

## OFFICIAL STATEMENT

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

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

*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 Relating to the Bonds" herein.*

### KING COUNTY, WASHINGTON

**\$140,000,000**

### **JUNIOR LIEN SEWER REVENUE REFUNDING BONDS, 2021, SERIES A (SIFMA INDEX)**

**DATED: Date of Initial Delivery**

**DUE: January 1, 2040**

The Bonds described above are being issued by King County, Washington (the "County"), initially in the Index Floating Mode, and will be dated the date of their initial delivery. The Bonds will be issued only in fully registered form as to both principal and interest, will be in the denomination of \$5,000 or any integral multiple thereof during the Index Floating Rate Period, and initially will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"). See Appendix H—Book-Entry System.

The Bonds will bear interest at the Index Floating Rate, as discussed herein, for the Initial Index Floating Rate Period, subject to prior optional redemption on or after the Par Call Date, as described herein. At the end of the Initial Index Floating Rate Period, the Bonds are subject to mandatory tender for purchase, as described herein. The Bonds are also subject to mandatory tender for purchase and Conversion to a new Index Floating Rate or to a Daily Mode, Weekly Mode, Commercial Paper Mode, Fixed Mode, or Term Mode on or after the Par Call Date, as described herein. **This Official Statement describes the Bonds only during the Initial Index Floating Rate Period. No Credit Enhancement or Liquidity Facility secures payment of the Purchase Price of any Bonds that are not remarketed at the end of the Initial Index Floating Rate Period.** See "Description of the Bonds—Mandatory Tender for Purchase" and "—Redemption of Bonds."

Both principal of and interest on the Bonds are payable in lawful money of the United States of America. Interest on the Bonds is payable on the first Business Day of each calendar month, commencing January 3, 2022, until the end of the Initial Index Floating Rate Period, prior redemption, or Conversion to a new Index Floating Rate or to another Mode. The principal and Purchase Price of and interest on the Bonds are payable by U.S. Bank National Association, Seattle, Washington, as Registrar and Paying Agent, to DTC, which is obligated to remit such principal, Purchase Price, and interest to its broker-dealer participants for subsequent disbursement to Beneficial Owners of the Bonds. See "Description of the Bonds—Registration and Book-Entry Form" and "—Payment of Bonds" and Appendix H—Book-Entry System.

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

The Bonds are being issued to refund certain obligations of the County payable from Sewer System revenues (as further defined herein, "Revenue of the System") and to pay refunding and issuance costs. See "Use of Proceeds."

The Bonds are payable from and secured by a pledge of Revenue of the System. The lien and charge of the Bonds on Revenue of the System is (i) junior, subordinate, and inferior to Operating and Maintenance Expenses of the Sewer System, (ii) junior, subordinate, and inferior 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 State Revolving Fund 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.

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

The Bonds are offered when, as, and if issued, subject to approval of their legality by Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. 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 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 December 16, 2021.

*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.*

### **BofA Securities**

Dated: December 1, 2021

*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 price 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 Bonds to certain dealers, unit investment trusts, or money market funds at prices lower than the public offering price 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 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, DTC, the Municipal Securities Rulemaking Board, or any other entity 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 website identified herein 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 2021, CGS. All rights reserved. CUSIP numbers are provided for convenience of reference only and are subject to change. Neither the County nor the Underwriter takes any responsibility for the accuracy of such CUSIP numbers.*

**KING COUNTY, WASHINGTON**  
**\$140,000,000**  
**JUNIOR LIEN SEWER REVENUE REFUNDING BONDS, 2021, SERIES A (SIFMA INDEX)**

***Index Floating Rate Bonds***

Maturity Date:	January 1, 2040
Index Floating Rate:	100% of SIFMA Index plus the Index Floating Rate Spread
Index Floating Rate Spread:	23 Basis Points (0.23%)
Maximum Interest Rate:	12%
Price:	100%
Scheduled Mandatory Purchase Date:	January 1, 2027
Par Call Date:	January 1, 2026
First Interest Payment Date:	January 3, 2022
CUSIP Number:	495290EF1

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

**KING COUNTY EXECUTIVE  
Dow Constantine**

**METROPOLITAN KING COUNTY COUNCIL**

Claudia Balducci	Chair
Reagan Dunn <sup>(1)</sup>	Vice Chair
Joe McDermott	Vice Chair
Rod Dembowski <sup>(1)</sup>	Councilmember
Jeanne Kohl-Welles	Councilmember
Kathy Lambert <sup>(1)</sup>	Councilmember
Dave Upthegrove <sup>(1)</sup>	Councilmember
Pete von Reichbauer <sup>(1)</sup>	Councilmember
Girmay Zahilay	Councilmember

**OTHER ELECTED OFFICIALS**

Dan Satterberg	Prosecuting Attorney
John Wilson	Assessor
Mitzi Johanknecht	Sheriff <sup>(2)</sup>
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

**MUNICIPAL ADVISOR TO THE COUNTY**

Piper Sandler & Co.  
Seattle, Washington

**REGISTRAR**

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

- 
- (1) On the ballot for re-election in the November 2, 2021, general election. Results will be final when they are certified.
  - (2) As a result of a Charter amendment approved by voters in November 2020, the Sheriff will become an appointed official on January 1, 2022, and Sheriff's Office employees will report to the County Executive.

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## OFFICIAL STATEMENT

### KING COUNTY, WASHINGTON

\$140,000,000

### JUNIOR LIEN SEWER REVENUE REFUNDING BONDS, 2021, SERIES A (SIFMA INDEX)

#### INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County, Washington (the “County”), of its Junior Lien Sewer Revenue Refunding Bonds, 2021, Series A (SIFMA Index) (the “Bonds”).

The Bonds are issued under and in accordance with 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, as amended by Ordinance 19324, passed by the County Council on September 7, 2021 (as amended, the “Ordinance”), and, as authorized by the Ordinance, a mode agreement with respect to the Bonds, dated as of December 1, 2021 (the “Mode Agreement”), between the County and U.S. Bank National Association (the “Registrar” and “Paying Agent”). A summary of the Ordinance is attached as Appendix A.

The Bonds will be issued in authorized denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”) during the Initial Index Floating Rate Period. The Bonds will be initially issued in the Index Floating Mode bearing interest at the Index Floating Rate. See Appendix B—Form of Mode Agreement and “The Bonds—General.”

During the Initial Index Floating Rate Period, the County may elect to convert the Bonds to a Daily Mode, Weekly Mode, Commercial Paper Mode, Term Mode, Fixed Mode, or another Index Floating Mode (each, a “Mode”) on or after the Par Call Date. Upon any such conversion, the Bonds will be subject to mandatory tender for purchase, as described herein. See “The Bonds—Conversion of Bonds to Other Modes.” At the end of the Initial Index Floating Rate Period, the Bonds are subject to mandatory tender for purchase, as described herein.

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

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, ordinances, resolutions, motions, and other documents in this Official Statement do not purport to be complete and are qualified by reference to the complete text of such documents, which may be obtained from the Finance and Business Operations Division of the King County Department of Executive Services, 401 Fifth Avenue, Suite 135, Seattle, Washington 98104. Capitalized terms that are not

defined herein have the same meanings as set forth in the Ordinance or the Mode Agreement. See Appendix A—Summary of the Ordinance and Appendix B—Form of Mode Agreement.

*The outbreak of the 2019 novel coronavirus (“COVID-19”) was a significant event that has had and will have ongoing, material effects on the finances, operations, and economy of the County. See “The Sewer System—Impact of COVID-19” herein for current information and expectations about the effects of COVID-19, including on projected revenues of the Sewer System (“Revenue of the System”). See also “King County—Impact of COVID-19” for a discussion of the effects of COVID-19 on the operations and finances of the County.*

## THE BONDS

*See Appendix A—Summary 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 Index Floating Mode during the Initial Index Floating 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 (each, a “Mode”) authorized under the Ordinance. Prior to any conversion of the Bonds from the Index Floating Mode to a different 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 Mode or Modes into which the Bonds will be converted.

### General Terms

The Bonds will mature on January 1, 2040, as shown on the cover page of this Official Statement, subject to optional redemption and mandatory tender for purchase, as described herein. The Bonds will bear interest at the Index Floating Rate as set forth on page i for the duration of the Initial Index Floating Rate Period, subject to prior optional redemption or conversion to a new Index Floating Rate Period or to another Mode, as described herein. This Official Statement describes the Bonds only during the Initial Index Floating Rate Period.

The Bonds will be issued in Authorized Denominations of \$5,000 and any integral multiple of \$5,000 thereof. The Bonds will bear interest at the Index Floating Rate, payable on the first business day of each calendar month (each, an “Interest Payment Date”), commencing January 3, 2022. Interest on the Bonds will be calculated on the basis of the actual number of days elapsed in a 365-day year (or 366-day year in a leap year) during the Index Floating Rate Period. Interest is paid to the registered owners as of the Record Date, which for the Bonds in the Index Floating Rate Period is the 15th day of the month immediately preceding each Interest Payment Date.

The Bonds are subject to mandatory tender for purchase on the Scheduled Mandatory Purchase Date, are subject to conversion on or after the Par Call Date to a new Index Floating Rate or to a Daily Mode, Weekly Mode, Commercial Paper Mode, Fixed Mode, or Term Mode, and are subject to optional redemption on or after the Par Call Date as set forth in the Mode Agreement. See page i of this Official Statement for the Maturity Date, Index Floating Rate and Index Floating Rate

Spread, price, Scheduled Mandatory Purchase Date, and Par Call Date for 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.”

### **The Index Floating Rate**

The Bonds initially will bear interest at the Index Floating Rate, not to exceed the Maximum Interest Rate shown on page i, commencing on and including the Initial Issue Date, but excluding the last day of the Initial Index Floating Rate Period.

The Index Floating Rate for the Bonds is 100% of the SIFMA Index plus the Index Floating Rate Spread, as set forth on page i of this Official Statement. The Index Floating Rate will be rounded up to the second decimal place. All dollar amounts are to be rounded to the nearest cent, with one-half cent being rounded up.

The “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 the Securities Industry and Financial Markets Association (“SIFMA”) or any person acting in cooperation with or under the sponsorship of SIFMA and effective from such date. If at any time such index is not available, the Paying Agent will use instead an index that the Paying Agent, after consultation with the County and the Remarketing Agent, if any, determines most closely approximates the SIFMA Index. The Index Floating Rate will be set on each Interest Determination Date (defined below). The determination of the Index Floating Rate by the Paying Agent will be conclusive and binding upon the registered owners and the Beneficial Owners.

“Maximum Interest Rate” means 12% per annum, calculated in the same manner as interest is calculated for the interest rate then in effect on the Bonds.

“Interest Determination Date” means, for the Initial Index Floating Rate Period and any Index Floating Rate Period during which the Index is the SIFMA Index, the first day of such Index Floating Rate Period and, thereafter, each Wednesday during such Index Floating Rate Period or, if any such Wednesday is not a Business Day, the preceding Business Day.

“Interest Reset Date” means, for each Index Floating Rate Period during which the Index is the SIFMA Index, Thursday of each week during such Index Floating Rate Period (or, if that is not a Business Day, the next succeeding Business Day).

### **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 the Bonds on or after the 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 of the County (the “Finance Director”) and in such individual’s 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 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 the Bonds, then the Bonds will continue to bear interest at the Index Floating Rate.

### **Redemption of the Bonds**

While in the Index Floating Mode, the Bonds are subject to redemption at the written direction of the Finance Director on any Business Day on and after the Par Call Date, in whole or in part, at a price equal to 100% of the principal amount of the Bonds called for redemption, plus accrued interest thereon, if any, to the date fixed for redemption.

The Bonds also are subject to mandatory tender for redemption on the Scheduled 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 Scheduled 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 Initial Index Floating Rate Period, the Bonds are *not* subject to optional tender for purchase by the Registered Owners or Beneficial Owners.

#### **Mandatory Tender for Purchase**

On the Scheduled Mandatory Purchase Date, the Bonds are subject to mandatory tender for purchase by the 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 Initial Index Floating Rate Period, the County has the right on or after the Par Call Date to effect a conversion of the Bonds from bearing interest at the Index Floating Rate to bearing interest in any other Mode, including another Index Floating Rate, by optionally redeeming the Bonds on or after the Par Call Date. If the County elects to redeem all or a portion of the Bonds on such Conversion Date, the Bonds are subject to mandatory tender for purchase on the Conversion Date.

*End of the Index Floating Rate Period.* The Bonds are subject to mandatory tender for purchase during the Initial Index Floating Rate Period on the Scheduled Mandatory Purchase Date. On the Scheduled Mandatory Purchase Date, the County may effect a conversion of the Bonds to another Mode authorized in the Ordinance (which could be the Index Floating Mode for another Index Floating Rate Period) or may redeem or refund the Bonds. During the Initial Index Floating 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 Scheduled 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 due is a Default under the Ordinance. ***No Credit Enhancement or Liquidity Facility secures the payment of the Purchase Price of the Bonds during the Initial Index Floating Rate Period.***

*Notice of Mandatory Purchase.* No notice is required to be provided for the Scheduled Mandatory Purchase Date. In connection with other mandatory Purchase Dates (each, a “Mandatory Purchase Date”), 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 Index Floating 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 number of 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 Mode from the Index Floating Mode (for purposes of this paragraph, the “Current Mode”) to another 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 Bonds following such change and the identity of any provider of such liquidity facility or credit enhancement. Notice of the proposed change in Mode will be given by the Registrar to the Owners of the 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 Mandatory Purchase Date. Such notice will state: (i) the Mode to which the conversion will be made and the proposed Conversion Date; (ii) in the case of a change from any Mode, that the Bonds will be subject to mandatory purchase on the proposed Conversion Date (regardless of whether all of the conditions to the change in the Mode are satisfied) and the Purchase Price of the 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 Index Floating Mode to another Mode, the proposed Conversion Date will be limited to any date on which the Bonds are subject to optional redemption or to the Scheduled Mandatory Purchase Date, as the case may be. The 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 Mode, the Bonds will stay in the Index Floating 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 the Bonds on their Scheduled Mandatory Purchase Date (or on a Conversion Date occurring on or after the Par Call Date).

*No Credit Enhancement or Liquidity Facility Secures the Payment of the Purchase Price of the Bonds.* The County is required to purchase the Bonds on the Scheduled 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. No Credit Enhancement or Liquidity Facility

secures the payment of the Purchase Price of the Bonds during the Initial Index Floating Rate Period. In the event of a failed remarketing, and in the absence of a market for refunding bonds, the County would be required to apply legally available County funds to purchase the Bonds.

*A Remarketing Agent will be Selected and Paid by the County.* After the initial issuance of the Bonds, there will be no Remarketing Agent in place. Upon an election to effect a conversion of the Bonds to a new Index Floating Mode or a Daily Mode, Weekly Mode, Term Mode, or Fixed 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 Scheduled 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 the 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 the 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 Initial Index Floating 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.* A Remarketing Agent may 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 that are offered to it for purchase 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**

### **Purpose**

The Bonds are being issued to refund certain obligations of the Sewer System as shown below under “—Refunding Plan” and to pay the costs of issuing the Bonds.

## Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows (rounded to the nearest dollar):

**TABLE 1  
SOURCES AND USES OF FUNDS**

<b>SOURCES OF FUNDS</b>	
Par Amount of Bonds	\$ 140,000,000
Cash Contribution from Operations	<u>6,915,000</u>
Total Sources of Funds	<u><u>\$ 146,915,000</u></u>
<b>USES OF FUNDS</b>	
Deposit to Refunding Account	\$ 146,355,000
Payment of Costs of Issuance <sup>(1)</sup>	<u>560,000</u>
Total Uses of Funds	<u><u>\$ 146,915,000</u></u>

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

## Refunding Plan

*Refunded Bonds.* A portion of the proceeds from the sale of the Bonds will be used to refund the County's outstanding Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2017A and Series 2017B, and a portion of the County's outstanding Limited Tax General Obligation Notes (Payable from Sewer Revenues) (Commercial Paper), Series A, as shown in Table 2 below (the "Refunded Bonds").

**TABLE 2  
REFUNDED BONDS**

<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Par Amount</b>	<b>Redemption Date</b>	<b>Redemption Price (%)</b>	<b>CUSIP Number</b>
<i>Multi-Modal Limited Tax General Obligation Refunding Bonds</i>					
<i>(Payable from Sewer Revenues), Series 2017A, Dated 10/26/2017</i>					
1/1/2040	varies	\$ 48,165,000	12/16/2021	100	None
<i>Multi-Modal Limited Tax General Obligation Refunding Bonds</i>					
<i>(Payable from Sewer Revenues), Series 2017B, Dated 10/26/2017</i>					
1/1/2040	varies	\$ 48,190,000	12/16/2021	100	None
<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Par Amount</b>	<b>Prepayment Date</b>	<b>Redemption Price (%)</b>	<b>CUSIP Number</b>
<i>Limited Tax General Obligation Notes (Payable from Sewer Revenues)</i>					
<i>(Commercial Paper), Dated 12/15/2020</i>					
12/16/2021	varies	\$ 50,000,000	N/A	N/A	N/A

*Refunding Procedure.* On the day of closing for the Bonds, the County will transfer proceeds of the Bonds and other County funds to the Registrar in a sufficient amount to pay the principal of and accrued interest on the Refunded Bonds.

## 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 (i) junior, subordinate, and inferior to Operating and Maintenance Expenses, (ii) junior, subordinate, and inferior 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 State Revolving Fund (“SRF”) Loans, and the Public Works Trust Fund (“PWTF”) 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, deposits from the Rate Stabilization Reserve 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.

No Credit Enhancement or Liquidity Facility secures payment of the Purchase Price of any Bonds that are not remarketed at the end of the Initial Index Floating Rate Period. See “Description of the Bonds—Mandatory Tender for Purchase” and “—Redemption of Bonds.” The Bonds are not secured by a mortgage, deed of trust, or security interest in the Sewer System or any of the physical plant and facilities thereof.

### **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 (including the County) 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 (including the County) 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 PWTF 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 Reserve (see “—Rate and Coverage Calculations—Rate Stabilization Reserve”); 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 County’s Sewer System (“Sewer System Obligations”) as of December 1, 2021. 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 DECEMBER 1, 2021)**

<b>Sewer System Obligations</b>	<b>Amount Outstanding</b>	<b>Final Maturity</b>	<b>Ratings</b>
Parity Bonds (Senior Lien) <sup>(1)</sup>	\$ 2,200,370,000	2052	Aa1/AA+
Parity Lien Obligations (LTGO) <sup>(2)</sup>	730,340,000	2039	Aaa/AAA
Junior Lien Obligations <sup>(3)</sup>	200,590,000	2042	Aa2/AA
Multi-Modal LTGO/Sewer Revenue Bonds <sup>(4)</sup>	423,650,000	2050	Aaa/AAA
SRF Loans and PWTF Loans <sup>(5)</sup>	100,689,672	2054	
Total Sewer System Obligations Outstanding <sup>(6)</sup>	<u>\$ 3,655,639,672</u>		

- (1) Reflects the defeasance of \$58,440,000 of Parity Bonds on November 10, 2021. Excludes \$231.3 million in undrawn loan commitments from the U.S. Environmental Protection Agency (“EPA”) through its Water Infrastructure Finance and Innovation Act (“WIFIA”) loan program (the “WIFIA Bonds”). See “The Sewer System—Future Sewer System Financing Plans—WIFIA Bond.”
- (2) Reflects the defeasance of \$72,070,000 of Parity Lien Obligations on November 10, 2021.
- (3) Excludes the Bonds.
- (4) Includes the Refunded Bonds. Includes \$179.2 million outstanding under the County’s commercial paper program, of which \$79.2 million is interim financing and \$50 million is being refunded with a portion of the Bonds. The County is authorized to issue commercial paper from time to time up to an aggregate principal amount of \$250 million outstanding at any time. The authorization expires on December 15, 2050. See Table 4—Summary of Credit Agreements.
- (5) Excludes \$68.1 million in undrawn loan commitments from Ecology and the Washington State Public Works Board (“PWB”). See “The Sewer System—Future Sewer System Financing Plans.”
- (6) Excludes \$3.1 million 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 as surplus funds after subsection (x) of the flow of funds described under “Flow of Funds” as a lawful purpose of the County related to the Sewer System.

*Source: King County Finance and Business Operations Division*

PARITY BONDS. Excluding the two series of WIFIA Bonds, which are yet to be drawn upon, the County has outstanding 16 series of Parity Bonds, which are sewer revenue bonds that are payable from and secured solely by a lien and charge on Revenue of the System. The lien and charge on Revenue of the System that secures the Parity Bonds is superior to all other charges of any kind or nature except Operating and Maintenance Expenses, and

of equal lien to any charges heretofore or hereafter made on Revenue of the System for the payment of the principal of and interest on any Parity Bonds.

**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, 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.** Excluding the Refunded Bonds, the County has outstanding three series of Multi-Modal LTGO/Sewer Revenue Bonds (including commercial paper notes), which are limited tax general obligations 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 and currently comprises approximately 14.9% of total Outstanding Sewer System Obligations. For the purposes of this calculation, the County does not include interim financing.

Although all Variable Rate Bonds have bullet maturities, the financial plans since the adoption of the 2017 Sewer Rate (as defined under “The Sewer System—Sewer Rates”) 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.” See “The Sewer System—Future Sewer System Financing Plans—Commercial Paper Program.”

*Credit Agreements and Bonds Subject to Mandatory Purchase.* 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. See “The Sewer System—Sewer System Interfund Borrowing.”

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 conditions to the term-out provisions, events of default (or events of termination), and remedies. Events of default 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. Stated remedies include available legal and equitable remedies, including the right of mandamus against the County and its officials. The Bonds are not subject to acceleration.

A summary of the relevant Sewer System Obligations and terms of each related credit agreement is shown in Table 4.

Additionally, the County has marketed certain of its Variable Rate Bonds as put bonds in a term rate mode. These bonds, as well as the Bonds, are subject to mandatory purchase on predetermined dates. If the County is unable to remarket the bonds on or before the respective mandatory purchase date, the County will be required to purchase the bonds on the mandatory purchase date. These bonds do not include any step-up pricing provisions in the event that the County fails to purchase the bonds on the respective mandatory purchase date. See “The Bonds—Mandatory Tender for Purchase—End of the Index Floating Rate Period. See also Table 5—Summary of Bonds Subject to Mandatory Purchase for related optional and mandatory purchase dates.

**TABLE 4  
SUMMARY OF CREDIT AGREEMENTS**

<b>Series</b>	<b>Amount Outstanding as of 12/1/2021</b>	<b>Type of Facility</b>	<b>Provider</b>	<b>Expiration</b>	<b>Term-Out Provision<sup>(1)</sup></b>	<b>Maturity</b>
Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2017 A and B <sup>(2)</sup>	\$96,355,000	Continuing Covenant Agreement	State Street Public Lending Corporation	1/28/2022	Three Years	1/1/2040
Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2019 A and B	\$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) The Refunded Bonds.

**TABLE 5  
SUMMARY OF BONDS SUBJECT TO MANDATORY PURCHASE<sup>(1)</sup>**

<b>Series</b>	<b>Type of Sewer System Obligations</b>	<b>Outstanding as of 12/1/2021</b>	<b>Optional Redemption</b>	<b>Mandatory Purchase</b>	<b>Maturity</b>
Junior Lien Sewer Revenue Refunding Bonds, 2020A (Mandatory Put)	Junior Lien Obligations	\$100,295,000	on and after 7/1/2023	1/1/2024	1/1/2032
Junior Lien Sewer Revenue Refunding Bonds, 2020B (Mandatory Put)	Junior Lien Obligations	\$100,295,000	on and after 4/1/2025	1/1/2026	1/1/2042

(1) Excludes the Bonds.

## **Agreements With Participants**

The sewage system provided by the County is wholesale in character, covering construction, operation, and maintenance of main trunk and interceptor sewers, pump stations, and treatment plants. 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.” The Participants contract with the County for regional conveyance and treatment and provide wastewater collection and direct billing and customer service to the end users. The sewage disposal charge paid by each Participant constitutes an expense of the maintenance and operation of the sewer system of the Participant.

*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 0.6% of sewage disposal revenues in the year ended December 31, 2020, 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 do not allow Municipal Participants to defer payments to the Wastewater Treatment Division (“WTD”) for deferrals that they have provided to their retail 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, including the Clean Water Plan. See “—Regional Wastewater Services and Clean Water Plan.” 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 16.3% of sewage disposal revenues in the year ended December 31, 2020. 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 7.2% of sewage disposal revenues in the year ending December 31, 2020. 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 that, at all times and in any event, rates and charges for sewage disposal service will be sufficient to provide funds adequate to operate and maintain the Sewer System, to make all payments and to establish and maintain all reserves required by the Ordinance or any other ordinance authorizing obligations of the County payable from Revenue of the System, to make up any deficit in such payments remaining from prior years, and to pay all costs incurred in the construction or acquisition of any portion of the Comprehensive Plan that may be ordered by the County and for the payment of which sewer revenue bonds (or other obligations payable from Revenue of the System) are not issued.

The County has further covenanted in the Ordinance to establish, maintain, and collect rates and charges for sewage disposal service that will provide in each calendar year Revenue of the System less Operating and Maintenance Expenses (“Net Revenue”) in an amount that, together with the interest earned during that calendar year on investments of money in the Parity Bond Fund, Parity Bond Reserve Account, Parity Lien Obligation Bond Fund, and Construction Account, will equal or exceed 1.15 times the amount required to pay the Annual Debt Service for such calendar year. “Annual Debt Service” is defined in the Ordinance and generally describes, for any calendar year, the principal and interest due for all outstanding Parity Bonds and Parity Lien Obligations in such calendar year. See Appendix A—Summary of the Ordinance.

*Rate Stabilization Reserve.* The County established the “Sewer Rate Stabilization Fund,” which is accounted for as the Policy Reserve Rate Stabilization account in the County’s Water Quality Operating Fund and referred to herein as the “Rate Stabilization Reserve” herein in 2005. The County may from time to time appropriate or budget amounts in the Revenue Fund for deposit in the Rate Stabilization Reserve in accordance with the order of priority described above in “Flow of Funds,” 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 Reserve for that fiscal year must be subtracted from Net Revenue for that fiscal year, and (ii) amounts withdrawn from the Rate Stabilization Reserve and deposited in the Revenue Fund for that fiscal year may be added to Revenue of the System for that fiscal year.

As of December 31, 2020, the balance in the Rate Stabilization Reserve was \$46.25 million. There have been no deposits to or withdrawals from the Rate Stabilization Reserve since 2015, and the County has no plans to draw down the funds in the Rate Stabilization Reserve.

### **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 PWTF 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 such individual's professional opinion, the Net Revenue, estimated on the basis of all factors as they 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.

## THE SEWER SYSTEM

### General Information

The Sewer System is wholesale in character, covering construction, operation, and maintenance of main trunk and interceptor sewers, pump 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 residents 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 32-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 ("Brightwater") project. Ms. True received her Bachelor's of Arts degree in Environmental Studies from Western Washington University's Huxley College.

