimum ratings, no material adverse effect, and no default requirements). The County has covenanted for the benefit of the WIFIA Lender to engage a professional utility consultant to review and analyze the operations of the Sewer System and make recommendations in certain circumstances. The County has further agreed to apply project insurance in the event of a loss to repair or replace the project and, in some circumstances, to prepay the WIFIA Bond. If an event of default has occurred and is continuing, WIFIA Lender consent is required for the issuance of additional bonds payable from System revenues. The County has agreed not to provide holders of Parity Bond obligations with the right to accelerate such obligations, or require mandatory prepayment in full of such obligations, unless the WIFIA Lender is provided the same rights with respect to the WIFIA Loan. The County also has agreed not to adopt any supplemental ordinances that amend the pledge of revenues, the priority of payment, the rate covenant, or the requirements for future parity bonds without WIFIA Lender consent. Events of default under the WIFIA Loan include payment defaults, covenant and misrepresentation defaults, the acceleration of any Parity Bond obligations, cross default of any Parity Bond obligation, materially adverse judgments, failure to maintain existence, the occurrence of a bankruptcy-related event, project defaults, and invalidity. Remedies include suspension or termination of rights to draw on the WIFIA Bond, mandamus and suspension and disbarment from federal programs in addition to the rights and remedies of Parity Bond owners. In the event of a payment default or project abandonment, the default interest rate applies.

The EPA has asked WTD to submit an application for a \$96 million loan from its WIFIA program for the Ship Canal Project.

### **Environmental Regulation**

*Federal Clean Water Act and State Reclaimed Water Act.* The Clean Water Act requires that discharges of pollutants be permitted under the NPDES program administered by EPA, which has delegated to Ecology authority to administer NPDES permits in Washington. The NPDES permits cover the treatment plants, their conveyance systems, and related CSO facilities and extend for a period of five years.

The County also distributes reclaimed water at three of the five regional wastewater plants. The State's Reclaimed Water Act (Chapter 90.46 RCW) and associated Water Reclamation and Reuse Standards contain requirements to assure that distribution and use of reclaimed water are protective of public health and the environment. Reclaimed water permits can be authorized separately or in combination with the NPDES permits. The status of the NPDES and Reclaimed Water permits is shown below:

**TABLE 14**  
**NPDES PERMITS**

<b>Facility</b>	<b>Expiration Date</b>
Brightwater	February 2023
Brightwater-Reclaimed Water	April 2024
Carnation (Includes Reclaimed Water)	December 2018 <sup>(1)</sup>
South Plant	July 2020
South Plant-Reclaimed Water	July 2020
Vashon	February 2022
West Point	January 2020 <sup>(1)</sup>

(1) Administratively extended.

*Source: King County Wastewater Treatment Division*

The Carnation permit is in the process of being renewed; no significant changes are expected. The application for renewal of the West Point NPDES permit was submitted in January 2019, and the application for renewal of the South Plant NPDES and Reclaimed Water permits was submitted in July 2019. As discussed in the next section, Ecology has begun development of a general permit for nutrients in response to water quality impairments in the marine Puget Sound environment. The first iteration of the General Permit will focus on nutrient controls in the effluent of wastewater treatment plants. As an interim measure while the General Permit is developed, Ecology has also stated that it intends to place nutrient loading cap and planning requirements in individual plant permits, when they are renewed. The operating and capital costs associated with these measures will not be known until specific standards are included in the NPDES permits for each plant.

The NPDES permit for West Point includes limits and operating requirements for WTD's four CSO wet weather facilities (Alki, Carkeek, Elliott West and Henderson MLK, as shown in Figure 1). These facilities store and convey sewage and stormwater to West Point during wet weather events and, when storage volumes are exceeded, provide partial primary treatment of the effluent prior to its discharge into regional waters.

Permit violations have occurred at each of these facilities with variable frequency (the majority of them at Elliott West). WTD has undertaken operating and capital projects that are intended to bring effluent levels at these facilities in compliance with permit standards. WTD notified Ecology of planning efforts underway for Elliott West, including an alternatives analysis with the intent to complete construction of any identified improvements by the 2029 timeframe. In connection with the renewal of the permit for West Point, Ecology may require WTD to initiate new operating procedures or perform studies and undertake capital improvements that are not currently in its six-year CIP as shown in Table 13.

All five of the regional wastewater treatment plants, except as noted below, have been in substantial compliance with their permit effluent limits.

On July 18, 2019, an estimated 3.43 million gallons of secondary treated effluent was discharged without disinfection from the South Plant. The discharge occurred during a planned upgrade of one of the plant's control systems when power was lost, resulting in the closure of a valve that

prevented effluent that was leaving the plant from receiving disinfection. Staff performed a shutdown to stop flow out of the facility, determined the origin of the problem, and resumed disinfection later that day.

On July 19, 2019, the emergency bypass gate was opened at West Point, resulting in the discharge of an estimated 2.1 million gallons of untreated stormwater and sewage into Elliott Bay. The bypass was initiated after a power disruption caused plant equipment to fall offline. While emergency bypass pumps were back online approximately 20 minutes after the power disturbance, it was necessary to open the plant's emergency bypass gate for 27 minutes before hydraulic control at West Point could be reestablished. There was no damage to plant facilities.

Ecology is in the process of investigating both of these incidents.

*Puget Sound Nutrient Source Reduction Project.* The reduction of nutrient discharges from point and non-point sources has been identified as a major policy initiative by Ecology, 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. In early 2017, Ecology launched the Puget Sound Nutrient Source Reduction Project (the "Nutrient Reduction Project") aimed at reducing sources of nutrient loads that are contributing to decreased dissolved oxygen in Puget Sound. The Nutrient Reduction Project is a multi-year undertaking and will involve collaboration among many stakeholders, including the County, to both understand the impacts of nutrients on Puget Sound and develop strategies to manage the problem.

In 2018, separate but complementary to Ecology's Nutrient Reduction Project, Ecology and the Puget Sound Partnership (a State agency created to coordinate and lead the effort to restore and protect Puget Sound) initiated the marine water quality Implementation Strategy ("IS") process to develop a broad strategic framework for nutrient reduction strategies. A draft IS document originally scheduled to be completed by late 2019 was delayed due to stakeholders requesting further deliberations on the underlying scientific information with which to develop the IS. With the COVID-19 pandemic, the IS process has not resumed yet. However, Ecology and the Puget Sound Partnership intend for the IS to be completed, and the results of the IS process will support Ecology in its development of the Nutrient Reduction Project. For the Nutrient Reduction Project in 2018, Ecology and the Batelle Pacific Northwest National Laboratory (a division of the Department of Energy) completed development of a computer model of Puget Sound and released an initial "Bounding Scenarios" modeling report in January 2019. The report provides a baseline assessment and problem definition of nutrient loading and dissolved oxygen conditions in Puget Sound. Following the baseline assessment, Ecology has begun performing additional Puget Sound modeling to assess the most important wastewater and other nutrient sources on a regional watershed basis, as well as assessment of population growth and climate change effects on Puget Sound water quality. This effort will run through mid-2021 and inform removal targets and limits which are expected to be addressed in the Nutrient Reduction Project that is scheduled to be completed in 2022. Ecology has indicated that it is considering development of a watershed model (or other tools) to better understand the nonpoint source watershed sources (e.g., stormwater, agriculture, septic systems, and forestry).

After a public comment period, Ecology announced in January 2020 that it intended to develop a general permit for the nearly 70 wastewater treatment plants that discharge into Puget Sound.

Ecology indicated that the general permit could include requirements for data collection, treatment process optimization, long-term planning for major upgrades and technology assessments, and facility-specific design-based treatment outcomes. Additionally, as a preliminary measure before the general permit is developed, Ecology intends to issue interim nitrogen load caps and planning requirements for municipal wastewater treatment plants as their individual NPDES permits are renewed. Ecology will develop an initial general permit by mid-2021 that will encompass interim nutrient loading caps and planning requirements. Ecology has indicated that when the Nutrient Reduction Project is completed, the general permit will be amended to include nutrient reduction requirements anticipated to be applicable to the sector in total and/or limits at individual plants.

In March 2020, Ecology formed an Advisory Committee of volunteer representatives from wastewater utilities, State and federal resource agencies, industry, and environmental organizations. Ecology and the Advisory Committee are currently meeting to determine an appropriate development process and schedule for the issuance of a general permit.

WTD is conducting, and expects to complete by August 2020, a study identifying the most feasible technologies available for reducing nutrient levels at its three treatment plants. The study will be used in formulating potential action planning scenarios for the Clean Water Plan. The study will provide updated planning information for understanding the relative sizing of facility improvements and implications for additional capital and operational costs for different levels of nutrient removal technologies. WTD also undertook the study to update assessments conducted for South Plant (in 2010) and West Point (in 2011), which at the time indicated that capital and operating costs over 20 years were approximately \$2.9 billion (in 2010 dollars) for the most stringent type of year-round nutrient reduction requirements at both plants.

It is anticipated that if WTD becomes subject to nutrient reduction requirements in either a general permit or the individual permits, time will be allowed to design and construct facilities that would be needed to achieve the nutrient reduction levels specified in the permit.

*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. EPA issued an administrative order that required the County, Seattle, the Boeing Company, and the Port of Seattle to conduct studies to determine the nature and extent of contamination in the Lower Duwamish Waterway. The County and the other three parties have agreed with EPA to amend the administrative order on a number of occasions to conduct additional studies, and have most recently negotiated a further amendment to design the remedy for one portion of the river. The Feasibility Study, which discusses the remediation alternatives, has been issued in final form by EPA. EPA issued a Record of Decision (“ROD”) in the latter part of 2014. The ROD contains EPA’s final plan for cleanup of the Lower Duwamish Waterway. In the ROD, EPA provided an order-of-magnitude engineering cost estimate of \$395 million (in 2011 dollars) for the total clean-up costs (capital and operating) for the entire project with a range for actual costs of between 30% lower and 50% greater. EPA estimated that there would be seven years of active clean-up and ten or more years of monitoring.

The County and a number of other parties are participating in an alternative dispute resolution process, called an allocation, to determine shares of liability for the costs of the cleanup. If parties that participate in the allocation accept their allotted shares, they then expect to enter into a settlement agreement and to negotiate a consent decree with EPA to implement the cleanup. Since the parties do not yet know their shares of cleanup costs and no consent decree has been negotiated with EPA, the County is unable to determine the schedule or cost of any remediation. In addition, the County is unable to determine the extent to which the County and WTD will be responsible for the cost of such remediation. Under the terms of the resolution process, the County anticipates that its share of ongoing costs is likely to be reduced for the portion of costs it has incurred and will continue to incur through the date that a settlement agreement becomes effective.

The County has participated in discussions with the National Oceanic and Atmospheric Administration (“NOAA”) regarding alleged natural resource damages (“NRD”) in the Lower Duwamish Waterway and around Harbor Island. These discussions have included NOAA’s determination that the County may be a potentially liable party that has contributed to the release of hazardous substances that have injured natural resources. NOAA notified the County in February 2016 that the Natural Resources Trustees will proceed with an NRD assessment and invited the County to participate in the development of the assessment. The County notified NOAA in March 2016 that the County desires to conduct settlement discussions with NOAA regarding the NRD liability that NOAA attributes to the County. The County’s intent in past discussions with NOAA has been to minimize the County’s alleged liability relative to the other liable parties. The County will maintain that intent in future discussions with NOAA.

Further information regarding existing and potential environmental remediation liabilities is contained in Appendix D—King County Water Quality Enterprise Fund 2019 Audited Financial Statements—Notes 8 and 13.

*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.

The orca population in Puget Sound has been on the list of endangered species since 2005. The Southern Resident Killer Whale Task Force (the “Task Force”) convened by the Governor issued its final report with recommendations on November 7, 2019, after extensive public review and comment.

With respect to the wastewater utility sector, one of the Task Force's recommendations is currently being implemented by Ecology: developing a framework for NPDES permits for advanced treatment to reduce nutrients in wastewater discharges to Puget Sound. The Task Force also recommended that Ecology expedite development of a prioritized list of chemicals of emerging concern that threaten the health of orcas and their prey. Ecology, in collaboration with the Puget Sound Ecosystem Monitoring Program's Toxics work group, is working with regional partners to conduct a risk-based contaminants of emerging concern prioritization. The report also recommended that Ecology improve pollution permitting to reduce contaminant exposure of orcas and their prey by updating aquatic life water quality standards and developing stronger pre-treatment standards for municipal wastewater discharges under NPDES permits.

At this time, the County cannot predict the impact on its operations of any changes in its NPDES permits that Ecology may initiate based on recommendations made by the Task Force.

*Revisions to State Water Quality Standards.* Following several years of development, Ecology submitted new water quality standards for human health protection to EPA on August 1, 2016, for approval. On November 15, 2016, EPA partially approved Ecology's proposal, but disapproved most of the standards and published lower (more stringent) standards. The rule sets applicable human health standards for State water bodies to adequately protect residents from exposure to toxic pollutants. The adopted water quality standards include substantial revisions to previous assumptions, including the fish consumption rate used in the criteria derivation process used to calculate the criterion for each regulated contaminant. The majority of both the Ecology- and EPA-adopted criteria were substantially more stringent than the previous version of the State's applicable human health water quality standards.

In a reversal of position, EPA approved Ecology's originally proposed criteria in May 2019 and announced that the EPA-adopted criteria would be rescinded (a process that was completed on March 25, 2020). The State's Attorney General filed suit in June 2019 challenging EPA's reversal in position, claiming that it would create confusion and disrupt the work the State had already completed to implement the standards. Until the lawsuit is resolved, a question remains over which standards will be enforced and applied within the State.

The Sewer System's secondary and CSO treatment facilities must operate in compliance with all standards that apply to those discharges. The NPDES permits for both the Vashon and Brightwater treatment plants were renewed in consideration of the initial and most restrictive criteria adopted in November 2016 and resulted in no changes to the effluent limitations for these facilities. The County will continue to monitor progress of Ecology's lawsuit, and implementation of the water quality standards and the potential effects of any proposed changes to effluent limitations of the Sewer System's discharges.

## **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. Damage to components of the Sewer System could cause a material increase in costs for repairs and a material adverse impact on Revenue of the System. The County is not obligated under the 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 and include the elevation of critical components, installing barriers (tide gates and flaps), and siting new facilities at higher ground for protection from possible future intrusion and corrosion. Studies at that time 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. New studies on the risk of sea level rise at WTD facilities are in progress and are expected to be completed before the end of 2020.

WTD and WLRD contracted with researchers at the University of Washington to develop new projections for precipitation in the region. Results from the May 2018 report show the potential for large increases in future rain intensity, but with results differing substantially among seasons and across climate scenarios. WTD staff will be using the results of this research to complete studies in 2020 that will model the possible impacts of these changes on wastewater conveyance and treatment.

### **Strategic Climate Action Plan**

The County is developing an updated Strategic Climate Action Plan (“SCAP”), which is expected to be transmitted to the County Council by July 31, 2020. For more information on the SCAP, see “Other Considerations—Climate Change and the County’s Strategic Climate Action Plan.”

In furtherance of the existing SCAP, the County required WTD to achieve carbon neutrality in its operations, including embodied carbon, by 2025. WTD has estimated that, in 2019, 72% of its total GHG emissions were being offset through the application of biosolids as a soil amendment on farms and forests (which stores carbon in the soil, promotes plant growth that further removes carbon from the atmosphere, and replaces commercial fertilizer that is fossil-fuel intensive to produce).

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, WTD estimates that, due to the land application of biosolids and carbon offsets purchased from WLRD, WTD has been carbon-neutral for its operations, excluding embodied carbon, since 2016. In 2017, 2018, and 2019, WTD paid WLRD for carbon offsets to address emissions not offset by biosolids and purchased offsets for 22,960, 18,108, and 23,056 metric tons of carbon dioxide equivalent, respectively. Annual costs for the offsets have been less than \$300,000.

Since mid-2019, electric energy purchased for the South Plant and other WTD facilities in the service territory of Puget Sound Energy (“PSE”) has been 100% renewable. The County entered into a ten-year contract with PSE in 2019 for green energy from a wind facility in western Washington. The cost of these purchases has been included as operating expenses in the “Projected Financial Statements” herein.



WTD evaluates 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 in its operations, including embodied carbon, by 2025. Although the costs of current carbon reduction initiatives are reflected in the CIP, additional costs that may be incurred to achieve carbon neutrality by 2025 cannot be determined at this time.

### **Cybersecurity**

WTD has implemented cybersecurity measures including isolating its distributed control system (“DCS”) network from the corporate network and controlling access to the DCS network, using a variety of tools such as anti-virus clients, patch management, internal firewalls, and centrally managed policies and permissions. WTD has allocated up to \$1.2 million to a control system upgrade (which began in 2019, with completion expected in September 2020) to purchase additional software and hardware intended to further tighten security and identify and resolve potential threats. Notwithstanding these and other cybersecurity measures, a cybersecurity breach could damage WTD systems and cause material disruption to operations and services. The cost to remedy such damage or protect against future attacks could be substantial. See “King County—Risk Management and Insurance” for a discussion of the cyber liability insurance maintained by the County.

## **KING COUNTY**

### **Impact of COVID-19**

The effect that the COVID-19 pandemic is having and will have on the County is significant, and the nature of the impact is likely to evolve over the next several years. Although the County does not yet have sufficient information to quantify the direct impact of the COVID-19 pandemic on the County’s finances, it expects that County tax and other revenues will be materially adversely affected. As of May 19, 2020, the County’s Office of Economic and Financial Analysis predicts the County will experience a serious recession of unknown depth and duration. There is great uncertainty about future effects of COVID-19, the economic effects that have already occurred and will occur, and future federal responses.

Many County funds, including the General Fund, receive most or all of their revenue from property taxes. Although the values of certain properties will likely be adversely affected by COVID-19, the system of property taxation used in the State largely protects the annual amount of property tax revenues received by senior taxing districts like the County from the effect of lowered property tax values.

The County uses a biennial budget on a calendar-year basis, and is starting the process to develop its 2021-2022 budget. As of May 19, 2020, very preliminary forecasts suggest a biennial deficit of about \$150 million for the General Fund, which is about 8% of expected revenue. The County plans to address this through finding efficiencies in service delivery, using revenue from the rent for the right-of-way recently upheld by the State Supreme Court, reducing growth in employee compensation, utilizing potential federal funding, cutting services and costs if necessary, and using reserves.

Upon the President's emergency declaration in response to COVID-19, the County became eligible to access the FEMA Public Assistance program to support certain extraordinary operating costs incurred. The County also is receiving funding under the CARES Act, including additional FEMA funding, Coronavirus Relief Fund appropriations, additional Community Development Block Grants, transit, airport, and other funding. The County received a direct allocation of \$261.6 million in Coronavirus Relief Funds to pay for necessary expenditures incurred due to the public health emergency that were not included in the County's budget and other more targeted funding. With very few exceptions, relief funds must be used to reimburse or pay COVID-19-related expenses and are not available to replace lost tax and other revenues. The County's Office of Performance, Strategy and Budget, Office of Emergency Management, and Finance and Business Operations Division have developed a coordinated approach to track County expenses and match them with available funding sources. As of May 19, 2020, the County expects that almost all of its direct costs for COVID-19 response will be covered with federal or State funds.

***The forecast information described in this section is a "forward-looking statement," speaking only as of its date. Actual results may differ materially.***

## **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 or by intergovernmental contract.

## **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 members of 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 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 ("PSB").

The PSB, under the direction of the County Executive, is responsible for (i) preparation and management of the operating and capital budgets, (ii) expenditure and revenue policy, and (iii) planning and growth management. Since 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. 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 includes four 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 managing the County's procurement and contracting practices.

### **Auditing**

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, 2018, and is incorporated into the County's Comprehensive Annual Financial Report ("CAFR") for 2018.

The County's 2018 CAFR in its entirety may be accessed on the internet at the following link:

<https://www.kingcounty.gov/depts/finance-business-operations/financial-management/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.

The financial statements of the Water Quality Enterprise Fund as of and for the fiscal year ended December 31, 2019, included herein as Appendix D, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing therein. The County has not requested that Moss Adams LLP provide permission for inclusion of its report on the audited financial statements included in this Official Statement, and Moss Adams LLP has not performed, since the date of its report included therein, 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.

### **King County Investment Pool**

The Investment Pool invests cash reserves for all County agencies and approximately 110 other public entities such as fire, school, sewer, and water districts. It had an average asset balance of more than \$7.3 billion during 2019. Assets of County agencies in 2019 averaged approximately 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, bankers’ acceptances, corporate notes, and commercial paper. A summary of the County’s current investment policy is attached as Appendix E.

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 March 31, 2020, 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:

*<https://kingcounty.gov/depts/finance-business-operations/treasury/investment-pool.aspx>*

### **County Employees**

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

**TABLE 15  
COUNTY EMPLOYEES**

<b><u>Year</u></b>	<b><u>Full-time</u></b>	<b><u>Part-time</u></b>
2014	13,319	866
2015	13,614	929
2016	13,821	883
2017	14,395	872
2018	14,652	943
2019	15,198	957

*Source: King County Finance and Business Operations Division—Benefits, Payroll, and Retirement Operations Section*

The County’s Office of Labor Relations negotiates, implements, and administers 81 collective bargaining agreements with 33 unions covering the terms of employment for the County’s approximately 12,000 represented employees.

An agreement with a coalition of County unions covers the majority of labor contracts and a total of 5,900 employees (approximately 45% of total employees) for the 2019-2020 biennium. The agreement provides for a 4.00% wage increase for 2019 and for two subsequent increases of 1.50% each on January 1, 2020, and July 1, 2020. A majority of other unions not part of the coalition agreed to similar terms.

Negotiations with other unions not part of the coalition have been essentially completed. The County has concluded negotiations with the King County Police Officers Guild. The ratified contract, which has been adopted by the County Council, provides for retroactive pay increases of 2.25%, 3.25%, 4.00%, and 3.25%, respectively, for the years 2017 through 2020 and an increase of 3.25% for 2021. The County has also received an arbitration decision for the King County Corrections Guild. The decision provides for retroactive general wage increases for the years 2017 through 2019 of 2.25%, 3.00%, and 3.00%, respectively.

The Amalgamated Transit Union, the largest union in the County, representing approximately 4,200 employees, has ratified a three-year agreement for the years 2020 through 2022 that calls for increases of 3% for 2020, 3% for 2021, 2% for the first half of 2022, and an additional 2% in the second half of 2022. This contract is expected to be adopted by the County Council.

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 Systems

Substantially all full-time and qualifying part-time employees of the County are covered by one of the following retirement systems:

**TABLE 16**  
**RETIREMENT SYSTEMS**

<b>Number of Employees As of December 31, 2019</b>	<b>Retirement System</b>
13,585	State of Washington—Public Employees Retirement System (“PERS”)
818	State of Washington—Law Enforcement Officers and Fire Fighters Retirement System (“LEOFF”)
459	State of Washington—Public Safety Employees Retirement System (“PSERS”)

*Source: King County Finance and Business Operations Division—Benefits, Payroll, and Retirement Operations Section*

These retirement systems are State-wide governmental cost-sharing, multiple-employer retirement systems administered by the State’s Department of Retirement Systems (“WSDRS”). The County administers payroll deductions and remits the deductions together with County contributions to the respective retirement systems annually.

**TABLE 17  
OVERVIEW OF RETIREMENT PLANS**

<b>Retirement System/Plan</b>	<b>Benefit Type</b>	<b>Plan Status</b>
PERS - Plan 1	Defined Benefit	Closed in 1977
PERS - Plan 2	Defined Benefit	Open
PERS - Plan 3	Defined Benefit/Defined Contribution Hybrid	Open
PSERS - Plan 2	Defined Benefit	Open
LEOFF - Plan 1	Defined Benefit	Closed in 1977
LEOFF - Plan 2	Defined Benefit	Open

*Source: State Department of Retirement Systems*

In addition to these programs, 22 County employees who were employees of Seattle’s Health Department and Seattle Transit, both of which were taken over by the County, participate in the Seattle City Employees Retirement System Plan 1.

In 2012, GASB approved Statement Nos. 67 and 68 (“GASB 67” and “GASB 68,” respectively), which modify the accounting and financial reporting of pensions by state and local governments and pension plans. GASB 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. GASB 68, Accounting and Financial Reporting for Pensions, established new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements changed how governments calculate and report the costs and obligations associated with pensions. The WSDRS-administered plans are subject to GASB 67; the County is subject to GASB 68. GASB 67 was effective in Fiscal Year 2014; GASB 68 was effective in Fiscal Year 2015.

Each biennium, the State establishes contribution rates for the WSDRS-administered retirement plans. Retirement funds are held in the Commingled Trust Fund and invested by the State Investment Board (the “WSIB”), a 15-member board created by the State Legislature. The average annual dollar-weighted investment return of the Commingled Trust Fund for the ten-year period from July 1, 2009, to June 30, 2019, was 10.31%. The actuarial assumptions used in the most recent rate calculations are summarized in Table 18.

**TABLE 18  
ACTUARIAL ASSUMPTIONS FOR FUNDING CALCULATIONS**

Investment return	7.50% <sup>(1)</sup>
General salary increases	3.50
Consumer Price Index increase	2.75
Annual growth in membership	0.95

(1) Assumed rate of 7.40% for LEOFF Plan 2.

*Source: 2018 Actuarial Valuation Report from the Office of the State Actuary*

The County's employer and employee contribution rates and contribution amounts for all WSDRS-administered plans for the fiscal year ended December 31, 2019, and current contribution rates for 2020 are shown in Table 19.

**TABLE 19**  
**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>2019</b>						
Average Employer Contribution Rate (%)	12.85 <sup>(1)</sup>	12.85 <sup>(1)</sup>	12.85 <sup>(1)</sup>	0.18 <sup>(1)</sup>	5.38 <sup>(1)</sup>	12.26 <sup>(1)</sup>
Average Employee Contribution Rate (%)	6.00 <sup>(2)</sup>	8.23 <sup>(2)</sup>	Varies <sup>(2)(3)</sup>	0.00	8.82	8.54
Employer Contribution Amount (\$000)	1,539	118,591	23,555	-	5,239	4,909
Employee Contribution Amount (\$000)	535	75,988	13,906	-	8,588	3,420
Total Contribution Amount (\$000)	2,074	194,579	37,461	-	13,827	8,329
<b>2020</b>						
Employer Contribution Rate (%)	12.86 <sup>(1)</sup>	12.86 <sup>(1)</sup>	12.86 <sup>(1)</sup>	0.18 <sup>(1)</sup>	5.33 <sup>(1)</sup>	12.14 <sup>(1)</sup>
Employee Contribution Rate (%)	6.00 <sup>(2)</sup>	7.90 <sup>(2)</sup>	Varies <sup>(2)(3)</sup>	0.00	8.59	7.20

Note: Totals may not add due to rounding.

- (1) The employer contribution rate includes an employer administrative expense fee of 0.18%.
- (2) 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.
- (3) 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.

*Sources: King County Finance and Business Operations Division—Financial Management Section and WSDRS*

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 statutorily required contribution to 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 2018 Actuarial Valuation Report (published September 2019), which can be found on the Office of the State Actuary's website at:

<http://leg.wa.gov/osa/pensionfunding/Pages/Valuations.aspx>

*Retirement System Funded Status.* Information regarding the funded status from the most recent actuarial report for each WSDRS-administered plan (as of June 30, 2018) is shown in Table 20.

**TABLE 20**  
**RETIREMENT SYSTEM FUNDED STATUS<sup>(1)</sup>**  
**(\$000,000)**

		2017 Actuarial Accrued Liability	2017 Actuarial Valuation of Assets <sup>(2)</sup>	2017 UAAL <sup>(3)</sup>	2017 Funded Ratio %	2016 Funded Ratio %	2015 Funded Ratio %
Plan Status		(a)	(b)	(a-b)	(b/a)	(b/a)	(b/a)
PERS - Plan 1	Closed in 1977	\$ 12,341	\$ 7,042	5,299	57 %	56 %	58 %
PERS - Plan 2/3	Open	37,166	33,191	3,975	89	87	88
PSERS - Plan 2	Open	506	480	25	95	94	95
LEOFF - Plan 1	Closed in 1977	4,121	5,403	(1,282)	131	126	125
LEOFF - Plan 2	Open	10,160	11,037	(878)	109	105	105

(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. Totals may not agree due to rounding.

*Sources: 2018 Actuarial Valuation from the Office of the State Actuary*

As shown in Table 20, 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.

Table 21 shows historical investment returns for retirement funds held in the WSDRS-administered plans.

**TABLE 21**  
**HISTORICAL ONE-YEAR INVESTMENT RETURNS ON RETIREMENT FUNDS**

<u>Year</u>	<u>Investment Return<sup>(1)</sup></u>
2010	13.2
2011	21.1
2012	1.4
2013	12.4
2014	17.1
2015	4.9
2016	2.7
2017	13.4
2018	10.0
2019	8.4

(1) As of June 30.

*Source: Washington State Investment Board*



The County implemented GASB 68 for the year 2015. In accordance with GASB 68, the County elected to use June 30, 2017, as the measurement date for reporting net pension liability. Table 22 represents the County's share of aggregate pension amounts for all pension plans subject to the requirements of GASB 68.

**TABLE 22**  
**AGGREGATE PENSION AMOUNTS—ALL WSDRS-ADMINISTERED PLANS, 2017**  
**(\$000)**

Net pension liabilities	\$558,531
Net pension assets	60,414
Deferred outflows of resources	113,235
Deferred inflows of resources	241,106
Pension expense/expenditures	30,541

*Source: 2018 CAFR—Note 9*

For more information on employee retirement plans, see the County's Water Quality Enterprise Fund 2019 Audited Financial Statements, attached as Appendix D, and the County's 2018 CAFR.

### **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, 2018, the County contributed an actuarially estimated \$5.6 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, 2018, the County's net OPEB obligation was \$111.4 million.

For additional information regarding the County's OPEB liability, see the County's 2018 CAFR—Note 10.

### **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 purchases reinsurance and excess liability insurance above a \$7.5 million per occurrence self-insured retention ("SIR") for Metro Transit and a \$6.5 million SIR per occurrence for non-Metro Transit operations. The County maintains \$67.5 million in limits above the SIR for Metro Transit claims and \$68.5 million in limits above the SIR for non-Metro Transit operations. The County maintains \$62.5 million in limits for public official errors and omissions and professional liability claims and \$52.5 million in limits for medical malpractice claims.

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

**TABLE 23  
INSURANCE POLICIES**

<b>COVERAGE</b>	<b>LIMITS</b>
Combined Property Damage and Extra Expense for covered County property (includes \$100 million earthquake and \$250 million flood)	\$750 million
Stand-Alone Terrorism Insurance for covered County property (excluding the airport)	\$500 million
Airport Liability	\$300 million
Airport Property Damage and Extra Expense for covered airport property (includes \$50 million earthquake and \$100 million flood)	\$197 million
Fiduciary Liability	\$20 million
Fiduciary Liability-Investment Pool	\$10 million
Crime Insurance/Employee Dishonesty	\$2.5 million
Aviation (Police Helicopter) Program	\$50 million
Excess Workers' Compensation	Statutory above \$2 million deductible per occurrence
Marine Liability	\$150 million
Cyber Liability	\$30 million
Cedar Hill Pollution Legal Liability	\$50 million

The balance of current assets in the Insurance Fund was \$76.9 million as of December 31, 2018. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2018, was \$70.5 million.

For additional information, see the County's 2018 CAFR—Note 11.

### **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.

## **OTHER CONSIDERATIONS**

*The purchase of the Bonds involves investment risk. Prospective purchasers of the Bonds should consider carefully all of the information set forth in this Official Statement, including its appendices, evaluate the investment considerations and merits of an investment in the Bonds, and confer with their own tax and financial advisors when considering a purchase of the Bonds.*

The following section discusses some of the other factors affecting the County and the Bonds. The following discussion cannot, however, describe all of the factors that could affect the County and the Bonds. In addition to these known factors, other factors could affect the County and the Bonds.

### **Federal Budget**

The County receives operating, health, public employment, and capital improvement grants from the federal government (either directly or indirectly through the State or local governmental agencies). In 2018, the County received \$93.4 million in federal grant revenue (64.4% of total 2018 grant revenue received by the County). These federal grant funds may be adversely impacted by federal legislative and executive actions, including cuts to federal spending. Federal funding is subject to federal contract requirements as well as federal legislative action, including through the federal budget process.

### **Cybersecurity**

The County, like many other large public and private entities, relies on a complex technology environment to conduct its operations and support the community it serves. The County has invested in cybersecurity protections in recent years that include staffing, a restructure of its security office, technology tools; and policies, standards, and processes. Notwithstanding these and other cybersecurity measures, a cybersecurity breach could damage County systems and cause material disruption to operations and services. The cost to remedy such damage or protect against future attacks could be substantial. Security breaches could expose the County to litigation and other legal risks, which could cause the County to incur costs related to legal or regulatory claims. Since 2015, the County has maintained cyber liability insurance to help offset these financial risks. See "King County—Risk Management and Insurance."

### **Climate Change and the County's Strategic Climate Action Plan**

There are potential risks to the County associated with long-term changes in climate and associated changes in the frequency, timing, and severity of extreme weather events. Expected impacts include sea level rise, more intense heavy rain events, more intense summer heat events, lower and warmer summer streamflows, ocean acidification, and an increased risk of flooding, drought, landslides, and forest fires. The County is preparing for a changing climate and the resulting economic, infrastructure, health, and other community impacts by integrating consideration of climate change into decision making and implementing mitigation and preparedness actions that enhance the resilience of County services, infrastructure, assets, and natural resources.

The County's SCAP is a five-year blueprint for County action to confront climate change, integrating climate change into all areas of County operations and its work in the community.

In 2015, the County updated its existing SCAP and strengthened 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 transit, provide land use planning and community design supporting transportation choices, reduce non-renewable energy use and increase production of renewable energy, 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. A copy of the SCAP can be found on the County’s website at

*<https://www.kingcounty.gov/services/environment/climate/strategies/strategic-climate-action-plan.aspx>.*

While the County cannot predict precisely how, when, and where specific climate impacts will occur, there will be climate impacts on the County. Although the County has not yet developed a methodology for precisely quantifying the impact climate change will have on the County, its population, or its operations, based on current County projections, the County anticipates that the costs could be significant and could have a material adverse effect on the County’s finances over time by requiring greater expenditures to counteract the effects of climate change.

