

OFFICIAL STATEMENT

New Issue  
Book-Entry Only

RATINGS  
Moody's: Aa1  
Fitch: AA+  
Standard & Poor's: AAA  
(See "Other Bond Information—Ratings.")

*In the opinion of Bond Counsel, as of the date of issue of the Bonds (the "Date of Issue") and assuming compliance by the County with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the Date of Issue, under existing federal law, 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 determining the federal alternative minimum tax imposed on individuals and corporations. However, under existing federal law, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. See "Legal and Tax Information—Tax Matters" herein and Appendix A—Forms of Bond Counsel Opinions hereto.*

KING COUNTY, WASHINGTON

\$27,415,000

\$25,970,000

LIMITED TAX GENERAL OBLIGATION BONDS  
2015, SERIES B (FEDERALLY TAX-EXEMPT)

LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS  
2015, SERIES C (FEDERALLY TAX-EXEMPT)

DATED: Date of Initial Delivery

DUE: 2015B: December 1, as shown on page i  
2015C: January 1, as shown on page ii

King County, Washington (the "County"), is issuing its Limited Tax General Obligation Bonds, 2015, Series B (Federally Tax-Exempt) (the "2015B Bonds"), and Limited Tax General Obligation Refunding Bonds, 2015, Series C (Federally Tax-Exempt) (the "2015C Bonds") as fully registered obligations. Together, the 2015B Bonds and 2015C Bonds are defined in this Official Statement as the "Bonds."

When issued, the Bonds will be 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 will be issued initially in book-entry form only in denominations of \$5,000 or any integral multiple thereof within a maturity of a series. Purchasers will not receive certificates representing their interest in the Bonds purchased. The 2015B Bonds will bear interest payable semiannually on June 1 and December 1, beginning June 1, 2016, to their maturities or prior redemption. The 2015C Bonds will bear interest payable semiannually on January 1 and July 1, beginning January 1, 2016, to their maturities or prior redemption. The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (currently U.S. Bank National Association) (the "Bond Registrar"). For so long as the Bonds remain in a "book-entry only" transfer system, the Bond Registrar is required to make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to Beneficial Owners of the Bonds as described in Appendix E—Book-Entry System.

The 2015B Bonds are being issued to provide financing for an open space acquisition, real estate purchases, several technology projects, and several energy conservation programs and to pay the costs of issuing the 2015B Bonds. The 2015C Bonds are being issued to refund certain outstanding obligations of the County and to pay the costs of issuing the 2015C Bonds and refunding the refunded bonds.

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

The Bonds are general obligations of the County. The County has irrevocably covenanted to levy nonvoted property taxes in an amount sufficient, together with other legally available money, to pay the principal of and interest on the Bonds when due. The County's nonvoted property taxes are subject to constitutional and statutory limits as described herein. See "Property Tax Information." The County has irrevocably pledged its full faith, credit, and resources for the annual levy and collection of such nonvoted property taxes and for the payment of the principal of and interest on the Bonds when due.

The Bonds are offered when, as, and if issued, subject to approval of legality by Hillis Clark Martin & Peterson P.S., Seattle, Washington, Bond Counsel, and certain other conditions. The forms of Bond Counsel's opinions are attached hereto as Appendix A. It is anticipated that the Bonds will be ready for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about October 13, 2015.

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

Dated: September 21, 2015

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

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

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

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

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

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

**MATURITY SCHEDULE**

**\$27,415,000**

**KING COUNTY, WASHINGTON  
LIMITED TAX GENERAL OBLIGATION BONDS, 2015, SERIES B  
(FEDERALLY TAX-EXEMPT)**

| <b>Due Dec. 1</b> | <b>Amounts</b> | <b>Interest Rates</b> | <b>Yields</b> | <b>Prices</b>          | <b>CUSIP Numbers <sup>(1)</sup></b> |
|-------------------|----------------|-----------------------|---------------|------------------------|-------------------------------------|
| 2016              | \$ 2,015,000   | 5.00%                 | 0.400%        | 105.195                | 49474FLC2                           |
| 2017              | 2,555,000      | 5.00%                 | 0.750%        | 108.976                | 49474FLD0                           |
| 2018              | 2,690,000      | 5.00%                 | 1.050%        | 112.142                | 49474FLE8                           |
| 2019              | 2,820,000      | 5.00%                 | 1.300%        | 114.841                | 49474FLF5                           |
| 2020              | 2,955,000      | 5.00%                 | 1.600%        | 116.689                | 49474FLG3                           |
| 2021              | 3,105,000      | 5.00%                 | 1.800%        | 118.501                | 49474FLH1                           |
| 2022              | 3,255,000      | 5.00%                 | 1.960%        | 120.143                | 49474FLJ7                           |
| 2023              | 1,205,000      | 2.50%                 | 2.080%        | 103.126                | 49474FLK4                           |
| 2024              | 1,235,000      | 5.00%                 | 2.190%        | 123.143                | 49474FLL2                           |
| 2025              | 1,300,000      | 5.00%                 | 2.300%        | 124.279                | 49474FLM0                           |
| 2026              | 790,000        | 4.00%                 | 2.450%        | 113.831 <sup>(2)</sup> | 49474FLN8                           |
| 2027              | 820,000        | 4.00%                 | 2.600%        | 112.398 <sup>(2)</sup> | 49474FLP3                           |
| 2028              | 855,000        | 4.00%                 | 2.750%        | 110.986 <sup>(2)</sup> | 49474FLQ1                           |
| 2029              | 890,000        | 4.00%                 | 2.850%        | 110.057 <sup>(2)</sup> | 49474FLR9                           |
| 2030              | 925,000        | 4.00%                 | 2.950%        | 109.136 <sup>(2)</sup> | 49474FLS7                           |

(1) 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 Standard & Poor's. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The County takes no responsibility for the accuracy of such CUSIP numbers.