*Kamuron Gurol, WTD Division Director.* Mr. Gurol was appointed to this position in April 2021, having previously served as the North Corridor Director for Sound Transit for four years. Prior to working at Sound Transit, he was the City Manager for Burien, the Assistant City Manager and Director of Community Development at Sammamish, Corridor Planning Director at the Washington State Department of Transportation, Director of Community Development at Kitsap County, Manager of Planning at Snohomish County, and a Senior Policy Analyst in the County Executive's Office of Budget and Strategic Planning. Mr. Gurol has a Master's of Public Administration degree from Harvard University, Kennedy School of Government, and a Bachelor's of Science degree in Geological Sciences from the University of Washington.

*Bruce Kessler, P.E., WTD Deputy Division Director.* Mr. Kessler was appointed to this position in May 2017. He has been with WTD for more than 14 years in various capacities, including Assistant Manager at Brightwater 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 (the "Joint Ship Canal Project"). He has been actively involved in the Division's asset management and resiliency and recovery programs. Mr. Kessler has a Bachelor's of Science in Civil Engineering degree from North Carolina State University and is a licensed Professional Engineer.

*Hiedi Popochock, WTD Financial Services Manager.* Ms. Popochock was appointed to this position in September 2018. She has been with the County for nearly six years. Prior to joining WTD, she worked as a Senior Legislative Analyst for the County Council where she provided objective policy analysis. 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 a Master's of Public Administration degree from Seattle University and a Bachelor's of Arts degree in Law, Societies and Justice, and Sociology from the University of Washington.

### **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. Effective March 22, 2021, the County and the State moved to Phase 3 of the State's Healthy Washington—Roadmap to Recovery plan. Phase 3 allowed for indoor activities, including dining, event spaces, and more, at certain capacity levels. The State Department of Health has begun distributing COVID-19 vaccines according to the State allocation and priority plan. The plan began in December 2020 and opened to anyone 16 years and older on April 15, 2021, and to anyone 12 years and older on May 13, 2021. Effective June 30, 2021, the County and the State reopened and businesses were able to return to normal capacity and operations, provided that restrictions on indoor public places and large outdoor events are continuing, subject to future evaluation. As of October 8, 2021, 87% of County residents who are 12 years and older have received at least one dose, and 81.4% are fully vaccinated.

The COVID-19 pandemic has not impacted the ability of WTD to continue full operations of the County's Sewer System. 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.

On April 7, 2020, WTD submitted to Ecology a notice of "potential *force majeure*" for the potential labor and supply chain interruptions to operations and capital construction projects that could occur as a result of the COVID-19 pandemic. To date, contractors for several of WTD's capital construction projects have filed *force majeure* contract modification requests. However, WTD has not asked Ecology for, nor have the effects of the pandemic on WTD's capital construction projects resulted in, any delays that would likely undermine its ability to meet the regulatory construction and completion milestones for these projects.

As of September 30, 2021, there are no contractually late sewer rate payments from the Participants or Agency Customers outstanding. See "—Sewer Rates."

The COVID-19 pandemic is ongoing, and its dynamic nature leads to uncertainties. The County cannot predict with certainty how long the current economic impacts will persist, nor the timing of a recovery to pre-pandemic levels. See "—Projected Customers, Revenues, and Expenses" and "King County—Impact of COVID-19."

At this time, the Sewer System has not received any federal or State aid related to the COVID-19 pandemic except for approximately \$154,000 from the Federal Emergency Management Agency ("FEMA").

## **The Facilities**

The Sewer System has been designated by the County as its Water Quality Enterprise. Spanning a 424-square-mile service area, the Sewer System collected and treated an average of 175 million gallons of sewage per day (“mgd”) from approximately 2.0 million residents in 2020. The major wastewater facilities include three major secondary treatment plants (the West Point treatment plant (“West Point”) in Seattle, the South treatment plant (the “South Plant”) 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.

**FIGURE 1: THE SEWER SYSTEM**

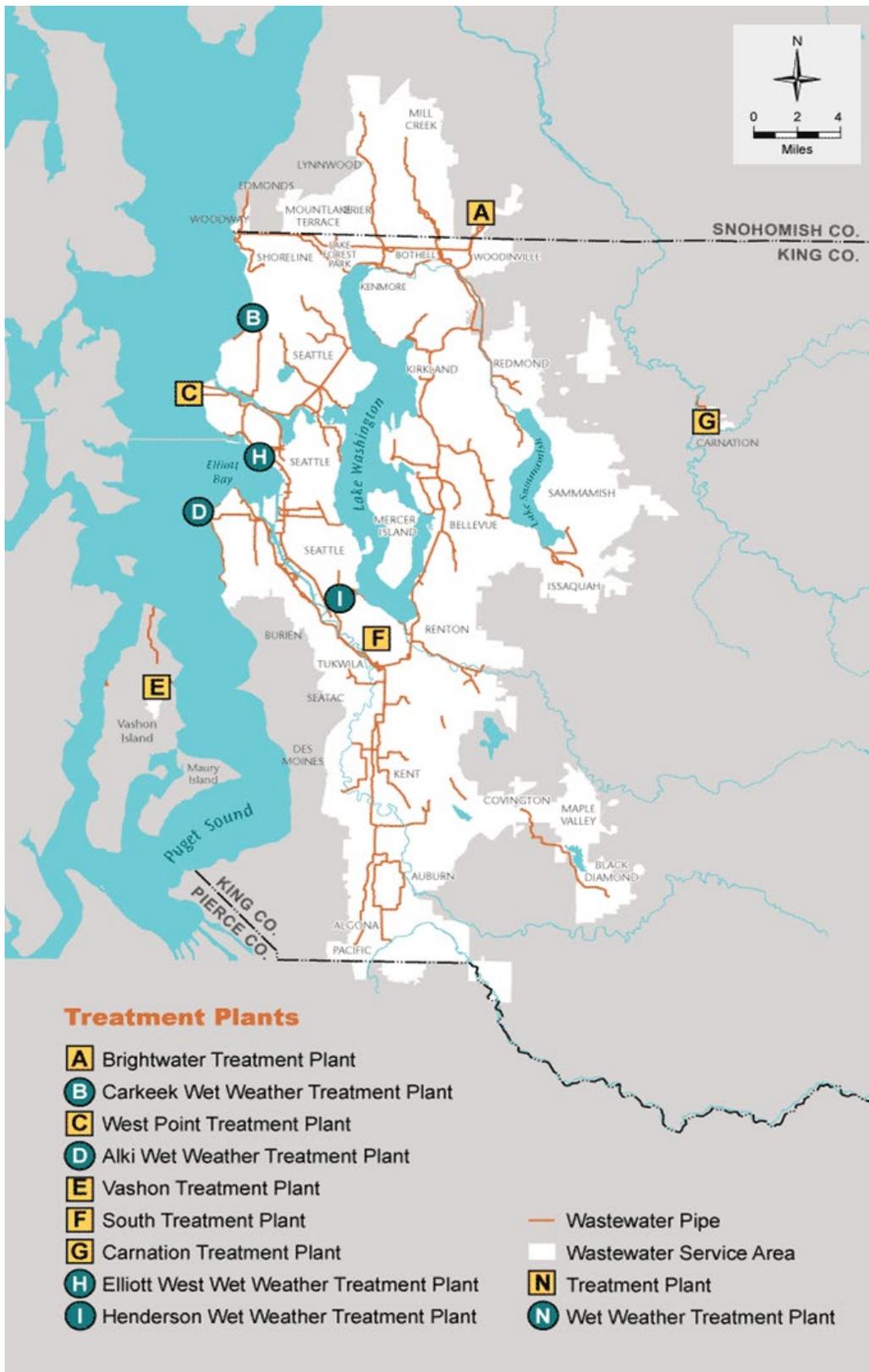


Diagram is not to scale.

Source: King County Wastewater Treatment Division

## **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. The Municipal Participants accounted for approximately 99.4% of sewage disposal revenues in the year ended December 31, 2020, and the non-Municipal Participants accounted for 0.6%. As a wholesale service provider, the County bills the Participants, who, in turn, bill their customers. The County does not bill or collect for sewage disposal from end users.

*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 the 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, 2020, is presented in Table 6.

**TABLE 6  
SEWER SYSTEM PARTICIPANTS AS OF DECEMBER 31, 2020**

	Single Family Residential Customers	RCE <sup>(1)</sup>	Total Customers	Percentage of Total (%)
<b>Municipal Participants-Cities</b>				
Algona	1,050	371	1,421	0.19
Auburn	13,296	16,760	30,056	4.06
Bellevue	32,530	27,815	60,345	8.16
Black Diamond	1,265	64	1,329	0.18
Bothell	4,789	3,044	7,833	1.06
Brier <sup>(2)</sup>	1,564	250	1,814	0.25
Carnation	885	283	1,168	0.16
Issaquah	6,860	6,085	12,945	1.75
Kent	13,228	23,902	37,130	5.02
Kirkland	10,061	5,175	15,236	2.06
Lake Forest Park	3,597	451	4,048	0.55
Mercer Island	7,168	1,528	8,696	1.18
Pacific	1,547	1,163	2,710	0.37
Redmond	15,239	14,873	30,112	4.07
Renton	16,175	13,931	30,106	4.07
Seattle <sup>(3)</sup>	153,487	131,431	284,918	38.53
Tukwila	1,045	5,674	6,719	0.91
<b>Subtotal</b>	<b>283,786</b>	<b>252,800</b>	<b>536,586</b>	<b>72.56</b>
<b>Municipal Participants-Sewer Districts and Tribe</b>				
Alderwood Water & Wastewater District <sup>(2)</sup>	34,699	15,950	50,649	6.85
Cedar River Water & Sewer District	4,118	1,371	5,489	0.74
Coal Creek Utility District	3,162	1,209	4,371	0.59
Cross Valley Water District <sup>(2)</sup>	-	384	384	0.05
Highlands Sewer District	105	1	106	0.01
Lakehaven Utility District	1,048	5	1,053	0.14
Muckleshoot Indian Tribe	317	49	366	0.05
NE Sammamish Sewer & Water District	4,725	97	4,822	0.65
Northshore Utility District	19,998	9,836	29,834	4.03
Olympic View Water & Sewer District <sup>(2)</sup>	207	-	207	0.03
Ronald Wastewater District	15,204	4,470	19,674	2.66
Sammamish Plateau Water & Sewer District	11,700	4,664	16,364	2.21
Skyway Water & Sewer District	3,932	1,443	5,375	0.73
Soos Creek Water & Sewer District	32,699	5,773	38,472	5.20
Valley View Sewer District	7,114	7,795	14,909	2.02
Vashon Sewer District	420	493	913	0.12
Woodinville Water District	2,874	2,827	5,701	0.77
<b>Subtotal</b>	<b>142,322</b>	<b>56,367</b>	<b>198,689</b>	<b>26.87</b>
<b>Non-Municipal Participants and Other Customers</b>				
	-	4,206	4,206	0.57
<b>Total</b>	<b>426,108</b>	<b>313,373</b>	<b>739,481</b>	<b>100.00</b>

## NOTES TO TABLE:

- (1) RCEs include multifamily, commercial, and industrial customers and are billing 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/financial-services/comprehensive-annual-financial-report](http://www.seattle.gov/financial-services/comprehensive-annual-financial-report).

*Source: King County Wastewater Treatment Division*

## Sewer Rates

The County Council 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 Council 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 2021, for example, were based on the number of Residential Customers as of September 30, 2020, and the average number of RCEs beginning with the fourth quarter of 2019 through the third quarter of 2020. The Participants typically read meters, collect billing data, and bill customers on a bimonthly basis, with some partially or fully billing on a monthly basis, resulting in billing and collecting revenue for retail service in advance of the quarterly updates provided to WTD for wholesale billing and collection.

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. In the last five years, late payments have been infrequent. The median number of days past due in those late payments was ten days, and WTD has not utilized the late payment penalty. As of September 30, 2021, there are no contractually late sewer rate payments from the Participants or Agency Customers outstanding.

*Adopted and Proposed Sewer Rates.* The adopted monthly Sewer Rates for each Residential Customer and RCE for the years 2013 through 2022 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>
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
2022	49.27	4.0

*Source: King County Wastewater Treatment Division*

*Projected Sewer Rates.* Table 8 shows the County’s current Sewer Rate projections for the years 2023 through 2027. The projections are for planning purposes only and subject to future 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>
2023	\$ 51.25	4.0%
2024	53.30	4.0
2025	55.44	4.0
2026	58.22	5.0
2027	61.72	6.0

*Source: King County Wastewater Treatment Division*

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, which are not reflected in Table 8. See “—Regional Wastewater Services and Clean Water Plan” 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 2016 and 2020.

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. WTD bills and collects capacity charges on customers directly. Annual capacity charge revenues have averaged 17% of total Sewer System operating revenues between 2016 and 2020. In 2020, WTD experienced a reduction in reported new connections, due to local sewer agency offices being closed or partially staffed and reduced construction activity during a period of mandated closure in that sector. New 2020 connections were lower than 2019 by 48%. 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>
2016	10,743
2017	12,484
2018	12,906
2019	12,513
2020	6,522

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 2021 is \$68.34 per month, compared to \$64.50 for customers who established service in 2020. 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 persons experiencing homelessness, and permit qualified low-income seniors and disabled people to defer payment of the capacity charge through a low-interest lien became effective in June 2019.

Changes in the capacity charge rate structure became effective in January 2021, to more equitably assess wastewater flow capacity demand based on a review of customer classification criteria. The changes were 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.

In April 2020, WTD began offering additional payment options for capacity charge customers that have been financially impacted by the COVID-19 pandemic. 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 June 30, 2021, WTD has outstanding 64 deferrals in the amount of \$211,000. Capacity charge payments more than 90 days in arrears are \$6.7 million as of June 30, 2021, compared to \$6.9 million as of June 30, 2020. Capacity charge payments less than 90 days in arrears are \$3.7 million as of June 30, 2021, compared to \$4.0 million as of June 30, 2020.

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 is 2.6% in 2020 and 2021.

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 2016 and 2020.

### **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. The County has also 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 authorizing the 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 2022 Sewer Rate, the County Council was presented with projected Sewer Rates that, after payment of Operating and Maintenance Expenses and debt service, would generate net operating revenue equal to 40% of projected capital expenditures through 2027. These Sewer Rates would provide projected coverage ratios on all Sewer System Obligations between 1.44 and 1.48 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." Only rates through 2022 have been adopted.

*Reserve Policy.* In 2012, the County Council established an operating Liquidity Reserve equal to 10% of annual operating expenses plus \$5 million of ending cash balance in the capital fund, and a Capital Emergency Reserve equal to \$15 million for “unanticipated system repairs or equipment replacement in the event of a natural disaster or some unforeseen system failure.”

As of December 31, 2020, these reserves were fully funded, with balances of \$20.8 million and \$15 million, respectively. Additionally, as of December 31, 2020, the balance in the Rate Stabilization Reserve was \$46.25 million (see “Security and Sources of Payment for the Bonds—Rate and Coverage Covenants—Rate Stabilization Reserve”).

### **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. 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. There are currently no such loans outstanding.

In addition, the Sewer System is authorized to borrow up to \$272.5 million from other County funds held in the Investment Pool to provide liquidity for the payment of maturing commercial paper notes through January 1, 2026 (subject to extension from time to time until December 2050). Amounts drawn must be paid in full, and if not repaid within three years of the draw, the Sewer System must annually provide an updated repayment plan to the County Executive Finance Committee.

The Sewer System does not anticipate utilizing interfund borrowing for operating or capital purposes. The Sewer System does plan on borrowing on an interim basis for capital purposes through its commercial paper program. See “—Future Sewer System Financing Plans—Commercial Paper Program.”

### **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>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Residential Customer and Residential Customer					
Equivalents (RCEs) (Annual Average, Rounded) <sup>(1)</sup>	756,430	756,916	760,571	763,436	767,265
Percentage Annual Increase	2.76%	0.06%	0.48%	0.38%	0.50%
Operating Revenues					
Sewage Disposal Charges	\$381,513	\$401,650	\$403,589	\$415,279	\$417,361
Capacity Charge Revenues	71,200	82,615	86,836	102,146	92,622
Other Operating Revenues	11,828	18,308	19,125	19,024	19,956
Total Operating Revenues	\$464,541	\$502,573	\$509,550	\$536,449	\$529,939
Operating Expenses <sup>(2)</sup>	(136,321)	(148,199)	(152,589)	(154,272)	(158,018)
Net Operating Revenue	\$328,220	\$354,374	\$356,961	\$382,177	\$371,921
Interest Income <sup>(3)</sup>	4,549	6,055	8,956	10,765	7,971
Rate Stabilization <sup>(4)</sup>	-	-	-	-	-
Net Revenue Available for Debt Service	\$332,769	\$360,429	\$365,917	\$392,942	\$379,892
Debt Service					
Parity Bonds	\$160,957	\$159,761	\$163,967	\$171,321	\$162,385
Parity Lien Obligations	53,164	52,650	49,121	41,529	50,755
Subordinate Debt Service <sup>(5)</sup>	21,316	26,277	33,139	35,174	30,367
Total Debt Service	\$235,437	\$238,688	\$246,227	\$248,024	\$243,507
Debt Service Coverage <sup>(6)</sup>					
On Parity Bonds	2.07	2.26	2.23	2.29	2.34
On Parity Bonds and Parity Lien Obligations	1.55	1.70	1.72	1.85	1.78
On All Sewer System Obligations	1.41	1.51	1.49	1.58	1.56

## 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 Revenue of the System by \$1.9 million in 2016 and decreased Revenue of the System 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 Reserve not utilized in 2016 through 2020.
- (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, which 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 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 non-operating revenues and expenses and have been excluded from the computation of debt service coverage in 2017 and 2018. See “—West Point Situational Analysis and Plans” herein.

*Source: Audited Financial Statements and financial records of the Water Quality Enterprise Fund 2016-2020, Finance and Business Operations Division*

## Management Discussion of 2020 Sewer System Financial Results

The Sewer System’s net operating revenue (excluding depreciation expense) in 2020 was \$371.9 million, a 2.7%, or \$10.3 million, decrease from the \$382.2 million of net operating revenue in 2019. Total operating revenues decreased by \$6.5 million, or 1.2%, to \$529.9 million from \$536.4 million, while operating expenses (excluding depreciation) increased by \$3.7 million, or 2.4%, to \$158.0 million in 2020 from \$154.3 million in 2019.

*Revenues.* The \$6.5 million, or 1.2%, decrease in operating revenue in 2020 from 2019 can be attributed to a 9.3% decrease in capacity charge revenue. Sewage Disposal Charges increased by \$2.0 million, or 0.5%, compared to 2019 due to a small increase in the number of RCEs and increased reported usage prior to the pandemic. Capacity charge revenues decreased by 9.3%, or \$9.5 million, to \$92.6 million in 2020 from \$102.1 million in 2019, due to a reduction in early payoffs. Other operating revenues increased by \$0.9 million, or 4.9%, to \$20 million.

*Expenses.* Operating expenses of the Sewer System, excluding depreciation and adjusted for non-cash accounting adjustments associated with employee benefits, increased \$3.7 million to \$158.0 million in 2020, an increase of 2.4%. Labor expenses of \$59.0 million in 2020 increased by \$7.9 million, or 15.5%, from 2019 primarily due to changes in pension expense and to increased accrued vacation leave expense associated with the COVID-19 pandemic. Utility and service costs increased by \$0.6 million, or 1.7%, to \$36.2 million in 2020 from \$35.6 million in 2019. Intragovernmental expenses of \$40.8 million in 2020 increased by \$1.3 million from 2019.

*Interest Income.* Interest income decreased by \$2.8 million to \$8.0 million in 2020 due to lower average yields in the Investment Pool (1.40% in 2020; 2.25% in 2019).

*Debt Defeasance.* In December 2020, the County used \$85.9 million of operating cash and excess cash in its Parity Bond Reserve Account to purchase U.S. Treasury securities and defease \$80.0 million of outstanding Sewer Revenue and Refunding Bonds, Series 2012.

*Debt Service Coverage.* The Sewer System achieved a coverage ratio of 1.78x on the combined debt service of Parity Bonds and Parity Lien Obligations in 2020, exceeding the 1.25x minimum coverage target stipulated by the County's adopted financial policies. The debt service coverage ratio of 1.56x on all Sewer System Obligations in 2020 exceeded the 1.15x minimum coverage target stipulated by the County's adopted financial policies.

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

Table 11 sets forth a summary of WTD's projections of the Sewer System's Customers, Operating Revenues, and Operating Expenses for the fiscal years ending December 31, 2021, through December 31, 2027.

Revenues 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 2022 Sewer Rate.

Estimates for 2021 are based on year-to-date unaudited revenues and expenses through August 2021 and WTD's projections for the remainder of the year.

Approximately 55% of Sewer Rate revenues (Sewage Disposal Charges) in 2020 were from single-family residential customers who pay a fixed monthly Sewer Rate that is not based on reported water use. The flow-based RCE customer class reported reduced water use beginning with the second quarter (Q2) in 2020, though due to the lags in the billing cycle and the rolling average basis for flow-based RCE billing, there was minimal impact to 2020 revenue. The 2020 reduction in reported water use is projected to impact 2021 billings and Revenue of the System. The Q3 billings in 2021 will be the first to include four quarters that reflect reduced water use resulting from the COVID-19 pandemic (Q2 2020 through Q1 2021).

The 2021 projection of Revenue of the System includes both an adopted 4.5% rate increase and the reduced flow-based RCE customer impacts, resulting in 2021 Revenue of the System projected to be nearly equal to 2020. The forecast assumes recovery to pre-pandemic levels for flow-based RCEs by Q1 2023. Capacity charge revenues are expected to decrease by \$1.3 million, or 1.3%, reflecting continued new connections at a reduced growth rate of 3% and a reduction to the assumed prepayments.

The \$1.5 million, or 7.5%, projected increase in Other Operating Revenues for 2021 compared to 2020 reflects higher Renewable Identification Numbers (“RINs”)<sup>(1)</sup> revenue and industrial waste charges. Annual revenues from the sale of RINs from WTD’s contract with IGI Resources, Inc. are projected to be approximately \$6.4 million in 2021 (\$2.5 million more than 2020), and \$3.0 million annually in 2022 through 2024. No RINs sales are projected after 2024, conservatively assuming that the enabling legislation remains in effect only through the current administration.

Projected operating expenses for 2021 of \$169.9 million are \$11.8 million, or 7.5%, above 2020 actuals. This figure includes approximately \$4 million carried forward from the previous biennium (funds that were budgeted for 2020 but were not spent and are now reappropriated to be spent in 2021).

Interest income is expected to be \$4.5 million in 2021, a decrease of \$3.5 million from 2020, due to the lower expected average interest rate on WTD funds in the Investment Pool (0.75% projected for 2021, compared to 1.40% in 2020). See “—Management Discussion of 2020 Sewer System Financial Results.”

Total debt service is projected to increase from \$243.4 million in 2020 to \$324.8 million in 2027 to support capital investments identified in Table 13—Capital Improvement Plan—Projected Expenditures, in accordance with estimates given to the County Council with the adoption of the 2022 Sewer Rate.

The Sewer System is expected to generate net operating revenue of \$360.2 million in 2021, a decrease of \$11.8 million, or 3.2%, from \$371.9 million in 2020. Total operating revenues are projected to remain virtually unchanged from 2020. As of August 30, 2021, all of the 2021 Sewer Rate revenue is already known due to the four-quarter averaging of RCEs and current level of Residential Customers.

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(1) An identification number attached to units of biofuel and used as proof of compliance for regulated oil companies to be able to meet the blending requirements set forth in EPA’s Renewable Fuel Standard.  
*Source: [www.growtheenergy.org](http://www.growtheenergy.org)*

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

	<b>2021<sup>(2)</sup></b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
Residential Customer and Residential							
Customer Equivalents (Average for Year, Rounded)	734,063	733,403	754,682	758,606	762,551	766,516	770,502
Percentage Annual Increase	-4.3%	-0.1%	2.9%	0.5%	0.5%	0.5%	0.5%
Monthly Sewer Rate	\$47.37	\$49.27	\$51.25	\$53.30	\$55.44	\$58.22	\$61.72
Percentage Annual Increase	4.5%	4.0%	4.0%	4.0%	4.0%	5.0%	6.0%
Operating Revenues							
Sewage Disposal Charges <sup>(3)</sup>	\$ 417,271	\$ 433,617	\$ 464,129	\$ 485,205	\$ 507,310	\$ 535,519	\$ 570,665
Capacity Charge Revenues	91,377	95,999	98,879	101,846	106,938	112,285	117,899
Other Operating Revenues	21,446	16,495	16,589	16,685	13,783	13,883	13,986
Total Operating Revenues	\$ 530,094	\$ 546,112	\$ 579,598	\$ 603,735	\$ 628,031	\$ 661,687	\$ 702,549
Operating Expenses <sup>(4)</sup>	(169,932)	(177,121)	(182,844)	(192,170)	(202,686)	(211,433)	(220,562)
Net Operating Revenue	\$ 360,161	\$ 368,991	\$ 396,754	\$ 411,565	\$ 425,345	\$ 450,254	\$ 481,987
Interest Income <sup>(5)</sup>	\$ 4,496	\$ 3,230	\$ 2,630	\$ 2,931	\$ 3,359	\$ 3,899	\$ 4,771
Rate Stabilization	-	-	-	-	-	-	-
Net Revenue Available for Debt Service	\$ 364,657	\$ 372,222	\$ 399,384	\$ 414,496	\$ 428,703	\$ 454,153	\$ 486,759
Debt Service							
Parity Bonds <sup>(6)</sup>	\$ 143,716	\$ 157,128	\$ 167,310	\$ 177,998	\$ 179,490	\$ 194,205	\$ 211,677
Parity Lien Obligations <sup>(7)</sup>	59,392	68,366	66,077	65,231	72,817	70,205	66,067
Subordinate Debt Service <sup>(8)</sup>	23,939	28,632	30,580	34,110	35,842	38,190	44,380
Total Debt Service	\$ 227,047	\$ 254,126	\$ 263,966	\$ 277,338	\$ 288,150	\$ 302,601	\$ 322,124
Debt Service Coverage							
On Parity Bonds	2.54	2.37	2.39	2.33	2.39	2.34	2.30
On Parity Bonds and Parity Lien Obligations	1.80	1.65	1.71	1.70	1.70	1.72	1.75
On All Sewer System Obligations	1.61	1.46	1.51	1.49	1.49	1.50	1.51

**NOTES TO TABLE:**

- (1) Totals may not add due to rounding.
- (2) Projections for 2021 are based on unaudited financial statements for the five months ending August 2021, and estimated results through December 2021.
- (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 operating budget. Operating expenses after 2022 are assumed to increase at an annual rate of 3% for general inflation and 4% for labor inflation, plus a 1% growth factor to account for operating cost increases for new facilities that are expected to go into service. The forecast includes separate operating cost additions for the Joint Ship Canal Project and the Georgetown Project.
- (5) Based on the Investment Pool earning at projected annual rates of 0.75% in 2021, 0.55% in 2022, 0.55% in 2023, 0.58% in 2024, 0.65% in 2025, 0.74% in 2026, and 1.00% in 2027. Projected Investment Pool earnings rates are provided by the County’s Office of Economic and Financial Analysis.
- (6) Reflects defeasance of \$58,440,000 of Parity Bonds on November 10, 2021. Projections assume full draws on the \$134.5 million Georgetown WIFIA Bond of \$134.5 million in 2023 at its 3.06% interest rate, draws on the \$96.8 million Joint Ship Canal WIFIA Bond of \$96.8 million in 2026 at its 1.69% interest rate, and the issuance of additional Parity Bonds with 30-year terms at an interest rate of 4.5% in 2022 and 5.00% thereafter, in the amount of \$65 million in 2022, \$85 million in 2023, \$164 million in 2024, \$162 million in 2025, \$187 million in 2026, and \$294 million in 2027. See “—Future Sewer System Financing Plans.”
- (7) Reflects defeasance of \$72,070,000 of Parity Lien Obligations on November 10, 2021.
- (8) Subordinate Debt Service consists of debt service on the Variable Rate Bonds, SRF Loans, PWTF Loans, and commercial paper notes, and does not reflect the refunding of the Refunded Bonds.