### **COVID-19 Pandemic**

As discussed herein, the COVID-19 pandemic is affecting many parts of the world, including the State and local region. The impact that the COVID-19 pandemic is having and will have on commerce, financial markets, the State, and the region is significant, and the nature of the impact is likely to evolve over the next several years. The County has provided the information contained in this Official Statement to describe some of the impacts that the COVID-19 pandemic and related orders have had on the County’s finances and operations, and to describe some of the actions that the County is taking in response. The County cannot predict the duration and extent of the COVID-19 public health emergency, or quantify the magnitude of the impact on the State and regional economy or on the other revenues and expenses of the County. The COVID-19 outbreak is ongoing, and its dynamic nature leads to many uncertainties, including (i) the geographic spread of the virus; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) actions that may be taken by governmental authorities to contain or mitigate the outbreak; (v) the development of medical therapeutics or vaccinations; (vi) travel restrictions; (vii) the impact of the outbreak on the local or global economy; (viii) whether and to what extent the State Governor may order additional public health measures; and (ix) the impact of the outbreak and actions taken in response to the outbreak on County revenues, expenses, and financial condition. Prospective investors should assume that the restrictions and limitations instituted related to COVID-19 may continue, and the current upheaval to the national and global economies may continue and/or be exacerbated, at least over the near term, and the recovery may be prolonged.

### **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% (initiatives) 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.

### **Future Initiatives and Legislative Action**

Additional initiative petitions may be filed in the future. The County cannot predict whether any such initiatives will qualify to be submitted to the voters or, if submitted, will be approved. Likewise, the County cannot predict what actions the Legislature might take, if any, regarding any future initiatives approved by the voters.

## **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.

The County is party to litigation in its normal course of business. The County's 2018 Comprehensive Annual Financial Report includes Note 19 concerning non-tort legal matters. As to tort litigation, the County and its agencies are a party to litigation involving tort claims. 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.

*Recent Developments in Non-Tort Litigation.* Certain class action litigation is described in Note 19 to the County's 2018 Comprehensive Annual Financial Report.

## **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 Pacifica Law Group LLP, Bond Counsel. The form of Bond Counsel's opinion is attached as Appendix C. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of issue 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.

Pacifica Law Group LLP also is serving as Disclosure Counsel to the County.

Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Seattle, Washington. Any opinion of such firm will be rendered solely to the Underwriter and cannot be relied on by investors.

## **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 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 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 Ordinance, the rights and obligations under the Bonds and the 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. The opinions to be delivered by Pacifica Law Group LLP, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to such limitations. The form of Bond Counsel's opinion is set forth in Appendix C.

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.

The Bonds are payable from and secured by a pledge of Revenue of the System as described in the Ordinance. Under Chapter 9, creditors secured by a pledge of "special revenues" are granted certain protections in cases brought by municipalities. 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 of Revenue of the System is enforceable if a bankruptcy court determines that Revenue of the System is considered "special revenues" under Chapter 9 and that the

pledge (in the form of a lien and charge) of Revenue of the System pursuant to the 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 is 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 and charge against 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.

### **Tax Matters**

*General.* In the opinion of Bond Counsel, under existing law and subject to certain qualifications described below, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The proposed form of opinion of Bond Counsel with respect to the Bonds to be delivered on the date of issuance of the Bonds is set forth in Appendix C.

The Code contains a number of requirements that apply to the Bonds, and the County has made certain representations and has covenanted to comply with each such requirement. Bond Counsel's opinion assumes the accuracy of the representations made by the County and is subject to the condition that the County comply with the above-referenced covenants. If the County fails to comply with such covenants or if the County's representations are inaccurate or incomplete, interest on the Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Except as expressly stated herein, Bond Counsel expresses no opinion regarding any tax consequences related to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

*Post Issuance Matters.* The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The interest rate mode and certain requirements and procedures contained in or referred to in the Mode Agreements and other documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth

in such documents. Bond Counsel expresses no opinion herein as to the effect on the exclusion from gross income for federal income tax purposes of interest on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Pacifica Law Group LLP.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the County or the Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the County and its appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the County or the Owners to incur significant expense.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

*Not Bank Qualified.* The County has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

## **CONTINUING DISCLOSURE UNDERTAKING**

In connection with the issuance and delivery of the Bonds, the County will execute a certificate (a "Continuing Disclosure Certificate"), pursuant to which it will covenant for the benefit of the owners and the "Beneficial Owners" (as defined in the Continuing Disclosure Certificate), pursuant to Securities and Exchange Commission Rule 15c2-12, to provide certain financial information and operating data not later than the end of nine months after the end of each of the County's fiscal years (currently, December 31), commencing with the report for the fiscal year ended December 31, 2020, and to provide notices of the occurrence of certain enumerated events with respect to the Bonds. The information will be filed by or on behalf of the County with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. See Appendix F for the form of the Continuing Disclosure Certificate to be executed in connection with the Bonds.

*Prior Compliance.* The County has entered into written undertakings under Rule 15c2-12 with respect to all of its obligations subject thereto. In reviewing its continuing disclosure filings on EMMA, the County notes the following. The County has undertaken to provide information regarding customers, revenues, and expenses of the Sewer System, in connection with outstanding sewer revenue bonds and certain LTGO bonds payable from sewer revenues. Although the



County provided the information on customers, revenues, and expenses of the Sewer System within its CAFR and the Sewer System financial statements, it has not provided the full table as shown in its original disclosure. The County timely filed notice of the Fitch rating upgrade of certain LTGO bonds in April 2016. This notice was not linked to the County's Limited Tax General Obligation Bonds, Series 2007D. Although the County annually timely filed its CAFRs for County-issued bonds, the 2013 CAFR was not linked and the 2012 CAFR was not timely linked to the CUSIPs for the Housing Authority of King County Revenue Bonds, 2008 (Greenbridge Redevelopment—Eastbridge Apartments Project). On September 20, 2017, the County filed notice on EMMA in connection with the foregoing items, and all CUSIPs have now been properly linked.

## **OTHER INFORMATION**

### **Ratings**

The Bonds have been rated Aa2 and AA by Moody's Investors Service and S&P Global Ratings, 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.

### **Municipal Advisor**

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

### **Underwriting**

The Bonds are being purchased by J.P. Morgan Securities LLC ("JPMS"), acting as the Underwriter for the Bonds. The purchase contract for the Bonds provides that JPMS will purchase all of the 2020A Bonds, if any are purchased, at an aggregate purchase price of \$100,172,212.46 (representing the principal amount of the 2020A Bonds less underwriter's discount of \$122,787.54), and all of the 2020B Bonds, if any are purchased, at an aggregate purchase price of \$100,172,212.46 (representing the principal amount of the 2020B Bonds less underwriter's discount of \$122,787.54).

JPMS has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

JPMS and its affiliates together are a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, advisory, investment management, principal investment, hedging, financing, and brokerage activities. JPMS and its affiliates have, from time to time, performed, and may in the future perform, investment banking services for the County for which they received or will receive customary fees and expenses.

JPMS is not acting as a financial or municipal advisor to the County in connection with the underwriting of the Bonds.

In the ordinary course of their various business activities, JPMS and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments of the County. JPMS and its affiliates may also communicate independent investment recommendations, market color, or trading ideas and/or publish or express independent research views in respect of such assets, securities, or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities, and instruments.

### **Potential Conflicts of Interest**

Some of the fees of the Underwriter, Bond Counsel/Disclosure Counsel, Underwriter's Counsel, and Municipal Advisor are contingent upon the sale of the Bonds. From time to time Bond Counsel/Disclosure Counsel or Underwriter's Counsel may serve as counsel to the County, the Underwriter, and other parties involved with the Bonds with respect to transactions other than the issuance of the Bonds.

### **Official Statement**

All forecasts, estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not intended to be construed as a contract or agreement between the County and the purchasers or holders of any of the Bonds. The information contained in this Official Statement is presented for the guidance of prospective purchasers of the Bonds described herein. The information has been compiled from official sources and, while not guaranteed by the County, is believed to be correct.

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 knowledge and belief of such official(s) at the date of this Official Statement and as of the delivery date of the Bonds, the Official Statement (as it may have been amended or supplemented prior to the delivery date of the Bonds) did not and does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (however, the County will make no representation regarding Bond Counsel's forms of opinions or the information provided by DTC, U.S. Bank National Association, or the Underwriter of the Bonds).

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

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## **APPENDIX A**

### **SUMMARY OF CERTAIN DEFINITIONS AND OTHER BOND PROVISIONS OF THE ORDINANCE**

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## SUMMARY OF THE BOND ORDINANCE

Ordinance 18898 of the County (the “Bond Ordinance”), passed by the County Council on May 22, 2019, authorizes the issuance of junior lien sewer revenue refunding bonds and multi-modal limited tax general obligation refunding bonds (payable from sewer revenues) of the County for the purpose of refunding outstanding obligations of the County payable from sewer revenues. The Bonds are authorized series of junior lien sewer revenue refunding bonds issued under the Bond Ordinance.

Certain provisions of the Bond Ordinance are summarized in the Ordinance. 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., 1420 Fifth Avenue, Suite 1425, Seattle, Washington 98101, or to the Finance and Business Operations Division of the County.

**Deemed Consent to Springing Amendments:** The County Council adopted an ordinance on June 23, 2020 (the “Springing Amendment Ordinance”), authorizing additional series of junior lien sewer revenue refunding bonds and multi-modal limited tax general obligation refunding bonds (payable from sewer revenues) of the County. Pursuant to the Springing Amendment Ordinance, the County may adopt springing amendments on the "Springing Amendment Date" or the date when the requisite percentage of the owners of: (a) the Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2017A and Series 2017B, dated October 26, 2017, authorized by Ordinance 18581 of the county; (b) the Multi-Modal Limited Tax General Obligation Refunding Bonds and Junior Lien Refunding Bonds refunded pursuant to Ordinance 18898 of the county (including the Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019A and Series 2019B of the county, dated June 27, 2019); (c) the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, dated August 15, 2001, authorized by Ordinances 14171 and 14172 of the county, respectively (to be refunded with the proceeds of the Bonds); (d) of the Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011, dated October 26, 2011, authorized by Ordinance 17202 of the county (to be refunded with the proceeds of the Bonds); and (e) the Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, dated December 27, 2012, authorized by Ordinance 17495 of the county have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity Bonds, and Annual Debt Service set forth in the Springing Amendment Ordinance.

The Springing Amendment Ordinance further provides that such consent may be obtained before or after the effective date of Springing Amendment Ordinance in the connection with the remarketing or refunding of one or more of the foregoing bonds, with the deemed consent of bondowners in connection with the purchase of such remarketing or refunding bonds. As provided in the Mode Agreement, by their purchase of the Bonds, Bondowners consent to the springing amendments. **The springing amendments are shown in bold, double underlined text, in the following summary of the Bond Ordinance, to show how the provisions of the Springing Amendment Ordinance will amend provisions of the Bond Ordinance on the Springing Amendment Date.**

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 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 shall be determined by straight-line interpolation as of the immediately preceding and the immediately succeeding compounding dates.

"Agency Customer" means any city, town, water-sewer district or other political subdivision, person, firm, private corporation or other entity that collects sewage from customers and disposes of any portion of that sewage into the System and is not a Participant.

"Annual Debt Service" means, for the applicable 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.

a. 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 (e.g., any Debt Service Offsets shall be deducted from Annual Debt Service) and, on and after the Springing Amendment Date, interest on any Balloon Maturity Bond shall also be excluded.

b. Prior to the Springing Amendment Date, the [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 Ordinance, the actual amount of interest paid on any issue of variable rate obligations will be taken into account. On and after the Springing Amendment Date, the amount of interest deemed to be payable on any on any such designated obligations bearing interest at a variable rate will be calculated on the assumption that the interest rate on those bonds would be equal to the rate ("the assumed variable rate") that is the average of the SIFMA



**Municipal Swap Index over the 10 calendar years 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 covenant, the actual amount of interest paid on any issue of variable rate obligations shall be taken into account.**

2. **Prior to the Springing Amendment Date, the** [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. **On and after the Springing Amendment Date, the principal due (at maturity or upon mandatory redemption prior to their maturity) for such designated obligations other than any Balloon Maturity Bond: (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. **Prior to the Springing Amendment Date,** 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.b. of this definition (if such designated obligations bear interest at a variable rate). **On and after the Springing Amendment Date, the Assumed Debt Service for any Balloon Maturity Bond for that calendar year.**

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 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 shall 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.

**On and after the Springing Amendment Date, "Assumed Amortization Period" means an assumed amortization period for a Balloon Maturity Bond as specified in a closing certificate of the Finance Director designating the Balloon Maturity Bond. An Assumed Amortization Period may not be longer than the lesser of: (a) the useful life, as of the date of designation, of the assets being financed; and (b) 75 years. The Assumed Amortization Period for a Balloon Maturity Bond applies (e.g., is not reset) until the Balloon Maturity Bond, and any Balloon Maturity Bond issued to refund that Balloon Maturity Bond, is no longer outstanding.**

**On and after the Springing Amendment Date, "Assumed Debt Service" for any Balloon Maturity Bond for any calendar year means an amount equals to the principal and interest that would be payable in each calendar year if that Balloon Maturity Bond were amortized over the Assumed Amortization Period on a substantially level debt service basis, calculated based on the actual interest rate on the Balloon Maturity Bond, if fixed, and based on the average of the SIFMA Municipal Swap Index over the 10 calendar years preceding the quarter in which the calculation is made, if variable.**

"Balloon Maturity Bonds" means, **prior to the Springing Amendment Date**, any obligations of the System, the entire principal amount of which is due at maturity without serial bond payments or sinking fund redemption payments. **On and after the Springing Amendment Date, "Balloon Maturity Bonds" means scheduled principal maturity of any Series of obligations of the System that the county designates in the closing certificate of the Finance Director for that Series to be a Balloon Maturity Bond for the purposes of the definition of Annual Debt Service. Any Balloon Maturity Bond includes any corresponding scheduled principal maturity of any such designated obligations issued to refund such Balloon Maturity Bond unless the Balloon Maturity Bond designation is rescinded in a closing certificate of the Finance Director in connection with the refunding.**

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

"Bonds" means the bonds of the County authorized to be issued under the Ordinance to refund any Refunded Bonds. The Bonds may be issued in one or more series of Junior Lien Obligations and/or may be issued in one or more series of Multi-Modal LTGO/Sewer Revenue Bonds, as provided in the Ordinance.

"Certified Public Accountant" means an independent certified public accountant (or firm of certified public accountants) selected by the County and having a favorable national reputation.

"Capital Appreciation Bonds" means any obligations of the System the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such obligations; provided, that obligations 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 such obligations no longer are Capital Appreciation Bonds, they shall be deemed outstanding in a principal amount equal to their Accreted Value.

"Comprehensive Plan" means the County's comprehensive water pollution abatement plan authorized by RCW 35.58.200 and defined in K.C.C. 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, and/or purchase price of, any series of Bonds. As of this date, there is no Credit Enhancement for 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 shall include 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 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 shall include 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 Bonds. As of this date, there is no Credit Provider for the Bonds.

"Customers" means Residential Customers and Residential Customer Equivalents as defined and determined in the existing Service Agreements.

"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 federal interest subsidy payments, and (ii) pledged to the payment of obligations payable from Revenue of the System.

"Future Junior Lien Obligations" 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 currently outstanding Junior Lien Obligations.

"Future Multi-Modal LTGO/Sewer Revenue Bonds" means any limited tax general obligation bonds that may be issued in the future that are additionally secured by a lien on Revenue of the System on a parity with the lien thereon of the currently outstanding Multi-Modal LTGO/Sewer Revenue Bonds.

"Future Subordinate Lien Obligations" means those revenue bonds or other revenue obligations that may be issued by the County in the future with a lien on Revenue of the System junior and inferior to the lien thereon of the Multi-Modal LTGO/Sewer Revenue Bonds, and payable from Revenue of the System that is available after first making the payments required to be made under paragraph "First" through "Seventh" but before making the payments required to be made under paragraph "Ninth" of the "Flow of Funds."

"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 currently outstanding Parity Bonds.

"Future Parity Lien Obligations" means any limited tax general obligation bonds that may be issued in the future that are additionally secured by a lien on Revenue of the System on a parity with the lien thereon of the currently outstanding Parity Lien Obligations.

"Junior Lien Bond Fund" means the "King County, Washington, Junior Lien Obligation Redemption Fund" created pursuant to Ordinance 14171, Section 5.01, of the County for the purpose of paying and securing the payment of the Junior Lien Obligations.

"Junior 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 Junior Lien Bond Fund to pay and secure the payment of principal of and interest on the Junior Lien Obligations.

"Junior Lien Obligations" means the outstanding Junior Lien Obligations, any series of Bonds issued as Junior Lien Obligations, and any other Future 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 any series of Bonds upon the tender thereof if remarketing proceeds are insufficient therefor. As of this date and as provided in the Mode Agreement, the Standby Bond Purchase Agreement for each Series of Bonds is a Liquidity Facility.

"Liquidity Provider" means any bank, insurance company, pension fund or other financial institution that provides a Liquidity Facility (including the Standby Bond Purchase Agreement for each Series of Bonds).

"Mode Agreement" means an agreement entered into in connection with the sale or remarketing of any series of the Bonds setting forth the daily mode, weekly mode, commercial paper mode, term mode, index floating mode, fixed mode or other mode or modes in which such series of Bonds will be sold or remarketed, establishing minimum and maximum rate(s), alternate rate(s) and default rate(s), providing for conversion between modes, providing for optional and mandatory tender for purchase on dates and at prices and additional provisions relating to redemption, defaults and remedies, all as set forth in the Mode Agreement. The Mode Agreement may be in the form of a continuing covenant or purchase agreement, remarketing agent agreement, tender agent agreement, paying agent agreement, calculation agent agreement, Credit Enhancement or other agreement, or an annex or amendments thereto, consistent with the Ordinance and approved by the Finance Director pursuant to the Ordinance. The Mode Agreement for each Series of Bonds is a Mode Agreement.

"Multi-Modal LTGO/Sewer Revenue Bond Fund" means the special fund of the County designated the "King County, Washington, Multi-Modal Limited Tax General Obligation (Payable from Sewer Revenue) Bond Fund" that has been created for the purpose of paying Multi-Modal LTGO/Sewer Revenue Bonds.

"Multi-Modal LTGO/Sewer Revenue Bonds" means the outstanding Multi-Modal LTGO/Sewer Revenue Bonds, any series of Bonds issued as Multi-Modal LTGO/Sewer Revenue Bonds, and any other Future Multi-Modal LTGO/Sewer Revenue Bonds.

"Multi-Modal LTGO/Sewer Revenue Bond 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 Multi-Modal LTGO/Sewer Revenue Bond Fund to pay and secure the payment of principal of and interest on Multi-Modal LTGO/Sewer Revenue 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 Bond Fund" means the "Water Quality Revenue Bond Account" designated pursuant to Ordinance 12076, Section 30, of the County for the purpose of paying and securing the payment of the Parity Bonds.

"Parity Bond 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.

"Parity Bond Reserve Account" means the bond reserve account in the Parity Bond Fund securing the payment of the Parity Bonds.

"Parity Bonds" means the outstanding Parity Bonds together with any Future Parity Bonds. The term "Parity Bonds" include any Parity Bond Payment Agreements and parity reimbursement agreements entered into with the provider of a Credit Facility securing any Parity Bonds.

"Parity Lien Obligation Bond Fund" means the "Water Quality Limited Tax General Obligation Bond Redemption Fund" established pursuant to Ordinance 11241, Section 8, of the County to provide for payment of Parity Lien Obligations.

"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 outstanding Parity Lien Obligations, 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 those bonds. The term "Parity Lien Obligations" includes any Parity Lien Obligation Payment Agreements and parity reimbursement agreements entered into with the provider of a Credit Facility securing any Parity Lien Obligations.

"Participant" means each city, town, County, water-sewer district, municipal corporation, person, firm, private corporation or other entity that disposes of any portion of its sanitary sewage into the System and has entered into a Service Agreement with the County.

"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, or 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 in the Ordinance.

"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 Ordinance and any loan agreements hereafter 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, 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 any unconditional municipal bond insurance policy or surety bond issued for the benefit of the registered owners of Parity Bonds 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.

"Rate Stabilization Fund" means the fund of that name created pursuant to Ordinance 12314, Section 13.D., of the County.

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

"Revenue Fund" means the "Water Quality Operating Account" as designated by Ordinance 12076, Section 30, of the County.

"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 shall 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 Ordinance, deposits from the Rate Stabilization Fund into the Revenue Fund may be included in calculations of "Revenue of the System."

"Senior Lien Payments" means, for any calendar year, the sum of the following:

1. Annual Debt Service for such year for the Parity Bonds and Parity Lien Obligations then outstanding; and
2. any other payments described in paragraphs "Second" through "Fifth" of the "Flow of Funds" of the Ordinance required to be made during such year.

"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.

**"Springing Amendment Date" means the date when the requisite percentage of the owners of: (a) the Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2017A and Series 2017B, dated October 26, 2017, authorized by Ordinance 18581 of the county; (b) the Multi-Modal Limited Tax General Obligation Refunding Bonds and Junior Lien Refunding Bonds refunded pursuant to Ordinance 18898 of the county (including the Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019A and Series 2019B of the county, dated June 27, 2019); (c) the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, dated August 15, 2001, authorized by Ordinances 14171 and 14172 of the county, respectively; (d) of the Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011, dated October 26, 2011, authorized by Ordinance 17202 of the county; and (e) the Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, dated December 27, 2012, authorized by Ordinance 17495 of the county have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity Bonds, and Annual Debt Service set forth in the Springing Amendment Ordinance (including all springing amendments set forth therein). Such consent may be obtained before or after the effective date of the Springing Amendment Ordinance in the connection with the remarketing or refunding of one or more of the foregoing bonds, with the deemed consent of bondowners in connection with the purchase of such remarketing or refunding bonds. In addition, all Registered Owners of Bonds issued after the effective date of the Springing Amendment Ordinance are deemed to have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity Bonds, and Annual Debt Service set forth in the Springing Amendment Ordinance (including all springing amendments set forth therein) by their purchase of such Bonds.**

"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 Ordinance and any loans and loan agreements hereafter 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.

"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.

### **Junior Lien Bond Fund**

A special fund of the County designated the "King County, Washington, Junior Lien Obligation Redemption Fund" has been created for, and is continued, with the purpose of paying Junior Lien Obligations. The Junior Lien Bond Fund is to be held separate and apart from all other funds and accounts of the county and shall be a trust fund for the owners of Junior Lien Obligations.



In the Ordinance, the County irrevocably obligates and binds itself to set aside and pay into the Junior Lien Bond Fund out of Revenue of the System amounts sufficient, together with 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 all Bonds that are issued as Junior Lien Obligations as the same become due and payable.

There is authorized to be created a special account in the Junior Lien Bond Fund for the Bonds. All money required by this section to be deposited into the Junior Lien Bond Fund for the payment of principal of and interest on the Bonds that are issued as Junior Lien Obligations may be deposited into the account created for such Bonds. Money in the account will be treated in all respects as all other money in the Junior Lien Bond Fund, but will be accounted for separately for the purpose of calculating any Rebate Amount payable with respect to such Bonds.

Payments on account of the Bonds that are issued as Junior Lien Obligations will be made out of Revenue of the System into the applicable account in the Junior Lien Bond Fund on or before the day each payment of principal of or interest on the Bonds is due.

### **Pledge of Sewer Revenues Junior Lien Obligations**

The Bonds that are issued as Junior Lien Obligations are special fund obligations payable only from amounts in deposit in the Junior Lien Bond Fund.

The amounts covenanted in the Ordinance to be paid out of Revenue of the System into the Junior Lien Bond Fund and the accounts therein constitute, and the County grants to the Registered Owners of the Bonds and to any Credit Provider and Liquidity Provider with respect to obligations owed to them under a related reimbursement agreement or Liquidity Facility, 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 Revenue of the System for the payments required to be made into the Parity Bond Fund and the accounts therein (and Payment Agreement Payments with respect to Parity Bond Payment Agreements, and payments required to be made in connection with Qualified Insurance, a Qualified Letter of Credit or the Parity Bond Reserve Account as set forth in the Ordinance); junior, subordinate and inferior to the lien and charge on Revenue of the System for the payments required to be made into the Parity Lien Obligation Bond Fund and the accounts therein (and Payment Agreement Payments with respect to Parity Lien Obligation Payment Agreements as set forth in the Ordinance); equal to the lien and charge on Revenue of the System to pay and secure the payment of the outstanding Junior Lien Obligations and any Future Junior Lien Obligations (including Payment Agreement Payments with respect to Junior Lien Obligation Payment Agreements and to make any payments required to be made to providers of any credit enhancements or liquidity facilities for Junior Lien Obligations); and superior to all other liens and charges of any kind or nature, including, inter alia, the lien and charge on Revenue of the System to pay and secure the payment of Multi-Modal LTGO/Sewer Revenue Bonds, Future Subordinate Lien Obligations, SRF Loans and Public Works Trust Fund Loans.

The Bonds issued as Junior Lien Obligations are not a general obligation of the county. Neither the full faith and credit nor the taxing power of the county or the state of Washington or any

political subdivision thereof is pledged to the payment of the Bonds issued as Junior Lien Obligations.

### **Revenue Fund**

A special fund of the County known as the "Water Quality Operating Account" has been created and is continued. All Revenue of the System shall be deposited in the Revenue Fund. All Operating and Maintenance Expenses shall be paid out of the Revenue Fund or appropriate reserves in the Ordinance.

### **Rate Stabilization Fund**

In anticipation of increases in revenue requirements of the System, a special fund of the County designated as the "Sewer Rate Stabilization Fund" has been established and is continued. 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 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 Rate Covenant and for the issuance of additional obligations under the 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.

### **Sewer Revenue Priorities of Payment; Flow of Funds**

So long as any Bonds are outstanding, all Revenue of the System shall be deposited into the Revenue Fund and used and applied in the following order of priority:

**First**, to pay all Operating and Maintenance Expenses;

**Second**, to make all required deposits into 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 Bond Payment Agreements;

**Third**, 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;

**Fourth**, 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);

**Fifth**, 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;

**Sixth**, to make all required payments of principal of and interest on the Junior Lien Obligations as the same become due and payable, to make all Payment Agreement Payments with respect to any Junior Lien Obligation Payment Agreements, and to make any payments required to be made to providers of any credit enhancements or liquidity facilities for Junior Lien Obligations;

**Seventh**, to make all required payments of principal of and interest on the Multi-Modal LTGO/Sewer Revenue Bonds as the same become due and payable, to make all Payment Agreement Payments for any Multi-Modal LTGO/Sewer Revenue Bond Payment Agreements, 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;

**Eighth**, to make all required payments of principal of and interest on any Future Subordinate Lien Obligations as the same become due and payable;

**Ninth**, 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 are junior and inferior to the Future Subordinate Lien Obligations, as the same become due and payable; and

**Tenth**, to make all required payments of principal of and interest due 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 all required payments set forth above may be used by the County (i) to make necessary improvements, additions and repairs to and extensions and replacements of the System, (ii) to purchase or redeem and retire outstanding sewer revenue bonds of the County, (iii) to make deposits into the Rate Stabilization Fund, or (iv) for any other lawful purposes of the County related to the System in the order and priority as determined by the County.

### **Due Regard for Expenses and Sewer Revenues Pledged**

The County Council declares in the Ordinance that, in fixing the amounts to be paid into the Junior Lien Bond Fund and Multi-Modal LTGO/Sewer Revenue Bond Fund out of Revenue of the System, it has exercised due regard for the Operating and Maintenance Expenses and has not obligated the County to set aside in the Junior Lien Bond Fund and Multi-Modal LTGO/Sewer Revenue Bond Fund a greater amount of Revenue of the System than in its judgment will be available over and above the Operating and Maintenance Expenses and Revenue of the System previously pledged.

### **General Rate Covenant**

The County 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 (i) to pay all Operating and Maintenance Expenses during that calendar year; (ii) to pay punctually all amounts described in paragraphs "Second" through "Tenth" in the "Flow of Funds" of the Ordinance due during that calendar year; and (iii) to pay any and all amounts that the County is now or may hereafter become obligated by law or contract to pay during that calendar year from the Revenue of the System.

### **Coverage Covenant**

Subject to the provisions of the Rate Stabilization Fund, the County will 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, Multi-Modal LTGO/Sewer Revenue 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 and Multi-Modal LTGO/Sewer Revenue Bonds for that year.

### **Certain Other Covenants of the County Regarding the Bonds**

The County covenants in the Ordinance with the Registered Owner of each of the Bonds, as follows:

A. *Maintain in Good Order.* 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.

B. *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.

C. *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.

D. *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 institute or continue a self-insurance program for any or all of the aforementioned risks.

E. *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.

F. *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 shall not release the obligations of any person, corporation or political subdivision under such tariff of rates and charges or the Service Agreements and shall 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 shall 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.

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

H. *Due Authorization.* By all necessary official action prior to or concurrently herewith, 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 Ordinance and the consummation by it of all other transactions necessary to effectuate the 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.

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

J. *No Conflict.* The County's adoption of the Ordinance and its compliance with the provisions contained in the Ordinance 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 Ordinance.

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

L. *Sale or Disposition.* 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, Junior Lien Obligations, and Multi-Modal LTGO/Sewer Revenue Bonds 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.

### **Defaults**

The County finds in the Ordinance and determines that the failure or refusal of the County or any of its officers to perform the covenants and obligations of the Ordinance will endanger the operation of the System and the application of Revenue of the System and such other money, funds and securities to the purposes in the Ordinance set forth. Any one or more of the following will constitute a “Default” under the Ordinance:

A. 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;

B. The County fails to make payment of the interest on any Bond when the same becomes due and payable;

C. The County defaults in the observance or performance of any other covenant, condition or agreement on the part of the County contained in the Ordinance, and such default has continued for a period of 30 days; or

D. 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.

A default under a Mode Agreement also is a Default under the Ordinance as provided in the Mode Agreement for the applicable Series of Bonds.

### **Remedies**

A. *Control by Credit Provider.* Upon the occurrence and continuation of a Default, each Credit Provider will be entitled to exercise, on behalf of the Registered Owners of any Bonds secured by Credit Enhancement provided by the Credit Provider, any of the remedies provided to the Registered Owners of such Bonds under this section and, for so long as the Credit Provider is not in default of its obligations under the Credit Enhancement, the Credit Provider will be the only person entitled to exercise the remedies provided under this section with respect to such Bonds.

B. *Appointment of Bondowners' Trustee.* Upon the occurrence of a Default and so long as such Default is not remedied, and subject to the rights of any Credit Provider as provided in subsection A. of this section, 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 by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized and delivered to the Bondowners' Trustee, notification thereof having been given to the County. Any Bondowners' Trustee appointed under the provisions of this section 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, by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized. 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 Ordinance.

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

C. *Legal Action by Bondowners' Trustee.* Subject to the rights of the Credit Provider, if any, as provided in subsection A. of this section, 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 Ordinance or in the Bonds.

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

D. *Restrictions on Legal Action by Individual Owners.* Subject to the rights of the Credit Provider, if any, as provided in subsection A. of this section, 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:

1. a Default has happened and is continuing; and
2. a Bondowners' Trustee has been appointed as in the Ordinance provided;  
and
3. 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; and
4. 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; and
5. the Bondowners' Trustee has been offered security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in the Ordinance or thereby; and
6. the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.



Notwithstanding any other provision of the Ordinance, each Registered Owner of the Bonds will have the absolute and unconditional right to receive payment of principal of and premium, if any, and interest on such Bonds on and after the due date thereof, and to institute suit for the enforcement of any such payment.

### **Waivers of Default; Remedies not Exclusive**

The remedies in the Ordinance conferred upon or reserved to the Registered Owners of the Bonds and to the Bondowners' Trustee are not intended to be exclusive of any other remedy or remedies, and each and every such remedy will be cumulative and will be in addition to every other remedy given under the Ordinance or now or hereafter existing at law or in equity or by statute. The privileges in the Ordinance granted may be exercised from time to time and continued so long as and as often as the occasion therefor may arise.

Subject to the rights of the Credit Provider, 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. No such waiver will extend to or affect any subsequent Default or impair any rights or remedies consequent thereon. No delay or omission of the Credit Provider or the Bondowners' Trustee to exercise any right or power accruing upon any Default will impair any such right or power or be construed to be a waiver of any such Default or acquiescence in the Ordinance.

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

A. *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.

B. *Future Junior Lien Obligations; Future Multi-Modal LTGO/Sewer Revenue Bonds.* The County reserves the right to issue Future Junior Lien Obligations and Future Multi-Modal LTGO/Sewer Revenue Bonds, but only if such Future Junior Lien Obligations and Future Multi-Modal LTGO/Sewer Revenue Bonds are issued (i) for the purpose of refunding any Junior Lien Obligations or Multi-Modal LTGO/Sewer Revenue Bonds 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 Future Junior Lien Obligations or Future Multi-Modal LTGO/Sewer Revenue Bonds, there is no default in the payment of the principal of or interest on any Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, Future 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 Future Junior Lien Obligations or Future Multi-Modal LTGO/Sewer Revenue Bonds, 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 Future Junior Lien Obligations or Future Multi-Modal LTGO/Sewer Revenue Bonds, will be at least equal to 1.10 times the Annual Debt Service for the proposed Future Junior Lien Obligations or Future Multi-Modal LTGO/Sewer Revenue Bonds and all Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds then outstanding in each year during the life of such Future Junior Lien Obligations or Future Multi-Modal LTGO/Sewer Revenue Bonds; 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 Future Junior Lien Obligations or Future Multi-Modal LTGO/Sewer Revenue Bonds) 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 Future Junior Lien Obligations or Future Multi-Modal LTGO/Sewer Revenue Bonds 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 Future Junior Lien Obligations or Future Multi-Modal LTGO/Sewer Revenue Bonds and all Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds then outstanding in each of those five years.

C. *Inferior Lien Obligations.* Nothing contained in the 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, and nothing contained in the 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 Multi-Modal LTGO/Sewer Revenue Bond Fund to pay and secure the payment of any Multi-Modal LTGO/Sewer Revenue Bonds.

### **Payment Agreements**

A. *General.* To the extent and for the purposes permitted from time to time by chapter 39.96 RCW, as it may be amended, and other applicable provisions of State law, the County may enter into Payment Agreements with respect to any series of the Bonds, subject to the conditions set forth in this section and in other provisions of the Ordinance.

B. *Manner and Schedule of Payments.* Each Payment Agreement must set forth the manner in which the respective Payment Agreement Payments and the respective Payment Agreement Receipts will be calculated and a schedule of applicable payment dates.

C. *Authorizing Ordinance.* Prior to entering into a Payment Agreement, the County Council must adopt 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 Ordinance.

D. *Calculation of Payment Agreement Payments and Debt Service on Bonds with Respect to which a Payment Agreement is in Force.* It is the intent of the County, for purposes of

the Rate Covenant and the requirements for additional obligations of the Ordinance, that 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:

1. 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.

2. 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:

a. *County Obligated to Make Payments Based on Fixed Rate.* 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

b. *County Obligated to Make Payments Based on Variable Rate Index.* 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.

E. *Prior Notice to Rating Agencies.* The County will give notice to Moody's and S&P 30 days prior to the date it intends to enter into a Junior Lien Obligation Payment Agreement or Multi-Modal LTGO/Sewer Revenue Bond Payment Agreement.

### **Investment of Funds and Accounts**

Money in the Revenue Fund, Junior Lien Bond Fund and Multi-Modal LTGO/Sewer Revenue Bond Fund may be invested in any investments permitted for funds of the County. Obligations purchased as an investment of money in the Revenue Fund, Junior Lien Bond Fund and Multi-Modal LTGO/Sewer Revenue Bond Fund and accounts in the Ordinance will be deemed at all times to be a part of such respective fund or account, and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof will be retained in, credited or charged, as the case may be, to such fund or account.

In computing the amount in any fund or account under the provisions of the Ordinance, obligations purchased as an investment of money in the Ordinance will be valued at the cost or market price thereof, whichever is lower, inclusive of accrued interest.

### **Refunding or Defeasance of 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 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 Ordinance and in the funds and accounts obligated to the payment of the defeased Bonds shall cease and become void. Thereafter, the Registered Owners of defeased Bonds shall have the right to receive payment of the principal of and premium, if any, and interest on the defeased Bonds solely from the trust account and the defeased Bonds shall 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 shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted, in the manner prescribed in the Ordinance for the redemption of Bonds.

### **Supplemental Ordinances.**

A. *Without Owner Consent.* The County Council from time to time and at any time may adopt an ordinance or ordinances supplemental to the 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 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 in the Ordinance reserved 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 Ordinance in regard to matters or questions arising under the Ordinance as the County Council may deem necessary or desirable and not inconsistent with the 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 Ordinance in any and all respects necessary, desirable or appropriate in connection with the delivery of Credit Enhancement or a Liquidity Facility (other than modifying notice provisions to Registered Owners of the Bonds);

4. To modify, alter, amend, supplement or restate the 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 hereof or materially adversely affect the interests of the Registered Owners of the Bonds; or

5. 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.

B. *With Owner Consent.*

1. With the consent of the Registered Owners of not less than a majority in aggregate principal amount of the Bonds (as defined in the Ordinance) then outstanding, the County Council may adopt an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Ordinance, except as described in subsection B.2. or B.4. of this section.

2. No supplemental ordinance entered into pursuant to this subsection B. may:

a. 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

b. 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.

3. It is not necessary for the consent of the Registered Owners of Bonds under this subsection B. to approve the particular form of any proposed supplemental ordinance, but it is sufficient if such consent approves the substance thereof.

4. Notwithstanding any provision of this subsection B. to the contrary, 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, for so long as the Credit Provider is not in default of its obligations under the Credit Enhancement, to the adoption by the County Council of any ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Ordinance.

C. *Consent of Credit Provider and Liquidity Provider.* Any amendment or supplement to the 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, for so long as the Credit Provider or Liquidity Provider, as applicable, is not in default of its obligations.

### **Ordinance a Contract; Severability**

The covenants contained in the Ordinance constitute a contract between the County and (i) the Registered Owner of each Bond, (ii) the Qualified Counterparty to any Payment Agreement entered into with respect to any Bonds and (iii) any Credit Provider or Liquidity Provider with respect to any Bonds. If any court of competent jurisdiction determines that any covenant or agreement provided in the Ordinance to be performed on the part of the County is contrary to law, then such covenant or agreement shall be null and void and shall be deemed separable from the remaining covenants and agreements of the Ordinance and shall in no way affect the validity of the other provisions of the Ordinance or of the Bonds.

**APPENDIX B**

**FORM OF MODE AGREEMENT**

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**MODE AGREEMENT**  
**KING COUNTY, WASHINGTON**  
**JUNIOR LIEN SEWER REVENUE REFUNDING BONDS**  
**(MANDATORY PUT BONDS), SERIES 2020[A/B]**

This Mode Agreement (the “Mode Agreement”) is entered into as of July 1, 2020, by and between King County, Washington (the “County”), and U.S. Bank National Association, as Registrar and Paying Agent (the “Paying Agent”), in connection with the County’s Junior Lien Sewer Revenue Refunding Bonds (Mandatory Put Bonds), Series 2020[A/B] (the “Bonds”), issued pursuant to Ordinance 18898 of the County adopted on May 22, 2019 (the “Ordinance”).

**RECITALS**

WHEREAS, pursuant to the Ordinance, the County has authorized the issuance of Junior Lien Sewer Revenue Refunding Bonds (Mandatory Put Bonds), Series 2020[A/B], described in **Exhibit A** (the “Bonds”); and

WHEREAS, Section 26.E of the Ordinance authorizes the Finance Director to determine whether the Bonds will be issued with interest to be borne in a daily mode, weekly mode, commercial paper mode, term mode, index floating mode, fixed mode or other mode, minimum rate(s), maximum rate(s), alternate rate(s) and default rate(s), conversion between modes, optional and mandatory tender for purchase on dates and at prices and additional provisions relating to defaults and remedies, all as set forth in the Mode Agreement; and

WHEREAS, the Finance Director is authorized to negotiate and execute at his discretion, this Mode Agreement setting forth these terms with respect to the Bonds;

NOW, THEREFORE, the County and the Paying Agent agree as follows:

**1. Appointment and Acceptance, Deposits.** The County hereby appoints U.S. Bank National Association as Paying Agent solely for the purposes of the rights, duties, powers, and obligations of the Paying Agent under this Mode Agreement. The Paying Agent accepts this appointment, acknowledging the additional duties, obligations and responsibilities of the Paying Agent as set forth in this Mode Agreement, as an appointment supplemental to its duties as Registrar and Paying Agent with respect to the Bonds under the Agreement for Fiscal Agency Services, dated as of February 1, 2015, between the State Finance Committee and the Registrar, as amended from time to time. The Paying Agent shall act as Paying Agent for the Bonds and in such capacity shall perform the duties expressly identified as duties of Paying Agent set forth in **Exhibit B** and incorporated by this reference. No implied duties or obligations shall be read into this Mode Agreement against the Paying Agent. The Paying Agent has no fiduciary or discretionary duties of any kind. The Paying Agent hereby agrees to use the funds deposited with it for payment of the principal of and interest on the Bonds to pay the same as it shall become due and further agrees to establish and maintain such accounts and funds as may be required for the Paying Agent to function as Paying Agent.

**2. Resignation or Removal of Paying Agent.** The Paying Agent may resign by giving at least 30 days’ prior written notice to the County. The Paying Agent shall provide written notice of resignation to the Liquidity Provider, if any, and Credit Provider, if any, and to Moody’s and S&P. At any time, except during the period from the Record Date to the Interest Payment Date

applicable to that Record Date (or such lesser period of time as shall be mutually agreeable to the Paying Agent and the County) the Paying Agent may be removed from its agency by the County upon at least 30 days' prior written notice to the Paying Agent, the Liquidity Provider, if any, and Credit Provider, if any, and to Moody's and S&P. Subject to Section 3, such resignation or removal shall become effective upon payment to the Paying Agent of all amounts payable to it in connection with its agency. In such event, the Paying Agent shall deliver to the County copies of pertinent records then in the Paying Agent's possession which are reasonably requested by the County.

**3. Effectiveness and Term.** This Mode Agreement shall remain in effect and the agency established by this Mode Agreement shall continue until (i) termination by mutual agreement of the County and Paying Agent, (ii) the resignation or removal of the Paying Agent in accordance with Section 2 hereunder, or (iii) all Bonds have been retired or defeased. If the Bonds are to remain outstanding on and after the date of termination, the County shall enter into a Mode Agreement with a successor Paying Agent in the form of this Mode Agreement and the agency established under this Mode Agreement shall continue with the Paying Agent until such successor is appointed. The County agrees to proceed diligently to appoint such successor, and to provide prior written notice to Moody's and S&P of any such appointment. This Mode Agreement, and any Mode Agreement with a successor Paying Agent, may be amended in the same circumstances as the Ordinance may be amended or supplemented under Section 33 thereof, including without limitation, for any purpose, on any date all Bonds are subject to mandatory or optional tender for purchase, with 30 days' written notice of such amendment to each Registered Owner of the Bonds, Moody's and S&P with 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, for so long as the Credit Provider or Liquidity Provider, as applicable, is not in default of its obligations. Any amendment or supplement to the Ordinance or this Mode Agreement that will become effective on a date other than a date on which all Bonds are subject to mandatory tender for purchase shall be subject to confirmation of Moody's and S&P that the amendment or supplement will not adversely affect the rating on the Bonds, unless the Bonds will be defeased or paid in full on or prior to the effective date of the amendment or supplement. The owners of such Series of Bonds shall be deemed to have consented to any amendment proposed to become effective on such Purchase Date for such Series of Bonds.

**4. General Provisions.** The Paying Agent may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions expressed therein on certificates or opinions furnished to the Paying Agent by the County. The Paying Agent shall not be charged with knowledge or notice of any fact or circumstance not specifically set forth herein.

No provision of this Mode Agreement shall require the Paying Agent to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in an exercise of any of its rights or powers. The Paying Agent shall not be obligated to take any legal action or commence any proceeding in connection with this Mode Agreement, the Bonds or money held or disbursed by the Paying Agent pursuant to this Mode Agreement.

The Paying Agent may conclusively rely and be protected in acting or refraining from acting, upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Paying Agent need not examine the ownership of any Bond, but shall be protected in acting upon receipt of Bonds containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Registered Owner or agent of the Registered Owner.

The Paying Agent may consult with counsel, and the written advice or opinion of counsel shall be full authorization and protection with respect to any action taken, suffered or omitted by it hereunder in good faith and reliance thereon.

The Paying Agent may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys and shall not be liable for the actions of such agent or attorney if appointed by it in good faith.

The Paying Agent shall not be responsible for delays or failures in performance resulting from acts beyond its control, including without limitation acts of God, strikes, lockouts, riots, acts of war or terror, epidemics, governmental regulations, fire, communication line failures, computer viruses, power failures, earthquakes or other disasters.

The Paying Agent is authorized, in its sole discretion, to comply with final orders issued or process entered by any court with respect to any money held by the Paying Agent hereunder, without determination by the Paying Agent of such court's jurisdiction in the matter. If any portion of money held by the Paying Agent hereunder is at any time attached, garnished or levied upon under any court order, or in case the payment, assignment, transfer, conveyance, or delivery of any such property shall be stayed or enjoined by any court order, or in case any order, judgment or decree shall be made or entered by any court affecting, in its sole discretion, to rely upon and comply with any such order, writ, judgment or decree which it is advised by legal counsel selected by it is binding upon it without the need for appeal or other action; and if the Paying Agent complies with any such order, writ, judgment or decree, it shall not be liable to any of the parties hereto or to any other person or entity by reason of such compliance even though such order, writ, judgment or decree may be subsequently reversed, modified, annulled, set aside or vacated.

**5. Conflict with Bond Documents; Bond owner Consent to Springing Amendments.** In the event of a conflict between the provisions of this Mode Agreement and those of the Ordinance, the terms of this Mode Agreement shall govern. By their purchase of the Bonds, each Bond owner consents to the springing amendments to the Ordinance set forth in Exhibit C.

**6. Governing Law.** This Mode Agreement shall be governed by and construed in accordance with the laws of the State of Washington. Venue for any dispute arising under this Mode Agreement shall be in the Superior Court of the State of Washington in King County.

**7. Patriot Act Compliance.** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. For a non-individual person such as a business entity, a charity, a trust or other legal entity the Paying Agent may ask for documentation to verify its formation and existence as a legal entity, and may also ask to see financial statements, licenses, identification, and authorization documents from individuals claiming authority to represent the entity or other relevant documentation.

**8. Entire Agreement.** Except to the extent that the matters herein are covered by the State Fiscal Agent Contract, this Mode Agreement shall constitute the entire agreement between the County and the Paying Agent with respect to the Bonds. This Mode Agreement is intended to be for the benefit of or to be enforceable by only the County and the Paying Agent, and no third party (including but not limited to any bondholder, credit provider, remarketing agent or calculation agent) shall be entitled to claim that it is a third-party beneficiary hereof.

**9. Execution in Counterparts.** This Mode Agreement may be executed in counterparts, each such counterpart shall for all purposes be deemed to be an original, and all of such counterparts, or as many of them as the County and the Paying Agent shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Mode Agreement to be signed by their duly authorized officers as of the date first above written.

KING COUNTY, WASHINGTON

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Name: Ken Guy  
Title: Finance Director

U.S. BANK NATIONAL ASSOCIATION,  
as Paying Agent

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Name:  
Title:

**EXHIBIT A**  
**DESCRIPTION OF THE BONDS**

**Junior Lien Sewer Revenue Refunding Bonds**  
**(Mandatory Put Bonds), Series 2020[A/B]**

**(Term Rate Bonds)**  
**\$\_\_\_\_\_**

Maturity Date: January 1, 20\_\_\_\_

Initial Term Rate:

Initial Term Yield:

Price:

Scheduled Mandatory Purchase Date:

First Par Call Date:

CUSIP NUMBER: 49474F

## EXHIBIT B

### INTEREST RATE MODES AND RELATED PROVISIONS

**1. Definitions.** The meanings of capitalized terms used and not otherwise defined in this Exhibit B shall be as set forth in the Ordinance. In addition, the following terms as used in this Exhibit B shall have the following meanings, except as otherwise set forth in the Direct Purchase Agreement for Direct Purchase Bonds (which meanings shall apply only during the applicable Direct Purchase Period):

***“Alternate Credit Enhancement”*** means a letter of credit, insurance policy, surety bond or security, or other credit enhancement issued as a replacement or substitute for any Credit Enhancement then in effect.

***“Alternate Liquidity Facility”*** means a line of credit, standby bond purchase agreement or other liquidity facility issued as a replacement or substitute for any Liquidity Facility then in effect.

***“Authorized Denomination”*** means (a) during any Daily Interest Rate Period, Weekly Interest Rate Period or Commercial Paper Rate Period, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000; (b) during any Term Rate Period or Fixed Rate Period, \$5,000 or any integral multiple thereof; (c) during any Index Floating Rate Period, \$5,000 or any integral multiple thereof; and (d) notwithstanding the foregoing, during any Direct Purchase Period, \$250,000 or any integral multiple of \$5,000 in excess of \$250,000 or such other minimum denomination as may be set forth in the applicable Direct Purchase Agreement.

***“Bank Bond”*** means a Bond (or portion thereof in any Authorized Denomination) that is purchased with amounts paid or provided by a Credit Provider under a Credit Enhancement or by a Liquidity Provider under a Liquidity Facility.

***“Bank Bond Rate”*** means that rate of interest borne by a Bank Bond, as specified or determined in accordance with the respective Credit Enhancement, Reimbursement Agreement or Liquidity Facility.

***“Bond Documents”*** means, together, the Ordinance, the Bond Purchase Contract, the Mode Agreement (including this Exhibit B) and any Liquidity Facility or Credit Enhancement then in effect.

***“Bond Purchase Contract”*** means the Bond Purchase Contract by and between the County and J.P. Morgan Securities LLC, dated June 30, 2020, regarding the issuance, sale and delivery of the Bonds. The Bond Purchase Contract is not a Direct Purchase Agreement.

**“Bonds”** mean the King County, Washington Junior Lien Sewer Revenue Refunding Bonds (Mandatory Put Bonds), Series 2020[A/B], issued pursuant to the Ordinance with such series and additional or alternative naming conventions as may be convenient to indicate a Series designation.

**“Business Day”** means any day other than a Saturday or Sunday that is neither a legal holiday, nor a day on which banking institutions are authorized or required by law or regulation to close in Seattle, Washington, or the city or cities in which the principal office of the Remarketing Agent, the Paying Agent, the Liquidity Provider or the Credit Provider is located, nor a day on which the New York Stock Exchange is closed or the payment system of the Federal Reserve Bank is not operational.

**“Commercial Paper Mode”** means the Mode during which a Series of the Bonds bear interest at a Commercial Paper Rate or Rates.

**“Commercial Paper Rate”** means the interest rate determined with respect to a Bond in the Commercial Paper Mode during each Commercial Paper Rate Period applicable to that Bond in accordance with Section 4(a)(5).

**“Commercial Paper Rate Period”** means, with respect to any Bond of a Series bearing interest at a Commercial Paper Rate, each period, which may be from one day to 270 days as determined for such Bond, beginning on, and including, the Conversion Date for a Conversion to the Commercial Paper Mode and ending on, and including, a day which immediately precedes a Business Day or the Maturity Date.

**“Conversion”** means a conversion of a Series of the Bonds from one Mode to another Mode (including the establishment of a new Commercial Paper Mode, Term Mode or Index Floating Mode). The following events shall not be deemed Conversions for purposes of the Bond Documents: (a) the continuation of a Daily Interest Rate at the end of a Daily Interest Rate Period, (b) the continuation of a Weekly Interest Rate at the end of a Weekly Interest Rate Period, (c) the imposition of a Delayed Remarketing Period, (d) during a Direct Purchase Period, a renewal or extension of the term of such Direct Purchase Period then in effect, and (e) an Extraordinary Mandatory Redemption of a Series pursuant to a Term-Out Provision.

**“Conversion Date”** means the effective date of a Conversion.

**“County”** means King County, Washington.

**“Credit Enhancement”** means any letter of credit, insurance policy, surety bond, or other security or other credit enhancement, if any, to be issued by the Credit Provider in connection with the issuance of Bonds in a Daily Mode, a Weekly Mode, or other Mode or with a Conversion to a Daily Mode, a Weekly Mode, or other Mode, that secures or supports the payment when due of the principal and Purchase Price of and interest on a Bond, including any Alternate Credit Enhancement, or any extensions, amendments or replacements thereof pursuant to its terms.



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

**“Daily Interest Rate”** means a variable interest rate established for a Series of Bonds in the Daily Mode in accordance with Section 4(a)(1) of this Exhibit B.

**“Daily Interest Rate Period”** means, with respect to a Series of the Bonds, each period during which a Daily Interest Rate is in effect.

**“Daily Mode”** means the Mode in which a Series of the Bonds bears interest at the Daily Interest Rate.

**“Default”** means the Defaults defined in Section 22 of the Ordinance and, in addition, the following: if the County defaults in the observance or performance of any other covenant, condition or agreement on the part of the County contained in this Mode Agreement, and such default has continued for a period of 30 days.

**“Default Rate”** as used in connection with any Direct Purchase Period, has the meaning set forth in the applicable Direct Purchase Agreement as identified by the County to the Paying Agent in writing, and as used in connection with any Bank Bonds, has the meaning set forth in the related Credit Enhancement (or Reimbursement Agreement) or Liquidity Facility.

**“Delayed Remarketing Bond”** means any Bond (or principal portion of a Bond) in the Index Floating Mode or Term Mode that is (a) designated as an Eligible Delayed Remarketing Bond in the Bond Purchase Agreement for such Bonds and (b) not purchased when tendered for purchase and which becomes an Delayed Remarketing Bond pursuant to Section 6(h) of this Exhibit B.

**“Delayed Remarketing Period”** means the period as set forth in Section 8(f) of this Exhibit B applicable to Delayed Remarketing Bonds.

**“Delayed Remarketing Rate”** means for any subsequent Term Rate Period or other Term Rate Period, a per annum interest rate or stepped per annum interest rates as determined by the Remarketing Agent prior to the first Interest Determination Date for such period for Bonds in an Index Floating Mode or Term Mode pursuant to Section 4(a)(3) or 4(a)(4)(C) of this Exhibit B.

**“Direct Purchase Agreement”** means, for any Series of the Bonds, a written agreement (including a continuing covenant agreement or other similar agreement) between the County and the direct purchaser for the purchase of all of such Series of the Bonds during a Direct Purchase Period. The Bond Purchase Contract is not a Direct Purchase Agreement.

**“Direct Purchase Bonds”** means any Bonds or Bond held by a Direct Purchaser pursuant to a Direct Purchase Agreement for the duration of the applicable Direct Purchase Period.

**“Direct Purchase Period”** means each period during which the applicable Series of the Bonds is purchased and held pursuant to a Direct Purchase Agreement, including any Term-Out Period or other period during which Unremarketed Bonds continue to be outstanding while a Direct Purchase Agreement is in effect.

**“Direct Purchaser”** means any bank or other financial institution selected by the County to purchase (or to accept delivery of) one or more Direct Purchase Bonds.

**“EFFR Index”** means, on any date, the Effective Federal Funds Rate (EFFR) calculated and published by the Federal Reserve Bank of New York (the “New York Fed”) as a volume weighted median of overnight federal funds transactions reported in the FR 2420 Report of Selected Money Market Rates. The New York Fed publishes the EFFR for the prior Business Day on the New York Fed’s website at approximately 9:00 a.m. (Eastern Time).

**“Elect” or “Election”** means the election by the Finance Director of a new Mode.

**“Eligible Delayed Remarketing Bonds”** means any Bond (or principal portion of a Bond) in the Index Floating Mode or Term Mode that is designated as an Eligible Delayed Remarketing Bond in the Bond Purchase Agreement for such Bonds. The Bonds in the Initial Term Rate Period are not Eligible Delayed Remarketing Bonds.

**“Extraordinary Mandatory Redemption”** means the redemption of principal of Unremarketed Bonds or Bank Bonds in the amounts and on the dates set forth in a Term-Out Provision of a Direct Purchase Agreement or agreement relating to Credit Enhancement (including a Reimbursement Agreement) or a Liquidity Facility.

**“Favorable Opinion of Bond Counsel”** means a written legal opinion of bond counsel to the County, addressed (or accompanied by a reliance letter) to the Paying Agent, the Credit Provider (if any), the Index Floating Rate Holder (if any), the Direct Purchaser (if any) and the Remarketing Agent (if any), to the effect that a specified action is permitted under the Bond Documents and will not impair the exclusion of interest on the affected Tax-Exempt Bonds from gross income for purposes of federal income taxation (subject to customary exceptions).

**“Fixed Mode”** means the Mode in which a Series of the Bonds bear interest at a Fixed Rate or Fixed Rates.

**“Fixed Rate Period”** means for any Series of Bonds in the Fixed Mode, the period from the Conversion Date upon which the Series of Bonds were converted to the Fixed Mode, to but not including the Maturity Date for such Bonds.

**“Index”** means any of (a) the LIBOR Index, (b) the SIFMA Index, (c) the EFFR Index, (d) the SOFR Index, or (e) any alternate index selected by the Finance Director, conditioned upon the delivery to the Paying Agent on or prior to the applicable Conversion Date of a Favorable Opinion of Bond Counsel.

***“Index Floating Mode”*** means the Mode in which a Series of the Bonds bears interest at the Index Floating Rate.

***“Index Floating Rate”*** means a per annum rate of interest, established in accordance with Section 4(a)(4) of this Exhibit B on each Interest Determination Date during an Index Floating Rate Period, equal to the sum of (A) the Index Floating Rate Spread and (B) the product of the applicable Index and the Index Floating Rate Percentage.

***“Index Floating Rate Holder”*** means, during any Direct Purchase Period for a Series of the Bonds, (a) during which such Series is not held in Book-Entry Form, (1) if there is a single Registered Owner of all Bonds of such Series, the Registered Owner of such Series, or (2) if there is more than one Registered Owner of Bonds within a Series, Registered Owners owning a majority of the aggregate principal amount of the then outstanding Bonds of such Series; and (b) during which such Series is held in Book-Entry Form, (1) if there is a single Beneficial Owner of all Bonds of such Series, the Beneficial Owner, or (2) if there is more than one Beneficial Owner of the Bonds of such Series, Beneficial Owners of a majority of the aggregate principal amount of the then outstanding Bonds of such Series.

***“Index Floating Rate Percentage”*** means the percentage of the Index Floating Rate selected by the Finance Director pursuant to Section 5(a)(4) of this Exhibit B, as applicable.

***“Index Floating Rate Period”*** means, with respect to any Series of the Bonds, each period during which an Index Floating Rate is in effect.

***“Index Floating Rate Spread”*** means the spread determined on or prior to the Conversion Date that marks the beginning of such period, for the Bonds of such Series pursuant to Section 5(a)(4) of this Exhibit B, as applicable.

***“Initial Issue Date”*** means the date on which the Bonds are delivered to the Underwriter pursuant to the Bond Purchase Contract.

***“Initial Term Rate Period”*** means, for any Series or Subseries of the Bonds, a period commencing on the Initial Issue Date and ending on the Scheduled Mandatory Purchase Date(s) set forth in Exhibit A, unless such Series or Subseries is earlier purchased or redeemed in connection with a mandatory tender for purchase of such Series or Subseries of the Bonds.

***“Interest Accrual Date”*** with respect to a Series of the Bonds means (a) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each calendar month during such Daily Interest Rate Period; (b) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first day of each calendar month during such Weekly Interest Rate Period; (c) for any Term Rate Period or Fixed Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Term Rate Period, other than the last such Interest Payment Date; (d) for each Index Floating Rate Period,

the first day thereof and, thereafter, the first Business Day of each calendar month during such Index Floating Rate Period; and (e) for each Commercial Paper Rate Period, the first day thereof.

***“Interest Determination Date”*** means, for each Index Floating Rate Period, (a) if the Index is the LIBOR Index, the SIFMA Index, the EFFR Index or the SOFR Index the first day of such Index Floating Rate Period and, thereafter, each Wednesday (or, if any such Wednesday is not a Business Day, the preceding Business Day); and (b) if any other Index has been selected by the Finance Director, the first day of such Index Floating Rate Period and thereafter the date(s) selected by the Finance Director in connection with the selection of such Index. Notwithstanding the foregoing, a Direct Purchase Agreement may provide for alternate Interest Determination Dates to be in effect during a Direct Purchase Period.

***“Interest Payment Date”*** means:

(a) for interest accrued in (1) any Daily Interest Rate Period, the first Business Day of the next succeeding calendar month; (2) any Weekly Interest Rate Period, the first Business Day of the next succeeding calendar month; (3) (i) with respect to the Initial Term Rate Period, each January 1 and July 1, commencing on January 1, 2021, prior to the Scheduled Mandatory Purchase Date or any prior redemption or conversion on or after the Par Call Date, and for any subsequent Term Rate Period or Fixed Rate Period, each semi-annual payment date specified by the Finance Director in connection with the Conversion of such Bonds to such Term Rate Period or Fixed Rate Period, and if such date is not a Business Day, the next succeeding Business Day, (ii) each Purchase Date, and (iii) each date on which all or a portion of the Bonds are redeemed; (4) any Index Floating Rate Period, (i) the first Business Day of each calendar month, (ii) each Purchase Date, and (iii) each date on which all or a portion of the Bonds are redeemed, unless otherwise specified in a Direct Purchase Agreement in effect for such period; or (5) for any Commercial Paper Rate Period, the first Business Day following the last day of each Commercial Paper Rate Period for such Bonds,

(b) without duplication, the first Business Day succeeding the last day of each Interest Rate Period; and

(c) with respect to any Bonds during a Term-Out Period or Bank Bonds, the dates set forth in the Term-Out Provision or otherwise for Bank Bonds in the applicable Direct Purchase Agreement, Liquidity Facility or Credit Enhancement including a Reimbursement Agreement for the payment of interest on such Unremarketed Bonds or Bank Bonds.

***“Interest Rate Period”*** means each Daily Interest Rate Period, Weekly Interest Rate Period, Term Rate Period, Fixed Rate Period, Commercial Paper Rate Period, Index Floating Rate Period, Delayed Remarketing Period, Term-Out Period, or, if applicable, any Direct Purchase Period.

***“Interest Reset Date”*** means (a) for each Index Floating Rate Period that is not a Direct Purchase Period (1) if the Index is the LIBOR Index, SIFMA Index, the EFFR Index, or the SOFR Index, Thursday of each week, or if not a Business Day, the next succeeding Business Day; and (2) if any other Index has been selected by the Finance Director, the date(s) selected by the Finance Director

in connection with selecting the Index; and (b) for each Direct Purchase Period, either (1) the Interest Reset Dates set forth in the Direct Purchase Agreement or (2) if none are specified, the dates set forth in subsection (a) of this definition.

***“LIBOR Index”*** means, for any day, the rate per annum (rounded upwards, if necessary, to the next higher one hundred-thousandth of a percentage point) for deposits in U.S. Dollars for a one-month interest period which appears on the LIBOR01 Page as of 11:00 a.m. (London, England time) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day); the term “LIBOR01 Page” means the display designated as “LIBOR01 Page” on the Reuters Service (or such other page as may replace the LIBOR01 Page on that service or such other service as may be nominated by the ICE Benchmark Administration (“ICE”) (or the successor thereto if ICE is no longer making the London Interbank Offered Rate available) as the information vendor for the purpose of displaying the London Interbank Offered Rate for U.S. Dollar deposits).

***“Liquidity Facility”*** means any line of credit, standby purchase agreement or other instrument then in effect that provides for the payment of the Purchase Price of any series 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.

***“Mandatory Tender Date”*** means each Purchase Date on which a Series of the Bonds is required to be tendered for purchase as set forth in Section 8(b) of this Exhibit B.

***“Maturity Date”*** means the final date on which the principal of a Bond is stated on its face to become due and payable as provided in this Exhibit B, regardless of any Sinking Fund Requirement or optional or mandatory redemption prior to maturity.

***“Maximum Interest Rate”*** means (i) for all Bonds other than Bank Bonds, 12% per annum and (ii) for Bank Bonds, the Maximum Interest Rate set forth in the related Credit Enhancement (or Reimbursement Agreement) or Liquidity Facility, calculated in the same manner as interest is calculated for the interest rate then in effect on the affected Series of the Bonds. In no event shall the maximum interest rate exceed the maximum rate permitted by applicable law from time to time.

***“Mode”*** means the Daily Mode, Weekly Mode, Commercial Paper Mode, Index Floating Mode, Term Mode, or the Fixed Mode, as the context may require.

***“Ordinance”*** means Ordinance 18898 adopted on May 22, 2019 of the County authorizing the issuance and sale of the Bonds.

***“Par Call Date”*** means (a) with respect to the Initial Term Rate Period, the applicable Par Call Date(s) set forth in Exhibit A and identified in the Bond Purchase Agreement; and (b) with respect to any Series of the Bonds during any subsequent Term Rate Period, and any Index Floating Rate Period or Direct Purchase Period, the date established by the Finance Director and set forth in the applicable Direct Purchase Agreement, Bond Purchase Contract or Remarketing Agreement, and if none is

established, the first Business Day after the end of the Index Floating Rate Period or Term Rate Period, as applicable. Notwithstanding the foregoing, during any Delayed Remarketing Period, the Par Call Date for any Delayed Remarketing Bond shall mean any Business Day, and the Par Call Date for any Bank Bond shall be as set forth in the applicable Liquidity Facility or Credit Enhancement.

***“Participant”*** means, with respect to the Securities Depository, a member of or participant in the Securities Depository.

***“Purchase Date”*** means each date on which a Series of the Bonds may be or is required to be purchased pursuant to Section 8 of this Exhibit B.

***“Purchase Price”*** means the purchase price to be paid to the Registered Owner(s) of Bonds purchased pursuant to Section 8 of this Exhibit B, which shall be equal to the principal amount of the Bonds so tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to but excluding the Purchase Date (if such date is not an Interest Payment Date), plus any other accrued and unpaid interest. If such date is an Interest Payment Date, the Purchase Price shall equal the principal amount of the Bonds so tendered for purchase, without interest.

***“Record Date”*** means (a) with respect to any Interest Payment Date in a Daily Interest Rate Period, the last Business Day of each calendar month or, in the case of the last Interest Payment Date in a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (b) with respect to any Interest Payment Date in any Term Rate Period or Fixed Rate Period, the 15<sup>th</sup> day of the month immediately preceding that Interest Payment Date, (c) with respect to any Interest Payment Date in any Weekly Interest Rate Period, the last Business Day of each calendar month or, in the case of the last Interest Payment Date in a Weekly Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (d) with respect to any Interest Payment Date in any Index Floating Rate Period, the 15<sup>th</sup> day of the month immediately preceding that Interest Payment Date, (e) with respect to any Direct Purchase Period, any date provided in a Direct Purchase Agreement then in effect (as identified by the County to the Paying Agent in writing), and (f) with respect to any Commercial Paper Rate Period, the Business Day next preceding the Interest Payment Date.

***“Reimbursement Agreement”*** means any agreement between the County and a Credit Provider, pursuant to which Credit Enhancement or Alternate Credit Enhancement is issued by the Credit Provider, as the same may be amended or supplemented.

***“Remarketing Account”*** means each account with that name established within the Bond Purchase Fund pursuant to Section 12 of this Exhibit B and in the Remarketing Agreement.

***“Remarketing Agent”*** means each remarketing firm qualified under Section 10 of this Exhibit B to act as Remarketing Agent for the Bonds and appointed by the Finance Director on behalf of the County.

**“Remarketing Agreement”** means any remarketing agreement between the County and the Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of the Remarketing Agent as provided in this Exhibit B.