Projections assume the issuance of \$102 million of Variable Rate Bonds between 2021 and 2027, along with the issuance and redemption of \$202 million of commercial paper notes 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 1.25% in 2021, 1.50% in 2022, 2.00% in 2023, 2.50% in 2024, 3.00% in 2025, and 3.50% in 2026 and 2027. See Table 12—Scheduled Debt Service on All Obligations of the Sewer System, footnote 2.

Projections include debt service on \$125.6 million of signed loan commitments from Ecology and the PWB. Signed loan commitments include three loans from Ecology with 30-year terms, one for \$13.5 million at a rate of 2.6%, a second loan for \$37.1 million at a rate of 2.70%, and a third loan for \$66 million at a rate of 1.6%, 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%. 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 for all the Sewer System Obligations. Notes to the table are provided on the following pages.

**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 <sup>(2)</sup>	Parity Lien Obligations <sup>(3)</sup>	Junior Lien Obligations <sup>(4)</sup>			Multi-Modal LTGO/Sewer <sup>(4)(5)</sup>	SRF Loans and PWTF Loans <sup>(6)</sup>	QECC Bonds <sup>(7)</sup>	Total
			Outstanding	Principal	Interest				
2021	\$ 143,715,693	\$ 59,391,730	\$ 1,504,425	\$ -	\$ 82,639	\$ 3,466,188	\$ 17,072,822	\$ 66,220	\$ 225,299,716
2022	153,148,383	68,365,639	1,504,425	-	2,100,000	4,159,425	7,244,803	3,076,220	239,598,895
2023	153,667,853	66,076,502	1,504,425	-	2,800,000	5,545,900	6,453,387	-	236,048,067
2024	153,657,360	65,231,069	3,384,956	-	3,500,000	6,932,375	6,896,693	-	239,602,453
2025	144,628,041	72,817,464	3,886,431	-	4,200,000	8,318,850	5,904,692	-	239,755,478
2026	143,008,231	70,205,262	7,020,650	-	4,900,000	9,705,325	5,826,790	-	240,666,258
2027	141,355,900	66,067,498	7,020,650	-	4,900,000	9,705,325	5,754,741	-	234,804,114
2028	146,141,821	61,144,160	7,020,650	-	4,900,000	9,705,325	5,702,395	-	234,614,351
2029	121,118,637	82,421,657	7,020,650	-	4,900,000	9,705,325	5,324,589	-	230,490,858
2030	137,683,763	73,268,761	7,020,650	-	4,900,000	9,705,325	5,315,966	-	237,894,465
2031	146,182,552	62,984,727	107,315,650	-	4,900,000	9,705,325	5,241,970	-	336,330,224
2032	153,324,626	54,875,147	3,510,325	-	4,900,000	9,705,325	5,167,965	-	231,483,388
2033	152,092,361	46,857,830	3,510,325	-	4,900,000	9,705,325	5,159,313	-	222,225,155
2034	153,360,595	25,520,085	3,510,325	-	4,900,000	9,705,325	5,150,655	-	202,146,985
2035	132,448,836	33,258,986	3,510,325	-	4,900,000	9,705,325	5,141,984	-	188,965,456
2036	131,072,698	31,177,326	3,510,325	-	4,900,000	9,705,325	5,133,296	-	185,498,970
2037	134,154,705	30,786,450	3,510,325	-	4,900,000	9,705,325	4,691,831	-	187,748,636
2038	129,255,249	19,997,100	3,510,325	-	4,900,000	9,705,325	4,031,490	-	171,399,489
2039	130,768,378	-	3,510,325	140,000,000	4,900,000	9,705,325	3,190,476	-	292,074,504
2040	122,734,644	-	3,510,325	-	-	9,705,325	2,936,051	-	138,886,345
2041	112,071,217	-	103,805,325	-	-	9,705,325	2,935,566	-	228,517,433
2042	88,001,035	-	-	-	-	59,705,325	2,935,064	-	150,641,424
2043	87,841,246	-	-	-	-	7,955,325	2,934,550	-	98,731,121
2044	84,578,576	-	-	-	-	7,955,325	2,934,020	-	95,467,921
2045	84,525,253	-	-	-	-	156,050,325	2,933,479	-	243,509,057
2046	75,683,456	-	-	-	-	2,772,000	2,932,918	-	81,388,374
2047	53,326,179	-	-	-	-	2,772,000	2,932,350	-	59,030,529
2048	28,741,925	-	-	-	-	2,772,000	2,931,761	-	34,445,686
2049	28,742,475	-	-	-	-	2,772,000	2,931,156	-	34,445,631
2050	12,302,200	-	-	-	-	81,972,000	2,930,536	-	97,204,736
2051	7,545,200	-	-	-	-	-	2,909,860	-	10,455,060
2052	-	-	-	-	-	-	2,699,512	-	2,699,512
2053	-	-	-	-	-	-	2,497,562	-	2,497,562
<b>Total</b>	<b>\$ 3,486,879,088</b>	<b>\$ 990,447,394</b>	<b>\$ 289,601,813</b>	<b>\$ 140,000,000</b>	<b>\$ 81,282,639</b>	<b>\$ 508,434,238</b>	<b>\$ 154,780,243</b>	<b>\$ 3,142,440</b>	<b>\$ 5,654,567,854</b>

## NOTES TO TABLE:

- (1) January 1 payments shown in the prior year.
- (2) Excludes debt service on Parity Bonds defeased on November 10, 2021.
- (3) Excludes debt service on Parity Lien Obligations defeased on November 10, 2021.
- (4) The projections assume an aggregate average interest rate on the Variable Rate Bonds of 1.25% in 2021, 1.50% in 2022, 2.00% in 2023, 2.50% in 2024, 3.00% in 2025, and 3.50% in 2026 and thereafter. The Junior Lien Obligations have bullet maturities in 2032 and 2042. The Multi-Modal LTGO/Sewer Revenue Bonds have bullet maturities in 2040 and 2046 and the Multi-Modal LTGO/Sewer commercial paper program has a final maturity date of December 15, 2050. Projections exclude planned optional redemptions of Variable Rate Bonds prior to their final maturity dates. See “Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations—Summary of Credit Agreements.”
- (5) Excludes debt service on the Refunded Bonds.
- (6) Does not include debt service on \$68.1 million in undrawn, signed loan commitments from Ecology and the PWB that are expected to be drawn upon through 2024. See “—Future Sewer System Financing Plans.”
- (7) 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 Plan

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 and established a number of programs to guide long-term planning and investments in wastewater infrastructure. RWSP Program Updates and periodic reviews have been carried out to ensure that wastewater infrastructure planning and investments are based on current data. The County is currently undertaking a master planning effort that will be a successor to the RWSP called the Clean Water Plan. Over the next three years, the Clean Water Plan is intended to set the direction for 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 will explore the complex 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 set the direction for investments in the regional wastewater system and water quality to achieve the best water quality outcomes for those investments.

Development of the Clean Water Plan is nearing the mid-point. WTD seeks to present an Executive-preferred alternative to the County Council for review in 2022, commencing the County Council review and approval through the legislative process. The final plan will set the direction for near- and long-term investments in the regional wastewater system.

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 from the study through the Treatment Planning Program (the “TPP”) that began in 2021, as well as within the Clean Water Plan.

The TPP, a new, ongoing program with dedicated funding that was approved starting with the 2021-2022 budget, focuses on providing comprehensive and strategic near-term and long-term wastewater treatment planning at both the facility (treatment plant) and regional system level. The TPP assesses current and future facility and regional treatment system needs to address regulatory requirements and accommodate planned growth anticipated by the 34 component agencies, and identifies the policies, conceptual capital projects, and funding needed to meet these treatment needs. Initial work on the program includes addressing the findings of the treatment plant flow and loads study completed in 2019 and addressing potential new nutrient reduction requirements. See “—Puget Sound Nutrient Source Reduction Project.” Future work will include development of a long-term regional wastewater treatment plan to identify specific CIP projects to guide treatment process projects through 2060, to address treatment capacity limitations and anticipated regulatory requirements.

### **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 wet weather 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 1,144 million gallons of CSOs in 2020 and 752 million gallons in 2019.

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 Sewer 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.

There are 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 (the “Georgetown

Project”) began in January 2018 and is expected to be completed in late 2022. The County is also working with Seattle on the Joint Ship Canal Project, as further described below.

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. 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 of no more than one event per year, 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 by the County for replacement of the damaged pipe were \$23.6 million. Of this amount, \$10 million was paid for with an insurance settlement that the County received in March 2020. The County is pursuing legal action against the contractor and its sureties for full recovery of costs incurred.

There are also Supplemental Compliance Plans for the Barton Street, Denny Way, Harbor Avenue, and Hanford #1 CSO locations, where CSO control projects were constructed but did not achieve the standard of one event per year on average. Operational adjustments, additional modeling, and minor capital improvements are being performed, and the outfalls will be monitored to determine compliance.

The Elliott West Wet Weather Station has experienced permit violations in recent years despite the implementation of several operating changes and capital projects designed to optimize facility performance. In an August 2019 letter to Ecology, updated in August 2020, 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 during 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 included in the Regulatory category of Table 13 total \$441 million for the period 2021 through 2027. Expenditures from 2021 through 2027 for the two largest projects currently in construction are \$124 million for the Joint Ship Canal Project (described below under “—Joint Ship Canal Project with Seattle”) and \$63 million for the Georgetown Project. Design estimates for the Elliott West facility in the 2021-2022 biennium total \$11.8 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.

At the time of the 2021 Sewer Rate proposal, the CSO costs were not updated, so the forecast did not fully reflect the cost of those investments. Current estimates for CSO costs are substantially

higher than previous estimates and have been incorporated into the 2022 adopted Sewer Rate plan. The example CSO timeline of 2040 completion used in the 2022 adopted Sewer Rate plan anticipates CSO Consent Decree modifications. Actual timeline and project sequencing will be determined following completion of the Clean Water Plan and the Consent Decree negotiations described below.

### **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. See “—Environmental Regulations—Puget Sound Nutrient Source Reduction Project.” 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 the bidding milestone by December 31, 2020, and the completion of the construction milestone by December 31, 2023, and new milestones dates were proposed to match the Hanford #2, Lander, King, and Kingdome projects. The 2020 milestone was not met, and an official notification was submitted to the regulators as required by the Consent Decree. New milestone dates will be negotiated as part of the modification to the Consent Decree. 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 Avenue CSO than the one identified in the Chelan Facility Plan. Extension of the Chelan Avenue CSO 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 County Council approval.

### **Joint Ship Canal Project with Seattle**

On July 27, 2016, the County and Seattle signed a Joint Project Agreement (“JPA”) to implement the Joint Ship Canal Project to control County overflows at its 3rd Avenue West and 11th Avenue Northwest locations 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 and 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 Ship Canal 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 Ship Canal 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 Ship Canal Project as part of the original 2013 Consent Decree.

The current estimate for the total cost of the Joint Ship Canal Project is \$570 million. The County’s 35% share of the agreed elements of the Joint Ship Canal Project is currently \$176.5 million. 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 Ship Canal Project is currently scheduled for April 2025, eight months before the construction completion milestone in the modified 2013 Consent Decree for the County.

### **West Point Situational Analysis and Plans**

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 244 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 10, 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, the County 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.

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 Puget Sound. 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. The plant's emergency flow control equipment performed as designed and the operators as trained, and there was no damage to plant facilities. Ecology investigated the incident and issued Administrative Order 19477 on February 2, 2021, requiring WTD to evaluate and implement near-term operational actions to minimize pumping interruptions caused by power supply interruptions, and to develop and implement a strategic master plan by the end of 2025 to improve overall power reliability and resiliency. In response to the Administrative Order, the County Executive proposed, and the County Council approved, an emergency declaration and supplemental budget request for up to \$65 million to quickly purchase services and equipment necessary to improve the electrical system at West Point. Preliminary costs for these capital investments have been included in Table 13—Capital Improvement Plan—Projected Expenditures.

In July 2020, the Suquamish Tribe submitted a Notice of Intent to Sue under the Clean Water Act for County discharges of untreated wastewater in violation of the County's discharge permits. In March 2021, the Suquamish Tribe submitted a Supplemental Notice of Intent to Sue under the Clean Water Act for additional County discharges. See Appendix D—King County Water Quality Enterprise Fund 2020 Audited Financial Statements—Note 13.

WTD has identified over \$600 million in capital investments at West Point over the next decade. These investments include major asset replacements and refurbishments throughout many process areas at West Point, including major electrical system upgrades and major pumping replacements and refurbishments. WTD initiated the West Point Renovations Program to efficiently deliver

these capital projects and to ensure that the projects are coordinated and sequenced appropriately and inter-dependencies between projects are considered.

### **Capital Improvement Plan**

As shown in Table 13, the Sewer System’s CIP for the period 2021-2027 includes seven classifications described below under “—Capital Portfolio Categories.” The projected expenditures shown in the table do not include an increase in spending expected when the Clean Water Plan is adopted. See “—Regional Wastewater Services and Clean Water Plan.”

The CIP reflects a new investment priority strategy for asset management and includes more than 50 new projects within the CIP to address an inventory of priority asset management projects. 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 7 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 AND FUNDING SOURCES<sup>(1)</sup>**  
**(\$000)**

<b>Capital Portfolio Category</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>Total</b>
Asset Management	\$ 72,745	\$ 96,178	\$ 119,242	\$ 132,871	\$ 143,307	\$ 207,224	\$ 215,563	\$ 987,129
Capacity Improvement	29,095	41,458	77,628	96,922	77,212	42,477	134,015	498,807
Operational Enhancements	11,313	13,727	15,195	4,654	4,701	4,816	13,087	67,494
Planning and Administration	14,720	11,948	8,379	7,190	7,380	7,576	7,435	64,629
Resource Recovery	4,233	3,869	2,078	2,715	5,988	5,980	23,203	48,066
Regulatory	107,994	118,450	87,297	50,428	48,115	64,295	59,898	536,477
Resiliency	18,658	22,309	24,822	17,813	12,315	12,369	13,820	122,108
<b>Total</b>	<b>\$ 258,758</b>	<b>\$ 307,939</b>	<b>\$ 334,642</b>	<b>\$ 312,594</b>	<b>\$ 299,019</b>	<b>\$ 344,737</b>	<b>\$ 467,021</b>	<b>\$ 2,324,710</b>

<b>Capital Funding Plan</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>Total</b>
Use of Cash/Reserves	\$ 88,342	\$ 197,716	\$ 112,733	\$ 129,630	\$ 130,220	\$ 132,193	\$ 143,776	\$ 934,610
Debt Proceeds	169,885	109,676	221,346	182,384	168,202	211,929	322,612	1,386,035
Other Revenues	530	546	563	580	597	615	633	4,065
<b>Total</b>	<b>\$ 258,758</b>	<b>\$ 307,939</b>	<b>\$ 334,642</b>	<b>\$ 312,594</b>	<b>\$ 299,019</b>	<b>\$ 344,737</b>	<b>\$ 467,021</b>	<b>\$ 2,324,710</b>

(1) In nominal dollars.

Note: totals may not add due to rounding.

Source: King County Wastewater Treatment Division

Beginning in 2017, WTD focused on developing a more comprehensive and structured approach to managing its capital program with the goal of aligning the mix of projects in WTD's CIP with its strategic initiatives and overall mission. A pilot of this prioritization approach informed the 2019 Sewer Rate development and since then has been used to inform rate and budget-setting processes.

*Capital Portfolio Categories.* Projects are organized and prioritized within the following capital portfolio categories ("Portfolio Categories"):

- (i) *Asset Management Plants and Conveyance:* Maintain level of service through the rehabilitation or replacement of critical assets. The subcategory Asset Management Plants includes projects that focus on the useful life of assets and systems to maintain a historic chosen level of service, inclusive of those assets that are at or near their end of service life under the County's capitalization policy. This includes possible extension of life through refurbishment or in-kind asset replacement of existing wastewater facilities, including associated enhancements to mitigate risk. Assets include equipment, structures, tanks, and building envelopes. The subcategory Asset Management Conveyance includes projects that focus on the useful life of existing linear conveyance assets and supporting structures, inclusive of conveyance assets that are forecasted to require action within a given timeframe as defined by the inspections and investigations conducted. This includes possible extension of life through refurbishment or in-kind asset replacement of existing linear conveyance assets including, associated enhancements to mitigate risk.
- (ii) *Capacity Improvement:* Increase capacity in WTD facilities to accommodate future growth. Relates to projects with the objective of changing the treatment or conveyance capacity of an existing wastewater facility or constructing a new wastewater facility in order to meet anticipated demand. Demand is based on population projections and infiltration and inflow, and can include hydraulic or process capacity.
- (iii) *Operational Enhancements:* Reduce/improve operating costs at treatment plants through the delivery of projects that create efficiencies. Includes projects which improve operations and reduce maintenance, and could enhance other areas of WTD's core mission. Projects in this Portfolio Category generally improve redundancy, increase efficiency, improve reliability, enhance process control and/or seek to avoid workplace safety issues, and improve process quality. Projects in this Portfolio Category also include consideration of adaptation and responses to changing process conditions as well as seeking to improve compliance with permit conditions (i.e., effluent quality, air quality, biosolids, noise, etc.).
- (iv) *Planning and Administration:* Incorporate programs and projects that facilitate execution of the overall capital portfolio through a series of planning and administration related efforts. Planning and Administration is not a traditional Portfolio Category and does not adhere to the same set of objectives, business rules, and business processes of Portfolio Management that the other Portfolio Categories employ. This designation may, on occasion, be used for projects that do not conform to the specific Portfolio Categories, particularly if the identified effort facilitates the overall CIP and Capital Portfolio delivery or there are instances in which specific efforts are directed and/or mandated by the County Executive Office or other external stakeholders.

- (v) *Resource Recovery*: Support the Strategic Climate Action Plan (“SCAP”) initiative through the delivery of projects that reduce energy use or recover valuable resources from wastewater. Projects in this Portfolio Category improve reliability, resiliency, and efficiency in the wastewater treatment system. The primary goal of these projects is to increase, enhance, and improve the recovery of WTD’s resources (e.g., recycled waste, recycled water, and energy). If there is not a primary Resource Recovery driver, the project will not reside in this Portfolio Category.
- (vi) *Regulatory*: Deliver projects and programs that respond to permit, regulation, and/or consent decree legal deadlines. Projects in this Portfolio Category require actions to satisfy a permit, order, settlement, or consent decree with a legal deadline. This Portfolio Category is intended to focus on projects not primarily addressed by other Portfolio Categories and are effectively those projects that WTD must do at some point in time in terms of a regulatory obligation. The criteria are intended to distinguish how well a given project satisfies regulatory obligations with other considerations such as timing, sequence, and cost/risk of non-compliance.
- (vii) *Resiliency*: Improve the survivability and operability of core assets against natural disasters through the delivery of projects that address known deficiencies. This Portfolio Category includes projects that improve the survivability and operability of core assets against natural disasters, climate change, or those aspects of the Sewer System that are crucial to the operation and/or management of flow. This includes both the conveyance system and the plants and supporting operational facilities. Projects in this Portfolio Category primarily mitigate the impacts of acute natural hazards (seismic, extreme weather, flooding, landslides, tsunami risk) and climate change (primarily sea level rise and saltwater intrusion) on core WTD assets.

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 85% of total expenditures authorized in the County budget for WTD, including pending amendments and the priority investment strategy for an inventory of asset management projects. 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 2027, may also arise from new federal and State environmental regulations or new requirements in the permits for Sewer System facilities. See “Environmental Regulations.”

*West Seattle High Rise 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 City plans to repair and re-open the bridge, targeting a re-opening date as soon as late 2022.

The Sewer System has three major conveyance lines buried eight to 15 feet underneath a shorter span of the Bridge or alongside the Bridge. Since early 2020, WTD has worked with an interagency task force led by the Seattle Office of Emergency Management to develop and update

a coordinated emergency contingency plan in the event of a 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. As a result, WTD has created a comprehensive emergency contingency plan that details its response to various bridge failure or collapse scenarios.

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 has developed 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 through 2027 to fund the CIP, including \$1.1 billion of additional Parity Bonds (including draws on the WIFIA Bonds described below), \$102 million of additional variable rate Junior Lien Obligations, and \$83 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 of approximately \$934 million. The financial plan also includes the issuance and redemption of \$202 million of commercial paper notes to provide financing for WIFIA Loan projects on an interim basis pending the final drawdown of those loans after project completion. See Table 13—Capital Improvement Plan—Projected Expenditures and Funding Sources.

Other than such new money issuances and draws on the WIFIA Bonds 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. In addition, the County may from time to time consider the defeasance of outstanding Parity and Parity Lien Bonds from operating cash as was done in 2020. See “Management Discussion of 2020 Sewer System Financial Results—Debt Defeasance.”

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

The Georgetown 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 the Georgetown Project. The County expects to draw on the Georgetown WIFIA Bond in 2023. No draws are permitted after the date that is one year after substantial completion of the project, which is estimated to occur in early 2022. The Georgetown 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 Georgetown 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.

*Joint Ship Canal WIFIA Bond.* On January 19, 2021, the County closed on a \$96.8 million loan (the “Joint Ship Canal WIFIA Loan”) agreement with the WIFIA Lender for the Joint Ship Canal

Project. Draws under the loan agreement are evidenced by the County’s Sewer Revenue Bond, 2021 (WIFIA—N19128WA), authorized by the County Council on June 23, 2020 (the “Joint Ship Canal WIFIA Bond”).

The Joint Ship Canal WIFIA Bond is available to be drawn from time to time in an aggregate principal amount not to exceed \$96.8 million solely to pay project costs for the Joint Ship Canal Project. The County expects to draw on the Joint Ship Canal WIFIA Bond in 2026. No draws are permitted after the date that is one year after substantial completion of the project, which is estimated to occur in 2025. The Joint Ship Canal WIFIA Bond has a final maturity date of July 1, 2055, unless earlier paid, with principal payment dates beginning on July 1, 2026. Amounts drawn bear interest at a fixed rate of 1.69%, except as described below. The Joint Ship Canal 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.

*WIFIA Bonds.* The Georgetown WIFIA Bond and the Joint Ship Canal WIFIA Bond are Parity Bonds, 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 Bonds 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 Bonds. If an event of default has occurred and is continuing, WIFIA Lender consent is required for the issuance of additional bonds payable from Sewer 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 Georgetown WIFIA Loan and the Joint Ship Canal WIFIA Loan (together, the “WIFIA Loans”). 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 Loans 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 Bonds, 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.

*Commercial Paper Program.* The County’s commercial paper program provides flexible, short-term financing and refinancing for WTD capital projects. Commercial paper can be used to provide interim financing to pay for capital projects pending permanent financing from State and federal loans and from long-term fixed- or variable-rate debt.

The commercial paper program is funded through the issuance from time to time of Multi-Modal Limited Tax General Obligation Notes (Payable from Sewer Revenues) (Commercial Paper), Series A and Multi-Modal Limited Tax General Obligation Notes (Payable from Sewer Revenues) (Commercial Paper), Series B (Taxable) (collectively, the “CP Notes”) pursuant to Ordinance 19114, passed by the County Council on June 23, 2020, and the Ordinance. The County is authorized to issue CP Notes in an aggregate principal amount not to exceed \$250,000,000,

including up to \$175,000,000 for new project costs, outstanding at any time. The CP Notes are Multi-Modal LTGO/Sewer Revenue Bonds. The CP Notes are not secured by any third-party credit enhancement or liquidity facility. Maturing principal of and interest on CP Notes is to be paid from proceeds of refunding CP Notes and, if not, from other funds made available by the County, including proceeds of refunding bonds. The County has approved draws on County funds (and not funds held on behalf other public entities) in the Investment Pool to provide liquidity for payment of maturing CP Notes when due.

The commercial paper program has been used to pay the Georgetown Project and Joint Ship Canal Project costs prior to receiving reimbursement and long-term fixed-rate financing from the SRF and WIFIA Loans secured for these projects. By issuing commercial paper and delaying WIFIA and SRF draws, WTD is expected to incur lower-interest costs over the extended construction periods for these projects. Commercial paper in the amount of \$100 million has also been used as a component of WTD’s long-term variable rate debt portfolio, \$50 million of which will be retired using a portion of the proceeds of the Bonds. Commercial paper can also be issued to provide interim financing for the cash-funded portion of WTD’s CIP. See Table 3—Outstanding Sewer System Obligations.

**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 <sup>(1)</sup>
South Plant-Reclaimed Water	July 2020 <sup>(1)</sup>
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, and WTD reviewed an initial draft permit in April 2021 that contained some new provisions of potential concern. As written, the allowable discharge rate of reclaimed water to a wetland could be constrained in the future as the service area population and flows increase. However, WTD is engaging with Ecology to provide additional information on the wetland benefits and anticipates the conditions will be modified. Regardless, the facility has an alternative discharge location, and any wetland conditions would not affect operations or require any actions in the next decade.

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. The schedule for renewal of these permits is uncertain at this time; however, the West Point permit is anticipated by early 2022 to facilitate startup and commissioning of the Georgetown Project, which is under construction.

The NPDES permit for West Point includes limits and operating requirements for WTD's four CSO wet weather treatment 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 CSO treatment facilities with variable frequency; as noted above, the majority of them have been 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. See “—Combined Sewer Overflow Projects.” 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 shown in Table 13.