**“S&P Municipal Bond 7 Day High Grade Rate Index”** means, on any date, a rate determined on the basis of bonds in the S&P National AMT-Free Municipal VRDO Index that are classified as weekly interest rate reset bonds in a minimum par amounts greater than or equal to USD 50 million and rated by at least one of S&P, Moody’s or Fitch, with a short-term rating of A-1+, VMIG-1 or F-1+ respectively, as produced by S&P Dow Jones Indices (or successor organizations) and published or made available by S&P Dow Jones Indices.

**“Scheduled Mandatory Purchase Date”** for any Index Floating Rate Period or Term Rate Period, the Scheduled Mandatory Purchase Date shall mean the date scheduled to be the last day of the Index Floating Rate Period or Term Rate Period, as applicable, selected by the Finance Director pursuant to Section 5(a)(3) or Section 5(a)(4), as applicable.

**“Series”** as used in this Exhibit B refers to the Series 2020[A/B] Bonds, unless and until consolidated or changed to another Series designation by written direction of the Finance Director, issued pursuant to the Ordinance and subject to the terms set forth in this Exhibit B.

**“SIFMA”** means the Securities Industry and Financial Markets Association (formerly the Bond Market Association).

**“SIFMA Index”** means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Bloomberg (or successor organizations) and published or made available by SIFMA or any person acting in cooperation with or under the sponsorship of SIFMA and effective from such date. If such index is no longer published or is otherwise not available, SIFMA Index shall mean, on any date, a rate determined on the basis of bonds in the S&P Municipal Bond 7 Day High Grade Rate Index.

**“SOFR Index”** means, on any date, the Secured Overnight Financing Rate on the Federal Reserve’s Website as of 4:00 p.m. (Eastern Time) on the Business Day immediately preceding the SOFR Index Reset Date. If such index is not published or otherwise made available, then all references to the “SOFR Index” shall be deemed to be references to the rate that the Federal Reserve recommended as the replacement for the Secured Overnight Financing Rate. If no such replacement index has been established, then all references to the “SOFR Index” shall be deemed to be references to the EFFR Index.

**“Taxable Bonds”** means Bonds other than Tax-Benefited Bonds or Tax-Exempt Bonds.

**“Term-Out Period”** means a period, as determined in accordance with a Direct Purchase Agreement, Credit Enhancement, Reimbursement Agreement or Liquidity Facility then in effect, during which Unremarketed Bonds or Bank Bonds, as applicable, become subject to Extraordinary Mandatory Redemption in periodic, approximately equal installments of principal or as otherwise set

forth in the Direct Purchase Agreement, Credit Enhancement, Reimbursement Agreement or Liquidity Facility.

***“Term-Out Provision”*** means a provision in a Direct Purchase Agreement or in a Reimbursement Agreement (or similar agreement related to Credit Enhancement) or in Liquidity Facility that requires the Extraordinary Mandatory Redemption of principal of Unremarketed Bonds or Bank Bonds, as applicable payable in accordance with a scheduled amortization or otherwise of such principal over a Term-Out Period, to be determined as set forth in the applicable Direct Purchase Agreement or Reimbursement Agreement (or other similar agreement related to Credit Enhancement) or in the Liquidity Facility.

***“Term Rate”*** means (a) during the Initial Term Rate Period, the rate(s) set forth in Exhibit A and the Bond Purchase Agreement; and (b) during any subsequent Term Rate Period, a term, fixed (non-variable) interest rate established for Bonds of a Series in the Term Mode in accordance with Section 4(a)(3) of this Exhibit B.

***“Term Mode”*** means the Mode in which a Series of Bonds bears interest at the Term Rate.

***“Term Rate Period”*** means, with respect to a Series of the Bonds, each period during which a Term Rate is in effect.

***“Undelivered Bond”*** means any Bond which constitutes an Undelivered Bond under the provisions of Section 8(d) of this Exhibit B.

***“Underwriter”*** means the initial purchasers identified in the Bond Purchase Contract.

***“Unremarketed Bond”*** means any Bond (or principal portion of a Bond) that is not purchased when tendered for purchase and that becomes an Unremarketed Bond pursuant to a Direct Purchase Agreement.

***“Weekly Interest Rate”*** means a variable interest rate for a Bond in the Weekly Mode established in accordance with Section 4(a)(2) of this Exhibit B.

***“Weekly Interest Rate Period”*** means, with respect to a Series of the Bonds, each period during which a Weekly Interest Rate is in effect.

***“Weekly Mode”*** means the Mode in which a Series of the Bonds bears interest at the Weekly Interest Rate.

## **2. Bond Terms.**

During the Initial Term Rate Period, the Bonds of this Series have terms set forth in Exhibit A. The Bonds of this Series are issued in the aggregate principal amount of \$\_\_\_\_\_, mature on January



1, \_\_\_\_\_, and are subject to mandatory purchase, optional redemption on or after the Par Call Date set forth in Exhibit A, and defeasance in whole or part as set forth in the Ordinance and herein.

### **3. Accrual and Payment of Interest.**

(a) **Accrual Dates.** Each Bond shall bear interest from its Interest Accrual Date. However, a Bond issued in exchange for a Bond that is surrendered for transfer or exchange shall bear interest from the date to which interest on such surrendered Bond had been paid or duly provided for (or, if no interest has been paid on such surrendered Bond, from the Interest Accrual Date of such surrendered Bond).

(b) **Payment of Interest.** Interest shall be payable on each Interest Payment Date, on each redemption date, on each Purchase Date and on the Maturity Date, and shall be payable for the final Interest Rate Period to the date on which that Series of the Bonds is paid in full, all in accordance with the following:

(1) Interest on each Bond held in Book-Entry Form will be payable in the manner set forth in the Letter of Representations.

(2) Interest on each Bond not held in Book-Entry Form will be payable as set forth in Section 4(E) of the Ordinance.

#### **(c) Provisions Specific to Each Interest Rate Period.**

(1) Daily Interest Rate Period. Interest on a Series of the Bonds during any Daily Interest Rate Period shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year) and shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date and ending on the last day of the month in which such Interest Accrual Date occurs.

(2) Weekly Interest Rate Period. Interest on a Series of the Bonds during any Weekly Interest Rate Period shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year) and shall be payable on each Interest Payment Date for the period commencing on the preceding Interest Accrual Date and ending on the last day of the month in which such Interest Accrual Date occurs.

(3) Term Rate Period and Fixed Rate Period. Interest on a Series of the Bonds during any Term Rate Period or Fixed Rate Period shall accrue on the basis of a 360-day year composed of twelve 30-day months and shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date of the preceding month and ending on the day preceding the next Interest Accrual Date.

(4) Index Floating Rate Period. During an Index Floating Rate Period:

(A) If the applicable Index is (i) the LIBOR Index, SIFMA Index, EFFR Index or SOFR Index interest shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year); or (ii) another index selected by the Finance Director, interest shall accrue as determined by the Finance Director in connection with the selection of such other index in consultation with the Remarketing Agent; and

(B) Interest shall be payable on each Interest Payment Date for the period commencing on the preceding Interest Accrual Date and ending on the day preceding the next Interest Accrual Date.

(5) Commercial Paper Rate Period. Interest on a Series of the Bonds during any Commercial Paper Rate Period shall accrue on the basis of the actual number of days elapsed in a 365-day year (or a 366-day year in a leap year) and shall be payable on the Interest Payment Date for the period commencing on the Interest Accrual Date and ending on the last day of the Commercial Paper Rate Period for such Bonds.

#### **4. Determination of Interest Rates.**

(a) **Determination of Interest Rates.** Interest rates shall be periodically reset as follows, except as set forth in a Direct Purchase Agreement for Direct Purchase Bonds:

(1) Determination of Daily Interest Rate. Each Series of the Bonds for which a Daily Interest Rate Period has been selected shall bear interest at the Daily Interest Rate, which shall be determined by the Remarketing Agent by 10:00 a.m., New York Time, on each Business Day. The Daily Interest Rate for any day that is not a Business Day shall be the same as the Daily Interest Rate for the preceding Business Day. Each Daily Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of obligations comparable or of the same general nature and competitive as to credit, liquidity, or maturity (or period of tender), in the judgment of the Remarketing Agent, to such Series of the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate that, if borne by such Series of the Bonds, would enable the Remarketing Agent to sell all of that Series of the Bonds assuming for this purpose that all sold Bonds are available to sell on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. If no Daily Interest Rate is established by the Remarketing Agent, then the Daily Interest Rate for such Business Day shall be the same as the preceding Daily Interest Rate, and such Daily Interest Rate shall continue to be in effect until the earlier of (A) the date on which the Remarketing Agent determines a new Daily Interest Rate or (B) the seventh day succeeding the first day on which the Daily Interest Rate was not determined by the Remarketing Agent. If the Daily Interest Rate is held to be invalid or unenforceable by a court of law, or if the Remarketing Agent fails to determine the Daily Interest Rate for a period of seven days as described in clause (B) of the preceding sentence, then the Daily Interest Rate shall be equal to 100% of the SIFMA Index in the case of Tax-Exempt Bonds or 110% of the SIFMA Index in the case of Taxable Bonds or Tax-Benefited Bonds, or if such index is no longer available, 85% of the interest rate in the case of Tax-Exempt Bonds and 100% in the case of Taxable Bonds or Tax-Benefited Bonds on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the Business Day such Daily Interest Rate would

otherwise have been determined, until the Daily Interest Rate is again validly determined by the Remarketing Agent.

(2) Determination of Weekly Interest Rate. Each Series of the Bonds for which a Weekly Interest Rate Period has been selected shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by 5:00 p.m., New York Time, on Tuesday of each week, or if such day is not a Business Day, then on the succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall be in effect for the period commencing on and including the first day of such Weekly Interest Rate Period and ending on and including the succeeding Tuesday. Thereafter, each Weekly Interest Rate shall be in effect for the period commencing on and including Wednesday and ending on and including the succeeding Tuesday, unless such Weekly Interest Rate Period ends on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall be in effect for the period commencing on and including the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on and including the last day of such Weekly Interest Rate Period. Each Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of obligations comparable or of the same general nature and competitive as to credit, liquidity, or maturity (or period of tender), in the judgment of the Remarketing Agent, to such Series of the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the applicable Series of the Bonds, would enable the Remarketing Agent to sell all of that Series of the Bonds assuming for this purpose that all sold Bonds are available to sell on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof. If no Weekly Interest Rate is established by the Remarketing Agent, then the Weekly Interest Rate shall be the same as the preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate shall be equal to 100% of the SIFMA Index in the case of Tax-Exempt Bonds or 110% of the SIFMA Index in the case of Taxable Bonds or Tax-Benefited Bonds, or if such index is no longer available, 85% of the interest rate in the case of Tax-Exempt Bonds or 100% in the case of Taxable Bonds or Tax-Benefited Bonds on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the day such Weekly Interest Rate would otherwise have been determined, until the Weekly Interest Rate is again validly determined by the Remarketing Agent.

(3) Determination of Term Rate or Fixed Rate. Each Series of the Bonds for which a Term Rate Period or Fixed Rate Period has been selected shall bear interest at the Term Rate or Fixed Rate, as applicable, which shall be determined by the Remarketing Agent on a Business Day no later than the first day of such Term Rate Period or Fixed Rate Period, as applicable. The Term Rate during the Initial Term Rate Period is set forth in Exhibit A, and for any subsequent Term Rate Period shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of obligations comparable, in the judgment of the Remarketing Agent, to such Series of the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate at which the Remarketing Agent will agree to purchase

such Series of the Bonds on the effective date of that rate and as set forth in the Remarketing Agreement. The Delayed Remarketing Rate(s) applicable during any subsequent Term Rate Period to be in effect during a Delayed Remarketing Period shall be set forth in the applicable Bond Purchase Contract or the Remarketing Agreement or an amendment thereto. For any Term Rate Period, the Delayed Remarketing Rate(s) shall be determined on a Business Day no later than the first day of such Term Rate Period and shall remain in effect throughout such period. The Fixed Rate shall remain in effect until the Maturity Date for such Series of Bonds in the Fixed Mode.

(4) Determination of Index Floating Rate. Each Series of the Bonds for which an Index Floating Rate Period has been selected shall bear interest at the Index Floating Rate, determined as follows:

(A) *Index Floating Rate Periods.* The Index Floating Rate for any Index Floating Rate Period shall be determined by the Remarketing Agent after consultation with and approval by the Finance Director on the first Interest Determination Date for such Index Floating Rate Period, in accordance with the following:

- (i) The Index and the term of the Index Rate Floating Rate Period shall be selected by the Finance Director. The Index Floating Rate shall be the sum of (i) the Index multiplied by the Index Floating Rate Percentage, plus (ii) the Index Floating Rate Spread.
- (ii) The Index Floating Rate Percentage shall be selected by the Finance Director in connection with each Index Floating Rate Period (and if not so selected, shall be equal to 100%) and shall remain in effect throughout such period.
- (iii) The Index Floating Rate Spread shall be determined on or prior to the first Interest Determination Date with respect to an Index Floating Rate Period and shall remain in effect throughout such period. The Index Floating Rate Spread shall be the spread to such index determined by the Remarketing Agent (based on an examination of obligations comparable, in the judgment of the Remarketing Agent and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum spread which, when added to the Index (multiplied by the Index Floating Rate Percentage), equals the interest rate at which, if borne by such Series of the Bonds, the Remarketing Agent will agree to purchase such Series of the Bonds on the effective date of that rate and as set forth in the Remarketing Agreement at a price equal to the principal amount thereof.

(B) *Calculation of Index Floating Rate Reset on Interest Determination Dates.* The first Index Floating Rate for any Index Floating Rate Period shall be in effect for the period commencing on the first day of such Index Floating Rate Period to but excluding the first Interest Reset Date of such Index Floating Rate Period. With respect to each Interest Reset Date, the Index Floating Rate shall be calculated by the Paying Agent on each Interest Determination Date, and such Index Floating Rate

shall be in effect for the period commencing on each Interest Reset Date to but excluding the following Interest Reset Date.

(C) *Delayed Remarketing Period; Delayed Remarketing Rate.* The During the Initial Term Rate Period the Bonds are not Eligible Remarketing Rate Bonds. For any other Term Rate Period or Index Floating Rate Period, the Delayed Remarketing Rate(s) shall be determined on or prior to the first Interest Determination Date for such Term Rate Period or Index Floating Rate Period and shall remain in effect throughout such period.

(5) Determination of Commercial Paper Rates. Each Series of the Bonds for which a Commercial Paper Rate Period has been selected shall bear interest at the Commercial Paper Rate, which shall be determined by the County on a Business Day no later than the first day of such Commercial Paper Rate Period. The Commercial Paper Rate Period and the Commercial Paper Rate for each Bond need not be the same for any two Bonds, even if determined on the same date (and the County may designate subseries as necessary to accommodate different Commercial Paper Rate Periods or Commercial Paper Rates). Each Commercial Paper Rate shall be for a period of days within the range or ranges announced as possible Commercial Paper Rate Periods no later than 12:30 p.m. (New York Time) on the first day of each Commercial Paper Rate Period by the Remarketing Agent. The Commercial Paper Rate for each Bond in a Commercial Paper Rate Period shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by such Bond, would enable the Remarketing Agent to sell such Bond on the effective date of such rate at a price (without regarding accrued interest) equal to the principal amount thereof.

(b) **Determinations of Remarketing Agent Binding.** The Remarketing Agent shall provide prompt notice of each determination of the interest rate for each Series of the Bonds to the County, Paying Agent, Liquidity Provider, and Credit Provider (if any). The Paying Agent shall provide notice of such interest rate determination to the Registered Owner of any Bond upon request. Absent manifest error, each such determination shall be conclusive and binding upon the County, the Paying Agent, the Liquidity Provider, the Credit Provider (if any) and the Owner of each Bond.

(c) **Rounding Convention.** All percentages resulting from any calculation of any interest rate for any Series of the Bonds shall be rounded upward to the second decimal place, unless otherwise provided during a Direct Purchase Period.

(d) **Maximum Interest Rate; Excess Interest.** Notwithstanding any provision in this Exhibit B to the contrary, at no time shall any Series of the Bonds bear interest at a rate higher than the Maximum Interest Rate.

**5. Election of Interest Rate Periods.** The Interest Rate Period for any Series of the Bonds may be adjusted pursuant to an Election by the Finance Director, pursuant to this section, to effect a Conversion in accordance with Section 6 of this Exhibit B. The Interest Rate Period for a Series of the Bonds may not be adjusted except on a Purchase Date and except for a Conversion of all outstanding Bonds of such Series.

(a) **Available Modes.** Each Series of the Bonds shall bear interest in one of the following Modes: Daily Mode, Weekly Mode, Commercial Paper Mode, Index Floating Mode, Term Mode, or the Fixed Mode. All Bonds of a single Series must be in the same Mode.

(1) Election of Daily Interest Rate Period. The Finance Director, on behalf of the County may, from time to time, by written notice to the Paying Agent, Credit Provider (if any), Liquidity Provider (if any), Moody's and S&P, and the Remarketing Agent (if any), Elect that any Series of the Bonds bear interest at a Daily Interest Rate. The notice of Election given by the Finance Director shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Paying Agent of such notice; (ii) in the case of a Conversion from a Commercial Paper Rate Period, the day following the last day of such Commercial Paper Rate Period or a day on which such Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Exhibit B if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period or Term Rate Period, the day following the last day of such Index Floating Rate Period or Term Rate Period or on or after a Par Call Date; (iv) and, if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect; and (B) state whether Credit Enhancement and/or a Liquidity Facility is to be in effect on the Conversion Date.

(2) Election of Weekly Interest Rate Period. The Finance Director, on behalf of the County, may, from time to time, by written notice to the Paying Agent, Credit Provider (if any), Moody's and S&P, and the Remarketing Agent (if any), Elect that any Series of the Bonds bear interest at a Weekly Interest Rate. The notice of Election given by the Finance Director shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Paying Agent of such notice; (ii) in the case of a Conversion from a Commercial Paper Rate Period, the day following the last day of such Commercial Paper Rate Period or a day on which that Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Exhibit B if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period or Term Rate Period, the day following the last day of such Index Floating Rate Period or Term Rate Period or on or after a Par Call Date; (iv) and, if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect; and (B) state whether Credit Enhancement and/or a Liquidity Facility is to be in effect on the Conversion Date.

(3) Election of Term Rate Period or Fixed Rate Period. The Finance Director, on behalf of the County may by written notice to the Paying Agent, Credit Provider (if any), Liquidity Provider (if any), Moody's and S&P, and the Remarketing Agent (if any), Elect that any Series of the Bonds bear, or continue to bear, interest at the Term Rate or bear interest at the Fixed Rate. The notice of Election given by the Finance Director shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Paying Agent of such notice; (ii) in the case of a Conversion from a Commercial Paper Rate Period, the day following the last day of such Commercial Paper Rate Period or a day on which such Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Exhibit B if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating

Rate Period or another Term Rate Period, the day following the last day of such Index Floating Rate or Term Rate Period or on or after a Par Call Date; (iv) and, if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect; (B) the last day of the Term Rate Period for Bonds in the Term Mode, which shall be either the day prior to the Maturity Date or a day that both immediately precedes a Business Day and is at least 181 days after the proposed Conversion Date; and (C) whether some or all of the Bonds to be converted shall be converted to Serial Bonds and, if so, the applicable serial maturity dates and serial payments.

(4) Election of Index Floating Rate Period. The Finance Director, on behalf of the County may, from time to time, by written notice to the Paying Agent, Credit Provider (if any), Liquidity Provider (if any), Moody's and S&P, and the Remarketing Agent (if any), Elect that any Series of the Bonds bear, or continue to bear, interest at an Index Floating Rate. The notice of Election given by the Finance Director shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Paying Agent of such notice; (ii) in the case of a Conversion from a Commercial Paper Rate Period, the day following the last day of such Commercial Paper Rate Period or a day on which such Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Exhibit B if such Conversion did not occur; (iii) in the case of a Conversion from an Index Floating Rate Period or Term Rate Period, the day following the last day of such Index Floating Rate Period or Term Rate Period or on or after a Par Call Date (iv) and, if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect; (B) the date on which the Index Floating Rate Period is to end (which date shall be a Scheduled Mandatory Purchase Date) or, if applicable, a statement that the Index Floating Rate Period is to end on the day prior to the Maturity Date; (C) the Index that is to be in effect, the Index Floating Rate Percentage (if other than 100%); and (D) the Par Call Date for such Index Floating Rate Period.

(5) Election of Commercial Paper Rate Period. The Finance Director, on behalf of the County may, from time to time, by written notice to the Paying Agent, Credit Provider (if any), Liquidity Provider (if any), Moody's and S&P, and the Remarketing Agent (if any), Elect that any Series of the Bonds bear, or continue to bear, interest at a Commercial Paper Rate. The notice of Election given by the Finance Director shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Paying Agent of such notice; (ii) in the case of a Conversion from another Commercial Paper Rate Period, the day following the last day of such Commercial Paper Rate Period or a day on which such Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Exhibit B if such Conversion did not occur; (iii) in the case of a Conversion from an Index Floating Rate Period or Term Rate Period, the day following the last day of such Index Floating Rate Period or Term Rate Period or on or after a Par Call Date and (iv) if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect; (B) the date on which the Commercial Paper Rate Period is to end; and (C) state whether Credit Enhancement or a Liquidity Facility is to be in effect on the Conversion Date.

(b) **Rescission of Election to Effect a Conversion.** The Finance Director may rescind any Election to effect a Conversion by delivering to the Paying Agent, Credit Provider (if any), Liquidity

Provider (if any), Moody's and S&P, and the Remarketing Agent (if any), on or prior to 10:00 a.m., New York Time, on the second Business Day preceding a proposed Conversion Date, a notice to the effect that the County has determined to rescind its Election to effect such Conversion. If the County rescinds its Election to effect a Conversion of a Series of the Bonds, then such Series shall bear interest as follows: (1) if a Daily Interest Rate Period is in effect immediately prior to the proposed Conversion, such Series shall continue to bear interest at the Daily Interest Rate; (2) if a Weekly Interest Rate Period is in effect immediately prior to the proposed Conversion, such Series shall bear interest at a Weekly Interest Rate commencing on the proposed Conversion Date; (3) if an Index Floating Rate Period or Term Rate Period such Series shall continue to bear interest at the applicable Index Floating Rate or Term Rate, or (4) if a Direct Purchase Period is in effect immediately prior to the proposed Conversion, the effect of a rescission shall be that the Bonds remain outstanding under and subject to the terms of such Direct Purchase Agreement. Unless otherwise provided in a Direct Purchase Agreement then in effect, if notice of a Conversion of a Series of the Bonds to an Index Floating Rate Period has been mailed to the Registered Owner(s) of such Series of the Bonds as provided in Section 6(e), and the County subsequently rescinds its Election to effect such Conversion, such Series of the Bonds shall nevertheless be subject to mandatory tender for purchase on the proposed Conversion Date.

(c) **Provisions Applicable to Direct Purchase Periods.** In connection with any Election to effect a Conversion of a Series to a Direct Purchase Period or to amend, extend or renew a Direct Purchase Agreement then in effect, the Finance Director, on behalf of the County may negotiate, execute and deliver a Direct Purchase Agreement (or an agreement amending, renewing, extending, restating or otherwise modifying a Direct Purchase Agreement then in effect) on behalf of the County, consistent with the Bond Documents, in such form as shall be approved by the Finance Director.

**6. Conversion of Interest Rate Periods.** The Paying Agent shall provide notice of the County's Election to effect a Conversion of a Series of the Bonds to a new Mode, not less than 20 days prior to the proposed Conversion Date, as directed in writing by the County. At the direction of the Finance Director and in his or her sole discretion, the notice of Conversion may be combined with the notice of mandatory tender by inclusion of the information required under Section 8(c) of this Exhibit B. The notice to be provided to the Registered Owner(s) of the affected Series of the Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) must state, if applicable, that the Beneficial Owners may not elect to retain ownership of the Bonds, and must provide the following information:

(a) **Notice of Conversion to Daily Interest Rate Period.** In connection with a Conversion to a Daily Interest Rate Period pursuant to Section 5(a)(1) of this Exhibit B, the notice of the Paying Agent must state: (1) that the interest rate will be converted to a Daily Interest Rate unless the County rescinds its Election pursuant to Section 5(b) of this Exhibit B; (2) the proposed Conversion Date; (3) that such Series shall be subject to mandatory tender for purchase on the proposed Conversion Date after the giving of a notice of mandatory tender pursuant to Section 8(c) of this Exhibit B; (4) the Purchase Price; and (5) the place of delivery for purchase of such Series of the Bonds.

(b) **Notice of Conversion to Weekly Interest Rate Period.** In connection with a Conversion to a Weekly Interest Rate Period pursuant to Section 5(a)(2) of this Exhibit B, the notice of the Paying



Agent must state: (1) that the interest rate will be converted to a Weekly Interest Rate unless the County rescinds its Election pursuant to Section 5(b) of this Exhibit B; (2) the proposed Conversion Date; (3) that such Series shall be subject to mandatory tender for purchase on the proposed Conversion Date; (4) the Purchase Price; and (5) the place of delivery for purchase of such Series of the Bonds.

**(c) Notice of Conversion to Term Rate Period.** In connection with a Conversion to a Term Rate Period pursuant to Section 5(a)(3) of this Exhibit B, the notice of the Paying Agent must state: (1) that the interest rate will be converted to, or continue to be, the Term Rate unless either (A) the County rescinds its Election pursuant to Section 5(b) of this Exhibit B, or (B) all of such Series of the Bonds is not remarketed on the proposed Conversion Date; (2) the proposed Conversion Date; (3) the last day of the new Term Rate Period (or, if applicable, that the Term Rate Period is to end on the day prior to the Maturity Date); (4) that such Series shall be subject to mandatory tender for purchase on the proposed Conversion Date; (5) the Purchase Price; and (6) the place of delivery for purchase of such Series of the Bonds.

**(d) Notice of Conversion to Fixed Rate Period.** In connection with a Conversion to a Fixed Rate Period pursuant to Section 5(a)(3) of this Exhibit B, the notice of the Paying Agent must state: (1) that the interest rate will be converted to the Fixed Rate unless either (A) the County rescinds its Election pursuant to Section 5(b) of this Exhibit B, or (B) all of such Series of the Bonds is not remarketed on the proposed Conversion Date; (2) the proposed Conversion Date; (3) that the Fixed Rate Period is to end on the day prior to the Maturity Date; (4) that such Series shall be subject to mandatory tender for purchase on the proposed Conversion Date; (5) the Purchase Price; and (6) the place of delivery for purchase of such Series of the Bonds.

**(e) Notice of Conversion to Index Floating Rate Period.** In connection with a Conversion to an Index Floating Rate Period pursuant to Section 5(a)(4) of this Exhibit B, the notice of the Paying Agent must state: (1) that the interest rate will be converted to, or continue to be, an Index Floating Rate, unless the County rescinds its Election pursuant to Section 5(b) of this Exhibit B; (2) the proposed Conversion Date; (3) the last day of the new Index Floating Rate Period (or, if applicable, that the Index Floating Rate Period is to end on the day prior to the Maturity Date); (4) that such Series of the Bonds shall be subject to mandatory tender for purchase on the proposed Conversion Date; (5) the Purchase Price; and (6) the place of delivery for purchase of such Series of the Bonds.

**(f) Notice of Conversion to Commercial Paper Rate Period.** In connection with a Conversion to a Commercial Paper Rate Period pursuant to Section 5(a)(5) of this Exhibit B, the notice of the Paying Agent must state: (1) that the interest rate will be converted to, or continue to be, the Commercial Paper Rate unless the County rescinds its Election pursuant to Section 5(b) of this Exhibit B; (2) the proposed Conversion Date; (3) the last day of the new Commercial Paper Rate Period (or, if applicable, that the Commercial Paper Rate Period is to end on the day prior to the Maturity Date); (4) that such Series shall be subject to mandatory tender for purchase on the proposed Conversion Date; (5) the Purchase Price; and (6) the place of delivery for purchase of such Series of the Bonds.

**(g) Certain Additional Conditions.** No Conversion shall take effect unless each of the following conditions (1) through (4), to the extent applicable, has been satisfied and the Paying Agent

may conclusively assume, without inquiry, investigation or notice to any other party, that each such condition has been satisfied in connection with any notice of Conversion it is instructed to provide under this Section 6. If any applicable condition has not been satisfied, the Conversion shall not occur, and Bonds in the Daily Mode shall continue to bear interest at the Daily Interest Rate, Bonds in the Weekly Mode shall continue to bear interest at the Weekly Interest Rate, Bonds in the Index Floating Mode or Term Mode shall bear interest at the then applicable Index Floating Rate or Term Rate, and Bonds in a Direct Purchase Period shall bear interest as provided in the Direct Purchase Agreement.

(1) If the notice of the Finance Director's Election to convert indicates that Credit Enhancement and/or a Liquidity Facility will be in effect during the subsequent Interest Rate Period, such Credit Enhancement and/or Liquidity Facility must be in effect as of the Conversion Date;

(2) If a Direct Purchase Agreement or an agreement entered into in connection with Credit Enhancement or a Liquidity Facility is in effect prior to the Conversion and requires consent of the Index Floating Rate Holder, Direct Purchaser, Credit Provider, or Liquidity Provider, such consent must have been obtained or waived as of the Conversion Date;

(3) The County must obtain a Favorable Opinion of Bond Counsel with respect to such Conversion dated as of the Conversion Date; and

(4) Except as provided in subsection (h) of this section with respect to Delayed Remarketing Bonds and as provided in subsection (i) of this section with respect to Unremarketed Bonds, the Paying Agent must have sufficient funds on hand from remarketing or refunding proceeds, proceeds of a draw on the Credit Enhancement or request pursuant to a Liquidity Facility, or other funds made available by the County, to pay the Purchase Price of such Series of the Bonds on the Conversion Date.

**(h) Delayed Remarketing Bonds; Delayed Remarketing Period.** Bonds of a Series (or any principal portion thereof) in an Index Floating Mode or Term Mode that are Eligible Delayed Remarketing Bonds subject to a Delayed Remarketing Period as set forth in Section 8(f) of this Exhibit B shall be deemed to be a Delayed Remarketing Bond. Unless otherwise provided in a Direct Purchase Agreement applicable to such Bonds, such Delayed Remarketing Bond shall bear interest at the Delayed Remarketing Rate until such Bond ceases to be a Delayed Remarketing Bond. A Delayed Remarketing Bond shall cease to be a Delayed Remarketing Bond only if such Delayed Remarketing Bond is remarketed and transferred, or such Delayed Remarketing Bond is redeemed in full.

**(i) Unremarketed Bonds.** Unremarketed Bonds may become subject to Extraordinary Mandatory Redemption in accordance with a Direct Purchase Agreement.

**(j) Bank Bonds.** Bonds (or any principal portion thereof) that become Bank Bonds as set forth in Section 9(d) shall bear interest at the Bank Bond Rate or the Default Rate as applicable, until such Bonds are no longer Bank Bonds. Bank Bonds shall be subject to Extraordinary Mandatory Redemption in accordance with a Reimbursement Agreement, or other agreement relating to the applicable Credit Enhancement including a Reimbursement Agreement, or Liquidity Facility. Upon

the occurrence of a default hereunder or under any Credit Enhancement, Reimbursement Agreement or Liquidity Facility, Bank Bonds shall bear interest at the Default Rate applicable thereto as provided in the related Credit Enhancement, Reimbursement Agreement or Liquidity Facility.

## **7. Redemption and Payment of Bonds.**

(a) **Optional Redemption.** The Ordinance requires notice of redemption be provided and provides that any notice for redemption may be conditional, in which case the conditions shall be set forth therein. The County shall provide, or direct the Paying Agent to provide, a copy of the written notice of redemption to Moody's and S&P for any redemption. The County may make such redemption conditioned upon the occurrence of any specified event or events, including the deposit of funds. If such event or events do not occur, then the County may cancel such redemption by delivering a written notice of rescission to the Paying Agent rescinding such notice of redemption not later than 5:00 p.m. Pacific Time on the second business day prior to the redemption date and such notice of redemption and redemption shall be rescinded, cancelled and of no force of effect. Upon such receipt of the rescission notice from the County, the Paying Agent shall send a copy of the Notice to the Registered Owners of the Bonds subject to the notice in the same manner as the notice of redemption was given.

(1) **Weekly or Daily Interest Rate Period.** During a Daily Interest Rate Period or a Weekly Interest Rate Period, each Series of the Bonds (or principal portion thereof) then in a Daily Interest Rate or Weekly Interest Rate Mode shall be subject to optional redemption at the written direction of the Finance Director on any Business Day, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

(2) **Commercial Paper Rate Period.** During a Commercial Paper Rate Period, each Series of the Bonds then in a Commercial Paper Rate Mode shall not be subject to optional redemption.

(3) **Fixed Rate Period.** During a Fixed Rate Period, each Series of the Bonds (or principal portion thereof) then in a Fixed Rate Mode shall be subject to optional redemption at the written direction of the Finance Director on any day during the periods specified below in whole or in part, at the redemption prices (expressed as a percentage of principal amount) specified in the schedule of redemption prices set forth below (plus interest, if any, accrued to the date fixed for redemption):

<b>Length to End of Interest Rate Period (years)</b>	<b>Redemption Prices</b>
Greater than 10	after 10 years at 100%
Less than or equal to 10	after eight years at 101%, declining by 0.5% every year to 100%

The Finance Director may select an alternate schedule of redemption prices to apply following a Conversion Date by delivery to the Paying Agent, prior to the Conversion Date of (A) a certificate of the Finance Director setting forth the alternate schedule of redemption prices to apply during such Fixed Rate Period, and (B) a Favorable Opinion of Bond Counsel.

If the Conversion Date for a Series of the Bonds to be converted to a Fixed Rate is other than a day that would be an Interest Payment Date during such Fixed Rate Period, then the date on which such Series is first subject to redemption pursuant to the foregoing table (after the first day of such Fixed Rate Period) shall be the first Interest Payment Date succeeding the date on which such Series otherwise would be subject to redemption, and the redemption price shall be adjusted on each anniversary of that Interest Payment Date as provided in such table.