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

There have been several discharges of untreated stormwater and sewage into Puget Sound from the West Point Treatment Plant, which have resulted in the issuance of penalties and the Administrative Order 19477 from Ecology referenced above. See “—West Point Situational Analysis and Plans.”

On July 18, 2019, an estimated 3.43 million gallons of secondary treated effluent were 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. Ecology investigated the incident and issued an administrative penalty of \$10,000 on February 2, 2021, finding fault that additional procedures could have lessened the risk of disinfection loss.

*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 human sources of nutrient loads, such as wastewater discharged from sewage treatment plants, excessive use of fertilizer, which enters waterways when it rains, poor land management, especially regarding livestock, and on-site septic systems, all of which contribute 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.

Ecology, via a contract with Battelle Pacific Northwest National Laboratory (a division of the Department of Energy), completed development of a computer model (the “Salish Sea Model”) of Puget Sound. Ecology initiated the Nutrient Forum multi-stakeholder outreach process in late 2017, began releasing information through 2018 on the model, and published 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. Ecology began performing additional modeling analyses in mid-2019 to assess wastewater and other nutrient sources on a regional watershed basis, as well as an assessment of population growth and climate change effects on Puget Sound water quality. This effort will inform nutrient 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).

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, and due to the COVID-19 pandemic. 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. The Puget Sound Institute, a research consortium of the University of Washington, is working with Ecology to independently expand the Salish Sea Model’s capabilities, reduce scientific and modeling uncertainties, and use the model for discharger-specific analyses that may be required to support development of nutrient source reduction approaches and programs.

Ecology announced in January 2020 that it intended to develop a Puget Sound Nutrient General Permit (the “General Permit”) for the nearly 70 wastewater treatment plants that discharge into Puget Sound. In March 2020, Ecology formed an Advisory Committee of volunteer representatives from wastewater utilities, State and federal resource agencies, and environmental organizations to discuss potential issues and approaches to address in the General Permit. Ecology released a preliminary draft of the General Permit for public review in January 2021 and a draft of the General Permit for public comments in June 2021. WTD submitted comments on the draft of August 16, 2021. Ecology’s response to comments is expected by mid-November 2021. The draft permit outlines requirements over an initial five-year permit cycle for data collection, development of treatment process optimization plans, and implementation of feasible actions to limit nitrogen discharge to a current loading “action level.” The draft General Permit also includes a second-tier action level that, if action levels are exceeded two years in a row or three times during the permit cycle, an additional 10% reduction will be required. Finally, the General Permit also requires each

discharger to develop planning-level information, either individually or via a collective group effort, of future treatment upgrades that could achieve two significant target nitrogen reduction levels (i.e., 3 milligrams/liter (“mg/L”) and 10 mg/L) and would include an AKART (all known, available, and reasonable methods of prevention, control, and treatment) analysis. Ecology has indicated that the General Permit will be finalized in December 2021, with an effective date of January 1, 2022; following completion of the additional Salish Sea Model analyses, the next five-year cycle General Permit will be amended to include nutrient reduction requirements (i.e., in approximately 2026).

As an interim measure before the General Permit is developed, Ecology issued several draft individual NPDES permits that were overdue for renewal with nitrogen load caps and planning requirements. The dischargers that received the renewed individual permits have subsequently filed appeals to Ecology challenging the nutrient-related requirements. Two additional petitions have been filed in local superior courts challenging whether the available science and approaches Ecology has undertaken support development of the General Permit; one of those petitions challenges the legal authority to issue a general permit in addition to the individual NPDES permits. The individual permit appeals and the court petitions have not been resolved at this time.

In September 2020, WTD completed a study identifying the most feasible technologies available for reducing nutrient levels at its three regional treatment plants. The study and other information are being used in formulating strategies for the Clean Water Plan that will explore a range of investments to address nutrients and the expected water quality and other results of the investments. The study also provides 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. In addition, the study updates 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. Updated analysis (incorporating the results of the 2020 nitrogen study) to upgrade WTD’s three regional treatment plants to meet the nitrogen reduction requirements proposed in the General Permit at West Point would require reducing secondary treatment capacity by 50% to 75%, necessitating the construction of a fourth treatment plant to treat the flows that would no longer go to West Point. Capital costs for upgrading the County’s three regional treatment plants to 3 mg/L and constructing a fourth treatment plant are estimated to be \$9 billion to \$14 billion. These costs are in 2020 dollars and do not include operating costs.

The operating and capital costs associated with any nutrient control requirements will not be known until a final adopted NPDES permit process is completed with feasible and agreeable requirements, and treatment upgrade plans are completed. These costs, which are not included in WTD’s six-year CIP shown in Table 13, could be considerable. It is anticipated that if WTD becomes subject to nutrient reduction, time will be allowed to design and construct facilities that would be needed to achieve the nutrient reduction levels specified in any adopted 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. Further information regarding existing and potential environmental remediation liabilities is contained in Appendix D—King County Water Quality Enterprise Fund 2020 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 the 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 the progress of Ecology's lawsuit, the implementation of the water quality standards, and the potential effects of any proposed changes to effluent limitations of the Sewer System's discharges.

### **Earthquakes, Climate Change, and Wildfires**

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 on 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 2021.

WTD and the County's Water and Land Resources Division ("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 has used the results of this research to model the possible impacts of these changes on wastewater conveyance in the combined sewer system. Final results will be available in 2021.

The potential for wildfire to directly impact WTD core facilities is very limited due to the location of those facilities deep within the County’s urban area and close to the shoreline. They are mostly surrounded by non-vegetated areas where the wildland-urban fire risk level is considered exceptionally low or non-existent. An indirect risk to WTD facilities is wildfires disrupting power lines and energy supply to WTD’s facilities. WTD is in permanent dialogue with Seattle City Light and Puget Sound Energy to minimize potential risks and disruptions.

### **Strategic Climate Action Plan**

The County updated its SCAP, which was adopted by County Council on May 4, 2021. 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 greenhouse gas (“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 not experienced any known breaches. WTD completed a \$1.2 million cybersecurity upgrade to the control systems at all three major plants that included the purchase of additional software and hardware designed to further tighten security and identify and resolve potential threats. Run on a dedicated server, this system facilitates safe and

secure security patch updates to the system while continually scanning for malware and cyber-intrusion by external parties. The system is highly redundant and configured to immediately alert senior systems engineers via text/email when a threat event is detected to enable rapid response to ameliorate WTD's risk exposure. In addition, WTD is in the procurement process to initiate a cybersecurity assessment project dedicated to its DCS networks and facilitated through an independent consultant. DCS represents a local collection of distributed control systems that have individual capabilities and require some orchestration. The scope of this project includes top-down assessment of the system network and software and hardware configurations, and will culminate in documenting known vulnerabilities and implementing control measures to ameliorate exposure from both internal and external 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

### **The County**

The County is located in the western part of the State, along the shores of Puget Sound, and includes Seattle, the largest city in the State. It is the largest county in the State in terms of population, number of cities, and employment, and the twelfth most populated county in the United States. See Appendix G—Demographic and Economic Information.

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

The effect that the COVID-19 pandemic is having and will continue to 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 full impact of the COVID-19 pandemic on the County's finances, County tax and other revenues have been and are expected to continue to be materially adversely affected.

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. The County Council approved the final budget for 2021-2022 (the "2021-2022 Adopted Budget") in November 2020.

At the beginning of the County Executive's budget development process, a General Fund deficit of approximately \$150 million was projected for the 2021-2022 biennium. The 2021-2022 Adopted Budget eliminated this deficit by finding efficiencies in service delivery, eliminating staff positions, using revenue from charging utilities rent for the use of the right-of-way on County-owned land recently upheld by the State Supreme Court, reducing growth in employee compensation, utilizing higher than projected 2020 year-end balances, and using reserves. The 2021-2022 Adopted Budget lowers the projected year-end 2022 unreserved General Fund balance from its current 8% (the maximum set by policy) to 6% (the minimum set by policy). The 6%

level previously occurred in the years following the Great Recession. The 2021-2022 Adopted Budget appropriated \$5.9 million out of the Rainy Day Reserve Fund to bridge some County COVID-19 relief programs between eligibility timelines for federal stimulus packages. If the economic recovery continues, it is likely the County will be able to refill the Rainy Day Reserve Fund during the 2021-2022 biennium.

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 received funding under the American Rescue Plan Act and the CARES Act, including additional FEMA funding, Coronavirus Relief Fund appropriations, additional Community Development Block Grants, and transit, airport, and other funding. The County received a direct allocation of \$261.6 million in Coronavirus Relief Funds ("CARES Act") 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, as well as \$437.0 million in Coronavirus Local Fiscal Recovery Funds ("American Rescue Plan Act"). 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 August 15, 2021, the County has received sufficient funding from the CARES Act, the American Rescue Plan Act, FEMA support, and other federal and State funds to cover the County's direct costs for its COVID-19 pandemic response.

## **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 ("Metro Transit") and wastewater treatment services through Sewer System operations (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 Metropolitan King County Council (the "County Council"), the Prosecuting Attorney, the County Assessor (the "Assessor"), the Director of Elections, and the Sheriff are all elected to four-year terms. As a result of a Charter amendment approved by voters in November 2020, the Sheriff will become an appointed official on January 1, 2022, and Sheriff's Office employees will report to the County Executive.

*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, or Director of

Elections (Sheriff's Office employees will report to the County Executive beginning January 1, 2022).

*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. Due to caseload growth, an additional superior court judge position is included in the 2021-2022 Adopted Budget.

### **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. The County has adopted 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, 2020, and is incorporated into the County’s Comprehensive Annual Financial Report (the “Annual Report”) for 2020.

The County’s 2020 Annual Report in its entirety may be accessed on the internet at the following link:

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

### **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 \$7.9 billion during 2020. As of September 30, 2021, the Investment Pool had a balance of \$8.3 billion and an effective duration of 1.4 years, and 43.7% of the portfolio had a maturity of 12 months or less. Assets of County agencies in 2020 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 September 30, 2021, 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>Year</b>	<b>Full-time</b>	<b>Part-time</b>
2016	13,821	883
2017	14,395	872
2018	14,652	943
2019	15,198	957
2020	14,988	1,615

*Source: King County Department of Human Resources—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.

Many of the County’s labor contracts expired at the end of 2020 and are currently under negotiation. This includes the agreement with a coalition of unions representing 6,200 employees, approximately 40% of the County’s workforce.

Several unions that are not part of the coalition are under contract through 2021 and are currently at the beginning stages of negotiating a subsequent contract. The current contract with the King County Police Officers Guild, covering about 700 employees, provided for pay increases for the years 2017-2021. The contract with the King County Corrections Guild covers 2020 and 2021, providing a general wage increase of 2.25% in 2020 and no increase in 2021. These contracts have both been ratified by the respective unions and adopted by the County Council.

The Amalgamated Transit Union, the County’s largest union, representing approximately 3,800 employees, is party to a contract with the County that specifies general wage increases for 2020 through the second half of 2022. This contract has also been ratified by the union and 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, 2020</b>	<b>Retirement System</b>
13,353	State of Washington—Public Employees Retirement System (“PERS”)
826	State of Washington—Law Enforcement Officers and Fire Fighters Retirement System (“LEOFF”)
498	State of Washington—Public Safety Employees Retirement System (“PSERS”)

*Source: King County Department of Human Resources—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, 17 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.

GASB Statement No. 67, Financial Reporting for Pension Plans (“GASB 67”), addresses financial reporting for state and local government pension plans. GASB Statement No. 68, Accounting and Financial Reporting for Pensions (“GASB 68”), 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.

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, 2010, to June 30, 2020, was 9.77%. 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

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

*Source: 2020 Actuarial Valuation 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, 2020, and current contribution

rates for 2021 are shown in Table 19. WTD’s share of the County’s employer contribution amount for the year ended December 31, 2020, was \$9.3 million.

**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>2020</b>						
Average Employer Contribution Rate (%)	12.90 <sup>(1)</sup>	12.90 <sup>(1)</sup>	12.90 <sup>(1)</sup>	0.18 <sup>(1)</sup>	5.33 <sup>(1)</sup>	12.18 <sup>(1)</sup>
Average Employee Contribution Rate (%)	6.00 <sup>(2)</sup>	7.90 <sup>(2)</sup>	Varies <sup>(2)(3)</sup>	0.00	8.59	7.20
Employer Contribution Amount (\$000)	815	133,173	28,226	-	6,657	5,920
Employee Contribution Amount (\$000)	379	82,048	15,126	-	10,724	3,500
Total Contribution Amount (\$000)	1,194	215,221	43,353	-	17,381	9,420
<b>2021</b>						
Current Employer Contribution Rate (%) <sup>(4)</sup>	12.97 <sup>(1)</sup>	10.25 <sup>(1)</sup>	10.25 <sup>(1)</sup>	0.18 <sup>(1)</sup>	5.30 <sup>(1)</sup>	10.39 <sup>(1)</sup>
Current Employee Contribution Rate (%) <sup>(4)</sup>	6.00 <sup>(2)</sup>	6.36 <sup>(2)</sup>	Varies <sup>(2)(3)</sup>	0.00	8.53	6.50

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.
- (4) Effective July 1, 2021.

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. If the State Legislature deems actuarial contributions to be unaffordable for participating employers, then it may decide to adopt contribution rates that are lower than those recommended by the State Actuary; however, as of the date of this Official Statement, the State Legislature has not taken such an action.

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 2020 Actuarial Valuation Report (published in August 2021), 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, 2020) is shown in Table 20:

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

		2020 Actuarial	2020 Actuarial	2020	2020 Funded	2019 Funded	2018 Funded
		Accrued	Valuation of	UAAL <sup>(4)</sup>	Ratio %	Ratio %	Ratio %
		Liability <sup>(2)</sup>	Assets <sup>(3)</sup>	(a-b)	(b/a)	(b/a)	(b/a)
Plan	Status	(a)	(b)				
PERS - Plan 1	Closed in 1977	\$ 11,160	\$ 7,686	3,474	69 %	65 %	60 %
PERS - Plan 2/3	Open	45,559	44,497	1,062	98	96	91
PSERS - Plan 2	Open	814	821	(7)	101	101	96
LEOFF - Plan 1	Closed in 1977	3,973	5,893	(1,920)	148	141	135
LEOFF - Plan 2	Open	12,905	14,520	(1,616)	113	111	108

- (1) As of June 30, 2020, the most recent actuarial valuation date. All assets valued under the actuarial method. Reflects the full retirement systems, not the County’s share of each system.
- (2) Liabilities valued using the EAN cost method at an assumed investment rate of return of 7.5% (7.4% for LEOFF Plan 2).
- (3) All assets valued under the actuarial method, which incorporates the smoothing of investment gains and losses.
- (4) Unfunded actuarial accrued liability. Totals may not agree due to rounding.

*Source: 2020 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>
2012	1.4%
2013	12.4
2014	17.1
2015	4.9
2016	2.7
2017	13.4
2018	10.2
2019	8.4
2020	3.7
2021	28.7

(1) As of June 30.

*Source: Washington State Investment Board*

In accordance with GASB 68, the County’s collective net pension liability for all WSDRS pension plans was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability was based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date. The net pension liability for SCERS was measured as of December 31, 2019, and the actuarial valuation date on which the total pension liability was based was as of January 1, 2019, with update procedures used to roll forward the total pension liability to the measurement date taking into account any significant changes between the valuation date and the fiscal year end. Table 22 represents the aggregate pension amounts for all pension plans subject to the requirements of GASB 68.

**TABLE 22  
AGGREGATE PENSION AMOUNTS—ALL PLANS, 2020  
(\$000)**

Net pension liabilities	\$451,611
Net pension assets	76,450
Deferred outflows of resources	176,297
Deferred inflows of resources	156,843
Pension expense/expenditures	58,432

*Source: 2020 Annual Report—Note 9*

For more information on employee retirement plans, see the County’s 2020 Annual Report.

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

The King County Health Plan (the “Health Plan”) is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees and employees. LEOFF Plan 1 retirees are not required to contribute to the Health Plan. Entry into LEOFF Plan 1 is now closed. All other retirees are required to pay the COBRA rate associated with the elected plan. The County’s

liability for other post-employment benefits (“OPEB”) is limited to the direct Health Plan subsidy associated with LEOFF Plan 1 retirees and the implicit rate subsidy for other Health Plan retiree participants, which is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. For the fiscal year ended December 31, 2020, the County contributed an actuarially estimated \$5.1 million to the Health Plan. The County's contribution was entirely to fund “pay-as-you-go” costs under the Health Plan and not to prefund benefits. For the fiscal year ended December 31, 2020, the County’s net OPEB liability was \$106.6 million.

For more information on the County’s OPEB liability, see the County’s 2020 Annual Report.

### **Risk Management and Insurance**

The County has a separate division that is responsible for claims handling, insurance, and loss control programs. The County has implemented a program of self-insurance to cover general and automobile liability, Health Department professional malpractice, police professionals, and public officials’ errors and omissions. The County 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.

As of July 1, 2021, insurance policies in force covering major exposure areas are as follows:

**TABLE 23  
INSURANCE POLICIES**

<u>Coverage</u>	<u>Limits</u>
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 (including the airport)	\$500 million
Stand-Alone Terrorism Insurance for Liability (excluding the airport)	\$40 million
Airport Liability	\$300 million
Airport Property Damage and Extra Expense for covered airport property (includes \$25 million earthquake and \$100 million flood)	\$246 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	\$40 million
Cedar Hill Pollution Legal Liability	\$50 million

*Source: King County Risk Management Office*

The balance of current assets in the Insurance Fund was \$81.5 million as of December 31, 2020. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2020, was \$72.8 million.

For additional information, see the County’s 2020 Annual Report.

### **Emergency Management and Preparedness**

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

disorder), transportation incidents, fires, hazardous materials, and unusual weather conditions (e.g., floods, snow, extreme temperatures, water shortages, and wind storms). However, the County cannot anticipate all potential hazards and their impacts on people, property, the environment, the local economy, and the County’s finances. See “—Impact of COVID-19” for a more specific discussion of costs the County is incurring in connection with the COVID-19 pandemic and the funding available to cover those costs.

## **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 Funding**

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 2020 and 2021, the County received federal COVID-19 relief funding, including a direct allocation of \$261.6 million in funding through the CARES Act and in 2021, the County received \$437.0 million in funding through the American Rescue Plan Act, for a total of \$698.6 million from these two sources. These and other federal grant funds, and their permissible uses, may be impacted by federal legislative and executive actions, including guidance provided periodically, which may have retroactive effect. Federal funding also is subject to grant conditions, federal regulations, audit and review for compliance with these requirements. Funds may be subject to recoupment in the event of noncompliance. See “King County—Impact of COVID-19.”

In general, the County expects that it would have the flexibility to respond to any direct reductions or eliminations of federal funding. Although the County cannot predict at this time whether reductions in federal funding may occur or what form such reductions may take, the County expects that it would be able to redirect funding or reduce expenditures in a manner that would not affect the County’s ability to pay debt service on the Bonds.

### **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 the 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. In 2020, the SCAP underwent another five-year update, including a review of targets, measures, and priority actions for reducing GHG emissions, updates to strategies and priority actions to prepare for climate change impacts, and a new section and priority actions focused on supporting resilience in communities disproportionately impacted by climate change. The updated SCAP has been transmitted by the County Executive to the County Council. Goals of the 2020 SCAP include (i) further reducing regional GHG emissions; (ii) taking action to prepare the County’s infrastructure, services, and communities for climate change impacts; and (iii) identifying new opportunities to take action on climate solutions that achieve social, economic, and environmental benefits for communities in the County. Policies and actions to support these goals are being developed around transportation, energy, public health, emergency preparedness, housing, food security, and more. The SCAP continues to require 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 and performance reports with status of progress and implementation details can be found on the County’s website at [www.kingcounty.gov/climate](http://www.kingcounty.gov/climate).

While the County cannot predict precisely how, when, and where specific climate impacts will occur, there have been and 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.

### **Seismic Risk**

The County 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 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 County facilities could cause a material increase in costs for repairs and a material adverse impact on the County's finances. The County is not obligated to maintain earthquake insurance on its facilities, and the County does not now and does not plan to maintain earthquake insurance sufficient to replace its facilities, including assets of the Sewer System.

### **Public Health**

The impact that the COVID-19 pandemic is having and will have on commerce, financial markets, and the Puget Sound 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 current impacts that the COVID-19 pandemic and related emergency orders have had on the County's finances and operations, and to describe some of the actions that the County is taking in response. Other public health emergencies, including other global pandemics, may occur. The County cannot predict the duration and extent of the COVID-19 public health emergency or the occurrence of future public health emergencies, or quantify the magnitude of the impact on the County and regional economy or on the other revenues and expenses of the County. The COVID-19 pandemic is ongoing, and its dynamic nature leads to uncertainties, including (i) the geographic spread of the virus and its variants and the emergence of new variants; (ii) the severity of the disease; (iii) the duration of the pandemic; (iv) actions that governmental authorities may take to contain or mitigate the pandemic; (v) the development, efficacy, and distribution of medical therapeutics and vaccinations, vaccination rates, and the efficacy of therapeutics and vaccines to emerged and new variants; (vi) the impact of the pandemic on the local or global economy; (vii) whether and to what extent the Governor and/or President may order additional public health measures; and (viii) the impact of the pandemic and actions taken in response to the pandemic on County revenues, expenses, and financial condition. Prospective investors should assume that the restrictions and limitations instituted related to COVID-19 may continue, that the current upheaval to the national and global economies and financial markets may continue and/or be exacerbated, at least over the near term, and that the recovery may be prolonged. Additional pandemics, and other public health emergencies, may occur and may occur with greater frequency and intensity given trends in globalization.

### **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 referendum period for the Ordinance has elapsed, and no referendum petition was filed. 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 State 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 or seeking to enjoin the issuance of the Bonds.

The County is party to litigation in its normal course of business. The County's 2020 Annual Report includes Note 19 concerning non-tort legal matters. The Water Quality Enterprise Fund's 2020 audited financial statements include Note 13 concerning legal matters specific to the Fund. 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.* Certain class action litigation is described in Note 19 to the County's Annual Report. See also Appendix D—King County Water Quality Enterprise Fund 2020 Audited Financial Statements—Note 13.

Bio Energy Washington ("BEW"), by contract with the County, operates a plant at the Cedar Hills Landfill that scrubs and sells landfill gas to Puget Sound Energy. BEW has invoked the dispute resolution clause of the contract, alleging that the County has not been employing "good engineering practices" to collect the landfill gas and has been allowing fugitive gas to escape the landfill. BEW has offered to settle its claim for \$10 million, which would be payable by credits toward BEW's payments under the contract to the County. The County disputes BEW's claim and intends to vigorously defend it.

On February 25, 2021, the Washington State Supreme Court in *State v. Blake* declared unconstitutional the State's strict liability drug possession statute, which criminalized unintentional, unknowing possession of controlled substances without a prescription. Counties, including the County, may incur costs associated with resentencing, refunding penalties, fines, and restitution, and otherwise addressing the impact of the decision; County responsibility for the cost of refunds may be resolved through litigation and/or legislation. The County will be receiving a legislative appropriation from the State of almost \$8 million to help cover costs associated with *Blake* and additional funds will be distributed to the Department of Public Defense. The County has filed a claim against the State for full indemnification to cover additional costs.

### **Potential Conflicts of Interest**

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

### **Approval of Counsel**

Legal matters incident to the authorization, issuance, and sale of the Bonds by the County are subject to the approving legal opinion of 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**

The County is liable for principal and interest payments on its outstanding obligations as they become due, and is not required to set aside monthly or periodic deposits in advance of due dates. The County's fixed rate bonds are subject to semi-annual payment dates; other obligations, including subordinate obligations, are subject to other payment dates. In the event of multiple defaults on the payment of principal or interest on outstanding obligations, affected bondholders would be required to bring a separate action for each such payment not made when due from Revenue of the System required to be applied to the payment on such date. This could give rise to a difference in legal interests between owners of earlier- and later-maturing bonds. Any such action to compel payment or for money damages would be subject to the limitations on legal claims and remedies against public bodies under State law.

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 opinion 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 Relating to the Bonds**

*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.

*Original Issue Premium and Discount.* If the initial offering price to the public at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes. If the initial offering price to the public at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual alternative minimum tax.

Under the Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond’s maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not

purchase in the original offering, should consult their own tax advisors with respect to federal income tax consequences of owning such 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.

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 seven 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, 2021, 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. Prior to the release of the Annual Report and Sewer System financial statements for the year 2017, however, although the County provided the information on customers, revenues, and expenses of the Sewer System, it did not provide the table in the format in which it was shown in the original disclosure.

The County timely filed notice of a Moody's rating upgrade of certain LTGO bonds in February 2017. The Moody's rating notice was not linked to one CUSIP for the NJB Properties Lease Revenue Bonds (King County, Washington, Project), 2006, Series A, and certain CUSIP numbers for County bonds. The County has since linked the notice to the missed CUSIP numbers.

## **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 BofA Securities, Inc., as the Underwriter of the Bonds. The purchase contract for the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, at an aggregate purchase price of \$139,819,291.73 (representing the principal amount of the Bonds less underwriter's discount of \$180,708.27).

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering price corresponding to the yield set forth on page i hereof, and such initial offering prices may be changed from time to time, by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

The Underwriter is a full-service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing, and brokerage services. The Underwriter has, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the County, for which it received or will receive customary fees and expenses. In the ordinary course of its various business activities, the Underwriter 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 its own account and for the accounts of its customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the County. The Underwriter 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 it should acquire, long and/or short positions in such assets, securities, and instruments.

BofA Securities, Inc., the Underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to 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 the Official Statement and as of the Issue Date, the Official Statement (as it may have been amended or supplemented prior to the Issue Date) 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 form of opinion or the information provided by DTC 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  
Department of Executive Services

**APPENDIX A**  
**SUMMARY OF THE ORDINANCE**

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## SUMMARY OF THE BOND ORDINANCE

Ordinance 18898 of the County, as amended by Ordinance 19324 (as amended, the “Bond Ordinance”) authorizes the issuance of Junior Lien Obligations and/or Multi-Modal LTGO/Sewer Revenue Bonds to refund outstanding Parity Bonds, Parity Lien Obligations, Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds, Public Works Trust Fund Loans, SRF Loans, and any obligations issued after June 10, 2019, that are Future Parity Bonds, Future Parity Lien Obligations, Future Junior Lien Obligations, Future Multi-Modal LTGO/Sewer Revenue Bonds or, Future Subordinate Lien Obligations, Public Works Trust Fund Loans or SRF Loans.

Certain provisions of the Bond Ordinance are summarized herein. Please refer to the Bond Ordinance for full and complete statements of those provisions and for other provisions relating to the Bonds. Copies of the Bond Ordinance are available on request to Piper Sandler & Co., 1420 Fifth Avenue, Suite 1425, Seattle, Washington 98101, or to the Finance and Business Operations Division of the County.

Many of the capitalized words or phrases used in this summary and elsewhere in this Official Statement are defined in the Bond Ordinance. Certain of those definitions are summarized below. The Bond Ordinance includes certain springing amendments that are currently in effect; the following summary incorporates the amendments in effect.

### Certain Definitions

A. **Definitions.** The following words and terms as used in the Bond Ordinance have the following meanings for all purposes of the Bond Ordinance unless some other meaning is plainly intended.

"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 interest on any Balloon Maturity Bond shall also be excluded.

b. The amount of interest deemed to be payable 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 made in the Bond Ordinance, the actual amount of interest paid on any issue of variable rate obligations shall be taken into account.

2. The principal due (at maturity or upon the mandatory redemption of Term Bonds prior to their maturity) for such designated obligations other than any Balloon Maturity Bond: on all principal payment dates (other than January 1) of such calendar year; and on January 1 of the next succeeding year.

3. 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 the Bond Ordinance to principal include the Accreted Value due at maturity or upon the mandatory redemption of any Capital Appreciation Bonds.

Notwithstanding the foregoing, debt service on any such designated obligations with respect to which a Payment Agreement is in force 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.

"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: the useful life, as of the date of designation, of the assets being financed; and 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.

"Assumed Debt Service" for any Balloon Maturity Bond for any calendar year if the 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 scheduled principal maturity of any Series of obligations of the System that the County designates in the closing certificates 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 certificates 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.

"Bond Register" means the registration books maintained by the Registrar for purposes of identifying ownership of the Bonds.

"Bondowners' Trustee" means the bank or financial institution selected by the Registered Owners of the Bonds pursuant to the Bond Ordinance, see "Defaults; Powers and Duties of Bondholders' Trustee."

"Bonds" means the bonds of the County authorized to be issued under the Bond Ordinance. The series of Bonds described in the Official Statement are issued as Junior Lien Obligations under the Bond Ordinance.

"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.

"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.

"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.

"Council" means the Metropolitan King Council.

"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, including any interfund loan agreement or other self-liquidity instrument provided by the County to secure the payment of the principal or purchase price of or interest on any series of Bonds in advance of pledged amounts becoming available for such purpose. There is no Credit Enhancement for the Bonds as of this date.

"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. There is no Credit Provider for the Bonds as of this date.

"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.

"Default" means any of the events or conditions set forth in the Bond Ordinance (see "Defaults; Powers and Duties of Bondholders' Trustee").

"Finance Director" means the director of the finance and business operations division of the department of executive services of the County or any other County officer who succeeds to the duties now delegated to that office, or the designee of such officer.

"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 "(i)" through "(vii)" but before making the payments required to be made under paragraph "(ix)" in the order of priority described in the Official Statement under the heading "Security and Sources of Payment for the Bonds—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, the Bonds, 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, including any interfund loan agreement or other self-liquidity instrument provided by the County to pay the principal or purchase price of or interest on any series of Bonds in advance of pledged amounts becoming available for such purpose. There is no Liquidity Facility for the Bonds as of this date.

"Liquidity Provider" means any bank, insurance company, pension fund or other financial institution that provides a Liquidity Facility. There is no Liquidity Provider as of this date.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns,

except that if that corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "Moody's" will be deemed to refer to any other nationally recognized securities rating agency selected by the County.

"Multi-Modal LTGO/Sewer Revenue Bonds" means the outstanding 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 therein.

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

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

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

"Public Works Trust Fund Loans" means the outstanding loans to the County by the State Department of Commerce under the Public Works Trust Fund loan program 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.

"RCW" means the Revised Code of Washington.

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

"Registrar" means, unless otherwise designated in the Mode Agreement, the fiscal agent of the State (as the same may be designated by the State from time to time) for the purposes of registering and authenticating the Bonds, maintaining the Bond Register, effecting the transfer of ownership of the Bonds and paying principal of and premium, if any, and interest on the Bonds.

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

"S&P" means S&P Global Ratings and its successors and assigns, except that if that entity is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "S&P" will be deemed to refer to any other nationally recognized securities rating agency selected by the County.

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

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

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 "(ii)" through "(v)" in the order of priority described in "Security and Sources of Payment for the Bonds—Flow of Funds, 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.

"SRF Loans" means loans to the County by the State Department of Ecology pursuant to loan agreements in effect as of June 10, 2019 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.

"State" means the State of Washington.

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

"Term Bonds" means those Bonds identified as term bonds, the principal of which is amortized by a schedule of mandatory redemptions.

### **Revenue—Priority of Payment**

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

### **Covenants and Representations**

The Bond Ordinance includes covenants and representations including without limitation the following.

*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.

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

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

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

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

*Collection of Revenue.* The County will operate and maintain the System and conduct its affairs so as to entitle it at all times to receive and enforce payment to it of sewage disposal charges payable (i) pursuant to the ordinance or ordinances establishing a tariff of rates and charges for sewage disposal services and (ii) under any Service Agreement that the County has now or may hereafter enter into and to entitle the County to collect all revenues derived from the operation of the System. The County 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 council declares that the health, safety or welfare of the people within the metropolitan area require such action.

*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. These covenants require that the County will not sell or voluntarily dispose of any part of the operating properties of the System unless provision is made: (a) for payment into the Parity Bond Fund of an amount that will bear at least the same proportion to the amount of the outstanding Parity Bonds that the estimated amount of any resulting reduction in Revenue of the System for the twelve months following such sale or disposition bears to the Revenue of the System that would have been realized if such sale or disposition had not been made; and (b) for payment into the Parity Lien Obligation Bond Fund of an amount that will bear at least the same proportion to the amount of the outstanding Parity Lien Obligations that the estimated amount of any resulting reduction in Revenue of the System for the twelve months following such sale or disposition bears to the Revenue of the System that would have been realized if such sale or disposition had not been made. Those estimates must be made by a Professional Utility Consultant. Any money so paid into the Parity Bond Fund and the Parity Lien Obligation Bond Fund must be used to retire outstanding Parity Bonds and Parity Lien Obligations as provided in the Bond Ordinance at the earliest possible date; provided, however, that the County may sell or otherwise dispose of any of the works, plant, properties and facilities of the System or any real or personal property comprising a part of the System with a value of less than 5% of the net utility plant of the System or that have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation, without making any deposit into the Parity Bond Fund or Parity Lien Obligation Bond Fund

### **Future Parity Bonds; Additional Parity Lien Obligations**

The ordinances authorizing Parity Bonds and Parity Lien Obligations include the following definitions relevant to covenants therein with respect to the issuance of additional Parity Bonds and Parity Lien Obligations.

#### *Definitions.*

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

"Annual Debt Service" means, for any calendar year, the sum of the following:

1. The interest due on all outstanding Parity Bonds and Parity Lien Obligations: (a) on all interest payment dates (other than January 1) in such calendar year; and (b) on January 1 of the next succeeding year, and any Payment Agreement Payments due on such

dates in respect of any Parity Payment Agreements and Parity Lien Obligation Payment Agreements, minus any Payment Agreement Receipts due in such period in respect of any Parity Payment Agreements and Parity Lien Obligation Payment Agreements.

a. For purposes of calculating the amounts required to pay interest on Parity Bonds or Parity Lien Obligations, capitalized interest and accrued interest paid to the County upon the issuance of Parity Bonds or Parity Lien Obligations shall be excluded and, on and after the Second Springing Amendment Date (Parity Lien Obligations), interest on any Balloon Maturity shall also be excluded.

b. Prior to the Second Springing Amendment Date (Parity Lien Obligations), the amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds or Variable Rate Parity Lien Obligations shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate ("the assumed RBI 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 covenant made in Section 18 of the Bond Ordinance, the actual amount of interest paid on any issue of Variable Rate Parity Bonds or Parity Lien Obligations shall be taken into account. On and after the Second Springing Amendment Date (Parity Lien Obligations), the amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds or Variable Rate Parity Lien Obligations shall 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 made in Section 18 of the Bond Ordinance, the actual amount of interest paid on any issue of Variable Rate Parity Bonds or Parity Lien Obligations shall be taken into account.

2. Prior to the Second Springing Amendment Date (Parity Lien Obligations), the principal due (at maturity or upon the mandatory redemption of Term Bonds prior to their maturity) for all outstanding Parity Bonds and Parity Lien Obligations: (a) on all principal payment dates (other than January 1) of such calendar year; and (b) on January 1 of the next succeeding year. On and after the Second Springing Amendment Date (Parity Lien Obligations), the principal due (at maturity or upon the mandatory redemption of Term Bonds prior to their maturity) for all outstanding Parity Bonds and Parity Lien Obligations other than any Balloon Maturity: (a) on all principal payment dates (other than January 1) of such calendar year; and (b) on January 1 of the next succeeding year.

3. On and after the Second Springing Amendment Date (Parity Lien Obligations), the Assumed Debt Service for any Balloon Maturity of a Parity Bond or Parity Lien Obligation for that calendar year.

In the case of Capital Appreciation Bonds, the Accreted Value due at maturity or upon the mandatory redemption of Parity Term Bonds that are Capital Appreciation Bonds shall be included in the calculation of Annual Debt Service, and references in the Bond Ordinance to

principal of Parity Bonds shall include the Accreted Value due at maturity or upon the mandatory redemption of any Capital Appreciation Bonds.

Notwithstanding the foregoing, debt service on Parity Bonds or Parity Lien Obligations with respect to which a Payment Agreement is in force shall be calculated by the County to reflect the net economic effect on the County intended to be produced by the terms of the Parity Bonds or Parity Lien Obligations and the terms of the applicable Payment Agreement, in accordance with the requirements for Payment Agreements set forth in Section 27 of the Bond Ordinance and any other applicable requirements from the ordinances authorizing issuance of such Parity Bonds or Parity Lien Obligations.

From and after the First Springing Amendment Date (Parity Lien Obligations), for purposes of satisfying the rate covenant and the tests for the issuance of additional Parity Lien Obligations, Annual Debt Service for any fiscal year or calendar year shall exclude any Debt Service Offsets (e.g., any Debt Service Offsets shall be deducted from Annual Debt Service).

"Annual Parity Debt Service" means, for any calendar year, the sum of the following:

1. The interest due on all outstanding Parity Bonds: (a) on all interest payment dates (other than January 1) in such calendar year; and (b) on January 1 of the next succeeding year, and any Payment Agreement Payments due on such dates in respect of Parity Payment Agreements, minus any Payment Agreement Receipts due in such period in respect of such Parity Payment Agreements.

a. For purposes of calculating the amounts required to pay interest on Parity Bonds, capitalized interest and accrued interest paid to the County upon the issuance of Parity Bonds shall be excluded and, on and after the Second Springing Amendment Date (Parity Bonds), interest on any Balloon Maturity shall also be excluded.

b. Prior to the Second Springing Amendment Date (Parity Bonds), the amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate ("the assumed RBI 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 covenant made in Section 18 of the Bond Ordinance, the actual amount of interest paid on any issue of Variable Rate Parity Bonds shall be taken into account. On and after the Second Springing Amendment Date (Parity Bonds), the amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds shall 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 made in Section 18 of the Bond Ordinance, the actual amount of interest paid on any issue of Variable Rate Parity Bonds shall be taken into account.

2. Prior to the Second Springing Amendment Date (Parity Bonds), the principal due (at maturity or upon the mandatory redemption of Term Bonds prior to their maturity) for all outstanding Parity Bonds; (a) on all principal payment dates (other than January 1) of such calendar year; and (b) on January 1 of the next succeeding year. On and after the Second Springing Amendment Date (Parity Bonds), the principal due (at maturity or upon the mandatory redemption of Term Bonds prior to their maturity) for all outstanding Parity Bonds other than any Balloon Maturity: (a) on all principal payment dates (other than January 1) of such calendar year; and (b) on January 1 of the next succeeding year.

3. On and after the Second Springing Amendment Date (Parity Bonds), the Assumed Debt Service for any Balloon Maturity of a Parity Bond for that calendar year.

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

Notwithstanding the foregoing, debt service on Parity Bonds 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 the Parity Bonds and the applicable Payment Agreement, in accordance with the requirements set forth in the authorizing ordinances and any other applicable requirements from the ordinances authorizing issuance of such Parity Bonds.

For purposes of calculating the Reserve Requirement and satisfying the rate covenant and the tests for the issuance of Future Parity Bonds, Annual Parity Debt Service for any fiscal year or calendar year shall exclude any Debt Service Offsets (e.g., any Debt Service Offsets shall be deducted from Annual Parity Debt Service).

"Assumed Amortization Period" means an assumed amortization period for a Balloon Maturity as specified in a Sale Motion designating the Balloon Maturity. 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 applies (e.g., is not reset) until the Balloon Maturity, and any Balloon Maturity issued to refund that Balloon Maturity, is no longer outstanding.

"Assumed Debt Service" for any Balloon Maturity 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 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, 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" means any scheduled principal maturity of any Series of Parity Bonds or Parity Lien Obligations that the County designates in a Sale Motion for that Series to be a Balloon Maturity for the purposes of the definitions of Annual Debt Service and Annual Parity

Debt Service. Any Balloon Maturity includes any corresponding scheduled principal maturity of Parity Bonds or Parity Lien Obligations issued to refund such Balloon Maturity unless the Balloon Maturity designation is rescinded in the Sale Motion approving the refunding.

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

"Debt Service Offset" means receipts of the County, including federal interest subsidy payments, designated as such by the County that are not included in Revenue of the System and that are legally available to pay debt service on Parity Bonds, Parity Lien Obligations or other obligations of the County payable from and secured by a pledge of Revenue of the System.

"First Springing Amendment Date (Parity Bonds) " means the date when the Registered owners of at least 51% in aggregate principal amount of all outstanding Parity Bonds have consented to the adoption of an ordinance or ordinances amending the definition of Reserve Requirement; establishing one or more separate Reserve Requirements for one or more Series of Parity Bonds, including each Series of the Bonds issued as Parity Bonds; reducing any Reserve Requirement, including the Reserve Requirement for each Series of the Bonds issued as Parity Bonds, to an amount less than maximum Annual Parity Debt Service in any calendar year, including to zero; or establishing one or more separate subaccounts within the Parity Bond Reserve Account to secure one or more Series of Parity Bonds, including each Series of the Bonds issued as Parity Bonds, with other Series of Parity Bonds not being secured by such separate subaccounts.

"First Springing Amendment Date (Parity Lien Obligations)" means the date when no Parity Lien Obligations designated as Series 2008 Bonds remain outstanding.

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

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

"Parity Lien Obligations" mean the outstanding Parity Lien Obligations and any Future Parity Lien Obligations. "Parity Lien Obligations" include any Parity Lien Obligation Payment Agreements and parity reimbursement agreements entered into with the provider of a Credit Facility securing any Parity Lien Obligations.

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

"Parity Term Bonds" means Parity Bonds that are Term Bonds.

"Second Springing Amendment Date (Parity Bonds)" means the date when the Registered Owners of at least 51% in aggregate principal amount of all outstanding Parity Bonds have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity, and Annual Parity Debt Service set forth in the Bond Ordinance (including all springing amendments set forth in the Bond Ordinance). All Registered Owners of Parity Bonds issued after the effective date of the Bond Ordinance are deemed to have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity, and Annual Parity Debt Service set forth in the Bond Ordinance (including all springing amendments set forth in the Bond Ordinance) by their purchase of such Parity Bonds.

"Second Springing Amendment Date (Parity Lien Obligations) " means the date when: (a) the First Springing Amendment Date (Parity Lien Obligations) has occurred; and (b) the Registered Owners of at least 51% in aggregate principal amount of all outstanding Parity Lien Obligations have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity, and Annual Debt Service set forth in the Bond Ordinance (including all springing amendments set forth in the Bond Ordinance). All Registered Owners of Parity Lien Obligations issued after the effective date of the Bond Ordinance are deemed to have consented to the definitions of Assumed Amortization Period, Assumed Debt Service, Balloon Maturity and Annual Debt Service set forth in the Bond Ordinance (including all springing amendments set forth in the Bond Ordinance) by their purchase of such Parity Lien Obligations.

"Variable Rate Parity Bonds" means Parity Bonds bearing interest at a variable rate of interest, provided that at least one of the following conditions is met: (a) at the time of issuance the County has entered into a Payment Agreement with respect to such Parity Bonds, which Payment Agreement converts the effective interest rate to the County on the Variable Rate Parity Bonds from a variable interest rate to a fixed interest rate; or (b) the Parity Bonds bear interest at a variable rate but are issued concurrently in equal par amounts with other Parity Bonds bearing interest at a variable rate and are required to remain outstanding in equal amounts at all times, if the net effect of such equal par amounts and variable rates at all times is a fixed rate of interest to the County.

"Variable Rate Parity Lien Obligations" means Parity Lien Obligations bearing interest at a variable rate of interest, provided that at least one of the following conditions is met: (a) at the time of issuance the County has entered into a Payment Agreement with respect to such Parity Lien Obligations, which Payment Agreement converts the effective interest rate to the County on the Variable Rate Parity Lien Obligations from a variable interest rate to a fixed interest rate; or (b) the Parity Lien Obligations bear interest at a variable rate but are issued concurrently in equal par amounts with other Parity Lien Obligations bearing interest at a variable rate and which are

required to remain outstanding in equal amounts at all times, if the net effect of such equal par amounts and variable rates at all times is a fixed rate of interest to the County.

*Covenants.*

The County covenants and agrees that it will not create any special fund for the payment of the principal of and interest on any revenue bonds that will rank on a parity with or have any priority over the payments out of Revenue of the System required to be made into the Parity Bond Fund and the accounts therein to pay or secure the payment of the outstanding Parity Bonds, except that it reserves the right to issue to issue additional or refunding Parity Bonds (including Variable Rate Parity Bonds) for the purpose of:

- acquiring, constructing and installing any portion of the Comprehensive Plan, or
- acquiring, constructing and installing any necessary renewals or replacements of the System, or
- refunding or purchasing and retiring at or prior to their maturity any outstanding obligations of the County payable from Revenue of the System.

Such bonds will rank on a parity with the outstanding Parity Bonds upon compliance with certain conditions, including the following:

1. There must be no deficiency in the Parity Bond Fund or any account therein.

2. If Future Parity Bonds are issued for refunding purposes, all money held in any fund or account of the County created to pay the refunded bonds must be used to pay such bonds or be transferred or paid into the Parity Bond Fund.

3. Upon the issuance of any Future Parity Bonds, the Reserve Requirement must be satisfied either by the deposit of cash into the Parity Bond Reserve Account or by the provision of Qualified Insurance or a Qualified Letter of Credit.

4. At the time of the issuance of any Future Parity Bonds, the County must have on file a certificate from a Professional Utility Consultant (the certificate may not be dated more than 90 days prior to the date of delivery of such Future Parity Bonds) showing that the “annual income available for debt service on Parity Bonds” for each year during the life of such Future Parity Bonds will be at least equal to 1.25 times the amount required in each such year to pay the Annual Parity Debt Service for such year. “Annual income available for debt service on Parity Bonds” will be determined as follows for each year following the proposed date of issue of such Future Parity Bonds:

(i) The Revenue of the System will be determined for a period of any 12 consecutive months out of the 18 months immediately preceding the delivery of the Future Parity Bonds being issued.

(ii) Such revenue may be adjusted to give effect on a 12-month basis to the rates in effect on the date of such certificate.

(iii) If there were any customers added to the System during such 12-month period or thereafter and prior to the date of the Professional Utility Consultant's certificate, such revenue may be further adjusted on the basis that added customers were customers of the System during the entire 12-month period.

(iv) There will be deducted from such revenue the amount expended for Operating and Maintenance Expenses during such period.

(v) For each year following the proposed date of issuance of such Future Parity Bonds the Professional Utility Consultant may add to the annual revenue determined as described in (i) through (iv) above an estimate of the income to be received in each such year from the investment of money in the Parity Bond Fund and any account therein, and the Construction Account, which will be determined by and in the sole discretion of a firm of nationally recognized financial consultants selected by the County.

(vi) Beginning with the second year following the proposed date of issue of such Future Parity Bonds and for each year thereafter, the Professional Utility Consultant may add to the annual revenue determined as described in (i) through (v) above his or her estimate of any additional annual revenue to be received from anticipated growth in the number of customers within the area served by the System on the date of such certificate, after deducting therefrom any increased Operating and Maintenance Expenses estimated to be incurred as a result of such growth; provided, that the Professional Utility Consultant's estimate of the number of customers served may not assume growth of more than 1/4 of 1% over and above the number of customers served or estimated to be served during the preceding year.

(vii) If extensions of or additions to the System are in the process of construction at the time of such certificate, or if the proceeds of the Future Parity Bonds being issued are to be used to acquire or construct extensions of or additions to the System, there may be added to the annual net revenue as above determined any revenue not included as described in (i) through (vi) above that will be derived from such additions and extensions after deducting therefrom the estimated additional Operating and Maintenance Expenses to be incurred as a result of such additions and extensions; provided, that such estimated annual revenue must be based upon 75% of any estimated customer growth in the four years following the first full year in which such additional revenue is to be collected and thereafter the estimated customer growth may not exceed 1/4 of 1% per year over and above such reduced estimate.

5. Instead of the certificate described in paragraph 4 above, the County may elect instead to have on file a certificate of the Finance Director demonstrating that during any 12 consecutive calendar months out of the immediately preceding 18 calendar months Net Revenue was at least equal to 1.25 times the amount required to pay, in each year that such Future Parity Bonds would be outstanding, the Annual Parity Debt Service for such year.

6. For the purpose of refunding at or prior to their maturity any outstanding Parity Bonds or any bonds or other obligations of the County payable from Revenue of the

System, the County may at any time issue Future Parity Bonds without complying with the provisions described in paragraph 4 or 5 above; provided, that the County may not issue Future Parity Bonds for such purpose unless the Finance Director certifies that upon the issuance of such Future Parity Bonds: (i) total debt service required for all Parity Bonds (including the refunding bonds and not including the bonds to be refunded thereby) will decrease; and (ii) the Annual Parity Debt Service for each year that any Parity Bonds (including the refunding bonds and not including the bonds to be refunded thereby) are then outstanding will not be increased by more than \$5,000 by reason of the issuance of such Future Parity Bonds. Nothing in the Bond Ordinance prevents the County from issuing Future Parity Bonds to refund maturing Parity Bonds for the payment of which money is not otherwise available.

The County expressly reserves the right to issue or enter into additional Parity Lien Obligations (including Variable Rate Parity Lien Obligations) for any lawful purpose of the County related to the System if at the time of issuing or entering into such Parity Lien Obligations:

1. There is no deficiency in the Parity Bond Fund, the Parity Lien Obligation Bond Fund or any other bond fund or account securing Parity Lien Obligations.

a. The County has on file a certificate from a Professional Utility Consultant (the certificate may not be dated more than 90 days prior to the date of delivery of such Parity Lien Obligations) showing that in his or her professional opinion, the “annual income available for debt service on Parity Bonds and Parity Lien Obligations” for each year during the life of such Parity Lien Obligations is at least equal to 1.25 times the amount required to pay Annual Debt Service in each such year. Such “annual income available for debt service on Parity Bonds and Parity Lien Obligations” will be determined as follows for each year following the proposed date of issue of such Parity Lien Obligations:

a. The Revenue of the System will be determined for a period of any 12 consecutive months out of the 18 months immediately preceding the delivery of the Parity Lien Obligations being issued.

b. Such revenue may be adjusted to give effect on a 12-month basis to the rates in effect on the date of such certificate.

c. If there were any customers added to the System during such 12-month period or thereafter and prior to the date of the Professional Utility Consultant’s certificate, such revenue may be further adjusted on the basis that added customers were customers of the System during the entire 12-month period.

d. There will be deducted from such revenue the amount expended for Operating and Maintenance Expenses during such period.

e. For each year following the proposed date of issuance of such Parity Lien Obligations the Professional Utility Consultant may add to the annual revenue determined as described in (i) through (iv) above an estimate of the income to be

received in each such year from the investment of money in the Parity Bond Fund, the Parity Lien Obligation Bond Fund and the Construction Account, which will be determined by and in the sole discretion of a firm of nationally recognized financial consultants selected by the County.

- f. Beginning with the second year following the proposed date of issue of such Parity Lien Obligations and for each year thereafter the Professional Utility Consultant may add to the annual revenue determined as described in (i) through (v) above his or her estimate of any additional annual revenue to be received from anticipated growth in the number of customers within the area served by the System on the date of such certificate, after deducting therefrom any increased Operating and Maintenance Expenses estimated to be incurred as a result of such growth; provided, that the Professional Utility Consultant's estimate of the number of customers served may not assume a growth of more than 1/4 of 1% over and above the number of customers served or estimated to be served during the preceding year.
- g. If extensions of or additions to the System are in the process of construction at the time of such certificate, or if the proceeds of the Parity Lien Obligations being issued are to be used to acquire or construct extensions of or additions to the System, there may be added to the annual net revenue as above determined any revenue not included as described in (i) through (vi) above that will be derived from such additions and extensions after deducting therefrom the estimated additional Operating and Maintenance Expenses to be incurred as a result of such additions and extensions; provided, that such estimated annual revenue must be based upon 75% of any estimated customer growth in the four years following the first full year in which such additional revenue is to be collected and thereafter the estimated customer growth may not exceed 1/4 of 1% per year over and above such reduced estimate.

3. Instead of the certificate described in paragraph 2 above, the County may elect to have on file a certificate of the Finance Director demonstrating that during any 12 consecutive calendar months out of the immediately preceding 18 calendar months Net Revenue was at least equal to 1.25 times the amount required to pay, in each year that such Parity Lien Obligations would be outstanding, the Annual Debt Service for such year.

4. The County may at any time, for the purpose of refunding at or prior to their maturity any outstanding Parity Lien Obligations, Parity Bonds, or any bonds or other obligations of the County payable from Revenue of the System, issue additional Parity Lien Obligations without complying with the provisions described in paragraphs 2 and 3 above if there is filed with the Clerk of the Council a certificate of the Finance Director stating that upon the issuance of such additional Parity Lien Obligations: (i) total debt service on all Parity Bonds and Parity Lien Obligations (including the refunding bonds but not including the bonds to be refunded thereby) will decrease; and (ii) the Annual Debt Service for each year that any Parity Bonds and any Parity Lien Obligations (including the refunding bonds but not including the bonds to be refunded thereby) are then outstanding will not be increased by more than \$5,000 by reason of the issuance of such additional Parity Lien Obligations. Nothing in the Bond Ordinance

prohibits or prevents the County from issuing Parity Lien Obligations to refund maturing Parity Lien Obligations of the County for the payment of which money is not otherwise available.

### **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 LTOO/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 LTOO/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 LTOO/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 LTOO/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 LTOO/Sewer Revenue Bonds and all Junior Lien Obligations and Multi-Modal LTOO/Sewer Revenue Bonds then outstanding in each year during the life of such Future Junior Lien Obligations or Future Multi-Modal LTOO/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 LTOO/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.