(4) Index Floating Rate Period or Term Rate Period. During an Index Floating Rate Period or Term Rate Period, each Series of the Bonds (or principal portion thereof) then in an Index Floating Rate Period or Term Rate Period, as applicable, shall be subject to optional redemption at the written direction of the Finance Director on any Business Date on or after any Par Call Date (set forth in Exhibit A), in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

(5) During Delayed Remarketing Period. Delayed Remarketing Bonds (or a principal portion thereof) in a Delayed Remarketing Period are subject to optional redemption upon the written direction of the Finance Director, on any Business Day, in whole or in part, at a redemption price of 100% of the principal amount thereof plus interest, if any, accrued to the date fixed for redemption.

(6) During Direct Purchase Periods. During a Direct Purchase Period the Bonds are subject to optional redemption as set forth in the Direct Purchase Agreement.

(7) Bank Bonds. Bank Bonds are subject to optional redemption as set forth in the applicable Credit Enhancement (or Reimbursement Agreement) and/or Liquidity Facility. Bank Bonds shall be redeemed prior to Bonds that are not Bank Bonds.

(b) **Mandatory Sinking Fund Redemption.** Each Series of the Bonds designated as a Term Bond shall, if not redeemed or purchased at the County's option prior to the Maturity Date, be redeemed at a price equal to the principal amount thereof to be redeemed plus accrued interest, on the dates in each of the years and the Sinking Fund Requirements, if any, set forth in **Exhibit A** to the Mode Agreement (or the Bond Purchase Contract, Remarketing Agreement or Direct Purchase Agreement, as applicable).

(c) **Extraordinary Mandatory Sinking Fund Redemption.** In the case of a Series that is subject to a Direct Purchase Agreement, Credit Enhancement or Liquidity Facility with a Term-Out Provision, Unremarketed Bonds and/or Bank Bonds shall be subject to Extraordinary Mandatory Redemption during the Term-Out Period in the amounts, on the dates and in the manner as set forth in the County's written direction to the Paying Agent, which direction shall be consistent with the Term-Out Provision of the applicable Direct Purchase Agreement, Credit Enhancement or Liquidity Facility.

## **8. Optional and Mandatory Tender and Purchase.**

(a) **Optional Tender for Purchase.** During any Weekly Interest Rate Period or Daily Interest Rate Period, the Bonds in a Daily Mode or Weekly Mode shall be subject to tender for purchase at the option of the Registered Owner (or Beneficial Owner, if such Series of the Bonds is held in Book-Entry Only Form) as set forth below, and if tendered in accordance with this subsection (a), shall be payable as set forth in subsection (e).

(1) Daily Interest Rate Period. Bonds of a Series that is in a Daily Interest Rate Mode may be tendered for purchase in any Authorized Denomination (provided that the amount of such Series that is not tendered for purchase must also be in an Authorized Denomination) upon delivery by the Registered Owner of such Bonds to the Paying Agent and Remarketing Agent by no later than 11:00 a.m., New York Time, on any Business Day, of an irrevocable written notice (or an irrevocable telephonic notice, promptly confirmed by email or other written notice), which states (A) the principal amount of such Bonds to be purchased and (B) the Purchase Date, which shall be that Business Day on which the notice is timely delivered. Any such notice delivered to the Paying Agent after 11:00 a.m., New York Time, shall be deemed to have been delivered on the succeeding Business Day. If the Bonds so tendered for purchase are not registered in the name of the Securities Depository, the Registered Owner must deliver the Bonds to the Paying Agent at its designated office for delivery of Bonds at or prior to 12:00 noon, New York Time, on the Purchase Date, accompanied by an instrument of transfer in form satisfactory to the Paying Agent.

(2) Weekly Interest Rate Period. Bonds of a Series that is in a Weekly Interest Rate Mode may be tendered for purchase in any Authorized Denomination (provided that the amount of such Series that is not tendered for purchase must also be in an Authorized Denomination) upon delivery by the Registered Owner to the Paying Agent and to the Remarketing Agent of an irrevocable written notice which states (A) the principal amount of such Bonds to be purchased and (B) the Purchase Date, which may be any Business Day not prior to the seventh day after the date of the delivery of such notice to the Paying Agent and the Remarketing Agent. Any such notice delivered to the Paying Agent after 4:00 p.m., New York Time, shall be deemed to have been delivered on the succeeding Business Day. If the Bonds so tendered for purchase are not in Book-Entry Only Form, the Registered Owner shall deliver the Bonds to the Paying Agent at its designated office for delivery of Bonds at or prior to 10:00 a.m., New York Time, on the Purchase Date, accompanied by an instrument of transfer in form satisfactory to the Paying Agent.

(3) Irrevocable Notice Deemed to be Tender of Bonds. The giving of notice of optional tender for purchase by a Registered Owner or Participant as provided in this subsection (a) shall constitute the irrevocable tender for purchase of those Bonds with respect to which such notice is given regardless of whether such Bonds are delivered to the Paying Agent for purchase on the applicable Purchase Date. If Bonds tendered for purchase are in Book-Entry Only Form, such tender is subject to confirmation by the Securities Depository to the Paying Agent that the Participant has the required Ownership interest in those Bonds.

**(b) Mandatory Tender for Purchase.**

(1) Bonds Subject to Mandatory Tender. Each Series of the Bonds shall be subject to mandatory tender for purchase at the Purchase Price on the following Purchase Dates (without duplication):

- (i) on any Scheduled Mandatory Purchase Date for a Series of the Bonds;
- (ii) on the first day of each Interest Rate Period (except if such new Interest Rate Period is the result of an extension or renewal of a Direct Purchase Agreement in connection with a Direct Purchase Period);
- (iii) on each proposed Conversion Date for which notice of mandatory tender has been given to the Registered Owner(s) pursuant to subsection (c) of this section;
- (iv) on each proposed redemption date on or after the Par Call Date for which notice of mandatory tender has been given to the Registered Owner(s) pursuant to subsection (c) of this section;
- (v) during any Interest Rate Period in which the Series is subject to Credit Enhancement and/or a Liquidity Facility, in the event that such Series ceases to be subject to that Credit Enhancement or Liquidity Facility, as set forth in subsection (b)(2) of this section;
- (vi) at any time during a Delayed Remarketing Period, upon notice given by the Remarketing Agent to the Paying Agent in accordance with Section 11 of this Exhibit B of a successful remarketing and the availability of funds sufficient to pay the Purchase Price for all such Bonds (or principal portions thereof in Authorized Denominations), without regard to any notice requirements set forth in subsection (c) of this section; and
- (vii) during any Direct Purchase Period, as specified in a Direct Purchase Agreement then in effect.

(2) Mandatory Tender of Bonds Upon Expiration or Termination of Credit Enhancement or Liquidity Facility. In addition, each Series of the Bonds with respect to which Credit Enhancement and/or Liquidity Facility is then in effect shall be subject to mandatory tender for purchase if at any time the Paying Agent receives notice that such Series will cease to be subject to purchase pursuant to such Credit Enhancement or Liquidity Facility as a result of (A) the termination, replacement or expiration of such Credit Enhancement or Liquidity Facility (including upon termination of the Credit Enhancement or Liquidity Facility at the option of the County and including upon an event of default or other mandatory tender event under the Reimbursement Agreement or Liquidity Facility, as applicable), or (B) a Conversion. The Purchase Date for such mandatory tender shall be determined by the County as (A) the fifth Business Day preceding any such expiration or termination of such Credit Enhancement or Liquidity Facility (if no Alternate Credit Enhancement or Alternate Liquidity Facility is to be delivered to the Paying Agent), (B) the Business Day on which such Alternate Credit

Enhancement or Alternate Liquidity Facility is delivered to the Paying Agent, or (C) the Conversion Date.

(c) **Notice of Mandatory Tender for Purchase.** In connection with any mandatory tender for purchase of a Series of the Bonds pursuant to subsection (b) of this section on a Purchase Date other than a Scheduled Mandatory Purchase Date, the Paying Agent shall be directed by the County in writing to give notice to the Registered Owner(s) of the affected Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) not less than 20 days prior to the Purchase Date, and to provide a copy of such notice to Moody's and S&P. A notice of mandatory tender must contain the following information (and may, at the direction of the Finance Director and in his or her sole discretion, be combined with a notice of Conversion delivered to the Registered Owner(s) under Section 6):

(1) Each notice shall state that if the Purchase Price is provided to the Paying Agent from remarketing or refunding proceeds, proceeds of a draw on Credit Enhancement or request under a Liquidity Facility, as applicable, or other funds made available by the County, such Series will be purchased on the Purchase Date from such remarketing or refunding, proceeds of a draw on the Credit Enhancement or request under the Liquidity Facility, or other funds made available by the County, and, in the case of an Index Floating Rate Period or Term Rate Period for Eligible Delayed Remarketing Bonds, the Bonds (or principal portions thereof in Authorized Denominations) not purchased will be subject to a Delayed Remarketing Period and will bear interest at the Delayed Remarketing Rate as set forth in subsection (f) of this section; and

(2) In the case of a mandatory tender for purchase pursuant to subsection (b)(1), the notice shall state (A) the Purchase Date, and (B) if in conjunction with a Conversion, the type of Interest Rate Period to which such Series will be converted on the Purchase Date; and

(3) In the case of a mandatory tender for purchase pursuant to subsection (b)(2), the notice shall state (A) that the Credit Enhancement and/or Liquidity Facility, as applicable, will expire, terminate or be replaced, (B) that after the Purchase Date, such Series will no longer be purchased pursuant to the Credit Enhancement and/or Liquidity Facility, as applicable, then in effect, and (C) that the short-term ratings applicable to such Series may be lowered or withdrawn; and

(4) In the case of a Series that is not in Book-Entry Form, the notice shall state that (A) the Purchase Price will be payable only upon surrender of such Bonds to the Paying Agent at its designated office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Paying Agent, executed in blank by the Registered Owner or its duly authorized representative, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, and (B) if the Registered Owner of any such Bond does not surrender that Bond to the Paying Agent for purchase on the Purchase Date, then that Bond shall be deemed to be an Undelivered Bond, no interest shall accrue on such Bond on and after the Purchase Date and the Registered Owner shall have no rights under the Bond Documents other than to receive payment of the Purchase Price for such Undelivered Bond.

**(d) Delivery of Bonds Subject to Optional or Mandatory Tender; Undelivered Bonds.**

Payment of the Purchase Price of a Series subject to mandatory tender for which a notice has been given in accordance with subsection (c) shall be as set forth in subsection (e), below. Bonds to be so purchased that are not in Book-Entry Only Form must be delivered at or prior to 10:00 a.m., New York Time, on the Purchase Date to the Paying Agent at its designated office for delivery of Bonds, accompanied by an instrument of transfer in form satisfactory to the Paying Agent and satisfying the conditions set forth in the notice of mandatory tender. If the Registered Owner of a Bond subject to optional or mandatory tender for purchase that is not in Book-Entry Only Form fails to deliver its Bond to the Paying Agent at the place and on the Purchase Date and by the time specified, or fails to deliver its Bond properly endorsed, such Bond shall constitute an Undelivered Bond. If funds in the amount of the Purchase Price of an Undelivered Bond are available for payment to the Registered Owner thereof on the Purchase Date at the time specified, then from and after the Purchase Date and time of that required delivery (1) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be outstanding under the Bond Documents; (2) interest shall no longer accrue on the Undelivered Bond; and (3) funds in the amount of the Purchase Price of the Undelivered Bond shall be held uninvested and without liability for interest by the Paying Agent for the benefit of the Registered Owner thereof, to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Paying Agent at its designated office for delivery of Bonds.

**(e) Payment of Purchase Price.** Bonds tendered for purchase under subsection (a) or (b) of this section shall be purchased on the Purchase Date specified in the applicable notice (or on the Scheduled Mandatory Purchase Date as applicable) by payment of the Purchase Price made by the Paying Agent, from the sources specified in this subsection, payable in immediately available funds to the Registered Owner (and not to any Participant), by 3:00 p.m., New York Time, on the Purchase Date, or as soon as practicable thereafter upon the receipt by the Paying Agent of the Purchase Price in the Bond Purchase Fund as set forth in Section 12. The Purchase Price of any Bonds to be purchased on any Purchase Date shall be made from the following sources in the following order of priority as directed by the County in writing: (1) proceeds of the remarketing of such Bonds; (2) proceeds of refunding bonds issued by the County; (3) proceeds of a draw on the Credit Enhancement or request under the Liquidity Facility, as applicable; and (4) other funds made available by the County to the extent legally available for such purpose consistent with the Bond Documents.

**(f) Failure to Pay Purchase Price of Bonds in Index Floating Rate Period or Term Rate Period for Eligible Delayed Remarketing Bonds; Delayed Remarketing Bonds.** During any Index Floating Rate Period or any Term Rate Period for Eligible Delayed Remarketing Bonds, if the entire Purchase Price for any Series of the Bonds subject to mandatory tender for purchase under subsection (b)(1) of this section cannot be paid on the applicable Purchase Date, then the Bonds of such Series shall not be purchased and shall become Delayed Remarketing Bonds or Unremarketed Bonds, subject to the following:

(1) Delayed Remarketing Period – No Direct Purchase Agreement in Effect. With respect to Delayed Remarketing Bonds for which no Direct Purchase Agreement is in effect, a Delayed Remarketing Period will commence on the Purchase Date with respect to the Eligible Delayed Remarketing Bonds (of principal portions thereof) for which funds were insufficient to pay the entire



Purchase Price. During a Delayed Remarketing Period, the following will apply: (A) the Delayed Remarketing Bonds will bear interest at the Delayed Remarketing Rate during the Delayed Remarketing Period; (B) interest shall continue to be due and payable on each Interest Payment Date and also shall be payable on the last day of the Delayed Remarketing Period for the Delayed Remarketing Bonds; (C) the Remarketing Agent (if any) will continue to be obligated to remarket the applicable Bonds; (D) the Delayed Remarketing Bonds will continue to be subject to optional redemption by the County as described in Section 7; (E) the Finance Director on behalf of the County, by notice to the Paying Agent and the Remarketing Agent, may Elect to effect a Conversion of the Delayed Remarketing Bonds as described in Sections 5 and 6; and (F) if and when the Delayed Remarketing Bonds are successfully remarketed as described in Section 11, the Registered Owner(s) of the Delayed Remarketing Bonds will be obligated to tender their Bonds to the Paying Agent for purchase. Commencement of a Delayed Remarketing Period is not a default for Eligible Delayed Remarketing Bonds hereunder.

(2) Term-Out Period or Delayed Remarketing Period When Direct Purchase Agreement in Effect. If a Direct Purchase Agreement is then in effect for such Series, then the Unremarketed Bonds shall remain subject to the provisions of the Direct Purchase Agreement applicable to such Series then in effect, which may include Extraordinary Mandatory Redemption of such Unremarketed Bonds in the amounts and on the dates as set forth in a Term-Out Provision (if any) if the failure to purchase the Unremarketed Bonds occurred on a Mandatory Tender Date. To the extent not inconsistent with the Direct Purchase Agreement then in effect, Unremarketed Bonds will continue to be subject to optional redemption by the County pursuant to Section 7 of this Exhibit B and the Finance Director may Elect to effect a Conversion pursuant to Sections 5 and 6 of this Exhibit B. Commencement of a Term-Out Period or Delayed Remarketing Period (for Eligible Delayed Remarketing Bonds) is not a default hereunder.

(g) **Inadequate Funds for Tenders.** If sufficient funds are not available for the purchase of all Bonds tendered or deemed tendered and required to be purchased on any Purchase Date (including a failure of the Liquidity Provider or Credit Provider to honor a properly presented draw request and a failure in connection with the occurrence of an immediate termination event or suspension of the Liquidity Facility, if any), all tendered Bonds that are not Delayed Remarketing Bonds shall be returned to their respective Registered Owners and shall bear interest at the Maximum Interest Rate from the date of such failed purchase until all such Bonds are further remarketed or otherwise paid in full in accordance with the terms of the Ordinance. The Paying Agent shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds pursuant to the relevant Credit Enhancement or Liquidity Facility, and shall pursue remedies available to it and Bondholders in accordance with the terms of the Ordinance.

## **9. Bank Bonds.**

(a) **Draws for Credit and/or Liquidity Support.** In the case of Credit Enhancement that secures, supports or guarantees the payment of principal of and interest on (and may secure or support the payment of the Purchase Price of) the Bonds, the County hereby requests and directs the Paying Agent to draw on any Credit Enhancement on the County's behalf for amounts eligible to be drawn thereunder (including for the purchase of Bonds eligible to be purchased thereunder) by delivering to

the Credit Provider a draw request substantially in the form provided in the Credit Enhancement, at the times and otherwise as provided under the Credit Enhancement in an amount that, together with any other proceeds then on hand at the time of the draw request and available for payment of such amount, will be sufficient to make the necessary payment. The County hereby requests and directs the Paying Agent, solely as agent for the County and not in any independent capacity, to draw on any Credit Enhancement on behalf of the County at the times set forth in the Credit Enhancement.

In the case of a Liquidity Facility, the County hereby requests and directs the Paying Agent to request purchases of Bonds eligible to be purchased under the Liquidity Facility by delivering to the Liquidity Provider a request for purchase substantially in the form provided in the Liquidity Facility, at the times and otherwise as provided thereunder in an amount that, together with any other proceeds then on hand at the time of the draw request and available for payment of the Purchase Price, will be sufficient to pay the Purchase Price. The County hereby requests and directs the Paying Agent, solely as agent for the County and not in any independent capacity, to submit Requests for Purchase to the Liquidity Provider on behalf of the County at the times set forth in the Liquidity Facility.

(b) **Notice of Termination.** The Paying Agent shall, pursuant to the County's written direction, give notice to the Remarketing Agent, Moody's, S&P, and the Registered Owner(s) of such Series of Bonds of the termination, expiration, amendment or extension of any Credit Enhancement or Liquidity Facility in accordance with its terms. Notices to S&P hereunder shall be provided to [pubfin\\_structured@spglobal.com](mailto:pubfin_structured@spglobal.com).

(c) **Bank Bonds.** Credit Enhancement (including any Reimbursement Agreement related thereto) or a Liquidity Facility may provide that a Bond that is purchased by the Paying Agent with amounts paid or provided by a Credit Provider under Credit Enhancement or by a Liquidity Provider under a Liquidity Facility shall become a Bank Bond and shall bear interest at the Bank Bond Rate for each day from and including the day such Bank Bond becomes a Bank Bond to and excluding the day such Bank Bond (i) ceases to be a Bank Bond and the Paying Agent receives notice that the Bond is eligible to be purchased or paid from amounts provided under the Credit Enhancement or Liquidity Facility, as applicable, or (ii) is paid in full. Interest on each Bank Bond shall be calculated and be payable on the dates and in the manner specified in the Credit Enhancement, Reimbursement Agreement or Liquidity Facility, as applicable (as the Paying Agent is directed in writing by the County). To the extent there are not remarketing proceeds or refunding bond proceeds available to pay a Bank Bond on any interest or principal payment date Junior Lien Bond Fund for those Bank Bonds, the County shall make such payment to the Paying Agent from the Junior Lien Bond Fund. Credit Enhancement or Reimbursement Agreement or the Liquidity Facility may include a Term-Out Provision applicable to Bank Bonds, providing for the Extraordinary Mandatory Redemption of such Bank Bonds in accordance with the Sinking Fund Requirements (or otherwise) if any, specified in the Credit Enhancement, Reimbursement Agreement or Liquidity Facility.

**10. Remarketing Agent.** If the Finance Director on behalf of the County Elects to effect a Conversion of any Series to a Daily Interest Rate Period, Weekly Interest Rate Period, Commercial Paper Period, Fixed Rate Period, Term Rate Period or an Index Floating Rate Period, the Finance Director shall appoint and enter into a Remarketing Agreement with a Remarketing Agent to

carry out the remarketing of such Series on the Purchase Date. A Remarketing Agent appointed by the Finance Director on behalf of the County shall designate its principal office in the Remarketing Agreement. The Remarketing Agent shall signify its acceptance of the duties and obligations imposed upon it under the Bond Documents by a written instrument of acceptance (which may be the Remarketing Agreement) delivered to the County, the Paying Agent and the Credit Provider and/or Liquidity Provider (if any), under which the Remarketing Agent shall agree to keep such books and records related to the remarketing of such Series as is consistent with prudent industry practice and to make such books and records directly related to the remarketing of such Series and, to the extent such information is not otherwise available to the County, for inspection by the County, at all reasonable times upon reasonable advance notice. This provision shall not obligate the Remarketing Agent to make available any confidential or attorney-client privilege communications and emails.

To be eligible to serve as Remarketing Agent, an institution must have a combined capital stock, surplus and undivided profits of at least \$50,000,000, and be authorized by law to perform all the duties imposed upon it by the Bond Documents and the Remarketing Agreement. The Remarketing Agent must also be acceptable to the relevant Credit Provider and/or Liquidity Provider (if any). A Remarketing Agent may at any time resign and be discharged of the duties and obligations created by this Exhibit B by giving notice to the County, Paying Agent, Credit Provider and/or Liquidity Provider (if any), Moody's and S&P. Such resignation shall take effect as provided in the Remarketing Agreement. A Remarketing Agent may be removed as provided in the Remarketing Agreement, by an instrument signed by the Finance Director, approved by the Credit Provider and/or Liquidity Provider (if any), and delivered to the Remarketing Agent, Paying Agent, Credit Provider and/or Liquidity Provider (if any), and Moody's and S&P. Except as provided in Section 11 of the Remarketing Agreement, such resignation or removal shall not be effective until the County has appointed a successor Remarketing Agent, with prior written notice to Moody's and S&P, and any funds held under the Remarketing Agreement are transferred to such successor.

## **11. Remarketing of Bonds; Notice of Interest Rates.**

(a) **Remarketing.** Upon a mandatory tender for purchase of a Series as required by Section 8(b) or notice of optional tender for purchase of a Series under Section 8(a), the Remarketing Agent shall offer for sale and use its best efforts to sell such Bonds on the Purchase Date and, if not remarketed on the Purchase Date, thereafter until sold, at the Purchase Price.

(b) **Notice of Purchase and Remarketing.** The Remarketing Agent shall give notice to the Paying Agent and the County by facsimile transmission, telephone, e-mail or similar electronic means promptly confirmed by a written notice, in no event later than 11:45 a.m., New York Time, on each Purchase Date on which Bonds are purchased pursuant to a tender for purchase under Section 8, specifying the principal amount of such Bonds successfully remarketed and transferring the proceeds of such remarketing to the Paying Agent. If such Bonds are not in Book-Entry Form, the Remarketing Agent shall also provide a list of the purchasers showing the names and Authorized Denominations in which such Bonds are to be registered and the addresses and taxpayer identification numbers of such purchasers.

(c) **During a Delayed Remarketing Period.** During a Delayed Remarketing Period, in accordance with Section 8(f) of this Exhibit B, the Registered Owner(s) of Delayed Remarketing Bonds will be obligated to tender their Bonds to the Paying Agent for purchase upon notice given as set forth in subsection (b) of this section, on any date on which any of the Delayed Remarketing Bonds or principal portion thereof in any Authorized Denominations have been successfully remarketed, on any redemption date including any Par Call Date or any Conversion Date.

**12. Bond Purchase Fund.** In conjunction with any remarketing, the Paying Agent agrees to establish and maintain on behalf of the County a separate fund to be designated the “Bond Purchase Fund.” The Paying Agent further agrees to establish within the Bond Purchase Fund a separate account to be designated the “Remarketing Account” and, if Credit Enhancement or a Liquidity Facility is delivered in connection with a Conversion, a separate account to be designated the “Credit Enhancement/Liquidity Facility Purchase Account” as follows:

(a) **Remarketing Account.** Upon receipt of the proceeds of a remarketing of a Series of the Bonds on a Purchase Date, the Paying Agent shall deposit such proceeds in the Remarketing Account of the Bond Purchase Fund for application to the Purchase Price of such Bonds.

(b) **Purchase Accounts.** Upon receipt from the Credit Provider of immediately available funds, the Paying Agent shall deposit such funds in the Credit Enhancement Purchase Account of the Bond Purchase Fund for application to the Purchase Price of such Bonds required to be purchased on a Purchase Date to the extent that the money on deposit in the Remarketing Account of the Bond Purchase Fund is not sufficient. Any amounts deposited in the Credit Enhancement Purchase Account and not needed on any Purchase Date for the payment of the Purchase Price for any Bonds shall be promptly returned to the Credit Provider. Any amounts in the Credit Enhancement Purchase Account shall be used only to purchase such Bonds. Upon receipt from the Liquidity Provider of immediately available funds, the Paying Agent shall deposit such funds in the Liquidity Facility Purchase Account of the Bond Purchase Fund for application to the Purchase Price of such Bonds required to be purchased on a Purchase Date to the extent that the money on deposit in the Remarketing Account of the Bond Purchase Fund is not sufficient. Any amounts deposited in the Liquidity Facility Purchase Account and not needed on any Purchase Date for the payment of the Purchase Price for any Bonds shall be promptly returned to the Liquidity Provider. Any amounts in the Liquidity Facility Purchase Account shall be used only to purchase such Bonds.

(c) **Other County Funds; Defeasance of Variable Rate Bonds.** Amounts contributed by the County to pay the Purchase Price as provided in Section 8(e) shall be transferred to the Paying Agent and deposited into the Remarketing Account for use in accordance with subsection (a) of this section. Amounts contributed by the County to defease a portion of the Bonds shall be held in a separate fund created and held under Section 32 of the Ordinance, and shall be applied as provided therein. Except for Bonds in the Fixed Mode, any defeasance plan for Bonds subject to this Mode Agreement shall provide for payment of interest on the Bonds to be defeased (the “defeased Bonds”) calculated at the Maximum Interest Rate, shall require the County to deliver a report of a certified accountant verifying the sufficiency of the amount contributed to defease the defeased Bonds, shall provide for the redemption or mandatory tender of the defeased Bonds on the earliest optional redemption or

mandatory tender date available under this Mode Agreement, following the date of defeasance, and shall require written notice of defeasance be provided to Moody's and S&P. The notice of defeasance shall state that Bonds continue to be subject to optional tender as provided in Section 8(a) of this Mode Agreement until paid. In the event that defeased Bonds are optionally tendered and cannot be remarketed on the Purchase Date for the optional tender, the defeasance plan shall provide for a direction to the Paying Agent to apply amounts set aside to defease the defeased Bonds to redeem and cancel such tendered Bonds on the Purchase Date.

(d) **County Contribution.** Failure of the County to make such contribution pursuant to Section 8(e) hereof in connection with a Purchase Date while the Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate and are secured by a Liquidity Facility or a Credit Facility, as applicable, shall not constitute a Default if: (i) the failure is the result of a failure by the Liquidity Provider or the Credit Provider, as applicable, to honor a properly presented and conforming draw under the Liquidity Facility or the Credit Enhancement, as applicable, to pay the Purchase Price of the tendered Bonds and (ii) the County contribution to pay the Purchase Price of the tendered Bonds with respect to which the failure occurred is deposited with the Paying Agent and applied to pay the Purchase Price of the tendered Bonds within 370 days after the date on which such tendered Bonds were required to be purchased.

**13. Time.** Time is of the essence of every provision herein contained. In the computation of any period of time provided for in this Exhibit B or by law, the day of the act or event from which said period of time runs shall be excluded, and the last day of such period shall be included, unless it is not a Business Day, in which case the period shall be deemed to run until 5:00 p.m. (New York Time) of the next day that is a Business Day. Except as otherwise expressly provided herein, all time periods expiring on a specified date or period herein shall be deemed to expire at 5:00 p.m. (New York Time) on such specified date or period.

**14. Defaults.** In addition to the Defaults set forth in Section 22 of the Ordinance, a default by the County in the observance or performance of any covenant, condition or agreement on the part of the County contained in this Mode Agreement, shall constitute a Default described in Section 22.C. of the Ordinance if such default has continued for a period of 30 days or, in the case of a Default under Section 12.C, such other period set forth in Section 12.C.

**15. Direct Payment Period.** Amounts payable to a Direct Purchaser during a Direct Purchase Period may, upon the request of the Direct Purchaser, be made by the County to the Direct Purchaser (without any presentment thereof, except upon the payment of the final installment of principal, and without any notation of such payment being made thereon), in such manner or at such address or addresses in the United States as may be designated by the Direct Purchaser in writing to the Paying Agent and the County. During any such Direct Payment Period, (i) any payment made shall be accompanied by sufficient information to identify the source and proper application of such payment, (ii) the County shall notify the Paying Agent in writing of each such payment, (iii) the Direct Purchaser shall notify the Paying Agent in writing of any failure of the County to make any payment of principal or of interest on the Bonds when due, and the Paying Agent shall not be deemed to have any notice of such failure unless it has received such notice in writing (provided that a failure by the

Direct Purchaser to give any such notice will not affect the obligation of the County to make any such payment), and (iv) if any Bonds are sold or transferred, the transferring bondholder shall notify the Paying Agent and the County in writing of the name and address of the transferee, the effective date of the transfer, the principal amount of the Bonds transferred and the payment information notated on the Bonds as hereinafter described, and the Paying Agent will, prior to delivery of such Bonds, make a notation of such Bonds of the date to which interest has been paid thereon and of the amount of any prepayments made on account of the principal thereof. Furthermore, to the extent that the County has made the required payments to any prior bondholder during any Direct Payment Period, the Paying Agent shall have no obligations to make payments of the principal of or interest on the Bonds or to take any other action in respect thereof, except at the express written direction of the County.

## EXHIBIT C

### **SPRINGING AMENDMENTS**

**Deemed Consent to Springing Amendments:** The County Council adopted an ordinance on June 23, 2020 (the "Springing Amendment Ordinance"), authorizing additional series of junior lien sewer revenue refunding bonds and multi-modal limited tax general obligation refunding bonds (payable from sewer revenues) of the County. Pursuant to the Springing Amendment Ordinance, the County may adopt springing amendments on the "Springing Amendment Date" or the date when the requisite percentage of the owners of: (a) the Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2017A and Series 2017B, dated October 26, 2017, authorized by Ordinance 18581 of the county; (b) the Multi-Modal Limited Tax General Obligation Refunding Bonds and Junior Lien Refunding Bonds refunded pursuant to Ordinance 18898 of the county (including the Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019A and Series 2019B of the county, dated June 27, 2019); (c) the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, dated August 15, 2001, authorized by Ordinances 14171 and 14172 of the county, respectively (to be refunded with the proceeds of the Bonds); (d) of the Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011, dated October 26, 2011, authorized by Ordinance 17202 of the county (to be refunded with the proceeds of the Bonds); and (e) the Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, dated December 27, 2012, authorized by Ordinance 17495 of the county have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity Bonds, and Annual Debt Service set forth in the Springing Amendment Ordinance.

The Springing Amendment Ordinance further provides that such consent may be obtained before or after the effective date of Springing Amendment Ordinance in the connection with the remarketing or refunding of one or more of the foregoing bonds, with the deemed consent of bondowners in connection with the purchase of such remarketing or refunding bonds. As provided in the Mode Agreement, by their purchase of the Bonds, Bondowners consent to the springing amendments. **The springing amendments are shown in bold, double underlined text, in the following definitions of the Bond Ordinance, to show how the provisions of the Springing Amendment Ordinance will amend provisions of the Bond Ordinance on the Springing Amendment Date.**

"Annual Debt Service" means, for the applicable 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.

- a. 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 (e.g., any Debt Service Offsets shall be deducted from Annual Debt Service) and, on and after the Springing Amendment Date, interest on any Balloon Maturity Bond shall also be excluded.

b. Prior to the Springing Amendment Date, the [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 Ordinance, the actual amount of interest paid on any issue of variable rate obligations will be taken into account. On and after the Springing Amendment Date, the amount of interest deemed to be payable on any on any such designated obligations bearing interest at a variable rate will be calculated on the assumption that the interest rate on those bonds would be equal to the rate ("the assumed variable rate") that is the average of the SIFMA Municipal Swap Index over the 10 calendar years 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 covenant, the actual amount of interest paid on any issue of variable rate obligations shall be taken into account.

2. Prior to the Springing Amendment Date, the [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. On and after the Springing Amendment Date, the principal due (at maturity or upon mandatory redemption prior to their maturity) for such designated obligations other than any Balloon Maturity Bond: (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. Prior to the Springing Amendment Date, 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.b. of this definition (if such designated obligations bear interest at a variable rate). On and after the Springing Amendment Date, the Assumed Debt Service for any Balloon Maturity Bond for that calendar year.



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 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 shall 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.

**On and after the Springing Amendment Date, "Assumed Amortization Period" means an assumed amortization period for a Balloon Maturity Bond as specified in a closing certificate of the Finance Director designating the Balloon Maturity Bond. An Assumed Amortization Period may not be longer than the lesser of: (a) the useful life, as of the date of designation, of the assets being financed; and (b) 75 years. The Assumed Amortization Period for a Balloon Maturity Bond applies (e.g., is not reset) until the Balloon Maturity Bond, and any Balloon Maturity Bond issued to refund that Balloon Maturity Bond, is no longer outstanding.**

**On and after the Springing Amendment Date, "Assumed Debt Service" for any Balloon Maturity Bond for any calendar year means an amount equals to the principal and interest that would be payable in each calendar year if that Balloon Maturity Bond were amortized over the Assumed Amortization Period on a substantially level debt service basis, calculated based on the actual interest rate on the Balloon Maturity Bond, if fixed, and based on the average of the SIFMA Municipal Swap Index over the 10 calendar years preceding the quarter in which the calculation is made, if variable.**

"Balloon Maturity Bonds" means, **prior to the Springing Amendment Date**, any obligations of the System, the entire principal amount of which is due at maturity without serial bond payments or sinking fund redemption payments. **On and after the Springing Amendment Date, "Balloon Maturity Bonds" means scheduled principal maturity of any Series of obligations of the System that the county designates in the closing certificate of the Finance Director for that Series to be a Balloon Maturity Bond for the purposes of the definition of Annual Debt Service. Any Balloon Maturity Bond includes any corresponding scheduled principal maturity of any such designated obligations issued to refund such Balloon Maturity Bond unless the Balloon Maturity Bond designation is rescinded in a closing certificate of the Finance Director in connection with the refunding.**

**"Springing Amendment Date" means the date when the requisite percentage of the owners of: (a) the Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2017A and Series 2017B, dated October 26, 2017, authorized by Ordinance 18581 of the county; (b) the Multi-Modal Limited Tax General Obligation Refunding Bonds and Junior Lien Refunding Bonds refunded pursuant to Ordinance 18898 of the county (including the Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019A and Series 2019B of the county, dated June 27, 2019); (c) the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, dated August 15, 2001, authorized by Ordinances 14171 and 14172 of the county, respectively; (d) of**

the Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011, dated October 26, 2011, authorized by Ordinance 17202 of the county; and (e) the Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, dated December 27, 2012, authorized by Ordinance 17495 of the county have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity Bonds, and Annual Debt Service set forth in the Springing Amendment Ordinance (including all springing amendments set forth therein). Such consent may be obtained before or after the effective date of the Springing Amendment Ordinance in the connection with the remarketing or refunding of one or more of the foregoing bonds, with the deemed consent of bondowners in connection with the purchase of such remarketing or refunding bonds. In addition, all Registered Owners of Bonds issued after the effective date of the Springing Amendment Ordinance are deemed to have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity Bonds, and Annual Debt Service set forth in the Springing Amendment Ordinance (including all springing amendments set forth therein) by their purchase of such Bonds.