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

in the Bond Ordinance prevents the County from issuing revenue bonds, notes or other obligations that are a charge on Revenue of the System junior or inferior to the payments required to be made therefrom into the Multi-Modal LTGO/Sewer Revenue Bond Fund to pay and secure the payment of any Multi-Modal LTGO/Sewer Revenue Bonds.

### **Payment Agreements**

*General.* To the extent and for the purposes permitted by State law, the County may enter into Payment Agreements, pursuant an authorizing ordinance and subject to the conditions described below. 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, subject to the conditions set forth in this section and in other provisions of the Bond Ordinance.

*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.

*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 calculating debt service coverage for the purposes of the Bond Ordinance, that debt service on Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue 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.

### **Defaults; Powers and Duties of Bondholders' Trustee**

*Defaults.* The occurrence of one or more of the following is an “event of default” with respect to the Bonds:

1. The County fails to make payment of the principal of any Bond when the same becomes due and payable, whether by maturity or scheduled redemption prior to maturity;
2. The County fails to make payment of the interest on any Bond when the same becomes due and payable;
3. The County defaults in the observance or performance of any other covenant, condition or agreement on the part of the County contained in the Bond Ordinance, and such default has continued for a period of 30 days; or
4. The County: (i) admits in writing its inability to pay its debts generally as they become due; (ii) files a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law; (iii) makes an assignment for the benefit of its creditors; (iv) consents to the appointment of a receiver for the whole or any substantial part of the System; or (v) consents to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the County or of the whole or any substantial part of the System.

Upon the occurrence and continuation of a Default described above, each Credit Provider, if any, 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 described under this section with respect to such Bonds.

*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 above, 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 under the Bond Ordinance 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 Bond Ordinance.

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

*Legal Action by Bondowners' Trustee.* Subject to the rights of the Credit Provider, if any, as provided above, upon the happening of a Default and during the continuation thereof, the Bondowners' Trustee may, and upon the written request of the Registered Owners of not less than 25% in principal amount of the Bonds then outstanding must, take such steps and institute such suits, actions or other proceedings as it may deem appropriate for the protection and enforcement of the rights of such Registered Owners to collect any amounts due and owing to or from the County, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in the Bond Ordinance or in the Bonds. Any action, suit or other proceedings instituted by the Bondowners' Trustee under the Bond Ordinance will be brought in its name as trustee for the Registered Owners of all bonds under the Bond Ordinance, and all such rights of action upon or under any of the Bonds or the provisions of the Bond 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 issued under the Bond Ordinance, subject to the provisions of the Bond Ordinance. The respective Registered Owners of the bonds, including 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, 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 Bond 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.

*Restrictions on Legal Action by Individual Owners.* Subject to the rights of the Credit Provider, if any, as provided above, 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 provided in the Bond Ordinance; 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 therein 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 Bond 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 conferred upon by the Bond Ordinance 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 Bond Ordinance or now or hereafter existing at law or in equity or by statute. The privileges granted in the Bond Ordinance 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, if any, as provided above, 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 therein.

### **Supplemental Ordinances**

*Without Owner Consent.* The Council from time to time and at any time may adopt an ordinance or ordinances supplemental to the Bond Ordinance, without the consent of Registered Owners of any of the Bonds, for any one or more of the following purposes:

1. To add to the covenants and agreements of the County in the Bond Ordinance such other covenants and agreements thereafter to be observed that will not adversely affect the interests of the Registered Owners of any Bonds, or to surrender any right or power in the Bond 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 Bond Ordinance in regard to matters or questions arising under the Bond Ordinance as the Council may deem necessary or desirable and not inconsistent with the Bond Ordinance and that will not adversely affect the interest of the Registered Owners of any Bonds;

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

*With Owner Consent.*

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

2. No supplemental ordinance entered may: 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 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.

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

Notwithstanding the above, 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 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 Bond Ordinance.

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**APPENDIX B**  
**FORM OF THE MODE AGREEMENT**

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**MODE AGREEMENT**

**KING COUNTY, WASHINGTON  
JUNIOR LIEN SEWER REVENUE REFUNDING BONDS, 2021, SERIES A (SIFMA INDEX)**

This Mode Agreement (the “Mode Agreement”) is entered into as of December 1, 2021, 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, 2021, Series A (SIFMA Index) (the “Bonds”), issued pursuant to Ordinance 18898 of the County passed on May 22, 2019, as amended by Ordinance 19324 passed on September 7, 2021 (as amended, the “Ordinance”).

**RECITALS**

WHEREAS, pursuant to the Ordinance, the County has authorized the issuance of Junior Lien Sewer Revenue Refunding Bonds, 2021, Series A (SIFMA Index), 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 this 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 also provide such 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 that 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 Paying Agent, 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, and 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 by 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 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 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. Consent to Springing Amendments; Conflict with Bond Documents.** 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.

**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 or other relevant documentation from individuals claiming authority to represent the entity.

**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 only by 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: Carolyn Morrison  
Title: Vice President

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

Junior Lien Sewer Revenue Refunding Bonds, 2021, Series A (SIFMA Index)  
**\$140,000,000**

***Index Floating Mode Bonds***

Maturity Date:	January 1, 2040
Index Floating Rate:	100% of SIFMA Index plus the Index Floating Rate Spread
Index Floating Rate Spread:	23 Basis Points (0.23%)
Maximum Interest Rate:	12%
Price:	100%
Scheduled Mandatory Purchase Date:	January 1, 2027
Par Call Date:	January 1, 2026
First Interest Payment Date:	January 3, 2022
CUSIP No.:	495290EF1

**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 BofA Securities, Inc., dated December 1, 2021, 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, 2021, Series A (SIFMA Index), 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 Contract or Direct 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 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 Contract or Direct Purchase Agreement for such Bonds. The Bonds in the Initial Index Floating 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), Liquidity 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 SIFMA Index, (b) the EFFR Index, (c) the SOFR Index, or (d) 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. The Bonds are issued initially in the Index Floating Mode.

**“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 Index Floating Rate Period”** means, for any Series 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 is earlier purchased or redeemed in connection with a mandatory tender for purchase of such Series of the Bonds.

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

**“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 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 any Term Rate Period or any Fixed Rate Period, each semi-annual payment date specified by the Finance Director in connection with the Conversion of such Bonds to the 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) 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 SIFMA Index, EFFR Index, or 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.

**“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 Fixed Mode, as the context may require.

**“Ordinance”** means Ordinance 18898 of the County passed on May 22, 2019, as amended by Ordinance 19324 passed on September 7, 2021, authorizing the issuance and sale of the Bonds.

**“Par Call Date”** means, with respect to any Series of the Bonds during the Initial Index Floating Rate Period, the Par Call Date set forth in Exhibit A and the Bond Purchase Contract, and for any Term Rate Period, and any other 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 15th 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 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 2021 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 at any time such index is available, the Paying Agent will use instead an index that the Paying Agent, after consultation with the County and the Remarketing Agent, if any, determines most closely approximates the SIFMA 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 Mode**” means the Mode in which a Series of Bonds bears interest at the Term Rate.

“**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 a 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, during any 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 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.**

The Bonds are initially issued in the Index Floating Mode. During the Initial Index Floating Rate Period, the Bonds of this Series have terms set forth on Exhibit A. The Bonds of this Series are issued in the aggregate principal amount of \$140,000,000, and mature on January 1, 2040. The Bonds will bear interest at the Index Floating Rate for the Initial Index Floating Rate Period, subject to prior optional redemption on or after the Par Call Date. At the end of the Initial Index Floating Rate Period, the Bonds are subject to mandatory tender for purchase. The Bonds are also subject to mandatory tender for purchase and Conversion to a new Index Floating Rate or to a Daily Mode, Weekly Mode, Commercial Paper Mode, Fixed Mode, or Term Mode on or after the Par Call Date, all as described 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 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 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 Term Rate Period to be in effect during a Delayed Remarketing Period shall be set forth in the 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 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. Absent manifest error, each such determination shall be conclusive and binding upon the County, the Paying Agent, the Liquidity Provider (if any), the Credit Provider (if any) and the Owner of each Bond.

(C) *Delayed Remarketing Period; Delayed Remarketing Rate.* For any 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. (a) 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 (if any), 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 (if any), 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.

(e) **Paying Agent.** The Paying Agent shall not be under any obligation (i) to monitor, determine or verify the unavailability or cessation of any Index or to give notice to any other transaction party of the occurrence of the unavailability or cessation of any Index or (ii) to select, determine or designate any replacement index. The Paying Agent shall not be liable for any inability, failure or delay on its part to perform any of its duties set forth in this Exhibit B as a result of the unavailability of any Index and the absence of a designated replacement index, including as a result of any inability, delay, error or inaccuracy on the part of any other transaction party, including without limitation the Remarketing Agent and Finance Director, in providing any direction, instruction, notice or information required or contemplated by the terms of this Exhibit B and reasonably required for the performance of such duties. The Paying Agent shall be entitled to rely conclusively upon any determination made, and any instruction, notice, officer certificate, or other instrument or information provided, by the Remarketing Agent or Finance Director, without independent verification, investigation or inquiry of any kind by the Paying Agent. The Paying Agent shall have no liability for any interest rate published by any publication that is the source for determining the interest rates of the Notes, including but not limited to the Reuters Screen, the S&P Dow Jones Indices, Bloomberg, ICE or the Federal Reserve Bank of New York, or in any of the foregoing cases for any delay, error or inaccuracy in the publication of any such rates, or for any subsequent correction or adjustment thereto.

**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 a 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; 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 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 a 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; and (iv) if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect; (B) state 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) state 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 another 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) state 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) state the Index that is to be in

effect, the Index Floating Rate Percentage (if other than 100%); and (D) state 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 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 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 and (iv) if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect; (B) state 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 continue to bear interest at a Weekly Interest Rate commencing on the proposed Conversion Date; (3) if an Index Floating Rate Period or Term Rate Period is in effect immediately prior to the proposed Conversion, 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 their 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 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 another 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 Mode or Weekly 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 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 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, 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 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 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 their 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 (or on the Scheduled Mandatory Purchase Date, as applicable) specified in the applicable notice 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; Eligible 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 Eligible 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 Bonds (of principal portions thereof) for which funds were insufficient to pay the entire Purchase Price. During a Delayed Remarketing Period for Eligible Delayed Remarketing Bonds, 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 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 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 in the 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 Mode, Weekly Mode, Commercial Paper Mode, Fixed Mode, Term Mode or an Index Floating Mode, 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.

**16. Unclaimed Funds.** In the event any Bond is not presented for payment when the principal thereof becomes due, if funds sufficient to pay the principal and interest accrued thereon to such date shall have been made available to the Registrar for the benefit of the Owner thereof, the Registrar shall hold such principal and interest accrued thereon to such date without liability to the Owner for further interest thereon, for the benefit of the Owner of such Bond, for a period of five years from the date such Bond shall have become due, and thereafter the Registrar shall remit said funds pursuant to the Uniform Unclaimed Property Act, RCW 63.29, as amended, or its successor. In the event the Uniform Unclaimed Property Act, as amended, or its successor, should require by law other action to be taken by the Registrar, then the Registrar shall comply with such law and this section shall be deemed amended. After the payment pursuant to the Uniform Unclaimed Property Act as herein provided, the Registrar's liability for payment to the Owner of such Bond shall cease, terminate and be completely discharged and thereafter the Owner shall be restricted exclusively to their rights of recovery provided under the Uniform Unclaimed Property Act, as amended.

If the Bonds are in certificated form during the period prior to the date all such unclaimed moneys are transferred pursuant to the Uniform Unclaimed Property Act, as amended, the Registrar shall hold such amounts in cash as provided in the Agreement for Fiscal Agency Services.

The County shall remit any such earnings to the Registrar if required under the Uniform Unclaimed Property Act, as amended.

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

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December 16, 2021

King County, Washington

Re: King County, Washington, Junior Lien Sewer Revenue Refunding Bonds. 2021, Series A (SIFMA Index) (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 of the County passed on May 22, 2019, as amended by Ordinance 19324 passed on September 7, 2021 (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 Agreement between the County and U.S. Bank National Association, as Registrar and Paying Agent, dated as of December 1, 2021, for the Bonds.

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

Regarding questions of fact material to our opinions, we have relied on representations of the County in the Bond Ordinance, the Mode Agreement, 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 Agreement 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 Agreement 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  
2020 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)**

January 1 – December 31, 2020

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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 statement of net position as of December 31, 2020, 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.

### ***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, 2020, and the results of its operations and its cash flows for the year 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 audit was 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 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, 2021, 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, 2021

# 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 year ended December 31, 2020 with comparative information to 2019.

## 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 and the 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 178 million gallons per day (MGD) in 2020 from approximately 2.0 million residents.

## Financial Highlights

During 2020, Water Quality provided sewage treatment services to 767,265 residential customer equivalents (RCE) compared to 763,436 in 2019. 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 6,522 new connections to its customer billing base in 2020 compared to 12,513 new connections in 2019. In 2020, the average flow of the five treatment plants was 178 MGD with a peak daily flow of 596 MGD compared with a 2019 average flow of 161 MGD and peak daily flow of 752 MGD. Maximum system capacity remained unchanged at 868 MGD in 2020. The annual fluctuation in flows largely depends on the amount of annual precipitation.

In 2020, resource recovery delivered 117,092 tons compared to 124,958 tons in 2019 of Loop® biosolids to customers for use in forest management, agriculture, and composting. Approximately 74.1 million gallons of Class A reclaimed water was distributed for irrigation, urinals/toilets, municipal purposes, and wetland enhancement compared to 82.3 million gallons in 2019 and about 724 million gallons of filtered, treated wastewater were used for internal treatment plant processes compared to 719 million gallons in 2019. 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 2.8 million therms of natural gas to Puget Sound Energy from the South Treatment Plant in 2020 and 2.7 million therms in 2019. 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 2020, RINS revenues were \$3.9 million from which \$1.1 million was paid for operational costs to fulfill the administrative and operations requirements of the contract and to improve the operation of the biogas system. In 2019, RINS revenue totaled \$2.8 million from which \$800 thousand was paid for operational and administrative costs and improvement of the operation of the biogas system. The 45 percent increase in 2020 costs associated with maximizing RINS revenue relates to damage of a natural gas pipeline in early 2019. West Point Treatment Plant sold Seattle City Light 16.9 million kilowatt hours of electricity generated from digester gas in 2020 and 15.3 million kilowatt hours in 2019.

# King County Water Quality Enterprise Fund Management's Discussion and Analysis

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## Financial Highlights (continued)

The Industrial Pretreatment Program conducted 213 inspections and took 1,540 compliance samples in 2020 compared to 244 inspections and 1,712 compliance samples taken in 2019. The program currently tracks 558 facilities with discharge authorization permits and 102 significant industrial users compared to 545 facilities with discharge authorization permits and 104 significant industrial users in 2019.

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 \$199.6 million in 2020.

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 the 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 eight 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 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.

Water Quality operating revenues fell by 1.2 percent, or \$6.5 million, to \$529.9 million in 2020 from \$536.4 million in 2019 while operating expenses before depreciation and amortization increased by 7.4 percent, or \$10.7 million, to \$154.5 million in 2020 from \$143.8 million in 2019. The main driver of the operating revenue reduction was a 9.3 percent decrease in capacity charge revenue. The increase in operating expenses before depreciation and amortization is reflected in IT services, labor costs, and actuarial changes in the estimation of pension expense.

# King County Water Quality Enterprise Fund Management's Discussion and Analysis

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## Financial Highlights (continued)

The RCE's billed for sewer treatment services increased to 767,265 in 2020 from 766,436 (based on sewer revenues that include sewer agency prior year adjustments) in 2019. Capacity charge revenues decreased 9.3 percent, or \$9.5 million, to \$92.6 million in 2020 from \$102.1 million in 2019. The capacity charge rate increased to \$66.35 per RCE in 2020 from \$64.50 per RCE in 2019, however, the number of new sewer connections decreased by 47.9 percent and early capacity charge payoffs decreased by 41.0 percent. 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 2.6 percent in 2020 and 3.6 percent in 2019. In June of 2020, the County Council adopted a capacity charge of \$68.34, a 3.0 percent increase, along with a 4.5 percent sewer rate increase to \$47.37 for 2021.

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 2020. 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.

In 2020 Water Quality issued debt to refund existing bonds and fund its capital program, and voluntarily redeemed and defeased existing debt using funding from operations and excess bond reserves. Water Quality received \$36.6 million in low interest state loans at rates between 2.6 and 2.7 percent. More detail can be found in the Debt Administration section of this analysis and in Note 5 of the financial statements.

## 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 statement of net position; statement of revenues, expenses and changes in net position; statement 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 like those used by private-sector companies. The statements provide both long-term and short-term information about Water Quality's financial status.

The 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 yearend. 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.

# King County Water Quality Enterprise Fund Management's Discussion and Analysis

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## Overview of the Financial Statements (continued)

The most recent year's operating, and non-operating revenues and expenses of Water Quality are accounted for in the statement of revenues, expenses, and changes in net position. The statement illustrates the current 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 \$417.3 million provided 78.7 percent of operating revenues in 2020. 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 statement of cash flows reports cash receipts, cash payments, and net changes in cash derived from operations, financing, and investment activities. From the statement, the reader can discern Water Quality's sources and applications of cash during 2020, reasons for differences between operating cash flows and operating income, and the effect on the statement of net position from investing, capital, and financing activities.

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

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

## King County Water Quality Enterprise Fund Management's Discussion and Analysis

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### Financial Analysis of the Statement of Net Position

Comparative data, stated in millions of dollars:

	Years Ended December 31,	
	2020	2019
Current assets	\$ 404.5	\$ 381.1
Noncurrent restricted assets	335.9	289.1
Capital assets	4,093.7	4,112.8
Other	150.6	124.8
Total assets	4,984.7	4,907.8
Deferred outflows of resources	175.4	188.9
Total assets and deferred outflows of resources	5,160.1	5,096.7
Current liabilities	221.1	216.2
Noncurrent liabilities	3,989.5	3,994.3
Total liabilities	4,210.6	4,210.5
Deferred inflows of resources	55.9	59.5
Total liabilities and deferred inflows of resources	4,266.5	4,270.0
Net position - net investment in capital assets	431.8	405.1
Net position - restricted	238.7	230.6
Net position - unrestricted	223.1	191.0
Total net position	\$ 893.6	\$ 826.7

Net position serves as a useful indicator of Water Quality's financial position. As of December 31, 2020, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$893.6 million.

Of the total Water Quality assets and deferred outflows of resources, 79.3 percent or \$4,093.7 million were invested in capital assets such as treatment plants, pumping and regulator stations, interceptors, and other equipment at year-end 2020. For the year-end 2019, 80.7 percent or \$4,112.8 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.

# King County Water Quality Enterprise Fund Management's Discussion and Analysis

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## Financial Analysis of the Statement of Net Position (continued)

The net position increased by 8.1 percent or \$66.9 million in 2020 to \$893.6 million from \$826.7 million in 2019. Restricted net position increased by 3.5 percent or \$8.1 million in 2020 to \$238.7 million from \$230.6 million in 2019. The unrestricted net position increased by \$32.1 million in 2020 to \$223.1 million from \$191.0 million in 2019.

## Financial Analysis of the Statement of Revenues, Expenses, and Changes in Net Position

Comparative data, stated in millions of dollars:

	Years Ended December 31,	
	2020	2019
Sewage treatment fees	\$ 417.3	\$ 415.3
Capacity charge revenue	92.6	102.1
Other revenue	20.0	19.0
Operating revenues	529.9	536.4
Operating expenses	344.4	323.3
Operating income	185.5	213.1
Nonoperating revenues (expenses)	(118.7)	(132.1)
Grant revenues	0.1	-
Change in net position	66.9	81.0
Net position beginning of year	826.7	745.7
Net position end of year	<u>\$ 893.6</u>	<u>\$ 826.7</u>

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

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. Despite the challenges brought by COVID-19, Water Quality continued to protect public health by treating our region's sewage and ensuring its infrastructure's resiliency. Water Quality has developed mitigation strategies to lessen the impact of any revenue loss with debt service savings in the form of low bond market interest rates and operating cost controls. During 2020, operating revenues decreased by 1.2 percent or \$6.5 million to \$529.9 million from \$536.4 million in 2019. Operating expenses increased by 6.5 percent, or \$21.1 million to \$344.4 million in 2020 from \$323.3 million in 2019.

# 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

In 2020, sewage disposal fee revenue increased by 0.5 percent, or \$2.0 million to \$417.3 million from \$415.3 million in 2019. This increase in sewage disposal fee revenue reflects a portion of reported usage prior to the pandemic. Water Quality charged a monthly sewage treatment rate of \$45.33 per RCE in both 2020 and 2019.

Capacity charge revenue fell 9.3 percent, or \$9.5 million to \$92.6 million in 2020 compared to \$102.1 million in 2019. New sewer connections dropped 47.9 percent to 6,522 in 2020 from 12,513 in 2019 and early payoffs revenues fell 41.0 percent to \$18.5 million in 2020 from \$31.3 million in 2019. These reductions in growth reflect the pandemic's effect on the local economy.

Other operating revenues totaling \$20.0 million in 2020 increased \$1.0 million, or 5.3 percent, compared to \$19.0 million in 2019. The increase was due to a 39.3 percent increase in RINS revenue from \$2.8 million in 2019 to \$3.9 million in 2020.

### Operating Expenses

In 2020, operating expenses, excluding depreciation, rose 7.4 percent or \$10.7 million to \$154.5 million compared to a 3.1 percent increase, or \$143.8 million in 2019. This change is due primarily to changes in pension expense and to increased accrued vacation leave expense associated with the COVID-19 pandemic.

Utility and Service costs increased 1.7 percent, or \$600 thousand from \$35.6 million in 2019 to \$36.2 million in 2020. Electricity costs in 2020 rose by 3.3 percent, or \$500 thousand, to \$15.6 million from \$15.1 million in 2019. Natural gas and water utility costs decreased 32.0 percent from \$2.5 million in 2019 to \$1.7 million in 2020. Chemical costs increased less than \$100 thousand or 0.3 percent in 2020 to \$9.5 million. These essential operational costs are subject to market price fluctuation.

Intragovernmental expenses rose 3.3 percent, to \$40.8 million in 2020 from \$39.5 million in 2019 due to increased technology services.

### Non-operating Revenues and Expenses

Non-operating expenses (net) decreased by \$13.5 million to \$118.6 million in 2020 from \$132.1 million in 2019. Lower interest rates and receipt of an insurance settlement contributed to the greater portion of this decrease.

# King County Water Quality Enterprise Fund Management's Discussion and Analysis

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## Capital Assets

At December 31, 2020, Water Quality's investment in capital assets, net of accumulated depreciation, was \$4,093.7 million, reflecting a decrease of \$19.1 million or 0.5 percent less than the balance of \$4,112.8 million at December 31, 2019.

Large 2020 construction project expenditures include:

- \$48.5 million for Georgetown Wet Weather Treatment Station
- \$22.6 million for Joint Ship Canal CSO Control
- \$ 7.5 million for Sunset and Heathfield Pump Stations and Force Main Upgrade
- \$ 5.4 million for West Point Treatment Plan OGADS replacement
- \$ 5.3 million for Ovation Control Systems upgrade

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

For more 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 2020, Water Quality voluntarily redeemed \$1.8 million of principal on its Junior Lien Multi-Modal Limited Tax General Obligation Refunding Bonds, Series 2017A and B. 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 July of 2020, Water Quality voluntarily redeemed \$2.7 million of principal on its Sewer Revenue and Refunding Bonds, Series 2010.

On July 14, 2020, Water Quality issued \$200.6 million in Junior Lien Sewer Revenue Refunding Bonds, Series 2020A and Series 2020B to refund \$200.0 million of Junior Lien Sewer Revenue Bonds, Series 2001A, Series 2001B and Series 2011. These term bonds bear fixed interest rates of 0.6 and 0.9 percent, respectively, and are subject to mandatory repurchase in January 2024 and January 2026, respectively.

On August 4, 2020, Water Quality issued \$179.5 million in Sewer Improvement and Refunding Revenue Bonds, Series 2020A with an effective interest rate of 2.6 percent and an average life of 20.4 years to refund \$28.3 million of Sewer Revenue and Refunding Bonds, Series 2010, with an average coupon interest rate of 4.3 percent. This debt issue provided \$180.2 million of proceeds for the capital program. On August 4, 2020, Water Quality also issued \$186.7 million in Sewer Refunding Revenue Bonds, Series 2020B with an effective interest rate of 1.9 percent and an average life of 11.1 years to refund \$167.0 million in Sewer Refunding Revenue Bonds, Series 2012B, Series 2012C, Series 2013A and Series 2016B, with an average coupon interest rate of 5.0 percent.

On December 11, 2020, Water Quality purchased and deposited U.S. Treasury securities in an escrow to pay interest and redeem at their earliest redemption dates \$80.0 million of outstanding Sewer Revenue and Refunding Bonds, Series 2012. Funding for the escrow came from operations and excess bond reserves.

Water Quality has \$2.6 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2020 and had \$2.6 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2019. 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 2020, Water Quality has \$814.7 million of general obligation bonds and variable rate general obligation bonds outstanding and had \$839.4 million of general obligation bonds and variable rate general obligation bonds outstanding at the end of 2019. 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 Aa1 from Moody's Investors Services (Moody's) and AA+ from Standard and Poor's (S&P) Global Ratings were affirmed in June 2020 and December 2020, respectively. Water Quality's ratings on its limited tax general obligation bonds of Aaa from Moody's and AAA from S&P were both affirmed in October 2019.

# King County Water Quality Enterprise Fund Management's Discussion and Analysis

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## Debt Administration (continued)

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, 2020, the cash and investment balance in the reserve account was \$128.8 million and with a surety bond balance of \$29.6 million, totaling \$158.4 million. This balance exceeded the reserve account requirement of maximum annual debt service on the parity bonds by \$294 thousand. In 2020, excess funds in the reserve account of \$11.6 million were contributed to the refunding and defeasance of outstanding debt. At December 31, 2020 and 2019, respectively, the rate stabilization, liquidity, and asset management financial policy reserves totaled \$82.0 million.

For more detailed information on debt, refer to Note 5 in the financial statements.

## Debt Service Coverage Ratios

	Year Ended December 31,	
	2020	2019
Parity and parity lien debt	1.78	1.85
Total debt	1.56	1.58

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.