**APPENDIX C**  
**FORM OF BOND COUNSEL'S OPINION**

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July 14, 2020

King County, Washington

Re: King County, Washington, Junior Lien Sewer Revenue Refunding Bonds (Mandatory Put Bonds), Series 2020A (the “2020A Bonds”), and Junior Lien Sewer Revenue Refunding Bonds (Mandatory Put Bonds), Series 2020B (the “2020B Bonds” and, together with the 2020A Bonds, the “Bonds”)

Ladies and Gentlemen:

We have acted as bond counsel to King County, Washington (the “County”), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the County of the Bonds issued pursuant to Ordinance 18898, passed on May 22, 2019 (the “Bond Ordinance”) to refund certain obligations of the System and to pay costs of issuance of the Bonds. Capitalized terms used in this opinion have the meanings given such terms in the Bond Ordinance and the Mode Agreements between the County and U.S. Bank National Association, as Registrar and Paying Agent, dated as of July 1, 2020, for the 2020A Bonds and 2020B Bonds, respectively.

The Bonds are subject to optional and mandatory redemption prior to maturity and to mandatory purchase as provided in the Bond Ordinance and the applicable Mode Agreement.

Regarding questions of fact material to our opinions, we have relied on representations of the County in the Bond Ordinance, the Mode Agreements, and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bond Ordinance and the Mode Agreements are legal, valid and binding obligations of the County, have been duly authorized, executed and delivered and are enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.
2. The Bonds have been legally issued pursuant to the terms of the Bond Ordinance and the Mode Agreements and constitute legal, valid and binding special obligations of the County, both principal thereof and interest thereon being payable solely out of a special fund of the County known as the "Junior Lien Obligation Redemption Fund" (the "Junior Lien Bond Fund"), except to the extent that the enforcement of the rights and remedies of the owner of the Bond may be limited by laws relating to bankruptcy, reorganization, insolvency,

moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles, and by the exercise of judicial discretion.

3. The County has irrevocably bound itself to set aside and pay into the Junior Lien Bond Fund and accounts therein out of Revenue of the System amounts sufficient to pay principal of and interest on the Bond as the same become due.
4. The County has pledged that the payments to be made from Revenue of the System into the Junior Lien Bond Fund and accounts therein shall have a duly created and valid 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 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 Revenue of the System for the payments required to be made into the Parity Lien Obligation Bond Fund and the accounts therein; equal to the lien and charge on Revenue of the System to pay and secure the payment of the outstanding Junior Lien Obligations and any Future Junior Lien Obligations; and superior to all other liens and charges of any kind or nature, including, inter alia, the lien and charge on Revenue of the System to pay and secure the payment of Multi-Modal LTGO/Sewer Revenue Bonds, Future Subordinate Lien Obligations, SRF Loans and Public Works Trust Fund Loans. The County has reserved the right to issue bonds in the future with a lien on Revenue of the System superior, equal or junior to the lien thereon of the Bond as provided in the Bond Ordinance.
5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The opinion set forth in the preceding sentence is subject to the condition that the County must comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The County has covenanted to comply with all applicable requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Except as expressly stated above, we express no opinion regarding any tax consequences related to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update, 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.

Very truly yours,

PACIFICA LAW GROUP LLP

**APPENDIX D**

**KING COUNTY WATER QUALITY ENTERPRISE FUND  
2019 AUDITED FINANCIAL STATEMENTS**

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

KING COUNTY WATER QUALITY ENTERPRISE FUND  
(AN ENTERPRISE FUND OF KING COUNTY, WASHINGTON)

December 31, 2019 and 2018



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## **Report of Independent Auditors**

The Metropolitan King County Council  
Seattle, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the King County Water Quality Enterprise Fund (the Fund), which comprise the statements of net position as of December 31, 2019 and 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the King County Water Quality Enterprise Fund as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the County's Proportionate Share of the Net Pension Liability, Schedule of the County's Contributions, and Schedule of the County's Changes in total OPEB Liability and Related Ratios be presented to supplement the basic 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 the Fund's financial statements. The Supplemental Schedule of Debt Service Coverage Ratios and Supplemental Schedule of Historical Debt Service Coverage Ratios are presented for purposes of additional analysis and are 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 other information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Moss Adams LLP*

Seattle, Washington  
April 30, 2020

# 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, 2019 and 2018.

### 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 424 square miles. The major wastewater treatment facilities include three secondary treatment plants at West Point in Seattle, South Plant in Renton, Brightwater Treatment Plant located near Woodinville, and two smaller secondary treatment plants at Vashon Island and Carnation, 397 miles of conveyance lines, 48 pump stations, and 25 regulator stations. Other facilities include four combined sewer overflow (CSO) treatment plants and 39 CSO control locations. The sewer system collected and treated an average of 161 million gallons per day (MGD) in 2019 from approximately 1.8 million residents.

### Financial Highlights

During 2019, Water Quality provided sewage treatment services to 763,436 residential customer equivalents (RCE) compared to 760,571 in 2018 and 756,916 in 2017. 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 12,513 new connections to its customer billing base in 2019. The program added 12,906 and 12,484 new connections in 2018 and 2017, respectively. In 2019, the average flow of the five treatment plants was 161 MGD with a peak daily flow of 752 MGD. Maximum system capacity was 868 MGD in 2019 and in 2018. The average daily flow fluctuated between a peak of 161 MGD in 2019 and 177 MGD in 2018. The annual fluctuation in flows largely depends on the amount of annual precipitation.

In 2019, resource recovery delivered 124,958 tons compared to 129,568 tons in 2018 of Loop® biosolids to customers for use in forest management, agriculture, and composting. Approximately 82.3 million gallons compared to 76.9 million gallons in 2018 of Class A reclaimed water was distributed for irrigation, urinals/toilets, municipal purposes, and wetland enhancement and about 719 million gallons of filtered, treated wastewater compared to 669 million gallons in 2018 were used for internal treatment plant processes. The permitted capacity for the South Plant reclaimed water facility is a filter feed loading of 1.3 MGD and the Brightwater permitted reclaimed water treatment capacity is 12 MGD.

Water Quality sold 2.7 million therms of natural gas to Puget Sound Energy from the South Treatment Plant in 2019 and 2.5 million therms in 2018. Congressional action under the Energy Independence Security Act and subsequent rulemaking by the Environmental Protection Agency (EPA) created an opportunity for Water Quality to monetize the environmental benefit of its biofuel through the generation and sale of environmental attributes called RINS (Renewable Identification Numbers). In November 2016, King County entered an agreement with IGI Resources, Inc., for the sale of bio-methane from South Plant and the corresponding RINS. In 2019, RINS revenues were \$2.8 million from which \$800 thousand was paid for operational costs to fulfill the administrative and operations requirements of the contract and to improve the operation of the biogas system. The utility costs to produce RINS in 2019 were offset by an unusual two-month spike in methane gas revenue. In 2018, RINS revenue totaled \$4.4 million from which \$762 thousand was paid for operational and administrative costs and improvement of the operation of the biogas system. West Point Treatment Plant sold Seattle City Light 17.2 million kilowatt hours of electricity generated from digester gas in 2019 and 14.4 million kilowatt hours in 2018.

# King County Water Quality Enterprise Fund

## Management's Discussion and Analysis

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### Financial Highlights (continued)

The Industrial Pretreatment Program conducted 244 inspections and took 1,712 compliance samples in 2019 compared to 297 inspections and 1,777 compliance samples taken in 2018. The program currently tracks 545 facilities with discharge authorization permits and 104 significant industrial users compared to 551 facilities with discharge authorization permits and 109 significant industrial users in 2018.

In 1999, the Metropolitan King County Council adopted the Regional Wastewater Services Plan (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 improvements to the regional Conveyance system and CSO control projects. Total capital program expenditures were \$209.3 million in 2019 and \$225.6 million in 2018.

Water Quality currently has 39 CSO locations plus four CSO treatment facilities. Past investments conducted in concert with the City of Seattle have 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 1 billion gallons per year at present.

In 2012, the EPA entered a consent decree (CD) with Water Quality to reduce CSO overflows to meet regulator's standards for discharges or treatment by 2030. The consent decree is based on Water Quality's 2012 Amended Long-term CSO Control Plan (the Plan). The Plan amended the original total of 21 CSO projects to 13 projects that will control 18 CSO locations. By 2018, five projects were either completed or operational and under monitoring for compliance. At present, four of the remaining nine projects are underway, including a joint project with the City of Seattle to control two King County CSO locations.

In October 2019, King County formally requested, and subsequently has begun, to initiate negotiations to modify King County's CD with EPA and Ecology to address changed conditions since the CD was signed. These changed conditions include substantially higher cost estimates for planned CSO control projects, climate change impacts, anticipated future increases in regulatory requirements for nutrient discharges to Puget Sound and rate affordability. Any potential modification agreed to by EPA, Ecology and the U.S. District Court would also need King County Council approval.

The EPA and Washington State Department of Ecology (DOE) will monitor Water Quality's progress with CSO control and work closely with the enterprise going forward to meet CSO control requirements. In accordance with the county's National Pollutant Discharge Elimination System (NPDES) permit for the West Point Treatment Plant and the consent decree, a review of the CSO Program was submitted to the DOE as part of the West Point permit renewal, stating no changes to the Plan. The next update to the Plan is due to the DOE and EPA in 2024 as part of the next West Point NPDES permit renewal.

## King County Water Quality Enterprise Fund Management's Discussion and Analysis

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### Financial Highlights (continued)

In April of 2016, the Magnolia CSO Control Facility entered service and functioned until a pipeline leak was detected on November 2, 2016. An extensive analysis was undertaken by Water Quality project management in conjunction with the project contractor to determine the root cause of the leak and a corrective course of action. The work continued until December 2017 when the project team decided on a plan to destroy the existing pipe and replace it with a continuous pipeline. Water Quality determined the original pipeline a total loss and impairment in accordance with governmental accounting standards. The storage tank and other components of this project remain intact and depreciation for them continued since the expected life of the facility remains as originally capitalized. The carrying value of the fully retired pipeline was \$9.6 million in 2017. The costs associated with replacing the pipeline totaled \$21.7 million and were capitalized in 2019. Water Quality filed a claim against the contractor's insurance policy to recover its costs related to the loss of the failed pipeline and its replacement.

Water Quality operating revenues increased by 5.3 percent, or \$26.9 million, to \$536.4 million in 2019 from \$509.5 million in 2018 while operating expenses before depreciation and amortization increased by 3.1 percent, or \$4.3 million, to \$143.8 million in 2019 from \$139.5 million in 2018. The rise in operating revenue can be attributed to a 2.5 percent increase in the sewer rate to \$45.33 from \$44.22 in 2018 and 2017. The increase in operating expenses before depreciation and amortization are due to higher chemical prices and large equipment repairs.

Capacity charge revenues increased 17.6 percent, or \$15.3 million, to \$102.1 million in 2019 from \$86.8 million in 2018. The capacity charge rate increased to \$64.50 per RCE in 2019 from \$62.60 per RCE in 2018. The RCE's billed for sewer treatment services increased to 763,436 in 2019 from 760,571 (based on sewer revenues that include sewer agency prior year adjustments) in 2018. The County allows the capacity charge to be prepaid on a discounted basis at the customer's option. The discount rate reflects the 15-year mortgage and 10- and 20-year Treasury rates and was 3.6 percent in 2019 and 2.9 percent in 2018. Early capacity charge payoffs rose 41.1 percent in 2019 contributing to the increase in capacity charge revenue. In June of 2019, the County Council adopted a capacity charge of \$66.35, a 2.9 percent increase, and maintained the \$45.33 sewer rate for 2020.

The rate stabilization reserve, as mandated by the Metropolitan King County Council as part of its rate setting activities, permits Water Quality to set aside a portion of current revenue for future periods in order to moderate the impact of rate increases over time. The rate stabilization reserve was unchanged at \$46.3 million in 2019 and 2018. 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

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### Financial Highlights (continued)

In January of 2019, Water Quality voluntarily redeemed \$1.6 million of principal on its Junior Lien Sewer Revenue Bonds, Series 2015A and 2015B. On June 27, 2019, Water Quality issued \$148.1 million in Multi-Modal Limited Tax General Obligation Refunding Bonds, Series 2019A and Series 2019B to refund Junior Lien Sewer Revenue Bonds, Series 2015A and Series 2015B and Junior Lien Sewer Revenue Bonds, Series 2017. On October 7, 2019, Water Quality purchased and deposited U.S. Treasury securities in an irrevocable escrow to defease \$22.5 million of outstanding 2012C Sewer Revenue and Refunding Bonds and \$64.6 million of outstanding Limited Tax General Obligations Refunding Bonds, Series 2012B and Series 2012C. Funding for the escrow came from operations and excess bond reserves. On October 24, 2019, Water Quality issued \$101.0 million in Limited Tax General Obligation Bonds, Series 2019A, to fund its capital program. Water Quality received \$14.0 million in low interest state loans in 2019 at rates between 0.8 and 2.6 percent.

In January of 2018, Water Quality voluntarily redeemed \$920 thousand of principal on its Junior Lien Sewer Revenue Bonds, Series 2015A and 2015B. In October 2018, Water Quality purchased and deposited U.S. Treasury securities in an irrevocable escrow to defease \$135.8 million of outstanding 2010, 2011B, and 2012 Sewer Revenue and Refunding Bonds. Substantially all the funding for the escrow came from the \$144.9 million Brightwater judgement awarded to the County in 2016. In November 2018, Water Quality issued \$124.5 million in Sewer Revenue Bonds, Series 2018B, to fund its capital program. In December 2018, Water Quality remarketed two Junior Lien Variable Sewer Revenue Bonds, Series 2011 and 2012 at \$100.0 million each. These were remarketed at fixed rates of 2.5 and 2.6 percent, respectively and are subject to mandatory repurchase in December 2020 and December 2021, respectively. Water Quality received \$27.8 million in low interest state loans in 2018 at rates between 1.7 and 2.7 percent.

On April 19, 2018, Water Quality became the nation's first utility to receive a loan from the EPA's newly created Water Infrastructure Finance and Innovation Act (WIFIA) program – the first major federal assistance program for municipal utilities in almost 20 years. The \$134.5 million loan for the Georgetown Wet Weather Treatment Station locks in a 3.1 percent interest rate through the 2051 final maturity date of the loan. Draws on this loan will reimburse Water Quality for costs incurred on the Georgetown project and must be made no later than one year after substantial completion of the project, which is currently scheduled for February of 2022. No draws were taken on this loan in 2019 and 2018. The WIFIA Loan will be evidenced by the County issuing a sewer revenue bond to the EPA.

The results of operations for 2019 and 2018 produced a debt service coverage ratio on senior lien debt of 1.85 and 1.72, respectively, exceeding the coverage covenant requirement of 1.15 in both years. The total debt coverage ratio of 1.58 in 2019 and 1.49 in 2018 exceeded the 1.15 policy minimum in both years.



# King County Water Quality Enterprise Fund

## Management's Discussion and Analysis

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### Overview of the Financial Statements

This discussion and analysis are 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.

Water Quality's financial statements provide information with respect to all 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 \$415.3 million provided 77.4 percent of operating revenues in 2019 and \$403.6 million provided 79.2 percent of operating revenues in 2018. 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.

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 2019 and 2018, 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.

# King County Water Quality Enterprise Fund

## Management's Discussion and Analysis

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### Overview of the Financial Statements (continued)

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 Statement of Net Position

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2019	2018	2017
Current assets	\$ 381.1	\$ 297.9	\$ 438.7
Noncurrent assets	289.1	310.9	242.4
Capital assets	4,112.8	4,096.1	4,077.8
Other	124.8	121.0	120.2
<b>Total assets</b>	<b>4,907.8</b>	<b>4,825.9</b>	<b>4,879.1</b>
Deferred outflows of resources	188.9	210.0	233.6
<b>Total assets and deferred outflows of resources</b>	<b>5,096.7</b>	<b>5,035.9</b>	<b>5,112.7</b>
Current liabilities	216.2	212.4	216.0
Noncurrent liabilities	3,994.3	4,019.4	4,146.0
<b>Total liabilities</b>	<b>4,210.5</b>	<b>4,231.8</b>	<b>4,362.0</b>
Deferred inflows of resources	59.5	58.4	54.1
<b>Total liabilities and deferred inflows of resources</b>	<b>4,270.0</b>	<b>4,290.2</b>	<b>4,416.1</b>
Net position - net investment in capital assets	422.9	353.1	180.7
Net position - restricted	230.6	237.8	235.9
Net position - unrestricted	173.2	154.8	280.0
<b>Total net position</b>	<b>\$ 826.7</b>	<b>\$ 745.7</b>	<b>\$ 696.6</b>

Net position serves as a useful indicator of Water Quality's financial position. As of December 31, 2019, and 2018, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$826.7 million and \$745.7 million, respectively.

## King County Water Quality Enterprise Fund Management's Discussion and Analysis

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### Financial Analysis of the Statement of Net Position (continued)

Of the total Water Quality assets and deferred outflows of resources, 80.7 percent or \$4,112.8 million were invested in capital assets such as treatment plants, pumping and regulator stations, interceptors, and other equipment at year-end 2019. Net investment in capital assets increased by 19.8 percent or \$69.8 million primarily due to new bond proceeds. For the year-end 2018, 81.3 percent or \$4,096.1 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 increased by 10.9 percent or \$81.0 million in 2019 to \$826.7 million from \$745.7 million in 2018. Changes in net position are largely due to increased sewage disposal, capacity charge and other operating revenues. Restricted net position decreased by 3.0 percent or \$7.2 million in 2019 to \$230.6 million from \$237.8 million in 2018. Unused bond proceeds and bond reserves were lower in 2019. The unrestricted net position increased by \$18.4 million in 2019 to \$173.2 million from \$154.8 million in 2018.

In 2018, the net position increased by 7.0 percent or \$49.1 million to \$745.7 million from \$696.6 million in 2017. Restricted net position increased by 0.8 percent or \$1.9 million in 2018 to \$237.8 million from \$235.9 million in 2017. The unrestricted net position decreased by \$125.2 million in 2018 to \$154.8 from \$280.0 million in 2017. This reduction reflects the use of substantially all the \$144.9 million Brightwater judgement awarded to the County in 2016 to fund an escrow for the defeasance of debt.

# King County Water Quality Enterprise Fund

## Management's Discussion and Analysis

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### Financial Analysis of the Statement of Revenues, Expenses, and Changes in Net Position

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2019	2018	2017
Sewage treatment fees	\$ 415.3	\$ 403.6	\$ 401.7
Capacity charge revenue	102.1	86.8	82.6
Other revenue	19.0	19.1	18.3
Operating revenues	536.4	509.5	502.6
Operating expenses	323.3	318.1	318.1
Operating income	213.1	191.4	184.5
Nonoperating (expenses)	(132.1)	(142.6)	(126.1)
Grant revenues	-	0.3	-
Change in net position	81.0	49.1	58.4
Net position beginning of year	745.7	696.6	638.2
Net position end of year	\$ 826.7	\$ 745.7	\$ 696.6

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.

During 2019, operating revenues increased by 5.3 percent or \$26.9 million to \$536.4 million from \$509.5 million in 2018. Operating expenses increased by 1.6 percent or \$5.2 million to \$323.3 million in 2019 from \$318.1 million in 2018.

In 2018, operating revenues increased by 1.4 percent or \$6.9 million to \$509.5 million from \$502.6 million in 2017. Operating expenses stayed the same at \$318.1 million in 2018 and 2017.

### Operating Revenues

In 2019, sewage disposal fee revenue increased by \$11.7 million, 2.9 percent, to \$415.3 million from \$403.6 million in 2018 due to a 2.5 percent rate increase and an increased number of RCE's. Water Quality charged a monthly sewage treatment rate of \$45.33 per RCE in 2019, and \$44.22 in both 2018 and 2017. In 2018, sewage disposal revenues increased by 0.5 percent, or \$1.9 million, to \$403.6 million from \$401.7 million in 2017.

## King County Water Quality Enterprise Fund Management's Discussion and Analysis

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### Financial Analysis of the Statement of Revenues, Expenses, and Changes in Net Position (continued)

#### Operating Revenues (continued)

A 3.0 percent increase in the 2019 capacity charge rate for new customers, continued growth in new connections and an increase in early payoff revenues contributed to a 17.6 percent, or \$15.3 million, increase in overall capacity charge revenue of \$102.1 million. In 2018, capacity charge revenue increased by 5.1 percent to \$86.8 million from \$82.6 million in 2017. Capacity charge early payoffs accounted for 30.6 percent of the 2019 capacity charge revenue compared to 25.5 percent in 2018 and 28.6 percent in 2017. This increase is attributable to the higher early payoff discount rate in 2019.

Other operating revenues totaling \$19.0 million in 2019 decreased \$100 thousand, or 0.5 percent, evidenced in an offset between bio-methane and methane sales. In 2018, other operating revenue increased 4.4 percent, or \$800 thousand to \$19.1 million from \$18.3 million in 2017 due primarily to high strength surcharges in industrial waste.

#### Operating Expenses

In 2019, operating expenses, excluding depreciation, rose 3.1 percent or \$4.3 million to \$143.8 million compared to a 1.1 percent decrease, or \$139.5 million in 2018. This change is due primarily to price increases on chemicals, large operating repairs and labor.

Utility and Service costs decreased 6.3 percent, or \$2.4 million from \$38.0 million in 2018 to \$35.6 million in 2019. Utility and Service costs in 2018 increased 5.3 percent or \$1.9 million from \$36.1 million to \$38.0 million. Electricity costs in 2019 rose by 2.7 percent, or \$376 thousand, to \$15.1 million from \$14.7 million in 2018. In 2019, Water Quality continued to sell its methane rather than use it to generate electricity at South Treatment Plant. In 2018, electricity costs increased by 3.5 percent or \$494 thousand to \$14.7 million. Chemical costs increased \$988 thousand or 10.6 percent in 2019 from \$8.5 million to \$9.4 million. In 2018, chemical costs rose \$394 thousand or 4.9 percent from \$8.1 million to \$8.5 million. These essential operational costs are subject to market price fluctuation.

Intragovernmental expenses rose 0.3 percent, to \$39.5 million in 2019 from \$39.4 million in 2018. Increases in technology and insurance services were offset by decreases in GIS and legal services. In 2018, intragovernmental expenses grew 0.5 percent or \$276 thousand, to \$39.4 million from \$39.2 million in 2017.

# King County Water Quality Enterprise Fund

## Management's Discussion and Analysis

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### Financial Analysis of the Statement of Revenues, Expenses, and Changes in Net Position (continued)

#### Non-operating Revenues and Expenses

Non-operating expenses (net) decreased by \$10.5 million to \$132.1 million in 2019 from \$142.6 million in 2018. Higher investment earnings, lower short-term interest rates and fewer capital retirements contributed to the decrease. In 2018, non-operating expenses (net) increased by \$16.5 million to \$142.6 million from \$126.1 million in 2017. Main contributors to the net increase were higher interest expense for variable rate debt and legal costs related to environmental remediation offset by increased investment earnings and a \$10.1 million insurance recovery in 2017 on the West Point Treatment Plant flood event.

#### Capital Assets

At December 31, 2019, Water Quality's investment in capital assets, net of accumulated depreciation, was \$4,112.8 million, reflecting an increase of \$16.7 million or 0.4 percent more than the balance of \$4,096.1 million at December 31, 2018. Capital assets net increase from December 31, 2017 to December 31, 2018 was \$18.3 million or 0.4 percent.

Large 2019 construction project expenditures include:

- \$44.3 million for Georgetown Wet Weather Treatment Station
- \$23.6 million for Eastside Interceptor Phase 11
- \$15.8 million for Sunset and Heathfield Pump Stations and Force Main Upgrade
- \$ 7.8 million for North Mercer Island and Enatai Interceptor upgrade
- \$ 7.1 million for Ovation Control Systems upgrade

Large 2018 construction project expenditures include:

- \$33.1 million for Georgetown Wet Weather Treatment Station
- \$26.3 million for Sunset and Heathfield Pump Stations and Force Main Upgrade
- \$17.9 million for Magnolia CSO Control Improvements
- \$12.2 million for Pacific Pump Station and Auburn West Interceptor (Kent Auburn Phase B)
- \$ 7.3 million for North Mercer Island and Enatai Interceptor Upgrade

For more detailed information on capital assets, refer to Note 7 in the financial statements.

## King County Water Quality Enterprise Fund Management's Discussion and Analysis

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### Debt Administration

In January of 2019, Water Quality voluntarily redeemed \$1.6 million of principal on its Junior Lien Sewer Revenue Bonds, Series 2015A and 2015B. This is part of a financial practice whereby variable rate debt will be amortized so that each issue will be retired by its stated maturity date.

In June of 2019, Water Quality issued \$148.1 million in Multi-Modal Limited Tax General Obligation Refunding Bonds, Series 2019A and Series 2019B to refund Junior Lien Sewer Revenue Bonds, Series 2015A and Series 2015B, and Junior Lien Sewer Revenue Bonds, Series 2017.

On October 7, 2019, Water Quality purchased and deposited Treasury securities in an irrevocable escrow to defease \$22.5 million of outstanding Sewer Revenue and Refunding Bonds, Series 2012C, and \$64.6 million of Limited Tax General Obligation Bonds, Series 2012B and Series 2012C. The escrow was funded from operations and excess bond reserves.

On October 24, 2019, Water Quality issued \$101.0 million of Limited Tax General Obligation Bonds, Series 2019 with an average life of 13.2 years at an interest rate of 5.0 percent and an effective rate of 2.6 percent. This debt issue provided \$128.2 million of proceeds for the capital program.

In January of 2018, Water Quality voluntarily redeemed \$920 thousand of principal on its Junior Lien Sewer Revenue bonds, Series 2015A and 2015B. This is part of a financial practice whereby variable rate debt will be amortized so that each issue will be retired by its stated maturity date.

In April of 2018, Water Quality entered into a WIFIA loan agreement with the EPA for \$134.5 million at a 3.1 percent interest rate. Draws on this loan will reimburse costs on the Georgetown Wet Weather Treatment Station through January of 2023. No draws were taken on the loan in 2019 and 2018.

On October 25, 2018, Water Quality purchased and deposited Treasury securities in an irrevocable escrow to defease \$135.8 of outstanding Sewer Revenue and Refunding Bonds, Series 2010, 2011B and 2012. The escrow was funded using the bulk of the \$144.9 million Brightwater judgement awarded in 2016. On November 5, 2018 Water Quality sold \$124.5 million of sewer revenue bonds with an average life of 7.9 years at an interest rate of 5.0 percent and an effective rate of 3.0 percent. This debt issue provided \$142.0 million of proceeds for the capital program.

On December 3, 2018, Water Quality remarketed \$100.0 million of Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011 with an average life of 2 years at an average rate of 2.5 percent and an effective rate of 2.6 percent. Additionally, Water Quality remarketed \$100.0 million of Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012 with an average life of 3 years at an average rate of 2.6 percent and an effective rate of 2.7 percent. On the mandatory repurchase dates of December 1, 2020 and December 1, 2021, respectively, Water Quality may affect a conversion of the Series to another authorized interest rate mode. Maturity dates on both remain at January 1, 2042 and January 1, 2043, respectively.

# King County Water Quality Enterprise Fund

## Management's Discussion and Analysis

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### Debt Administration (continued)

Water Quality has \$2.6 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2019 and had \$2.8 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2018. 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 2019, Water Quality has \$839.4 million of general obligation bonds and variable rate general obligation bonds outstanding and had \$676.6 million of general obligation bonds and variable rate general obligation bonds outstanding at the end of 2018. While the full faith and credit of King County guarantees repayment of principal and interest on general obligation bonds, they are paid from sewage treatment fees and other income.

King County Sewer Enterprise parity revenue bonds ratings of AA+ from Standard and Poor's (S&P) Global Ratings and Aa1 from Moody's Investors Service were affirmed in June 2019. Water Quality's bond ratings on its limited tax general obligation bonds of AAA by Standard and Poor's and Aaa by Moody's Investors Service were affirmed in October 2019.

As required by bond covenant, Water Quality maintains a bond reserve account, which is funded by cash, Treasury securities investment and surety bond policies. At December 31, 2019, the cash and investment balance in the reserve account was \$140.4 million and with a surety bond balance of \$29.6 million, totaling \$170.0 million. This balance exceeded the reserve account requirement of maximum annual debt service on the parity bonds by \$7.1 million. In October 2019, excess funds in the reserve account of \$10.1 million were contributed to the defeasance of outstanding debt. At December 31, 2019 and 2018, respectively, the rate stabilization, liquidity, and asset management financial policy reserves totaled \$81.7 million.

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

### Debt Service Coverage Ratios

	Year Ended December 31,	
	2019	2018
Parity and parity lien debt	1.85	1.72
Total debt	1.58	1.49

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 equal or exceed 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.



## **King County Water Quality Enterprise Fund Management's Discussion and Analysis**

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### **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, 2019 and 2018. Questions concerning this report or requests for additional information should be addressed to Cheryl Lee, 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,	
	2019	2018
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 323,751	\$ 240,584
Restricted cash and cash equivalents	4,531	2,757
Accounts receivable, net	40,145	38,807
Due from other funds	3,006	2,498
Inventory of supplies	9,625	9,545
Prepayments	11	368
	<u>381,069</u>	<u>294,559</u>
<b>NONCURRENT ASSETS</b>		
Restricted assets		
Cash and cash equivalents	273,412	295,889
Investments	15,727	15,038
	<u>289,139</u>	<u>310,927</u>
Capital assets		
Building and land improvements	2,176,357	2,147,297
Artwork	6,045	6,045
Infrastructure and right of way	2,473,263	2,420,740
Plant in service and other equipment	1,185,872	1,173,465
Less accumulated depreciation	(2,431,259)	(2,282,831)
	<u>3,410,278</u>	<u>3,464,716</u>
Land and easements	264,335	264,335
Construction work in progress	438,160	367,025
	<u>4,112,773</u>	<u>4,096,076</u>
Other noncurrent		
Regulatory assets, net of amortization	118,258	117,791
Other assets	6,586	6,575
	<u>124,844</u>	<u>124,366</u>
<b>Total assets</b>	<u>4,907,825</u>	<u>4,825,928</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows on refunding	182,410	205,124
Deferred outflows on other postemployment benefits	36	41
Deferred outflows on pension	5,170	4,797
Deferred outflows on asset retirement	1,250	-
<b>Total deferred outflows of resources</b>	<u>188,866</u>	<u>209,962</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 5,096,691</u>	<u>\$ 5,035,890</u>

**King County Water Quality Enterprise Fund**  
**Statements of Net Position (continued) (in thousands)**

	December 31,	
	2019	2018
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 26,773	\$ 29,177
Retainage payable	4,531	2,757
Due to other funds	24	37
Interest payable	68,569	67,307
Wages and benefits payable	4,678	3,430
Compensated absences	851	735
Taxes payable	15	36
Unearned revenue	2,966	2,475
State loans payable	17,348	16,538
General obligation bonds payable	22,900	21,760
Revenue bonds payable	62,675	63,170
Environmental remediation liability	4,561	4,825
Deposits and other liabilities	297	193
	<u>216,188</u>	<u>212,440</u>
<b>NONCURRENT LIABILITIES</b>		
Compensated absences	10,266	10,341
Other postemployment benefits	1,526	1,533
Net pension liability	5,962	17,200
State loans payable, net	208,873	212,936
General obligation bonds payable, net	900,270	725,138
Revenue bonds payable, net	2,748,909	3,009,327
Environmental remediation liability	39,947	41,729
Asset retirement obligation	1,500	-
Other liabilities	77,010	1,131
	<u>3,994,263</u>	<u>4,019,335</u>
Total liabilities	<u>4,210,451</u>	<u>4,231,775</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Regulatory credits - rate stabilization	46,250	46,250
Deferred inflows on other postemployment benefits	104	119
Deferred inflows on pension	13,168	12,012
	<u>59,522</u>	<u>58,381</u>
Total deferred inflows of resources	<u>59,522</u>	<u>58,381</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>4,269,973</u>	<u>4,290,156</u>
<b>NET POSITION</b>		
Net investments in capital assets	422,889	353,122
Restricted for		
Debt service	153,850	163,364
Regulatory assets and environmental liabilities	76,763	74,488
Unrestricted	173,216	154,760
	<u>726,858</u>	<u>685,684</u>
Total net position	<u>\$ 826,718</u>	<u>\$ 745,734</u>

See accompanying notes.

**King County Water Quality Enterprise Fund**  
**Statements of Revenues, Expenses, and Changes in Net Position (in thousands)**

	Years Ended December 31,	
	2019	2018
OPERATING REVENUES		
Sewage disposal fees	\$ 415,279	\$ 403,589
Other operating revenues	121,170	105,961
Total operating revenues	536,449	509,550
OPERATING EXPENSES		
Sewage treatment, disposal, and transmission	106,891	101,681
General and administrative	36,944	37,904
Depreciation and amortization	179,547	178,517
Total operating expenses	323,382	318,102
OPERATING INCOME	213,067	191,448
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	15,767	9,969
Interest expense	(138,563)	(142,283)
Loss on disposal and impairment of capital assets	(4,778)	(8,714)
Loss on extinguishment of debt	(5,451)	(1,786)
Other	942	269
Total nonoperating expenses	(132,083)	(142,545)
INCOME BEFORE GRANTS	80,984	48,903
Capital grants	-	273
CHANGE IN NET POSITION	80,984	49,176
NET POSITION		
Beginning of year (restated)	745,734	696,558
End of year	\$ 826,718	\$ 745,734

# King County Water Quality Enterprise Fund

## Statements of Cash Flows (in thousands)

	Years Ended December 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 541,372	\$ 541,476
Cash received from other funds - internal services	1,574	1,816
Cash payments to suppliers for goods and services	(52,270)	(56,354)
Cash payments to other funds - internal services	(39,486)	(39,437)
Cash payments for employee services	(60,309)	(58,161)
Other receipts	76,177	5
Other payments	(18,730)	(12,449)
Net cash provided by operating activities	448,328	376,896
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers out	(960)	(982)
Assistance to other agencies	-	(494)
Net cash used in noncapital financing activities	(960)	(1,476)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital and other utility assets	(191,922)	(212,376)
Proceeds from disposal of capital assets	57	430
Principal paid on capital debt	(103,850)	(102,207)
Interest paid on capital debt	(150,008)	(153,484)
Proceeds of new bond issuance	128,218	142,037
Proceeds of state loans	13,997	27,843
Cash payments for bond defeasance	(96,288)	(144,199)
Capital grants received	-	15
Net cash used in capital and related financing activities	(399,796)	(441,941)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	15,581	9,637
Investment purchases	(689)	(15,000)
Net cash provided by (used in) investing activities	14,892	(5,363)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	62,464	(71,884)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	539,230	611,114
End of year	\$ 601,694	\$ 539,230

# King County Water Quality Enterprise Fund

## Statements of Cash Flows (in thousands)

	Years Ended December 31,	
	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 213,067	\$ 191,448
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	167,777	175,699
Other nonoperating revenue and expense	2,658	9,036
Changes in assets		
Accounts receivable	(1,338)	15,636
Due from other funds	(1)	-
Inventory of supplies	(80)	(14)
Prepayments	357	211
Other assets	(476)	(805)
Changes in deferred outflows of resources		
Deferred outflows on other postemployment benefits	5	(41)
Deferred outflows on pension	(373)	969
Deferred outflows on asset retirement	251	-
Changes in liabilities		
Accounts payable	826	(2,107)
Retainage payable	41	163
Due to other funds	(14)	12
Taxes payable	(21)	20
Unearned revenue	491	150
Wages and benefits payable	1,091	331
Compensated absences	40	(188)
Other postemployment benefits	(7)	(118)
Net pension liability	(11,238)	(17,912)
Other liabilities	74,130	99
Changes in deferred inflows of resources		
Deferred inflows on other postemployment benefits	(14)	119
Deferred inflows on pension	1,156	4,188
Total adjustments	235,261	185,448
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 448,328	\$ 376,896

### NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Water Quality reported capital grants on account of \$258 thousand at 2018 year-end and no capital grants in 2019.

# 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 2019 and in 2018.

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 \$39.5 million and \$39.4 million in 2019 and 2018, 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 surplus balances held with the King County Treasurer in the King County Investment Pool (the Pool) except the amounts invested through the Pool-Plus program, cash with escrow agents or held in trust, and petty cash. Water Quality records its investments in the Pool-Plus program at fair value. Unrealized gain or loss on Water Quality's proportionate share of the pooled investments and individual investments is reported as a component of investment earnings.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 1 – Operations and Accounting Policies (continued)

- b. **Receivables and allowance for doubtful accounts** – Receivables include charges for services rendered by Water Quality or intergovernmental grants. All unbilled service receivables are recorded at year-end. The provisions for estimated uncollectible receivables are reviewed and updated at year-end. These provisions are estimated based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2019 and 2018, Water Quality's allowance for doubtful accounts was \$1.1 million and \$997 thousand, respectively. Water Quality has the ability to place a lien on properties owned by customers for uncollected capacity charges. Water Quality reported notes receivable of \$4.6 million at 2019 year-end and \$4.3 million at 2018 year-end for capacity charge account balances over 365 days old.
- c. **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.
- 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.
- d. **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.
- e. **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.
- f. **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:

Description	Estimated Useful Life
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



## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### Note 1 – Operations and Accounting Policies (continued)

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. No impairment was identified in 2019 or 2018.

- g. **Compensated absences** – Employees earn vacation based upon their date of hire and years of service. Employees hired prior to January 1, 2018 have a maximum vacation accrual of 480 hours, while those hired January 1, 2018 or after have a maximum vacation accrual of 320 hours unless the employee's collective bargaining unit agreement specifies a different maximum. Unused vacation at retirement or normal termination is considered vested and payable to the employee, up to the employee's maximum accrual. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. If the employee is leaving their employment due to death or retirement, they are paid for 35 percent of the value of unused sick leave with no maximum. Vacation pay, a portion of sick leave liabilities, and compensatory time in lieu of overtime pay, 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.

- h. **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 exception rules are met. The liability is recognized during the period the excess interest is earned. Water Quality has no liability as of December 31, 2019 and 2018.
- i. **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. Deferred outflows of resources include deferred losses on the refunding of bonds and certain amounts related to pension, postemployment benefits other than pensions (OPEB) and asset retirement obligation accounting. Deferred inflows of resources include certain amounts related to pension and OPEB accounting and rate stabilization.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 1 – Operations and Accounting Policies (continued)

- j. **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.

- k. **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.
- l. **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 reported capital grant revenues of \$273 thousand for the year ended December 31, 2018.
- m. **Net position** – Resources set aside for debt service 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 and consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets. Any net position not subject to classification as restricted or invested in capital assets is reported as unrestricted.
- n. **Net position flow assumption** – Sometimes Water Quality will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to be reported as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It's the County's policy to consider restricted net position to have been depleted before unrestricted net position is applied.
- o. **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, pension and other postemployment benefits liabilities and related deferred outflows and inflows of resources, and future interest rates. Actual results could differ from these estimates.

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### Note 1 – Operations and Accounting Policies (continued)

- p. **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 were implemented during the current year.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, is effective for fiscal years beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations. Water Quality implemented the statement in 2019 and made reporting changes to meet the requirements.

GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2018. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting. The statement was implemented by Water Quality in 2019 with no material impact on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, is effective for fiscal years beginning after June 15, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Water Quality implemented this statement in 2019 and made reporting changes to comply with the requirements.

GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, is effective for fiscal years beginning after December 15, 2018. This Statement improves financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously was reported inconsistently. In addition, requiring reporting of information about component units if the government acquires a 100 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit. This statement was adopted by Water Quality in 2019 with no impact on its financial statements.

#### Note 2 – Deposits and Investments in King County Investment Pool

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.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 2 – Deposits and Investments in King County Investment Pool (continued)

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), which serves the role of the County Finance Committee as defined in RCW 36.48.070.

The County has deposit and investment policies addressing risks that have the potential to result in losses of deposits and investments. The deposits that are not covered by the Federal Deposit Insurance Corporation (FDIC) are collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC) at no less than fifty percent. Effective June 7, 2018, resolution 2018-1 adopted by Commission on June 1, 2018, allowed “all well capitalized public depositaries may collateralize uninsured public deposits at no less than fifty percent.” The PDPC is 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.” It 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 \$601.7 million and \$539.2 million were fully invested in the Pool as of December 31, 2019 and 2018, respectively. The County had demand deposits of \$39.9 million as of December 31, 2019, of which \$13.7 million was exposed to custodial credit risk as uninsured and uncollateralized. As of December 31, 2018, the County had demand deposits of \$29.1 million, of which \$6.9 million was exposed to custodial credit risk as uninsured and uncollateralized.

The EFC adopted the Pool-Plus program which allows County agencies or junior taxing districts to invest funds beyond the maximum maturity limit established for the Pool. This policy provides an investment option that allows a participant in the Pool to combine a portfolio of individual long-term securities in the same fund that is invested in the Pool. The pooling of the long-term portfolio with the Pool provides the ability to invest at durations longer than the Pool while maintaining access to the liquidity of the Pool. The Pool-Plus program allows qualifying funds to invest over longer durations recognizing there are: (1) potential risks such as increased price volatility and the possibility of selling securities before maturity to pay unexpected expenditures could result in a loss of principal; (2) benefits from reducing reinvestment risk which improves the predictability of future budget revenue; (3) and potential rewards such as increased earnings.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 2 – Deposits and Investments in King County Investment Pool (continued)

The Pool is used for the liquidity portion of the portfolio while the following investment types are used for the longer term investments:

- U.S. treasuries or securities with full faith and credit of the U.S. government backing them.
- Senior debt obligations issued by U.S. agencies, instrumentalities, or government-sponsored enterprises such as Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC). While these agencies have credit ratings equivalent to the U.S. government, they are not explicitly guaranteed by the U.S. government. Financial market participants view them as having an “implied guarantee” because these agencies were chartered by Congress.

Water Quality participated in the Pool-Plus program starting in 2018 and recorded Individual Investments at fair value of \$15.6 million and \$15.0 million as of December 31, 2019 and 2018. Water Quality accrued \$99 thousand interest on its investments at 2019 year-end. The following schedule shows the types of investments, the average interest rate, and the effective duration limits of the Pool-Plus program at December 31 (dollars in thousands):

	<u>Fair Value</u>	<u>Principal</u>	<u>Average Interest Rate</u>	<u>Effective Duration (Yrs)</u>
<b>2019</b>				
Investment type				
U.S. Treasury notes	\$ 15,628	\$ 15,262	2.53%	4.200
<b>2018</b>				
Investment type				
U.S. Treasury notes	\$ 15,038	\$ 15,321	2.45%	4.160

The U.S. Treasury notes are valued using quoted prices in active markets. The U.S. Treasury notes with AA credit rating is backed by full faith and credit of the U.S. government.

**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, 2019, 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. Federal agency securities and mortgage-backed securities, municipal securities and corporate notes (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 depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer’s office.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

### Note 2 – Deposits and Investments in King County Investment Pool (continued)

The Pool's policies limit the maximum amount that can be invested in various securities. At 2019 and 2018 year-end the Pool was in compliance with these policies. The Pool's actual composition, as of December 31, 2019 and 2018, is as follows (in thousands):

Investment type	2019		2018	
	Total	Allocation Percentage	Total	Allocation Percentage
Repurchase agreements	\$ 242,000	3.25%	\$ 366,000	4.91%
Commercial paper	545,325	7.32%	576,197	7.73%
U.S. Agency discount notes	408,240	5.48%	73,880	0.99%
Supranational discount notes	49,956	0.67%	49,927	0.67%
Corporate notes	661,244	8.88%	964,179	12.93%
Corporate notes floating rate	213,653	2.87%	99,948	1.34%
U.S. Treasury notes	2,768,359	37.15%	2,873,869	38.53%
U.S. Agency notes	456,309	6.13%	648,763	8.70%
U.S. Agency collateralized mortgage obligations	3,444	0.05%	4,031	0.05%
Supranational coupon notes	1,476,026	19.81%	1,212,097	16.25%
State treasurer's investment pool	625,256	8.39%	589,306	7.90%
	<u>\$ 7,449,812</u>	<u>100.00%</u>	<u>\$ 7,458,197</u>	<u>100.00%</u>

**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 (DVP).” 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 2019 year-end the Pool had concentrations greater than 5.0 percent of the total investment pool portfolio in the following issuer: International Bank Recon, 8.3 percent. The issues with concentrations greater than 5.0 percent of the pool portfolio at 2018 year-end were as follows: International Bank Recon, 7.3 percent, and Bank of Montreal, 5.4 percent.

**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 0.919 years and 0.943 years at December 31, 2019 and 2018, respectively.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

### Note 2 – Deposits and Investments in King County Investment Pool (continued)

All securities are reported at fair value. Fair value reports are prepared monthly and distributed to all Pool participants. The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period.

**Fair value hierarchy** – The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of inputs in valuing the County's investments as of December 31, 2019 and 2018.

#### KING COUNTY INVESTMENT POOL

Investments by Fair Value Level	Fair Value 12/31/2019	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Commercial paper	\$ 545,325	\$ -	\$ 545,325	\$ -
U.S. agency discount notes	408,240	-	408,240	-
Corporate notes	661,244	-	661,244	-
Corporate notes floating rate	213,653	-	213,653	-
U.S. treasury notes	2,768,359	2,768,359	-	-
U.S. agency notes	456,309	-	456,309	-
Supranational discount notes	49,956	-	49,956	-
U.S. agency collateralized mortgage obligations	3,444	-	3,444	-
Supranational coupon notes	1,476,026	-	1,476,026	-
Subtotal	6,582,556	\$ 2,768,359	\$ 3,814,197	\$ -
Investments Measured at Amortized Cost (Not Subject to Fair Value Hierarchy)				
Repurchase agreements	242,000			
State treasurer's investment pool	625,256			
Subtotal	867,256			
Total investment in Investment Pool	\$ 7,449,812			

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

### Note 2 – Deposits and Investments in King County Investment Pool (continued)

#### KING COUNTY INVESTMENT POOL

Investments by Fair Value Level	Fair Value 12/31/2018	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Commercial paper	\$ 576,197	\$ -	\$ 576,197	\$ -
U.S. agency discount notes	73,880	-	73,880	-
Corporate notes	964,179	-	964,179	-
Corporate notes floating rate	99,948	-	99,948	-
U.S. treasury notes	2,873,869	2,873,869	-	-
U.S. agency notes	648,763	-	648,763	-
Supranational discount notes	49,927	-	49,927	-
U.S. agency collateralized mortgage obligations	4,031	-	4,031	-
Supranational coupon notes	1,212,097	-	1,212,097	-
Subtotal	6,502,891	\$ 2,873,869	\$ 3,629,022	\$ -
Investments Measured at Amortized Cost (Not Subject to Fair Value Hierarchy)				
Repurchase agreements	366,000			
State treasurer's investment pool	589,306			
Subtotal	955,306			
Total investment in Investment Pool	\$ 7,458,197			

U.S. Treasury notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

Commercial Paper, U.S. Agency Discount Notes, Corporate Notes, U.S. Agency Notes, U.S. Agency Collateralized Mortgage Obligations and Supranational Coupon Notes are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Interactive Data also monitors market indicators, industry and economic events and corroborating market data and are classified in Level 2 of the fair value hierarchy.

State Treasurer's Investment Pool and Repurchase Agreement are overnight securities and are recorded at amortized cost.



# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 3 – Restricted Assets

A significant portion of Water Quality's assets are restricted to use by legal and contractual provisions and by fiscal management policy. Restricted assets comprise cash and cash equivalents of \$277.9 million and investments of \$15.7 million at December 31, 2019, and cash and cash equivalents of \$298.6 million and investments of \$15.0 million at December 31, 2018, to comply with bond covenants and other requirements.

Liability amounts payable from restricted assets primarily consist of escrow and in-house retainage payables. These amounted to \$4.5 million and \$2.8 million at December 31, 2019 and 2018, respectively. The details of cash and cash equivalents and restricted assets as of December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Unrestricted cash and cash equivalents		
Operating funds	\$ 41,567	\$ 42,064
Construction funds	39,520	31,764
Bond funds	133,933	131,912
Unallocated insurance recoveries	73,304	-
Policy reserves	35,427	34,844
	<u>323,751</u>	<u>240,584</u>
Total unrestricted cash and cash equivalents		
Restricted cash and cash equivalents		
Bond reserves	124,638	135,454
SRF loan reserves	13,485	12,873
Bond proceeds committed to construction	89,039	101,312
Retainage	4,531	2,757
Rate stabilization reserve	46,250	46,250
	<u>277,943</u>	<u>298,646</u>
Total restricted cash and cash equivalents		
Total cash and cash equivalents	<u>601,694</u>	<u>539,230</u>
Restricted investments		
Bond reserves	<u>15,727</u>	<u>15,038</u>
Total restricted assets - cash and cash equivalents and investments	<u>\$ 293,670</u>	<u>\$ 313,684</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.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 4 – Risk Management (continued)

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.

Water Quality claims paid by the Insurance Fund of King County were less than one thousand during 2019 and \$52 thousand during 2018. In the past three years there was no occurrence that resulted in payment in excess of the self-insured retention of \$6.5 million.

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, 2019, bonds outstanding include \$2,572.7 million of serial and term bonds maturing from January 1, 2020, through January 1, 2052, bearing interest at stated rates of 1.0 percent to 5.0 percent per annum.

In January of 2019, the County voluntarily redeemed \$1.6 million of principal on its Junior Lien Sewer Revenue bonds, Series 2015A and Series 2015B.

On October 7, 2019, the County purchased Treasury securities at a cost of \$24.9 million and placed them in an escrow to pay interest and redeem at their earliest redemption dates \$22.5 million of outstanding Sewer Revenue and Refunding Bonds, Series 2012C. Under the terms of the authorizing ordinances, these bonds have been defeased and are no longer secured by a pledge of the revenue of the sewer system. The defeasance of these bonds will reduce future principal and interest payments by \$35.0 million through January 1, 2032. Funding for the escrow came from operations and excess in bond reserves. Water Quality undertook the defeasance in order to reduce future debt service.

In January of 2018, the County voluntarily redeemed \$920 thousand of principal on its Junior Lien Sewer Revenue bonds, Series 2015A and Series 2015B.

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### **Note 5 – Long-Term Liabilities and Notes Payable (continued)**

On October 25, 2018, the County purchased Treasury securities at a cost of \$144.2 million and placed them in an escrow to pay interest and redeem at their earliest redemption dates of \$135.8 million of outstanding Sewer Revenue and Refunding Bonds, Series 2010, 2011B and 2012. Under the terms of the authorizing ordinances, these bonds have been defeased and are no longer secured by a pledge of the revenue of the sewer system. The defeasance of these bonds will reduce future principal and interest payments by \$193.6 million through 2032. Substantially all of the funding for the escrow came from the judgement awarded to Water Quality in 2016 relating to the construction of the conveyance tunnels for its Brightwater treatment plant. Water Quality undertook the defeasance in order to reduce a portion of the debt that it had incurred as a result of the additional costs that led to the litigation and subsequent judgement.

On November 5, 2018, the County issued \$124.5 million in sewer revenue bonds, Series 2018B with an effective interest cost of 3.0 percent and an average coupon interest rate of 5.0 percent.

In December 2018, the County remarketed two Junior Lien Variable Sewer Revenue Bonds, Series 2011 and 2012 at \$100.0 million each. These were remarketed at a fixed rate of 2.5 and 2.6 percent, respectively, and are subject to mandatory repurchase in December 2020 and December 2021, respectively. The bonds maturity dates of January 1, 2042 and January 1, 2043, respectively, remain the same.

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.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2019
2001A-B Junior Lien Variable	1/1/32	(variable)	\$ 100,000	\$ 100,000
2010 Revenue and Refunding	1/1/50	2.00-5.00%	334,365	37,610
2011 Sewer Revenue	1/1/41	5.00%	175,000	8,190
2011 Series B	1/1/41	1.00-5.00%	494,270	45,890
2011 Series C	1/1/35	3.00-5.00%	32,445	7,885
2011 Sewer Junior Lien Variable	1/1/42	(variable)	100,000	100,000
2012A Refunding	1/1/52	5.00%	104,445	89,785
2012B Refunding	1/1/35	4.00-5.00%	64,260	64,260
2012C Refunding	1/4/33	2.50-5.00%	65,415	37,520
2012 Sewer Junior Lien Variable	1/1/43	(variable)	100,000	100,000
2013A Refunding	1/1/35	2.00-5.00%	122,895	103,515
2013B Revenue and Refunding	1/1/44	2.00-5.00%	74,930	56,865
2014A Refunding	1/1/47	5.00%	75,000	75,000
2014B Refunding	7/1/35	1.00-5.00%	192,460	181,490
2015A Refunding	7/1/47	3.00-5.00%	474,025	470,475
2015B Refunding	1/1/46	4.00-5.00%	93,345	75,985
2016A Refunding	7/1/41	4.00-5.00%	281,535	273,975
2016B Refunding	7/1/49	4.00-5.00%	499,655	492,005
2017A Refunding	7/1/49	5.00%	149,485	127,840
2018B Sewer Revenue	7/1/32	5.00%	124,455	124,455
			<u>\$ 3,657,985</u>	<u>\$ 2,572,745</u>

**General obligation bonds** – As of December 31, 2019, bonds outstanding include \$839.4 million of serial and term bonds maturing January 1, 2020, through 2046, bearing interest at stated rates of 2.0 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.

On June 27, 2019, the County issued \$148.1 million in Multi-Modal Limited Tax General Obligation Refunding Bonds, Series 2019A (\$100.0 million) and Series 2019B (\$48.1 million), to refund the County's Junior Lien Sewer Revenue Bonds, 2015 Series A and 2015 Series B, and Junior Lien Sewer Revenue Bonds, Series 2017. Both series of 2019 bonds are variable rate obligations, with daily interest rate resets for 2019A and weekly resets for 2019B. The projected net savings from this refunding are \$4.5 million. The refunded 2015 and 2017 bonds were variable rate obligations with monthly resets of their interest rates.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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

On October 7, 2019, the County purchased Treasury securities at a cost of \$71.4 million and placed them in an escrow to pay interest and redeem at their earliest redemption dates \$64.6 million of outstanding Limited Tax General Obligations Refunding Bonds, Series 2012B and Series 2012C. Under the terms of the authorizing ordinances, these bonds have been defeased and are no longer secured by a pledge of the revenue of the sewer system. The defeasance of these bonds will reduce future principal and interest payments by \$104.3 million through January 1, 2034. Funding for the escrow came from operations. Water Quality undertook the defeasance in order to reduce future debt service.

On October 24, 2019, the County issued \$101.0 million in Limited Tax General Obligation Bonds, Series 2019A with an effective interest cost of 2.6 percent and an average coupon interest rate of 5.0 percent.

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2019
2008 LTGO	1/1/34	5.25%	\$ 236,950	\$ 21,020
2012A LTGO	1/1/25	2.00-5.00%	68,395	48,460
2012B LTGO	1/1/29	5.00%	41,725	30,500
2012F LTGO	12/1/22	2.20%	3,010	3,010
2015A LTGO	7/1/38	2.00-5.00%	247,825	247,395
2017A LTGO	1/1/34	4.00-5.00%	154,560	139,840
2017A-B Multi-Modal LTGO	1/1/40	(variable)	100,000	100,000
2019A LTGO	1/1/38	5.00%	101,035	101,035
2019A MM LTGO WQ	1/1/46	(variable)	100,000	100,000
2019B MM LTGO WQ	1/1/46	(variable)	48,095	48,095
			<u>\$ 1,101,595</u>	<u>\$ 839,355</u>

**Prior year refunded and defeasance of debt** – As of December 31, 2019, Water Quality had outstanding refunded and defeased general obligation bonds and sewer revenue bonds in the amount of \$721.5 million. Water Quality defeased these bonds prior to 2019 and placed proceeds of the refunding bonds and/or existing cash from Water Quality in irrevocable trust accounts to provide for future debt service payments on the defeased bonds. The liability for the defeased bonds has been removed from Water Quality's financial statements.

**State loans** – Water Quality has received loans from the Washington State Department of Ecology under the Water Pollution Control State Revolving Fund Loan Program and the Washington Public Works Trust Fund administered by the Washington State Department of Commerce. The loans require either semi-annual or annual payments of principal and interest from 2020 through 2053 and bear interest at stated rates from 0.0 percent to 3.1 percent. As of December 31, 2019, the balance due on all state loans is \$226.2 million and the unused portion of state loan agreements is \$13.5 million. Water Quality maintains separate cash reserves of \$13.5 million as of December 31, 2019. These reserves are treated as restricted, being required under the Revolving Fund Loan Program.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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

State loans are secured by a subordinate lien on the net revenues of the system. Events of default under the loan agreements with the Department of Ecology include nonpayment of amounts due, failure to commence the project for which the loan was granted and unjustified failure to perform loan agreement obligations. Remedies include suspending any undisbursed loan proceeds and acceleration of the outstanding balance, provided that the loan is not subject to acceleration if any sewer revenue bonds are outstanding. Any state funds owed to the County may also be withheld. Events of default under the loan agreements with the Public Works Trust Fund include nonpayment of amounts due and failure to use loan proceeds for permitted activities. Remedies include withholding of any undisbursed loan proceeds, assessment of additional interest and notification to creditors.

**Water Infrastructure Finance and Innovation Act (WIFIA) loan** – Water Quality has a \$134.5 million WIFIA loan agreement with the U.S. Environmental Protection Agency. No draws have been taken on this loan as of December 31, 2019. The WIFIA loan, after draws are made, will be secured by a pledge of revenue of the sewer system subject to payment of all operating and maintenance expenses of the sewer system.

At December 31, 2019, 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, 2020	\$ 62,675	\$ 114,409	\$ 22,900	\$ 34,229	\$ 17,348	\$ 4,985	\$ 256,546
January 1, 2021	60,910	111,492	15,800	40,375	17,247	4,653	250,477
January 1, 2022	69,690	108,668	29,885	39,313	16,549	4,319	268,424
January 1, 2023	68,750	105,555	37,485	37,899	15,881	3,988	269,558
January 1, 2024	67,275	102,306	28,055	36,239	16,335	3,651	253,861
January 1, 2025-2029	356,385	460,703	160,900	158,682	63,346	13,504	1,213,520
January 1, 2030-2034	548,705	359,202	195,405	113,873	54,019	6,379	1,277,583
January 1, 2035-2039	488,320	236,847	200,830	78,498	18,815	1,477	1,024,787
January 1, 2040-2044	563,465	125,171	-	39,986	2,122	729	731,473
January 1, 2045-2049	258,360	36,036	148,095	15,994	2,416	432	461,333
January 1, 2050-2053	28,210	2,162	-	-	2,144	104	32,620
	<u>\$ 2,572,745</u>	<u>\$ 1,762,551</u>	<u>\$ 839,355</u>	<u>\$ 595,088</u>	<u>\$ 226,222</u>	<u>\$ 44,221</u>	<u>\$ 6,040,182</u>

The future annualized interest payments for the variable rate bonds are based on an interest rate of 5.4 percent, which represents 90 percent of the long-term interest rate assumed by the County for financial planning purposes. Interest payments on the Junior Lien Variable Sewer Revenue Bonds, Series 2011 and 2012, are based on the stated interest rates of 2.5 and 2.6 percent, respectively that will be paid through their mandatory purchase dates.

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### **Note 5 – Long-Term Liabilities and Notes Payable (continued)**

**Variable rate general obligation and revenue bonds** – The 2001 Series A and B Junior Lien Variable Rate Bonds are secured by a periodically renewable letter of credit in the amount of \$101.7 million with Landesbank Hessen-Thüringen Girozentrale (Helaba) which will terminate should Water Quality default on any payments and other obligations under its reimbursement agreement with Helaba. In the event of a default, Helaba may demand immediate payment of all amounts owed to it, including any bonds that it has purchased from 2001 Series A and B bondholders. The letter of credit expires September 30, 2020.

The County's \$100.0 million Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2017 A and B are direct placements and are secured by a subordinate lien on the net revenues of the system. Events of default under the continuing covenant agreement for the bond include nonpayment of amounts due and ratings downgrades below BBB/Baa2. The continuing covenant agreement expires on April 5, 2021.

The 2019 Series A and Series B Multi-Modal Variable Rate Bonds in the amount of \$148.1 million are supported by a periodically renewable standby bond purchase agreement that expires on June 26, 2024.

The variable rate bonds, Series 2001A and B, Series 2017A and B and Series 2019 A and B have acceleration clauses (declaring outstanding balances immediately due). The variable rate bonds, Series 2011, Series 2012, and Series 2017 A and B do not have liquidity facilities.

**Financial policy reserves** – In addition to bond reserves related to Sewer Revenue Bonds, Water Quality maintains liquidity and asset management reserves totaling \$35.4 million at December 31, 2019.

**Compliance with bond resolutions** – With respect to the year ended December 31, 2019, 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, 2019 and 2018 was as follows (in thousands):

	Balance January 1, 2019	Additions	Reductions	Balance December 31, 2019	Due Within One Year
Bonds payable	\$ 3,384,125	\$ 249,130	\$ (321,155)	\$ 3,312,100	\$ 85,575
Direct placements-bonds payable	100,000	-	-	100,000	-
Bond premiums and discounts	335,270	18,993	(31,609)	322,654	-
<b>Total bonds payable</b>	<b>3,819,395</b>	<b>268,123</b>	<b>(352,764)</b>	<b>3,734,754</b>	<b>85,575</b>
Direct borrowings-state loans	229,474	13,997	(17,250)	226,221	17,348
Compensated absences	11,076	11,281	(11,240)	11,117	851
Other post-employment benefits	1,533	82	(89)	1,526	-
Net pension liability	17,200	25,313	(36,551)	5,962	-
Environmental remediation	46,554	2,313	(4,359)	44,508	4,561
Asset retirement obligations	1,500	-	-	1,500	-
Other liabilities	1,319	76,177	(194)	77,302	292
<b>Total long-term liabilities</b>	<b>\$ 4,128,051</b>	<b>\$ 397,286</b>	<b>\$ (422,447)</b>	<b>\$ 4,102,890</b>	<b>\$ 108,627</b>

  

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Bonds payable	\$ 3,481,265	\$ 324,455	\$ (421,595)	\$ 3,384,125	\$ 84,930
Direct placements-bonds payable	100,000	-	-	100,000	-
Bond premiums and discounts	358,944	6,512	(30,186)	335,270	-
<b>Total bonds payable</b>	<b>3,940,209</b>	<b>330,967</b>	<b>(451,781)</b>	<b>3,819,395</b>	<b>84,930</b>
State loans	218,044	27,843	(16,413)	229,474	16,538
Compensated absences	11,265	10,934	(11,123)	11,076	735
Other post-employment benefits	1,652	635	(754)	1,533	-
Net pension liability	35,112	19,675	(37,587)	17,200	-
Environmental remediation	46,460	9,658	(9,564)	46,554	4,825
Other liabilities	1,355	174	(210)	1,319	188
<b>Total long-term liabilities</b>	<b>\$ 4,254,097</b>	<b>\$ 399,886</b>	<b>\$ (527,432)</b>	<b>\$ 4,126,551</b>	<b>\$ 107,216</b>

### Note 6 – Asset Retirement Obligations

In 2019, Water Quality reported the ARO of \$1.5 million in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*. The liability is measured at its current value and based on professional judgment, experience, and historical cost data.

Water Quality's ARO relates to the disposition of underground storage tanks (USTs) due to applicable regulations and requirements. The estimated remaining useful life of the USTs range from four to twenty-two years.

The liability could change over time as new information becomes available as a result of changes in technology, legal or regulatory requirements, and types of equipment, facilities or services that will be used to meet the obligation to dispose of the USTs.



# King County Water Quality Enterprise Fund

## Notes to Financial Statements

### Note 7 – Changes in Capital Assets

Changes in capital assets for the years ended December 31, 2019 and 2018, are shown in the following table (in thousands):

	Balance January 1, 2019	Increases	Decreases	Balance December 31, 2019
Land	\$ 248,766	\$ -	\$ -	\$ 248,766
Easements	15,569	-	-	15,569
Construction work in progress	367,025	206,544	(135,409)	438,160
Total nondepreciable assets	631,360	206,544	(135,409)	702,495
Buildings	2,023,118	15,792	(3,975)	2,034,935
Improvements other than building	124,179	17,243	-	141,422
Artwork	6,045	-	-	6,045
Right of way	7,635	-	-	7,635
Infrastructure	2,413,105	54,264	(1,741)	2,465,628
Equipment	1,137,834	30,877	(18,470)	1,150,241
Software development	35,631	-	-	35,631
Total depreciable assets	5,747,547	118,176	(24,186)	5,841,537
Accumulated depreciation and amortization				
Building	(807,796)	(52,777)	2,712	(857,861)
Improvements other than building	(36,420)	(4,611)	-	(41,031)
Artwork	(1,490)	(206)	-	(1,696)
Right of way	(1,581)	(218)	-	(1,799)
Infrastructure	(669,420)	(50,524)	485	(719,459)
Equipment	(730,493)	(59,441)	16,152	(773,782)
Software development	(35,631)	-	-	(35,631)
Total depreciation and amortization	(2,282,831)	(167,777)	19,349	(2,431,259)
Depreciable assets - net	3,464,716	(49,601)	(4,837)	3,410,278
Total capital assets - net	\$ 4,096,076	\$ 156,943	\$ (140,246)	\$ 4,112,773

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

### Note 7 – Changes in Capital Assets (continued)

	Balance January 1, 2018	Increases	Decreases	Balance December 31, 2018
Land	\$ 244,275	\$ 5,322	\$ (831)	\$ 248,766
Easements	15,382	187	-	15,569
Construction work in progress	389,354	214,930	(237,259)	367,025
Total nondepreciable assets	649,011	220,439	(238,090)	631,360
Buildings	2,002,571	29,228	(8,681)	2,023,118
Improvements other than building	112,205	11,991	(17)	124,179
Artwork	6,045	-	-	6,045
Right of way	7,635	-	-	7,635
Infrastructure	2,289,446	128,852	(5,193)	2,413,105
Equipment	1,109,879	42,003	(14,048)	1,137,834
Software development	35,631	-	-	35,631
Total depreciable assets	5,563,412	212,074	(27,939)	5,747,547
Accumulated depreciation and amortization				
Building	(758,399)	(52,915)	3,518	(807,796)
Improvements other than building	(32,187)	(4,249)	16	(36,420)
Artwork	(1,284)	(206)	-	(1,490)
Right of way	(1,363)	(218)	-	(1,581)
Infrastructure	(622,772)	(49,628)	2,980	(669,420)
Equipment	(683,902)	(59,918)	13,327	(730,493)
Software development	(34,731)	(900)	-	(35,631)
Total depreciation and amortization	(2,134,638)	(168,034)	19,841	(2,282,831)
Depreciable assets - net	3,428,774	44,040	(8,098)	3,464,716
Total capital assets - net	\$ 4,077,785	\$ 264,479	\$ (246,188)	\$ 4,096,076

### Note 8 – 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 Elliott Bay and the clean-up of certain sites along the Lower Duwamish Waterway (LDW). Environmental remediation costs are capitalized and amortized over 30 years.