## Requests for Information

This financial report is designed to provide an overview of Water Quality's financial condition as of the year ended December 31, 2020. 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

## Statement of Net Position (in thousands)

	December 31, 2020
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 353,058
Restricted cash and cash equivalents	1,463
Accounts receivable, net	37,749
Due from other funds	2,524
Due from other governments, net	133
Inventory of supplies	9,543
Prepayments	29
	<u>404,499</u>
<b>NONCURRENT ASSETS</b>	
Restricted assets	
Cash and cash equivalents	319,416
Investments	16,473
	<u>335,889</u>
Capital assets	
Building and land improvements	2,190,369
Infrastructure and right of way	2,513,249
Plant in service and other equipment	1,212,096
Less accumulated depreciation	<u>(2,584,290)</u>
	3,331,424
Land and easements	264,775
Artwork	1,023
Construction work in progress	<u>496,428</u>
	<u>4,093,650</u>
Other noncurrent	
Regulatory assets, net of amortization	142,864
Other assets	<u>7,797</u>
	<u>150,661</u>
Total assets	<u>4,984,699</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows on refunding	167,499
Deferred outflows on other postemployment benefits	84
Deferred outflows on pension	7,205
Deferred outflows on asset retirement obligations	<u>662</u>
Total deferred outflows of resources	<u>175,450</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 5,160,149</u></u>

**King County Water Quality Enterprise Fund**  
**Statement of Net Position (continued) (in thousands)**

	December 31, 2020
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 30,849
Retainage payable	1,463
Due to other funds	12
Interest payable	65,015
Wages and benefits payable	5,632
Compensated absences, current portion	783
Other postemployment benefits, current portion	102
Taxes payable	12
Unearned revenue	3,173
State loans payable, current portion	17,610
General obligation bonds payable, current portion	17,670
Revenue bonds payable, current portion	71,950
Environmental remediation liability, current portion	6,751
Other liabilities, current portion	71
	221,093
<b>NONCURRENT LIABILITIES</b>	
Compensated absences	12,015
Other postemployment benefits	1,612
Net pension liability	8,074
State loans payable, net	227,861
General obligation bonds payable, net	871,935
Revenue bonds payable, net	2,745,449
Environmental remediation liability	42,567
Asset retirement obligation	1,350
Other liabilities	78,691
	3,989,554
Total liabilities	4,210,647
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Regulatory credits - rate stabilization	46,250
Deferred inflows on refunding	1,693
Deferred inflows on other postemployment benefits	229
Deferred inflows on pension	7,685
	55,857
Total deferred inflows of resources	55,857
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>4,266,504</b>
<b>NET POSITION</b>	
Net investments in capital assets	431,793
Restricted for	
Debt service	142,429
Regulatory assets and environmental liabilities	96,322
Unrestricted	223,101
	893,645
Total net position	<b>\$ 893,645</b>

**King County Water Quality Enterprise Fund**  
**Statement of Revenues, Expenses, and Changes in Net Position (in thousands)**

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	Year Ended December 31, 2020
OPERATING REVENUES	
Sewage disposal fees	\$ 417,361
Capacity charge revenues	92,622
Miscellaneous revenues	19,956
Total operating revenues	<u>529,939</u>
OPERATING EXPENSES	
Personnel services	59,039
Materials and supplies	18,474
Contract service and other charges	18,869
Utilities	17,345
Internal services	40,786
Depreciation and amortization	171,844
Miscellaneous expenses	18,098
Total operating expenses	<u>344,455</u>
OPERATING INCOME	<u>185,484</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	11,443
Interest expense	(129,592)
Federal, state, and other operating subsidies	138
Loss on disposal and impairment of capital assets	(2,372)
Loss on extinguishment of debt	(1,266)
Other	3,092
Total nonoperating revenues (expenses), net	<u>(118,557)</u>
CHANGE IN NET POSITION	66,927
NET POSITION	
Beginning of year	<u>826,718</u>
End of year	<u><u>\$ 893,645</u></u>

## King County Water Quality Enterprise Fund Statement of Cash Flows (in thousands)

	Year Ended December 31, 2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 529,183
Cash received from other funds - internal services	1,911
Cash payments to suppliers for goods and services	(55,466)
Cash payments to other funds - internal services	(40,798)
Cash payments for employee services	(61,768)
Other receipts	12,292
Other payments	(37,220)
Net cash provided by operating activities	348,134
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating grants and subsidies	4
Transfers in	150
Transfers out	(894)
Assistance to others	(2,249)
Net cash used in noncapital financing activities	(2,989)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital and other utility assets	(157,953)
Principal paid on capital debt	(107,444)
Interest paid on capital debt	(150,315)
Proceeds of new bond issuance	180,736
Proceeds of state loans	36,634
Cash payments for bond defeasance	(85,920)
Subsidies and other receipts	63
Net cash used in capital and related financing activities	(284,199)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(1,500)
Proceeds from sale and maturity of investments	1,518
Interest on investments	11,279
Net cash provided by investing activities	11,297
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	72,243
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	601,694
End of year	\$ 673,937

# King County Water Quality Enterprise Fund

## Statement of Cash Flows (in thousands)

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	Year Ended December 31, 2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	<u>\$ 185,484</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	171,844
Other nonoperating revenue	10,465
Changes in assets	
Accounts receivable	2,396
Due from other funds	1
Inventory of supplies	82
Prepayments	(18)
Other assets	(25,817)
Changes in deferred outflows of resources	
Deferred outflows on other postemployment benefits	(48)
Deferred outflows on pension	(2,035)
Deferred outflows on asset retirement obligations	588
Changes in liabilities	
Accounts payable	(689)
Retainage payable	(152)
Due to other funds	(12)
Taxes payable	(3)
Unearned revenue	207
Wages and benefits payable	730
Compensated absences	1,681
Other postemployment benefits	188
Net pension liability	2,112
Other liabilities	6,488
Changes in deferred inflows of resources	
Deferred inflows on other postemployment benefits	125
Deferred inflows on pension	<u>(5,483)</u>
Total adjustments	<u>162,650</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 348,134</u></u>

### NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Water Quality issued bonds in 2020 to refund debt issued from 2010 to 2016. The \$414.8 million of bond proceeds and \$4.6 million of cash payments by Water Quality were placed in escrow for the defeasance of \$395.3 million of outstanding bond principal and \$20.2 million of interest.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 1 – Operations and Accounting Policies

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

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

Water Quality has long-term sewage disposal agreements with the cities and sewer districts that operate sewage collection systems within its service area. The monthly sewage disposal charge to the contracting cities and districts is based on Water Quality's estimated annual monetary requirements, including operating costs and debt service. Revenues from Water Quality's largest customer, the City of Seattle (Seattle Public Utilities), represent approximately 39.3 percent of total sewage disposal fees in 2020.

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 \$40.8 million in 2020.

**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 demand deposits, cash with escrow agent, and all balances held with the King County Treasurer in the King County Investment Pool (the Pool) except the amounts invested through the Pool-Plus program. 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. Water Quality has the ability to place a lien on properties owned by customers for uncollected capacity charges. Water Quality reported notes receivable of \$5.0 million at 2020 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 is 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 buildings	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 2020.

- 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, 2020.
- 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 refunding of bonds and certain amounts related to pension, postemployment benefits other than pensions (OPEB) and asset retirement obligations. Deferred inflows of resources include rate stabilization, deferred gains on refunding of bonds, and certain amounts related to pension and OPEB.
- j. **Unearned revenues** - Unearned revenues are obligations of Water Quality to perform services or provide goods. This account offsets reported assets for revenues that have not met recognition requirements, including prepayments for capacity charges.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 1 – Operations and Accounting Policies (continued)

- k. **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.

- l. **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.
- m. **Capital grant revenues** – Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, grant revenues for capital purposes are reported separately from operating and nonoperating revenues as capital grant revenues.
- n. **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 liabilities 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.
- o. **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.
- p. **Use of estimates** – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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, asset retirement obligations, 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)

**New accounting standards** – The following GASB pronouncement was implemented during 2020.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, was issued in May 2020. This statement is aimed to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. As a result, Water Quality will implement GASB Statement No. 87, *Leases*, in 2021 instead of 2020.

### 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.

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 depositories 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 depositories and provides that "all public funds deposited in public depositories, 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 depositories 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. State statutes require that certificates of deposit be placed in qualified public depositories in the State of Washington and total deposits cannot exceed the net worth of the financial institution. Those institutions not meeting 100 percent collateralization or the minimum credit rating requirements may receive deposits up to the FDIC or federally guaranteed amounts. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 25 percent of the total amount of the portfolio and five percent from a single issuer.

# 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)

Assessing Water Quality’s risk exposure, Water Quality’s cash and cash equivalents balance of \$673.9 million were fully invested in the Pool as of December 31, 2020. The County had demand deposits of \$24.9 million as of December 31, 2020, of which \$9.5 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.

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 reported individual investments at \$16.5 million as of December 31, 2020, which comprises fair value of \$16.4 million and interest accrual of \$90 thousand on its investments. 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, 2020 (dollars in thousands):

	<u>Fair Value</u>	<u>Principal</u>	<u>Average Interest Rate</u>	<u>Effective Duration (Yrs)</u>
Investment type				
U.S. Treasury notes	\$ 16,383	\$ 15,228	2.47%	4.280

The U.S. Treasury notes are valued using quoted prices in active markets. The U.S. Treasury notes with AA credit rating are backed by full faith and credit of the U.S. government.

## 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)

**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, 2020, 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.

The Pool’s policies limit the maximum amount that can be invested in various securities. At 2020 year-end the Pool was in compliance with these policies. The Pool’s actual composition, as of December 31, 2020, is as follows (in thousands):

Investment type	Total	Allocation Percentage
Repurchase agreements	\$ 366,000	4.54%
Commercial paper	449,859	5.58%
U.S. Agency discount notes	424,851	5.27%
Corporate notes	423,828	5.26%
Corporate notes floating rate	32,559	0.40%
U.S. Treasury notes	1,125,620	13.98%
U.S. Agency notes	2,394,289	29.73%
U.S. Agency collateralized mortgage obligations	2,565	0.03%
Supranational coupon notes	1,854,671	23.03%
State treasurer’s investment pool	981,309	12.18%
	\$ 8,055,551	100.00%

**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.

# 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)

**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 2020 year-end, the Pool had concentrations greater than 5.0 percent of the total investment pool portfolio in the following issuers: Federal Home Loan and Mortgage Corporation, 13.5 percent; International Bank Reconstruction and Development, 9.0 percent; Federal National Mortgage Association, 8.2 percent; Federal Farm Credit Banks, 7.3 percent; Federal Home Loan Banks, 6.0 percent; Bank of Montreal, 5.8 percent; Inter-American Development Bank, 5.7 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 1.198 years at December 31, 2020.

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.

## King County Water Quality Enterprise Fund Notes to Financial Statements

### Note 2 – Deposits and Investments in King County Investment Pool (continued)

The following is a summary of inputs in valuing the County's investments as of December 31, 2020 (in thousands):

Investments by Fair Value Level	Fair Value 12/31/2020	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	\$ 449,859	\$ -	\$ 449,859	\$ -
U.S. agency discount notes	424,851	-	424,851	-
Corporate notes	423,828	-	423,828	-
Corporate notes floating rate	32,559	-	32,559	-
U.S. treasury notes	1,125,620	1,125,620	-	-
U.S. agency notes	2,394,289	-	2,394,289	-
U.S. agency collateralized mortgage obligations	2,565	-	2,565	-
Supranational coupon notes	1,854,671	-	1,854,671	-
<b>Subtotal</b>	<b>6,708,242</b>	<b>\$ 1,125,620</b>	<b>\$ 5,582,622</b>	<b>\$ -</b>
Investments Measured at Amortized Cost (Not Subject to Fair Value Hierarchy)				
Repurchase agreements	366,000			
State treasurer's investment pool	981,309			
<b>Subtotal</b>	<b>1,347,309</b>			
<b>Total investments in Investment Pool</b>	<b>\$ 8,055,551</b>			

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 \$320.9 million and investments of \$16.5 million at December 31, 2020, 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 \$1.5 million at December 31, 2020. The details of cash and cash equivalents and restricted assets as of December 31, 2020, are as follows (in thousands):

Unrestricted cash and cash equivalents	
Operating funds	\$ 81,142
Construction funds	18,314
Bond funds	139,803
Unallocated insurance recoveries	78,004
Policy reserves	<u>35,795</u>
Total unrestricted cash and cash equivalents	<u>353,058</u>
Restricted cash and cash equivalents	
Bond reserves	112,290
SRF loan reserves	13,666
Bond proceeds committed to construction	147,205
Retainage and deposits	1,468
Rate stabilization reserve	<u>46,250</u>
Total restricted cash and cash equivalents	<u>320,879</u>
Total cash and cash equivalents	<u>673,937</u>
Restricted investments	
Bond reserves	<u>16,473</u>
Total restricted assets - cash and cash equivalents and investments	<u><u>\$ 337,352</u></u>

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### **Note 4 – Risk Management**

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

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

Water Quality claims paid by the Insurance Fund of King County were \$51 thousand during 2020. 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**

**Sewer revenue bonds** – As of December 31, 2020, bonds outstanding include \$2,598.9 million of serial and term bonds maturing from January 1, 2021, through January 1, 2052, bearing interest at stated rates of 0.3 percent to 5.0 percent per annum.

In July of 2020, the County voluntarily redeemed \$2.7 million of principal on its Sewer Revenue and Refunding Bonds, Series 2010, to reduce future debt service.

On July 14, 2020, the County issued \$200.6 million of Junior Lien Sewer Revenue Refunding Bonds, Series 2020A (\$100.3 million) and Series 2020B (\$100.3 million) to refund \$100.0 million of the County's Junior Lien Sewer Revenue Bonds, Series 2001A and Series 2001B, the letter of credit support for which was scheduled to expire on September 30, 2020, and \$100.0 million of the County's Junior Lien Sewer Revenue Bonds, Series 2011, which became callable on June 1, 2020. The 2020A and 2020B term bonds bear fixed interest rates of 0.6 and 0.9 percent, respectively, and are subject to mandatory repurchase in January 2024 and January 2026, respectively. The bond maturity dates of January 1, 2032 and January 1, 2042 remain the same. The refunding of the Series 2011 bonds was undertaken to reduce total debt service payments by \$590 thousand through the mandatory put date of December 1, 2020, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$590 thousand.

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### Note 5 – Long-Term Liabilities (continued)

On August 4, 2020, the County issued \$179.5 million in Sewer Improvement and Refunding Revenue Bonds, Series A, with an effective interest rate of 2.6 percent. The proceeds were used to fund the Water Quality capital program and refund \$28.3 million of outstanding Sewer Revenue and Refunding Bonds, Series 2010, with an average coupon interest rate of 4.3 percent. The net carrying amount of the refunded debt exceeded the reacquisition price by \$1.7 million. This refunding was undertaken to reduce total debt service payments by \$15.3 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$9.0 million.

On August 4, 2020, the county also issued \$186.7 million in Sewer Refunding Revenue Bonds, Series B, with an effective rate of 1.9 percent to refund \$167.0 million of outstanding Sewer Revenue Refunding Bonds Series 2012B, 2012C, 2013A and Sewer Improvement and Refunding Revenue Bonds, Series 2016B with an average coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the refunded debt by \$11.3 million. This refunding was undertaken to reduce total debt service payments by \$43.7 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$36.5 million.

On December 11, 2020, the County purchased Treasury securities at a cost of \$85.9 million and placed them in an escrow to pay interest and redeem at their earliest redemption dates \$80.0 million of outstanding Sewer Revenue and Refunding Bonds, Series 2012. Funding for the escrow came from operations and excess in bond reserves. Water Quality undertook the defeasance to reduce future debt service.

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 (continued)

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2020
2011 Sewer Revenue	1/1/41	5.00%	175,000	4,175
2011 Series B	1/1/41	1.00-5.00%	494,270	29,445
2011 Series C	1/1/35	3.00-5.00%	32,445	7,885
2012A Refunding	1/1/52	5.00%	104,445	9,785
2012B Refunding	1/1/35	4.00-5.00%	64,260	13,640
2012C Refunding	1/4/33	2.50-5.00%	65,415	14,345
2012 Sewer Junior Lien Variable	1/1/43	(variable)	100,000	100,000
2013A Refunding	1/1/35	2.00-5.00%	122,895	45,930
2013B Revenue and Refunding	1/1/44	2.00-5.00%	74,930	54,680
2014A Refunding	1/1/47	5.00%	75,000	75,000
2014B Refunding	7/1/35	1.00-5.00%	192,460	175,500
2015A Refunding	7/1/47	3.00-5.00%	474,025	467,735
2015B Refunding	1/1/46	4.00-5.00%	93,345	70,895
2016A Refunding	7/1/41	4.00-5.00%	281,535	269,175
2016B Refunding	7/1/49	4.00-5.00%	499,655	447,070
2017A Refunding	7/1/49	5.00%	149,485	122,305
2018B Sewer Revenue	7/1/32	5.00%	124,455	124,455
2020A Refunding	1/1/52	1.63-5.00%	179,530	179,530
2020B Refunding	1/1/40	0.27-2.48%	186,745	186,745
2020A Refunding Junior Lien Variable	1/1/32	(variable)	100,295	100,295
2020B Refunding Junior Lien Variable	1/1/42	(variable)	100,295	100,295
			<u>\$ 3,690,485</u>	<u>\$ 2,598,885</u>

**General obligation bonds** – As of December 31, 2020, bonds outstanding include \$814.7 million of serial and term bonds maturing January 1, 2021, through January 1, 2046, bearing interest at stated rates of 2.0 percent to 5.3 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.

In January of 2020, the County voluntarily redeemed \$1.8 million of principal on its Junior Lien Multi-Modal Limited Tax General Obligation Refunding bonds, Series 2017A and B, to reduce future debt service.

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

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#### Note 5 – Long-Term Liabilities (continued)

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2020
2008 LTGO	1/1/34	5.25%	\$ 236,950	\$ 21,020
2012A LTGO	1/1/25	2.00-5.00%	68,395	41,360
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	239,465
2017A LTGO	1/1/34	4.00-5.00%	154,560	131,970
2017A-B Multi-Modal LTGO	1/1/40	(variable)	100,000	98,225
2019A LTGO	1/1/38	5.00%	101,035	101,035
2019A Multi-Modal LTGO	1/1/46	(variable)	100,000	100,000
2019B Multi-Modal LTGO	1/1/46	(variable)	48,095	48,095
			<u>\$ 1,101,595</u>	<u>\$ 814,680</u>

**Prior year refunded and defeasance of debt** – As of December 31, 2020, Water Quality had outstanding refunded and defeased general obligation bonds and sewer revenue bonds in the amount of \$802.6 million, of which \$556.0 million were for the bonds defeased prior to 2020. Water Quality defeased these bonds by placing 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. The loans require either semi-annual or annual payments of principal and interest from 2021 through 2053 and bear interest at stated rates from 0.0 percent to 3.1 percent. As of December 31, 2020, the balance due on all state loans is \$245.5 million and the unused portion of state loan agreements is \$19.8 million. Water Quality maintains separate cash reserves of \$13.7 million as of December 31, 2020. 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 (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, 2020. 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, 2020, 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, 2021	\$ 71,950	\$ 99,785	\$ 17,670	\$ 40,375	\$ 17,610	5,579	\$ 252,969
January 1, 2022	64,025	97,881	29,885	39,313	16,990	5,239	253,333
January 1, 2023	74,255	94,938	37,485	37,865	16,325	4,902	265,770
January 1, 2024	73,410	91,552	28,055	36,239	17,086	4,554	250,896
January 1, 2025	65,575	88,103	29,445	34,830	16,264	4,190	238,407
January 1, 2026-2030	397,120	389,930	188,215	150,631	64,922	16,058	1,206,876
January 1, 2031-2035	574,860	302,184	155,700	105,148	56,436	8,474	1,202,802
January 1, 2036-2040	499,620	207,405	180,130	68,440	17,001	3,786	976,382
January 1, 2041-2045	551,270	102,426	-	39,988	8,056	2,582	704,322
January 1, 2046-2050	207,995	22,870	148,095	7,995	9,201	1,449	397,605
January 1, 2051-2053	18,805	666	-	-	5,580	224	25,275
	<u>\$ 2,598,885</u>	<u>\$ 1,497,740</u>	<u>\$ 814,680</u>	<u>\$ 560,824</u>	<u>\$ 245,471</u>	<u>\$ 57,037</u>	<u>\$ 5,774,637</u>

The future annualized interest payments for the variable rate bonds are based on an interest rate of 3.5 percent, which represents 70 percent of the long-term interest rate of 5.0 percent assumed by the County for financial planning purposes. Interest payments on the Junior Lien Variable Sewer Revenue Bonds, Series 2012, Series 2020A and Series 2020B, are based on the stated interest rates of 2.6 percent, 0.6 percent, and 0.9 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 (continued)

**Variable rate general obligation and revenue bonds** – The County's \$98.2 million Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2017A and B, are in a direct placement mode and are secured by a subordinate lien on the net revenues of the system. Events of default under the continuing covenant agreement for the bonds 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 agreements related to the County's variable rate bonds, Series 2017A and B and Series 2019A and B, have acceleration clauses (declaring outstanding balances immediately due). The variable rate bonds, Series 2012, Series 2017A and B and Series 2020A 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 \$35.8 million at December 31, 2020.

**Compliance with bond resolutions** – With respect to the year ended December 31, 2020, Water Quality complied with all financial covenants stipulated by its bond resolutions.

**Changes in long-term liabilities** – Long-term liability activity for the years ended December 31, 2020 was as follows (in thousands):

	Balance January 1, 2020	Additions	Reductions	Balance December 31, 2020	Due Within One Year
Bonds payable	\$ 3,312,100	\$ 566,865	\$ (563,625)	\$ 3,315,340	\$ 89,620
Direct placements-bonds payable	100,000		(1,775)	98,225	-
Bond premiums and discounts	322,654	26,020	(55,235)	293,439	-
<b>Total bonds payable</b>	<b>3,734,754</b>	<b>592,885</b>	<b>(620,635)</b>	<b>3,707,004</b>	<b>89,620</b>
Direct borrowings-state loans	226,221	36,634	(17,384)	245,471	17,610
Compensated absences	11,117	11,837	(10,156)	12,798	783
Other post-employment benefits	1,526	279	(91)	1,714	102
Net pension liability	5,962	24,745	(22,633)	8,074	-
Environmental remediation	44,508	8,624	(3,814)	49,318	6,751
Asset retirement obligations	1,500	-	(150)	1,350	-
Other liabilities	77,302	1,827	(367)	78,762	71
<b>Total long-term liabilities</b>	<b>\$ 4,102,890</b>	<b>\$ 676,831</b>	<b>\$ (675,230)</b>	<b>\$ 4,104,491</b>	<b>\$ 114,937</b>

## King County Water Quality Enterprise Fund

### Notes to Financial Statements

#### Note 6 – Asset Retirement Obligations

In 2020, Water Quality reported the ARO of \$1.4 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 ranges from one to nine 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.

#### Note 7 – Changes in Capital Assets

Changes in capital assets for the years ended December 31, 2020, are shown in the following table (in thousands):

	Balance January 1, 2020	Increases	Decreases	Balance December 31, 2020
Land	\$ 248,766	\$ -	\$ -	\$ 248,766
Easements	15,569	440	-	16,009
Artwork	4,349	-	(3,326)	1,023
Construction work in progress	438,160	191,333	(133,065)	496,428
Total nondepreciable assets	<u>706,844</u>	<u>191,773</u>	<u>(136,391)</u>	<u>762,226</u>
Buildings	2,034,935	7,863	(862)	2,041,936
Improvements other than buildings	141,422	7,011	-	148,433
Right of way	7,635	-	-	7,635
Infrastructure	2,465,628	42,823	(2,837)	2,505,614
Equipment	1,150,241	42,059	(17,486)	1,174,814
Software development	35,631	1,651	-	37,282
Total depreciable assets	<u>5,835,492</u>	<u>101,407</u>	<u>(21,185)</u>	<u>5,915,714</u>
Accumulated depreciation and amortization				
Building	(857,861)	(53,208)	553	(910,516)
Improvements other than building	(41,031)	(5,765)	(1,696)	(48,492)
Right of way	(1,799)	(218)	-	(2,017)
Infrastructure	(719,459)	(51,749)	1,200	(770,008)
Equipment	(773,782)	(60,216)	17,060	(816,938)
Software development	(35,631)	(688)	-	(36,319)
Total depreciation and amortization	<u>(2,429,563)</u>	<u>(171,844)</u>	<u>17,117</u>	<u>(2,584,290)</u>
Depreciable assets - net	<u>3,405,929</u>	<u>(70,437)</u>	<u>(4,068)</u>	<u>3,331,424</u>
Total capital assets - net	<u>\$ 4,112,773</u>	<u>\$ 121,336</u>	<u>\$ (140,459)</u>	<u>\$ 4,093,650</u>

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### 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.

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, 2020, stands at \$49.3 million.

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).

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### 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 2020.

**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, 2020, as the measurement date for reporting net pension liability at 2020 year-end.

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 year 2020 (in thousands):

	<u>Aggregate Pension Amounts—All Plans</u>	
Pension liabilities	\$	8,074
Deferred outflows of resources		7,205
Deferred inflows of resources		7,685
Pension expense		3,903

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 10 – Employee Benefit Plans (continued)

**Pension plans** –Substantially all full-time and qualifying part-time employees of Water Quality participate in Public Employees’ Retirement System (PERS) Plan 2 or Plan 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.

The DRS, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for each plan.

The DRS financial report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Or the DRS financial report 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 PERS Plan 1-member contribution rate is established by State statute at 6 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The plan was closed to new entrants on September 30, 1977.

## King County Water Quality Enterprise Fund Notes to Financial Statements

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### Note 10 – Employee Benefit Plans (continued)

**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 2020 were as follows:

Actual Contribution Rates	PERS Plan 2/3	
	Employer 2/3	Employee 2
January – August 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%
September – December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

Water Quality's actual contributions to the PERS plan 2/3 were \$9.3 million for the year ended December 31, 2020.

**Actuarial assumptions** – The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75 percent total economic inflation; 3.5 percent salary inflation.
- Salary increases: In addition to the base 3.5 percent salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.4 percent

## King County Water Quality Enterprise Fund Notes to Financial Statements

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### Note 10 – Employee Benefit Plans (continued)

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. 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 changes in methods and assumptions since the last valuation.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at [leg.wa.gov/osa](http://leg.wa.gov/osa).
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See [leg.wa.gov/osa](http://leg.wa.gov/osa) for more information on this method change.

**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 was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### 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, 2020, 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%
	<u>100.00%</u>	

**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).

Pension Plan	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
PERS 2/3	\$ 50,241	\$ 8,074	\$ (26,650)

**Pension plan fiduciary net position** – Detailed information about the fiduciary net position of the State’s pension plans is available in the separately issued DRS financial report.

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions** – At December 31, 2020, Water Quality reported a total pension liability of \$8.1 million for its proportionate share of the net pension liabilities of PERS Plan 2/3.

Water Quality’s proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 2/3	0.60%	0.63%	0.03%

## King County Water Quality Enterprise Fund Notes to Financial Statements

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### Note 10 – Employee Benefit Plans (continued)

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, 2020, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension expense** – For the year ended December 31, 2020, Water Quality recognized pension expense in the amount of \$3.9 million.

**Deferred outflows of resources and deferred inflows of resources** – At December 31, 2020, Water Quality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience.	\$ 2,891	\$ 1,012
Net difference between projected and actual investment earnings on pension plan investments.	-	410
Changes of assumptions	115	5,515
Changes in proportion and differences between contributions and proportionate share of contributions.	1,274	748
Contributions subsequent to the measurement date.	<u>2,925</u>	<u>-</u>
Total	<u>\$ 7,205</u>	<u>\$ 7,685</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 year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

<u>Year Ending December 31,</u>	<u>PERS 2/3</u>
2021	\$ (3,320)
2022	(771)
2023	174
2024	847
2025	(173)
Thereafter	(162)

### 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 year 2020 (in thousands):

	<u>OPEB Amounts</u>
OPEB liabilities	\$ 1,714
Deferred outflows of resources	84
Deferred inflows of resources	229
OPEB expense	264

**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 percent 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 percent of their medical costs. The County pays benefits as they come due.

## King County Water Quality Enterprise Fund Notes to Financial Statements

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### Note 11 – Other Post-Employment Benefits (continued)

**Employees covered by benefit terms** – At December 31, 2020, the benefit terms covered the following employees:

Category	Count
Inactive employees, spouses, or beneficiaries currently receiving benefit payments	517
Active employees	<u>14,746</u>
Total	<u><u>15,263</u></u>

**Net OPEB liability** – The County's total OPEB liability was valued as of December 31, 2020 and used to calculate the net OPEB liability measured as of December 31, 2020.

**Actuarial assumptions** – The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement Date:	<u>December 31, 2020</u>	
Discount rate		2.00%
Inflation		2.75%
Healthcare Cost Trend Rates		
Pre-Medicare		5.40% *
Medicare		0.00% *
Salary Increases		3.50% **
Mortality Rates	Public Employer Mortality Tables - Society of Actuaries	

\* Trending down to 4.04% over 54 years. Applies to calendar years.

\*\* Additional merit-based increases based on CalPERS merit salary increase tables.

- Projections of the sharing of benefit-related costs are based on an established pattern of practice.
- Experience studies come from the State of Washington 2018 reports.
- Inactive employees (retirees) pay 100 percent of the cost of benefits, except for LEOFF1 which pays zero percent.
- There were no ad hoc postemployment benefit changes (including ad hoc COLAs) to the plan.

The discount rate used to measure the total OPEB liability is 2.0 percent. 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

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### Note 11 – Other Post-Employment Benefits (continued)

**Changes in total OPEB liability** – Water Quality’s allocated changes in the total OPEB liability for the year ended December 31, 2020, were as follows (in thousands):

Total OPEB liability - 1/1/2020	<u>\$ 1,526</u>
Changes for the year:	
Service cost	36
Interest	67
Difference between expected and actual experience	(139)
Change of assumptions	53
Benefit payments	(63)
Implicit subsidy credit	(28)
Other changes	262
Net changes	<u>188</u>
Total OPEB liability - 12/31/2020	<u><u>\$ 1,714</u></u>

**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 (1.0 percent) or one percentage point higher (3.0 percent) than the current rate (in thousands).

	<u>1% Decrease (1.00%)</u>	<u>Current Discount Rate (2.00%)</u>	<u>1% Increase (3.00%)</u>
Total OPEB liability	\$ 1,858	\$ 1,714	\$ 1,585
Increase (Decrease)	144		(129)
% change	8.40%		-7.54%

**Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates** – The healthcare trend for this valuation started at 5.4 percent and decreased to 4.0 percent over 54 years. 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 (4.4 percent) or one percentage point higher (6.4 percent) than current healthcare cost trend rates (in thousands).

	<u>1% Decrease (4.40%)</u>	<u>Trend Rate (5.40%)</u>	<u>1% Increase (6.40%)</u>
Total OPEB liability	\$ 1,562	\$ 1,714	\$ 1,888
Increase (Decrease)	(152)		174
% change	-8.85%		10.17%

## 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, 2020, Water Quality reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 37	\$ 123
Changes of assumptions	47	106
Total	\$ 84	\$ 229

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB in the year ended December 31, 2020, will be recognized as OPEB expense as follows (in thousands):

Year Ending December 31,	Amount
2021	\$ (21)
2022	(21)
2023	(21)
2024	(20)
2025	(20)
Thereafter	(42)

**Expected average remaining service lives (EARSL)** – The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period. The EARSL for the current period is 8.8 years.

# 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 \$2.5 million and due to other funds of \$12 thousand at December 31, 2020.

**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 2020, the transfers from Water Quality to other funds were \$894 thousand and transfers from other funds were \$150 thousand.

### 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 has active construction and contractual commitments of approximately \$153.1 million on active construction contracts as of December 31, 2020.

**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:

- *Lower Duwamish Waterway* - The Environmental Protection Agency (EPA) issued an administrative order 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. A new amendment is currently being negotiated for the next phase of remedy design. 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)

- *Denny Way CSO Model Toxic Control Act Cleanup* – There was a potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. Water Quality signed an Agreed Order with the Washington State Department of Ecology (DOE) under the Model Toxics Control Act for an interim cleanup action in November 2007 and subsequently performed the interim cleanup at a cost of \$3.6 million. 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.
- *East Waterway Operable Unit of the Harbor Island Superfund Site* – There were potential claims for past and future cleanup costs at the Harbor Island Superfund Site. The Port of Seattle has completed a significant removal action in the East Waterway. The City of Seattle, Port of Seattle and the County may subsequently negotiate the amount, if any, that the City and the County will contribute to defray the Port of Seattle's past cleanup costs at the site. The County is unable to determine an amount that Water Quality may be responsible for, if any.

In addition, EPA determined that a supplemental remedial Investigation/Feasibility study (RI/FS) is necessary. The supplemental RI/FS is now complete and has been approved by EPA though one additional study is being completed at EPA's request to further finalize it. A three-way agreement with the Port of Seattle, the City of Seattle and King County covers the participation of the City, the Port of Seattle, and the County in the supplemental RI/FS governing the East Waterway Operable Unit. The agreement allocates to Water Quality a one-third pro-rata share of the study costs as defined in the agreement although these 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's for the cost of the study. EPA is now contemplating issuance of a proposed plan that would select the site remedy. The County and three other PRP's have negotiated a memorandum of agreements to implement a search for other responsible parties.

- *North Creek Interceptor Sewer Improvement Project* - A claim was 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 trial date is set for August 30, 2021. The contractor is counterclaiming for approximately \$10.0 million based on a wrongful termination.

# King County Water Quality Enterprise Fund

## Notes to Financial Statements

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### Note 13 – Commitments and Contingencies (continued)

*Lower Duwamish Waterway - Possible Natural Resource Damages* - The County has participated in discussions with 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 a NRD assessment and invited the County to participate in the development of the assessment. The County notified NOAA in March 2016 and again in December 2019 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 other liable parties. The County is currently in the process of negotiating a settlement with NOAA but cannot predict the amount or likelihood of settlement.

*Ronald Wastewater District v. Olympic View Water & Sewer District* – Ronald Wastewater District (Ronald) sought a declaratory judgment that it is the exclusive wastewater service provider to the Point Wells area in unincorporated Snohomish County. Olympic View Water & Sewer District (OVWSD) claimed that the Point Wells area is located within its corporate boundaries, was not properly annexed to Ronald, and that OVWSD is the exclusive service provider. Woodway, Snohomish County, and Edmonds were also parties to the action, supporting OVWSD's legal position. Shoreline and King County were defendants, supporting Ronald's position. The Superior Court ruled in favor of Ronald finding that King County properly transferred the Richmond Beach Sewer System to Ronald in 1985 and that the court's approval in 1985 of that transfer lawfully annexed the Point Wells service area to Ronald's corporate boundary. The Court of Appeals reversed the superior court and decided that the 1985 transfer from King County to Ronald was void. Ronald and King County both filed petitions for review to the Supreme Court, which accepted review. Late in 2020 the Supreme Court upheld the appellate court's ruling, agreeing that Ronald could not have unilaterally annexed Point Wells into Ronald's service area because Point Wells was already within OVWSD's boundary, and neither OVWSD nor Snohomish County consented to Ronald's annexation of Point Wells. This ruling will resolve most of the remaining litigation amongst the parties. However, OVWSD indicates that it plans to pursue other causes of action, including breach of contract, against Shoreline, as successor to Ronald, and against King County. The County intends to vigorously defend itself against such causes of action.

*Suquamish Tribe Notice of Intent to Sue* - In July 2020, the Suquamish Tribe (Tribe) submitted a Notice of Intent (NOI) to sue under the Clean Water Act for the County's discharges of untreated wastewater in violation of the County's discharge permits. In March 2021, the Tribe submitted a supplemental NOI for additional County discharges. Civil penalties available under the Clean Water Act are a maximum of \$57 thousand, per violation per day. The County has met with the Tribe in an effort to settle the NOI. If settlement efforts are not successful, the County believes that it has some available defenses to a potential Clean Water Act lawsuit related to these discharges and would vigorously defend against such an action.

## King County Water Quality Enterprise Fund Notes to Financial Statements

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### **Note 13 – Commitments and Contingencies (continued)**

*Georgetown Wet Weather Treatment Station* - This project involves construction of a new 70.0 million gallon per day capacity wet weather treatment station for treating combined sewer overflow wastewater. The contract was awarded to a contractor in the amount of \$96.2 million. The contractor seeks approximately \$4.3 million in additional compensation for claims including for contaminated soil, schedule delays in obtaining a shoring and dewatering permit, addressing a sinkhole and water intrusion that occurred while driving secant pile shaft, and additional costs associated with electrical work. The County has disputed the contractor's request for entitlement. A date for mandatory mediation has not yet been set. Mediation is a condition precedent to litigation.

*Sunset and Heathfield Pump Stations and Force Main Upgrade Project* - The project involves installation of eight new raw sewage pumps, four at the Sunset Pump Station and four at the Heathfield Pump Station, and related improvements to these facilities, including upgrades to electrical systems, mechanical systems and conveyance system piping. The contract was awarded to a contractor for \$36.6 million. The contractor has submitted a \$6.4 million request for change order from the County for work to address ongoing vibration issues and mechanical failures in the installed pumps. The County is evaluating this request.

### **Note 14 – Subsequent Events**

On December 15, 2020, the County authorized issuance of up to \$250.0 million in Limited Tax General Obligation Notes (Commercial Paper) that will be issued from time to time to finance or refinance certain capital projects of the County's sewer system. Water Quality issued \$44.2 million of commercial paper notes on January 7, 2021.

On January 19, 2021, Water Quality closed on a \$96.8 million loan commitment with the Environmental Protection Agency for the Ship Canal Water Quality project. Draws on the loan commitment was evidenced by the sewer revenue bond, 2021 (WIFIA – N19128WA), authorized by King County Council on June 23, 2020.

On January 29, 2021, the continuing covenant agreement related to the County's Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2017A and B, was extended beyond the prior expiration date of April 5, 2021. The continuing covenant agreement, which governs the direct bank loan arrangement in which form the bonds are currently held, now expires on January 28, 2022.

On February 25, 2021, the County issued \$100.0 million in commercial paper notes and placed the proceeds in escrow to refund and defease the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2012, at their earliest redemption date. Water Quality undertook the refunding to reduce interest costs.

## **Required Supplementary Information**

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## King County Water Quality Enterprise Fund Required Supplementary Information Pension Plan Information

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)

	2020	2019	2018	2017	2016
County's proportion of the net pension liability	8.85%	8.25%	8.56%	8.45%	8.90%
County's proportionate share of the net pension liability	\$ 312,368	\$ 317,333	\$ 382,129	\$ 400,803	\$ 477,872
Covered payroll	\$ 1,283,745	\$ 1,196,465	\$ 1,124,434	\$ 1,031,025	\$ 1,007,624 **
County's proportionate share of the net pension liability as a percentage of covered payroll	24.33%	26.52%	33.98%	38.87%	47.43% **
Plan fiduciary net position as a percentage of the total pension liability	68.64%	67.12%	63.22%	61.24%	57.03%
	<u>2015</u>				
County's proportion of the net pension liability	8.76%				
County's proportionate share of the net pension liability	\$ 458,477				
Covered payroll	\$ 1,000,211	**			
County's proportionate share of the net pension liability as a percentage of covered payroll	45.84%	**			
Plan fiduciary net position as a percentage of the total pension liability	59.10%				

\* This schedule is to be built prospectively until it contains ten years of data.

\*\* 2015-2019 numbers are restated to include PERS 2/3 and PSERS 2 covered payroll on which portions of PERS 1 UAAL contributions are based.

# 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)

	2020	2019	2018	2017	2016
County's proportion of the net pension liability	10.85%	10.06%	10.29%	10.14%	10.52%
County's proportionate share of the net pension liability	\$ 138,736	\$ 97,735	\$ 175,728	\$ 352,361	\$ 529,855
Covered payroll	\$ 1,219,052	\$ 1,144,724	\$ 1,072,968	\$ 995,800	\$ 953,254
County's proportionate share of the net pension liability as a percentage of covered payroll	11.38%	8.54%	16.38%	35.38%	55.58%
Plan fiduciary net position as a percentage of the total pension liability	97.22%	97.77%	95.77%	90.97%	85.82%
	<u>2015</u>				
County's proportion of the net pension liability	10.36%				
County's proportionate share of the net pension liability	\$ 370,294				
Covered payroll	\$ 949,860				
County's proportionate share of the net pension liability as a percentage of covered payroll	38.98%	**			
Plan fiduciary net position as a percentage of the total pension liability	89.20%				

\* This schedule is to be built prospectively until it contains ten years of data.

\*\* Amount restated to reflect correction in calculation.

## 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 1  
For the Year Ended December 31\*  
(dollars in thousands)

	2020	2019	2018	2017	2016
Contractually required contributions	\$ 60,884	\$ 62,240	\$ 59,366	\$ 54,111	\$ 50,154 **
Contributions in relation to the contractually required contributions	60,884	62,240	59,366	54,111	50,154 **
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,306,676	\$ 1,245,598	\$ 1,154,804	\$ 1,082,715	\$ 1,028,598 **
Contributions as a percentage of covered payroll	4.66%	5.00%	5.14%	5.00%	4.88% **
<hr style="border: 0; border-top: 1px solid black; margin: 0;"/>					
	2015				
Contractually required contributions	\$ 25,283	**			
Contributions in relation to the contractually required contributions	25,283	**			
Contribution deficiency (excess)	\$ -				
Covered payroll	\$ 507,206	**			
Contributions as a percentage of covered payroll	4.98%	**			

\* This schedule is to be built prospectively until it contains ten years of data.

\*\* 2015-2019 numbers are restated to include portions of PERS 1 UAAL from PERS 2/3 and PSERS 2 contributions.

# 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)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ 101,390	\$ 93,935	\$ 84,792	\$ 72,763	\$ 62,650 **
Contributions in relation to the contractually required contributions	<u>101,390</u>	<u>93,935</u>	<u>84,792</u>	<u>72,763</u>	<u>62,650 **</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,251,724	\$ 1,188,641	\$ 1,103,984	\$ 1,031,418	\$ 977,342
Contributions as a percentage of covered payroll	8.10%	7.90%	7.68%	7.05%	6.41% **
	<u>2015</u>				
Contractually required contributions	\$ 72,853				**
Contributions in relation to the contractually required contributions	<u>72,853</u>				**
Contribution deficiency (excess)	<u>\$ -</u>				
Covered payroll	\$ 933,304				
Contributions as a percentage of covered payroll	7.81%				**

\* This schedule is to be built prospectively until it contains ten years of data.

\*\* 2015-2019 numbers are restated to exclude portions of PERS 1 UAAL from PERS 2/3 contributions.

## **King County Water Quality Enterprise Fund Required Supplementary Information Pension Plan Information (continued)**

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### **Notes to Pension Required Supplementary Information**

For PERS, 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. The actuarial valuation with a June 30, 2017, valuation date, completed in the fall of 2018, plus any supplemental contribution rates from the preceding legislative session, determined the ADC for the period beginning July 1, 2019, and ending June 30, 2021.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates could be different pending the actions of the governing bodies.

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.

For fiscal years 2015 - 2020, the annual money-weighted rate of return on plan investments for each PERS pension plan is disclosed in the 2020 Washington State Department of Retirement Systems Annual Financial Report (AFR). The AFR is available online at <https://www.drs.wa.gov/administration/annual-report/>.

# 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)

	2020	2019	2018
Total OPEB liability - beginning of year	\$ 111,272	\$ 111,412	\$ 118,120
Service cost	2,220	2,155	2,092
Interest	4,149	4,138	4,147
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(8,646)	-	3,332
Changes of assumptions	3,310	(4,953)	(9,652)
Benefit payments	(3,922)	(1,480)	(5,244)
Implicit rate subsidy fulfilled	(1,764)	-	(1,383)
Other changes	-	-	-
Net change in total OPEB liability	(4,653)	(140)	(6,708)
Total OPEB liability - end of year	<u>\$ 106,619</u>	<u>\$ 111,272</u>	<u>\$ 111,412</u>
Covered-employee payroll	\$ 1,324,116	\$ 1,219,237	\$ 1,217,867
Total OPEB liability as a percentage of covered payroll	8.05%	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, benefit terms, 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, 2020**

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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) 1.78

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) 1.56

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) 1.42

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 2020, short-term interest rates fell to 1.22 percent from 2.11 percent in 2019.

Coverage (1.10 required by covenant) 21.88

**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)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Residential customer and residential customer Equivalents (RCEs) (annual average, rounded)	707,300	708,900	718,160	725,844	736,090	756,430	756,916	760,571	763,436	767,265
Percentage annual change	0.41%	0.23%	1.31%	1.07%	1.41%	2.76%	0.06%	0.48%	0.38%	0.50%
Operating revenues										
Sewage disposal fees	\$ 306,430	\$ 307,143	\$ 342,850	\$ 346,591	\$ 371,253	\$ 381,513	\$ 401,650	\$ 403,589	\$ 415,279	\$ 417,361
Rate stabilization	(25,523)	13,923	10,350	18,000	(12,000)	-	-	-	-	-
Capacity charge revenues	48,693	51,411	58,660	59,522	62,479	71,200	82,615	86,836	102,146	92,622
Other operating revenues	7,830	9,398	10,126	11,675	11,674	11,828	18,308	19,125	19,024	19,956
<b>Total Operating Revenues</b>	<b>337,430</b>	<b>381,875</b>	<b>421,986</b>	<b>435,788</b>	<b>433,406</b>	<b>464,541</b>	<b>502,573</b>	<b>509,550</b>	<b>536,449</b>	<b>529,939</b>
Operating and maintenance expenses <sup>1)</sup>	103,995	114,939	117,183	122,014	127,211	138,698	142,263	139,585	143,834	154,513
Add: GAAP adjustment <sup>2)</sup>	-	-	-	2,187	1,715	(2,377)	5,936	13,004	10,438	3,505
<b>Net operating and maintenance expenses</b>	<b>103,995</b>	<b>114,939</b>	<b>117,183</b>	<b>124,201</b>	<b>128,926</b>	<b>136,321</b>	<b>148,199</b>	<b>152,589</b>	<b>154,272</b>	<b>158,018</b>
Net operating revenue	233,435	266,936	304,803	311,587	304,480	328,220	354,374	356,961	382,177	371,921
Interest income <sup>3)</sup>	2,725	1,697	2,682	2,822	2,863	4,549	6,055	8,956	10,765	7,971
<b>Net revenue available for debt service</b>	<b>236,160</b>	<b>268,633</b>	<b>307,485</b>	<b>314,409</b>	<b>307,343</b>	<b>332,769</b>	<b>360,429</b>	<b>365,917</b>	<b>392,942</b>	<b>379,892</b>
Debt service										
Parity bonds	132,664	157,117	172,959	175,463	167,694	160,957	159,761	163,967	171,321	162,385
Parity lien obligations	32,910	38,626	43,064	42,876	40,348	53,164	52,650	49,121	41,529	50,755
Subordinate debt service	12,769	14,087	15,039	17,477	18,318	21,316	26,277	33,139	35,174	30,367
<b>Total debt service</b>	<b>\$ 178,343</b>	<b>\$ 209,830</b>	<b>\$ 231,062</b>	<b>\$ 235,816</b>	<b>\$ 226,360</b>	<b>\$ 235,437</b>	<b>\$ 238,688</b>	<b>\$ 246,227</b>	<b>\$ 248,024</b>	<b>\$ 243,507</b>
Debt service coverage										
On parity bonds	1.78	1.71	1.78	1.79	1.83	2.07	2.26	2.23	2.29	2.34
On parity bonds and parity lien obligations	1.43	1.42	1.36	1.44	1.48	1.55	1.70	1.72	1.85	1.78
On all sewer system obligations	1.32	1.28	1.33	1.33	1.36	1.41	1.51	1.49	1.58	1.56

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, 2020, 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, 2021.

### **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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Moss Adams LLP*

Seattle, Washington  
April 30, 2021

**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 such individual's designee, the County Executive or such individual's 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 110 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 September 30, 2021, the Investment Pool had a balance of \$8.3 billion and an effective duration of 1.4 years, and 43.7% 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 depositories 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

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

*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 2022 for the fiscal year ended December 31, 2021:

- (i) annual financial statements of the County’s Water Quality Enterprise Fund 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 the 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 Revenue of the System; and
- (iii) information regarding Customers, Revenue of the System, Operating and Maintenance Expenses, and debt service coverage, generally as set forth in Table 10—“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 County, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the County, any of which affect security holders, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the County, any of which reflect financial difficulties.

For the purposes of notices (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 Securities and Exchange Commission Rule 15c2-12 (“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 the caption "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 terms of 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, 34% 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—Public Health” 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.

<b>POPULATION</b>					
<b>Year</b>	<b>Washington</b>	<b>King County</b>	<b>Seattle</b>	<b>Bellevue</b>	<b>Unincorporated King County</b>
1980 <sup>(1)</sup>	4,130,163	1,269,749	493,846	73,903	503,100
1990 <sup>(1)</sup>	4,866,692	1,507,319	516,259	86,874	NA
2000 <sup>(1)</sup>	5,894,121	1,737,034	563,374	109,827	349,773
2010 <sup>(1)</sup>	6,724,540	1,931,249	608,660	122,363	325,000
2011 <sup>(2)</sup>	6,767,900	1,942,600	612,100	123,400	285,265
2012 <sup>(2)</sup>	6,817,770	1,957,000	616,500	124,600	255,720
2013 <sup>(2)</sup>	6,882,400	1,981,900	626,600	132,100	253,100
2014 <sup>(2)</sup>	6,968,170	2,017,250	640,500	134,400	252,050
2015 <sup>(2)</sup>	7,061,410	2,052,800	662,400	135,000	253,280
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
2020 <sup>(2)</sup>	7,656,200	2,260,800	761,100	148,100	249,100

(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				
	2015	2016	2017	2018	2019
Seattle MD	\$ 68,792	\$ 71,903	\$ 75,973	\$ 81,201	\$ 85,284
King County	76,122	79,742	84,542	90,438	94,974
State of Washington	53,840	55,884	58,550	62,026	64,578
United States	48,978	49,870	51,885	54,446	56,490

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.

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
2020	3,688	1,448,194,320	8,649	1,059,067,656	2,507,261,976
2020 <sup>(1)</sup>	2,658	1,039,412,979	7,139	832,062,855	1,871,475,834
2021 <sup>(1)</sup>	2,588	1,033,917,553	10,307	1,588,931,649	2,622,849,202

(1) Estimates with imputations through September.

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>
2016	\$ 59,530,882,870	\$ 24,287,539,378
2017	62,910,608,935	26,005,147,210
2018	69,018,354,390	28,292,069,881
2019	72,785,180,223	29,953,200,188
2020	66,955,895,952	25,904,879,115
2020 <sup>(1)</sup>	31,026,732,730	12,272,255,472
2021 <sup>(1)</sup>	36,582,583,997	13,964,644,145

(1) Through second quarter.

Source: *Quarterly Business Review*, Washington State Department of Revenue

## Employment

The following table presents approximate total employment in the State as of December 31, 2020 (unless otherwise noted), for certain major employers in the Puget Sound area.

### PUGET SOUND MAJOR EMPLOYERS

Employer	Employees
Amazon.com	80,000
Microsoft Corp.	57,700
The Boeing Co.	56,900 <sup>(1)</sup>
Joint Base Lewis-McChord	54,000 <sup>(2)</sup>
University of Washington Seattle	49,500
Providence	43,500
Walmart Inc.	22,100
Costco Wholesale Corp.	20,200
Albertsons Cos. dba Safeway, Haggen, Albertsons	20,000
MultiCare Health System	18,300
Virginia Mason Franciscan Health <sup>(3)</sup>	17,800
King County government	16,400
Fred Meyer Stores	16,100
Starbucks Coffee Co.	14,000
Swedish Health Services	12,700
Seattle Public Schools	11,700
Alaska Air Group Inc.	9,200
Kaiser Permanente	8,200
Seattle Children's Foundation	8,000
T-Mobile USA Inc.	8,000

(1) In the past couple of years, Boeing has faced financial stress and has significantly reduced its company-wide workforce through a combination of buyouts and layoffs and the shift of 787 production out of the State. The State's quarterly economic and revenue forecast released in September 2021 assumed that Boeing was about three quarters of the way through its announced 31,000 company-wide layoffs, which were assumed to be concentrated in the State.

(2) 40,000 are service members and 14,000 are civilian employees.

(3) Virginia Mason and CHI Franciscan Health merged in January 2021.

*Source: Puget Sound Business Journal, Publication Date October 8, 2021*

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

	<b>Annual Average</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</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>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Total Nonfarm	1,356,900	1,397,408	1,431,933	1,467,817	1,385,242
Total Private	1,178,800	1,216,542	1,254,317	1,292,433	1,213,908
Goods Producing	177,250	177,733	181,550	186,058	172,317
Mining and Logging	525	533	500	500	467
Construction	71,217	74,342	78,108	79,533	76,675
Manufacturing	105,525	102,867	102,925	106,000	95,133
Service Providing	1,179,650	1,219,675	1,250,383	1,281,758	1,212,925
Trade, Transportation, and Utilities	254,142	268,325	274,642	280,933	276,200
Information	96,200	102,883	111,017	121,633	128,017
Financial Activities	70,642	71,450	73,708	75,267	72,567
Professional and Business Services	222,750	227,792	233,092	238,875	234,883
Educational and Health Services	174,042	179,142	185,842	189,592	180,558
Leisure and Hospitality	135,683	140,775	145,050	146,833	101,442
Other Services	48,092	48,442	49,417	53,242	47,925
Government	178,100	180,867	177,617	175,383	171,333
Workers in Labor/Management Disputes	0	0	0	0	0
	<b>Sep. 2021</b>				
Civilian Labor Force	1,314,931				
Total Employment	1,258,925				
Total Unemployment	56,006				
Percent of Labor Force	4.3%				

(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.