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### **Note 8 – Environmental Remediation (continued)**

The Sediment Management Project was obligated when the Metropolitan King County Council approved the 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 has identified and 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, 2019, stands at \$44.5 million and \$46.6 million in 2018.

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 costs are being deferred and amortized over 30 years as permitted by regulatory accounting standards (see Note 9 – Regulatory Assets and Credits).

#### **Note 9 – 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 \$46.3 million in 2018 and remains unchanged in 2019.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 9 – 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.

**Strategic planning costs** – In 2016, the Council approved the application of regulatory accounting to treat strategic planning costs as regulatory assets to allow for cost recovery through future rate increases. The portion of regulatory asset costs that have been accrued is amortized over a 7- to 10-year recovery period.

### Note 10 – Employee Benefit Plans

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the County elected to use June 30, 2019 and 2018, respectively, as the measurement date for reporting net pension liability at 2019 and 2018 year-end, respectively.

The following table represents the aggregate pension amounts allocated to Water Quality for all pension plans subject to the requirements of GASB Statement No. 68 for the years 2019 and 2018 (in thousands):

	Aggregate Pension Amounts—All Plans	
	2019	2018
Pension liabilities	\$ 5,962	\$ 17,200
Deferred outflows of resources	5,170	4,797
Deferred inflows of resources	13,168	12,012
Pension expense	(1,309)	(4,501)

**Pension plans** –Substantially all full-time and qualifying part-time employees of Water Quality participate in one of the following retirement plans: Public Employees' Retirement System (PERS) Plan 1, 2, and 3.

PERS is administered by the Washington State Department of Retirement Systems (DRS) under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all statewide public retirement systems.

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### Note 10 – Employee Benefit Plans (continued)

The 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  
P.O. Box 48380  
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees Retirement System** – PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

The PERS Plan 1-member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 and 2018 were as follows:

PERS Plan 1		
	Employer	Employee
Actual contribution rates		
January -June 2019	12.83%	6.00%
July - December 2019	12.86%	6.00%
January - August 2018	12.70%	6.00%
September - December 2018	12.83%	6.00%

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 10 – Employee Benefit Plans (continued)

Water Quality's actual contributions to the plan were as follows for the years ended December 31 (in thousands):

	<u>PERS Plan 1</u>
2019	\$ -
2018	26

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three 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 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 10 – Employee Benefit Plans (continued)

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 and 2018 were as follows:

PERS Plan 2/3		
	Employer	Employee
Actual contribution rates		
January - June 2019	12.83%	7.41%
July - December 2019	12.86%	7.90%
2019 Employee PERS Plan 3		Varies
January - August 2018	12.70%	7.38%
September - December 2018	12.83%	7.41%
2018 Employee PERS Plan 3		Varies

Water Quality's actual contributions to the plan were as follows for the years ended December 31 (in thousands):

	PERS Plans 2/3
2019	\$ 9,145
2018	8,227

**Actuarial assumptions** – The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.50% salary inflation.
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.4%.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 10 – Employee Benefit Plans (continued)

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

**Discount rate** – The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

**Long-term expected rate of return** – The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.



# King County Water Quality Enterprise Fund

## Notes to Financial Statements

### Note 10 – Employee Benefit Plans (continued)

**Estimated rates of return by asset class** – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20.00%	2.20%
Tangible assets	7.00%	5.10%
Real estate	18.00%	5.80%
Global equity	32.00%	6.30%
Private equity	23.00%	9.30%
	100.00%	

**Sensitivity of NPL** – The table below presents Water Quality's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what Water Quality's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate (in thousands).

Year	Pension Plan	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
2018	PERS 1	\$ 8,547	\$ 6,955	\$ 5,576
2018	PERS 2/3	46,861	10,245	(19,776)

  

Year	Pension Plan	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
2018	PERS 1	\$ 8,547	\$ 6,955	\$ 5,576
2018	PERS 2/3	46,861	10,245	(19,776)

**Pension plan fiduciary net position** – Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 10 – Employee Benefit Plans (continued)

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions** – At June 30, 2019 and 2018, Water Quality reported a total pension liability of \$6.0 million and \$17.2 million, respectively, for its proportionate share of the net pension liabilities as follows (in thousands):

	Liability	
	2019	2018
PERS 1	\$ 127	\$ 6,955
PERS 2/3	5,835	10,245

At June 30, Water Quality's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.16%	0.00%	(0.16%)
PERS 2/3	0.60%	0.60%	0.00%
	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.29%	0.16%	(0.13%)
PERS 2/3	0.62%	0.60%	(0.02%)

Employer contribution transmittals received and processed by the DRS for its fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1.

The collective net pension liability was measured as of June 30, 2019 and 2018, respectively, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2018 and 2017, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension expense** – For the year ended December 31, 2019 and 2018, Water Quality recognized pension expense as follows (in thousands):

	Pension Expense	
	2019	2018
PERS 1	\$ (6,559)	\$ (6,391)
PERS 2/3	5,250	1,890
Total	<u>\$ (1,309)</u>	<u>\$ (4,501)</u>

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

### Note 10 – Employee Benefit Plans (continued)

**Deferred outflows of resources and deferred inflows of resources** – At December 31, 2019 and 2018, Water Quality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

PERS 1	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments.	\$ -	\$ 8	\$ -	\$ 276
Contributions subsequent to the measurement date.	13	-	549	-
Total	<u>\$ 13</u>	<u>\$ 8</u>	<u>\$ 549</u>	<u>\$ 276</u>

PERS 2/3	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience.	\$ 1,672	\$ 1,255	\$ 1,256	\$ 1,794
Net difference between projected and actual investment earnings on pension plan investments.	-	8,493	-	6,287
Changes of assumptions	149	2,448	120	2,915
Changes in proportion and differences between contributions and proportionate share of contributions.	287	964	423	740
Contributions subsequent to the measurement date.	<u>3,049</u>	<u>-</u>	<u>2,449</u>	<u>-</u>
Total	<u>\$ 5,157</u>	<u>\$ 13,160</u>	<u>\$ 4,248</u>	<u>\$ 11,736</u>

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 10 – Employee Benefit Plans (continued)

Deferred outflows of resources related to pensions resulting from Water Quality's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2020 and 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year Ending December 31,	2019	
	PERS 1	PERS 2/3
2020	\$ (2)	\$ (2,732)
2021	(4)	(4,505)
2022	(2)	(2,080)
2023	-	(1,181)
2024	-	(533)
Thereafter	-	(21)

  

Year Ending December 31,	2018	
	PERS 1	PERS 2/3
2019	\$ 12	\$ (1,043)
2020	(60)	(2,141)
2021	(181)	(3,912)
2022	(47)	(1,489)
2023	-	(591)
Thereafter	-	(761)

### Note 11 – Other Post-Employment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards for recognizing and measuring other postemployment benefits (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The following table represents Water Quality's allocated OPEB amounts subject to the requirements of GASB Statement No. 75 for the years 2019 and 2018 (in thousands):

	OPEB Amounts	
	2019	2018
OPEB liabilities	\$ 1,526	\$ 1,533
Deferred outflows of resources	36	41
Deferred inflows of resources	104	119
OPEB expense	72	50

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### Note 11 – Other Post-Employment Benefits (continued)

**Plan description** – The County administers a single-employer defined-benefit postemployment healthcare plan (the Plan). The Plan provides healthcare insurance for eligible retirees and their spouses and children through the County's health insurance plan, which covers retired members. The plan provides healthcare insurance benefits and prescription coverage. The plan offers dental and vision benefits, but the retiree premiums are assumed to cover the full cost of those benefits.

As a self-insurer, the County establishes a monthly premium rate for insurance benefits each budget year. Eligible retirees may continue to receive insurance benefits by contributing 100% of the Consolidated Omnibus Budget Reconciliation Act or COBRA rate for these benefits. The program provides the same level of healthcare benefits to retirees as the active group plan. LEOFF1 retirees are not required to contribute as the County pays 100% of their medical costs. The County pays benefits as they come due.

**Employees covered by benefit terms** – At December 31, 2019, the benefit terms covered the following employees:

Category	Count
Inactive employees, spouses, or beneficiaries currently receiving benefit payments	450
Inactive employees entitled to but not yet receiving benefit payment	-
Active employees	<u>14,378</u>
Total	<u><u>14,828</u></u>

**Net OPEB liability** – The County's net OPEB liability was measured as of December 31, 2019 and 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018.

**Actuarial assumptions** – The total OPEB liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation: 2.50%.
- Salary increases: 3.00%.
- Healthcare cost trend rates: 7.00% in the first year, trending down to 3.84% over 56 years.
- Mortality rates were based on tables from the Society of Actuaries.
- Discount rate: The discount rate used to measure the total OPEB liability is 3.75%. The County's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

### Note 11 – Other Post-Employment Benefits (continued)

**Changes in total OPEB liability** – Water Quality’s allocated changes in the total OPEB liability for the years ended December 31, 2019 and 2018, were as follows (in thousands):

	2019	2018
Total OPEB liability - beginning of year	\$ 1,533	\$ 1,652
Service cost	30	29
Interest	57	57
Difference between expected and actual experience	-	46
Change of assumptions	-	(133)
Benefit payments	(69)	(72)
Implicit rate subsidy fulfilled	(20)	(19)
Other changes	(5)	(27)
Net changes	(7)	(119)
Total OPEB liability - end of year	\$ 1,526	\$ 1,533

**Sensitivity of the net OPEB liability to changes in the discount rate** – The table below presents Water Quality’s proportionate share of the net OPEB liability as well as what Water Quality’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.75%) or one percentage point higher (4.75%) than the current rate (in thousands).

Year	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
2019	\$ 1,665	\$ 1,526	\$ 1,406
2018	1,676	1,533	1,407

**Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates** – The table below presents Water Quality’s proportionate share of the net OPEB liability as well as what Water Quality’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.00%) or one percentage point higher (8.00%) than current healthcare cost trend rates rate (in thousands).

Year	1% Decrease (6.00% Decreasing to 2.84%)	Trend Rate (7.00% Decreasing to 3.84%)	1% Increase (8.00% Decreasing to 4.84%%)
2019	\$ 1,381	\$ 1,526	\$ 1,697
2018	1,396	1,533	1,691

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 11 – Other Post-Employment Benefits (continued)

**Deferred outflows of resources and deferred inflows of resources** – At December 31, 2019 and 2018, Water Quality reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 36	\$ -	\$ 41	\$ -
Changes of assumptions	-	104	-	119
Total	<u>\$ 36</u>	<u>\$ 104</u>	<u>\$ 41</u>	<u>\$ 119</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB in the years ended December 31, 2019 and 2018 will be recognized as OPEB expense as follows (in thousands):

2019	
Year Ending December 31,	Amount
2020	\$ (9)
2021	(9)
2022	(9)
2023	(9)
2024	(9)
Thereafter	(23)

2018	
Year Ending December 31,	Amount
2019	(9)
2020	(9)
2021	(9)
2022	(9)
2023	(9)
Thereafter	(33)

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 12 – 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 intra-county 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 \$3.0 million and due to other funds of \$24 thousand at December 31, 2019. Water Quality reported total due from other funds of \$2.5 million and due to other funds of \$37 thousand at December 31, 2018.

**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 2019 and 2018, the transfers from Water Quality to other funds were \$960 thousand and \$982 thousand, respectively.

### Note 13 – 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 \$93.3 million on active construction contracts as of December 31, 2019.

**Contingencies and claims** – 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 issued by the Environmental Protection Agency (EPA) that required King County, the City of Seattle, Boeing, and the Port of Seattle to conduct studies to determine the nature and extent of contamination in the Lower Duwamish Waterway. The County and the other three parties have agreed with EPA to amend the administrative order on a number of occasions to conduct additional studies, and have most recently negotiated a further amendment to design the remedy for one portion of the river. EPA issued a Record of Decision (ROD) in the latter part of 2014. The ROD contains EPA's final plan for cleanup of the Lower Duwamish Waterway. The County and a number of other parties are participating in an alternative dispute resolution process, called an allocation, to determine shares of liability for the costs of the cleanup. If parties that participate in the allocation accept their allotted shares, they then expect to enter into a settlement agreement and to negotiate a consent decree with EPA to implement the cleanup. Due to the fact that the parties do not yet know their respective shares of cleanup costs and no consent decree has been negotiated with EPA, the County is unable to determine the schedule or cost of any required remediation. In addition, the County is unable to determine the extent to which the County and Water Quality will be responsible for the cost of such remediation.



## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### Note 13 – Commitments and Contingencies (continued)

- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. Water Quality has performed interim cleanup costing \$3.6 million to comply with a formal agreement with the Washington State Department of Ecology (DOE). Water Quality has recently engaged in negotiations with DOE to prepare a remedial investigation, feasibility study and draft cleanup action plan, and to implement what may be an interim or final cleanup action. It is unclear what final remedy DOE may select. The County is unable to determine an amount, if any, for which Water Quality may be responsible.
- 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 City of Seattle, Port of Seattle and the County intend to negotiate the amount, if any, that the City and the County will contribute. This is an extremely complex negotiation for which the County is unable to determine an amount that Water Quality may be responsible for, if any. The parties have also agreed to share the cost of a supplemental investigation and feasibility study (RI/FS) required by the EPA. The supplemental RI/FS is now complete and awaiting final approval from EPA. A three-way agreement with the Port, the City and the County allocates to Water Quality a one-third pro rata share of the study costs although the costs may be reallocated among the parties or with other Potentially Responsible Parties (PRP) who may agree to participate in the study. The parties may also seek contribution from other PRP for the cost of the study. The EPA will not determine if, or the nature of, any additional remediation until the study is completed and approved. The County and three other PRP have negotiated a memorandum of agreements to implement a search for other responsible parties.
- A claim submitted by the County against a contractor and its performance bond surety over the project to repair and replace two miles of pipeline serving the rapidly developing area in the vicinity of Canyon Park. Pursuant to an agreement with DOE, Water Quality had to install a bypass system because the capital project was not completed by the onset of the 2016 wet season. The contractor submitted a request for change order of approximately \$1.5 million based on its assertion that the contract dewatering and open-faced shield tunneling specifications were defective. The contractor also asserted that it was constructively suspended and stopped tunneling. Water Quality found the contractor in default, terminated the contract, made demand upon the performance bond surety, and procured a \$20.0 million completion contract. Water Quality's additional costs to complete the project and to repair consequential damages amounted to approximately \$28.0 million. In December 2016, the County initiated a suit in King County Superior Court to recover the additional costs to complete the project from the contractor and its insurance company. The contractor has counter claimed for approximately \$10 million asserting its change order claims and wrongful termination. Pre-trial motions were appealed to Washington State Supreme Court, and upon mandate back to King County Superior Court a new case schedule has been ordered and the trial date is set for March 2021.

## **King County Water Quality Enterprise Fund**

### **Notes to Financial Statements**

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#### **Note 14 – Subsequent Event**

In late March of 2020, Washington’s Governor issued a stay-at-home order and the closing of all non-essential businesses in response to the COVID-19 pandemic. The “Stay Home-Stay Healthy” proclamation limited work activities to only those that are essential to protect public health and safety, in order to slow the spread of the COVID-19 virus. Despite the challenges brought by COVID-19, wastewater treatment is an essential service. The Water Quality enterprise is driven by its mission to protect public health and will continue to treat our region’s sewage and ensure its infrastructure’s resiliency. While it is too early to assess the financial impacts resulting from COVID-19 the Water Quality enterprise is developing mitigation strategies as the scale of impacts are better understood.

## **Required Supplementary Information**

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# King County Water Quality Enterprise Fund

## Required Supplementary Information

### Pension Plan Information

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Schedule of the County's Proportionate Share of the Net Pension Liability  
Public Employees' Retirement System (PERS) Plan 1  
Measurement Date of June 30\*  
(dollars in thousands)

	2019	2018	2017	2016	2015
County's proportion of the net pension liability	8.25%	8.56%	8.45%	8.90%	8.76%
County's proportionate share of the net pension liability	\$ 317,333	\$ 382,129	\$ 400,803	\$ 477,872	\$ 458,477
Covered payroll	\$ 10,835	\$ 13,346	\$ 15,426	\$ 18,793	\$ 22,880
County's proportionate share of the net pension liability as a percentage of covered payroll	2928.78%	2863.25%	2598.23%	2542.82%	2243.04%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%

\* This schedule is to be built until it contains ten years of data.

# **King County Water Quality Enterprise Fund** **Required Supplementary Information** **Pension Plan Information (continued)**

## Schedule of the County's Proportionate Share of the Net Pension Liability Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30\* (dollars in thousands)

	2019	2018	2017	2016	2015
County's proportion of the net pension liability	10.06%	10.29%	10.14%	10.52%	10.36%
County's proportionate share of the net pension liability	\$ 97,735	\$ 175,728	\$ 352,361	\$ 529,855	\$ 370,294
Covered payroll	\$ 1,144,724	\$ 1,072,968	\$ 995,800	\$ 953,254	\$ 949,860
County's proportionate share of the net pension liability as a percentage of covered payroll	8.54%	16.38%	35.38%	55.58%	39.68%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%

\* This schedule is to be built until it contains ten years of data.

# King County Water Quality Enterprise Fund

## Required Supplementary Information

### Pension Plan Information (continued)

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Schedule of the County's Contributions  
Public Employees' Retirement System (PERS) Plan 1  
For the Year Ended December 31\*  
(dollars in thousands)

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 1,145	\$ 1,448	\$ 1,738	\$ 1,901	\$ 2,076
Contributions in relation to the contractually required contributions	<u>1,145</u>	<u>1,448</u>	<u>1,738</u>	<u>1,901</u>	<u>2,076</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 8,918	\$ 11,362	\$ 14,569	\$ 17,003	\$ 20,440
Contributions as a percentage of covered payroll	12.84%	12.74%	11.93%	11.18%	10.16%

\* This schedule is to be built until it contains ten years of data.

# King County Water Quality Enterprise Fund

## Required Supplementary Information

### Pension Plan Information (continued)

Schedule of the County's Contributions  
Public Employees' Retirement System (PERS) Plan 2/3  
For the Year Ended December 31\*  
(dollars in thousands)

	2019	2018	2017	2016	2015
Contractually required contributions	\$ 152,683	\$ 140,712	\$ 123,333	\$ 109,269	\$ 95,176
Contributions in relation to the contractually required contributions	152,683	140,712	123,333	109,269	95,176
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,188,641	\$ 1,031,418	\$ 1,031,418	\$ 977,342	\$ 933,304
Contributions as a percentage of covered payroll	12.85%	12.75%	11.96%	11.18%	10.20%

\* This schedule is to be built until it contains ten years of data.

#### Notes to Pension Required Supplementary Information

The Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 the Revised Code of Washington (RCW).

Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2017, and ending June 30, 2019, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. This is the second of three biennia over which this increase is expected to be phased-in for PERS 1, PERS 2/3, and other pension plans.

For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC, except the CRC reflect the adopted contribution rates for the time period shown, which might differ from the contribution rates produced for the ADC.

**King County Water Quality Enterprise Fund**  
**Required Supplementary Information**  
**Postemployment Health Care Plan**

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Schedule of the County's Changes in Total OPEB Liability and Related Ratios  
For the Year Ended December 31\*  
(dollars in thousands)

	2019	2018
Total OPEB liability - beginning of year	\$ 111,412	\$ 118,120
Service cost	2,155	2,092
Interest	4,138	4,147
Changes of benefit terms	-	-
Differences between expected and actual experience	-	3,332
Changes of assumptions	(4,953)	(9,652)
Benefit payments	(1,480)	(5,244)
Implicit rate subsidy fulfilled	-	(1,383)
Other changes	-	-
Net change in total OPEB liability	(140)	(6,708)
Total OPEB liability - end of year	<u>\$ 111,272</u>	<u>\$ 111,412</u>
Covered-employee payroll	\$ 1,219,237	\$ 1,217,867
Total OPEB liability as a percentage of covered payroll	9.13%	9.15%

\* This schedule is to be built until it contains ten years of data.

**Notes to OPEB Required Supplementary Information**

The plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.



## **Other Information**

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**King County Water Quality Enterprise Fund**  
**Supplemental Information**  
**Supplemental Schedule of Debt Service Coverage Ratios (Unaudited)**  
**Year Ended December 31, 2019**

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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) 1.85

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) 1.58

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) 1.44

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. All of Water Quality Junior Lien Variable Rate Sewer Revenue Bonds and Multi-Modal Limited Tax General Obligation Revenue Bonds incorporate the identical requirement stated in the 2001 bond covenant requirements. In 2019, short-term interest rates rose to 2.11 percent in 2019 from 2.07 percent in 2018.

Coverage (1.10 required by covenant) 14.10

**King County Water Quality Enterprise Fund**  
**Supplemental Information**  
**Supplemental Schedule of Historical Debt Service**  
**Coverage Ratios (Unaudited)**

**DEBT SERVICE COVERAGE FOR THE WATER QUALITY ENTERPRISE**  
**LAST TEN FISCAL YEARS**  
(dollars in thousands)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Residential customer and residential customer Equivalents (RCEs) (annual average, rounded)	704,400	707,300	708,900	718,160	725,844	736,090	756,430	756,916	760,571	763,436
Percentage annual change	0.09%	0.41%	0.23%	1.31%	1.07%	1.41%	2.76%	0.06%	0.48%	0.00%
Operating revenues										
Sewage disposal fees	\$ 269,498	\$ 306,430	\$ 307,143	\$ 342,850	\$ 346,591	\$ 371,253	\$ 381,513	\$ 401,650	\$ 403,589	\$ 415,279
Rate stabilization	(15,814)	(25,523)	13,923	10,350	18,000	(12,000)	-	-	-	-
Capacity charge revenues	41,363	48,693	51,411	58,660	59,522	62,479	71,200	82,615	86,836	102,146
Other operating revenues	9,778	7,830	9,398	10,126	11,675	11,674	11,828	18,308	19,125	19,024
Total Operating Revenues	304,825	337,430	381,875	421,986	435,788	433,406	464,541	502,573	509,550	536,449
Operating and maintenance expenses <sup>1)</sup>	103,682	103,995	114,939	117,183	122,014	127,211	138,698	142,263	139,585	143,834
Add: GAAP adjustment <sup>2)</sup>	-	-	-	-	2,187	1,715	(2,377)	5,936	13,004	10,438
Net operating and maintenance expenses	103,682	103,995	114,939	117,183	124,201	128,926	136,321	148,199	152,589	154,272
Net operating revenue	201,143	233,435	266,936	304,803	311,587	304,480	328,220	354,374	356,961	382,177
Interest income <sup>3)</sup>	3,426	2,725	1,697	2,682	2,822	2,863	4,549	6,055	8,956	10,765
Net revenue available for debt service	204,569	236,160	268,633	307,485	314,409	307,343	332,769	360,429	365,917	392,942
Debt service										
Parity bonds	118,817	132,664	157,117	172,959	175,463	167,694	160,957	159,761	163,967	171,321
Parity lien obligations	26,838	32,910	38,626	43,064	42,876	40,348	53,164	52,650	49,121	41,529
Subordinate debt service	12,182	12,769	14,087	15,039	17,477	18,318	21,316	26,277	33,139	35,174
Total debt service	\$ 157,837	\$ 178,343	\$ 209,830	\$ 231,062	\$ 235,816	\$ 226,360	\$ 235,437	\$ 238,688	\$ 246,227	\$ 248,024
Debt service coverage										
On parity bonds	1.72	1.78	1.71	1.78	1.79	1.83	2.07	2.26	2.23	2.29
On parity bonds and parity lien obligations	1.40	1.43	1.42	1.36	1.44	1.48	1.55	1.70	1.72	1.85
On all sewer system obligations	1.30	1.32	1.28	1.33	1.33	1.36	1.41	1.51	1.49	1.58

1) 2014 operating expenses were restated as part of GASB Statements 68 and 71 implementation.

2) Non-cash GAAP adjustments consist of pension, other post-employment benefits and compensated absence accruals.

3) Interest Income excludes unrealized gains in the GASB Statement 31 market valuation adjustment.

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

The Metropolitan King County Council  
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the King County Water Quality Enterprise Fund, which comprise the statement of net position as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the King County Water Quality Enterprise Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the King County Water Quality Enterprise Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the King County Water Quality Enterprise Fund's internal control.

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Moss Adams LLP*

Seattle, Washington  
April 30, 2020



MOSSADAMS

**APPENDIX E**

**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 within one year. As of March 31, 2019, the Investment Pool had a balance of \$7.1 billion and an effective duration of 0.91 years, and 58.0% of the portfolio had a maturity of one year 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 and corporate notes 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; and
- (viii) 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 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:

*<https://kingcounty.gov/depts/finance-business-operations/treasury/investment-pool.aspx>*

The investment policy also includes a policy adopted by the Committee to address the circumstances under which County agencies or districts can invest funds beyond the maximum maturity limits established for the Investment Pool. This policy provides the “Pool-Plus” investment option which allows a participant in the Investment Pool to request the County to combine a portfolio of individual long-term securities in the same fund that is invested in the Investment Pool. Under the Pool-Plus option, the Investment Pool will be used for the liquidity portion of the portfolio, while the following investment types may be used for the longer term investments: U.S. Treasuries or securities with the full faith and credit of the U.S. Government backing them and senior debt obligations issued by U.S. agencies, instrumentalities or government-sponsored enterprises such as the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Farm Credit Bank, and the Federal Home Loan Mortgage Corporation.

**APPENDIX F**  
**CONTINUING DISCLOSURE UNDERTAKING**

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## CONTINUING DISCLOSURE UNDERTAKING

*Annual Disclosure Report.* The County will agree in a Continuing Disclosure Certificate to be executed at the time of issuance of the Bonds to provide or cause to be provided to the Municipal Securities Rulemaking Board (“MSRB”) the following annual financial information and operating data for the prior fiscal year (collectively, the “Annual Financial Information”), commencing in 2021 for the fiscal year ended in December 31, 2020:

- (i) annual financial statements 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 to this Official Statement as Appendix D, which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the County, they will be provided;
- (ii) the amount of outstanding bonds paid from Revenues of the System; and
- (iii) information regarding Customers, Revenue of the System, Operating and Maintenance Expenses, and debt service coverage, generally of the type 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 Financial Information 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 such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such Annual Financial Information, the County may make specific cross-reference to other documents available to the public on the MSRB’s internet website 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 County’s audited financial statements prepared in accordance with BARS when and if available.

The County agrees to provide or cause to be provided to the MSRB, in a timely manner, notice of its failure to provide the Annual Financial Information on or prior to the date set forth above.

*Specified Events.* The County 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;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, 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;
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) incurrence of a financial obligation of the obligated person, if material, or agreements to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

For the purposes of events (xv) and (xvi), “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with SEC Rule 15c2-12 (“Rule 15c2-12”).

Solely for purposes of disclosure and not intending to modify the undertaking, the County advises with reference to items (iii), (x), and (xiv) that no debt service reserves secure payment of the Bonds, no property secures repayment of the Bonds, and there is no trustee for the Bonds.

*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). 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, in accordance with Rule 15c2-12, which, as currently interpreted by the SEC, requires that (i) the amendment or waiver be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the County, or type of business conducted; (ii) the undertaking, as amended or waived, would have complied with the requirements of Rule 15c2-12 at the time of the primary offering, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any change in circumstances; and (iii) the amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by parties unaffiliated with the County (such as Bond Counsel) or by the approving vote of holders of the Bonds pursuant to the terms of the Ordinance.

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 Financial Information, 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 "Specified Events" above, and (ii) the annual financial statements for the year in which the change is made should 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.

*Remedies Under the Undertaking.* The right of any Bond 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.

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**APPENDIX G**  
**DEMOGRAPHIC AND ECONOMIC INFORMATION**

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## DEMOGRAPHIC AND ECONOMIC INFORMATION

King County is the largest county in Washington in population, number of cities and employment, and the twelfth most populated county in the United States. Of Washington’s population, nearly 30% reside in King County, and of the County’s population, 33% live in the City of Seattle. Seattle is the largest city in the Pacific Northwest and, as the County seat, is 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.

See “Other Considerations—COVID-19 Pandemic” in this Official Statement.

### 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					Unincorporated King County
Year	Washington	King County	Seattle	Bellevue	
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
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
2016 <sup>(2)</sup>	7,183,700	2,105,000	686,800	139,400	245,920
2017 <sup>(2)</sup>	7,310,300	2,153,700	713,700	140,700	247,060
2018 <sup>(2)</sup>	7,427,570	2,190,200	730,400	142,400	247,240
2019 <sup>(2)</sup>	7,546,410	2,226,300	747,300	145,300	248,275

(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, the County, the State, and the United States.

	PER CAPITA INCOME				
	2014	2015	2016	2017	2018
Seattle MD	\$ 65,785	\$ 68,792	\$ 71,903	\$ 75,973	\$ 81,201
King County	72,644	76,122	79,742	84,542	90,438
State of Washington	51,518	53,840	55,884	58,550	62,026
United States	47,058	48,978	49,870	51,885	54,446

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.

KING COUNTY RESIDENTIAL BUILDING PERMIT VALUES					
Year	New Single Family Units		New Multi-Family Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2015	4,010	1,539,049,136	14,527	2,227,509,189	3,766,558,325
2016	4,254	1,616,722,532	13,445	1,759,255,696	3,375,978,228
2017	4,356	1,735,074,421	14,285	2,174,576,693	3,909,651,114
2018	4,442	1,747,483,826	14,018	1,642,109,582	3,389,593,408
2019	3,777	1,494,505,945	14,142	2,071,136,054	3,565,641,999
2019 <sup>(1)</sup>	1,221	482,637,552	4,522	667,870,417	1,150,507,969
2020 <sup>(1)</sup>	983	396,058,440	2,928	409,146,474	805,204,914

(1) Estimates with imputations through April.

Source: U.S. Bureau of the Census

## Retail Activity

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

### THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES

<u>Year</u>	<u>King County</u>	<u>City of Seattle</u>
2014	\$ 49,638,174,066	\$ 19,995,171,842
2015	54,890,159,770	22,407,443,037
2016	59,530,882,870	24,287,539,378
2017	62,910,608,935	26,005,147,210
2018	69,018,354,390	28,292,069,881
2019 <sup>(1)</sup>	72,830,045,964	29,959,051,892

(1) Preliminary year-end.

Source: *Quarterly Business Review*, Washington State Department of Revenue

## Employment

The following table presents approximate total employment in Washington State as of December 31, 2019 (unless otherwise noted) for certain major employers in the Puget Sound area.

### PUGET SOUND MAJOR EMPLOYERS

Employer	Employees
The Boeing Company	71,800
Amazon.com Inc.	60,000
Microsoft Corp.	55,100
Joint Base Lewis-McChord	54,000 <sup>(1)</sup>
University of Washington Seattle	46,800
Providence Health & Services	43,000 <sup>(2)</sup>
Safeway Inc. & Albertsons LLC	21,300 <sup>(2)</sup>
Wal-Mart Stores, Inc.	19,400
Costco Wholesale Corp.	18,000
MultiCare Health System	17,200
Fred Meyer Stores	16,200
King County Government	15,900
City of Seattle	15,800
Starbucks Corp.	14,000
CHI Franciscan Health	12,500
Seattle Public Schools	11,900
Kaiser Permanente	10,000
Alaska Air Group Inc.	9,600
Nordstrom, Inc.	9,200
Virginia Mason Health System	9,100
T-Mobile US Inc.	7,900
Expedia Group Inc.	4,600
Google, Inc.	5,400
REI	3,400

(1) 40,000 are service members and 14,000 are civilian employees.

(2) As of May 31, 2019; more recent data not available.

*Source: Puget Sound Business Journal, Publication Date June 19, 2020.*

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

	<b>Annual Average</b>				
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Civilian Labor Force	1,184,240	1,213,744	1,238,090	1,264,754	1,290,480
Total Employment	1,134,979	1,167,122	1,194,955	1,224,648	1,254,638
Total Unemployment	49,261	46,622	43,135	40,106	35,842
Percent of Labor Force	4.2%	3.8%	3.5%	3.2%	2.8%
<b>NAICS INDUSTRY</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Total Nonfarm	1,312,083	1,357,433	1,398,225	1,433,158	1,468,958
Total Private	1,137,950	1,179,242	1,216,892	1,254,625	1,293,125
Goods Producing	175,233	177,692	178,150	181,958	186,650
Mining and Logging	575	525	533	500	500
Construction	66,808	71,217	74,342	78,108	79,942
Manufacturing	107,858	105,967	103,283	103,333	106,183
Service Providing	1,136,850	1,179,742	1,220,075	1,251,200	1,282,308
Trade, Transportation, and Utilities	244,425	254,142	268,325	274,642	281,025
Information	88,875	96,200	102,817	110,917	121,192
Financial Activities	69,767	70,642	71,450	73,708	75,233
Professional and Business Services	216,017	222,750	227,792	233,092	238,658
Educational and Health Services	167,008	174,042	179,142	185,842	189,617
Leisure and Hospitality	130,108	135,683	140,775	145,050	147,942
Other Services	46,517	48,092	48,442	49,417	52,808
Government	174,133	178,192	181,333	178,533	175,833
Workers in Labor/Management Disputes	0	0	0	0	0
	<b>Apr. 2020</b>				
Civilian Labor Force	1,252,303				
Total Employment	1,066,218				
Total Unemployment	186,085				
Percent of Labor Force	14.9%				

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

Source: Washington State Employment Security Department.

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**APPENDIX H**  
**BOOK-ENTRY SYSTEM**

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## BOOK-ENTRY SYSTEM

*The following information has been provided by the Depository Trust Company, New York, New York (“DTC”). The County makes no representation regarding the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. 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).
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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