(2) Calculated to the December 1, 2025, par call date.

**MATURITY SCHEDULE**

**\$25,970,000**

**KING COUNTY, WASHINGTON**

**LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2015, SERIES C**

**(FEDERALLY TAX-EXEMPT)**

| <b>Due Jan. 1</b> | <b>Amounts</b> | <b>Interest Rates</b> | <b>Yields</b> | <b>Prices</b>          | <b>CUSIP Numbers <sup>(1)</sup></b> |
|-------------------|----------------|-----------------------|---------------|------------------------|-------------------------------------|
| 2016              | \$ 275,000     | 3.00%                 | 0.600%        | 100.518                | 49474FLT5                           |
| 2017              | -              | -                     | -             | -                      |                                     |
| 2018              | -              | -                     | -             | -                      |                                     |
| 2019              | 1,685,000      | 3.00%                 | 1.030%        | 106.216                | 49474FLU2                           |
| 2020              | 2,265,000      | 3.00%                 | 1.320%        | 106.867                | 49474FLV0                           |
| 2021              | 2,350,000      | 4.00%                 | 1.550%        | 112.230                | 49474FLW8                           |
| 2022              | 2,440,000      | 4.00%                 | 1.780%        | 113.007                | 49474FLX6                           |
| 2023              | 2,540,000      | 4.00%                 | 1.990%        | 113.447                | 49474FLY4                           |
| 2024              | 2,645,000      | 5.00%                 | 2.110%        | 121.693                | 49474FLZ1                           |
| 2025              | 2,775,000      | 5.00%                 | 2.230%        | 122.958                | 49474FMA5                           |
| 2026              | 2,890,000      | 3.00%                 | 2.440%        | 105.034                | 49474FMB3                           |
| 2027              | 2,985,000      | 4.00%                 | 2.550%        | 112.966 <sup>(2)</sup> | 49474FMC1                           |
| 2028              | 3,120,000      | 5.00%                 | 2.590%        | 121.508 <sup>(2)</sup> | 49474FMD9                           |

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(2) Calculated to the January 1, 2026, par call date.

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

**KING COUNTY EXECUTIVE**

Dow Constantine

**METROPOLITAN KING COUNTY COUNCIL**

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

**OTHER ELECTED OFFICIALS**

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

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

Ken Guy

**CLERK OF THE METROPOLITAN KING COUNTY COUNCIL**

Anne Noris

**BOND COUNSEL**

Hillis Clark Martin & Peterson P.S.,

**FINANCIAL ADVISOR TO THE COUNTY**

Piper Jaffray & Co./Seattle-Northwest Division

**BOND REGISTRAR**

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

**OFFICIAL STATEMENT**

**KING COUNTY, WASHINGTON**

**\$27,415,000**

**LIMITED TAX GENERAL OBLIGATION BONDS, 2015, SERIES B  
(FEDERALLY TAX-EXEMPT)**

**\$25,970,000**

**LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2015, SERIES C  
(FEDERALLY TAX-EXEMPT)**

**INTRODUCTION**

This Official Statement contains certain information concerning the issuance by King County, Washington (the “County”), of \$27,415,000 aggregate principal amount of its Limited Tax General Obligation Bonds, 2015, Series B (Federally Tax-Exempt) (the “2015B Bonds”), and \$25,970,000 aggregate principal amount of its Limited Tax General Obligation Refunding Bonds, 2015, Series C (Federally Tax-Exempt) (the “2015C Bonds”). Together, the 2015B Bonds and 2015C Bonds are defined in this Official Statement as the “Bonds.”

The 2015B Bonds are issued under and in accordance with the provisions of chapters 36.67 and 39.46 of the Revised Code of Washington (“RCW”) and the County Charter, and are authorized under the provisions of County Ordinance 18090, passed on July 27, 2015, and Motion 14430 of the County Council passed on September 21, 2015 (collectively, the “2015B Bond Legislation”). The 2015C Bonds are issued under and in accordance with the provisions of chapters 36.67, 39.46, and 39.53 RCW and the County Charter, and are authorized under the provisions of County Ordinance 17564, passed on April 29, 2013, and Motion 14431 of the County Council passed on September 21, 2015 (collectively, the “2015C Bond Legislation”). Together, the 2015B Bond Legislation and the 2015C Bond Legislation are referred to in this Official Statement as the “Bond Legislation.”

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

**THE BONDS**

**Description**

The Bonds will be dated and bear interest from the date of their initial delivery, will be fully registered as to both principal and interest, and will be in the denomination of \$5,000 or any integral multiple thereof within each maturity of a series. When issued, the Bonds will be registered in the name of Cede & Co. as Registered Owner and nominee of The Depository Trust Company, New York, New York (“DTC”).

The 2015B Bonds will bear interest payable semiannually on each June 1 and December 1, beginning June 1, 2016, to their maturities or prior redemption. The 2015C Bonds will bear interest payable semiannually on each January 1 and July 1, beginning January 1, 2016, to their maturities or prior redemption. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will mature on the dates and in the years and amounts set forth on pages i and ii of this Official Statement.

DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only, and purchasers will not receive certificates representing their interest in the Bonds purchased. For so long as Cede

& Co. is deemed to be the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners or Bond owners will mean Cede & Co. and will not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” means the person for whom a DTC participant acquires an interest in the Bonds.

The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (currently U.S. Bank National Association) (the “Bond Registrar”). For so long as all Bonds are in fully immobilized form, payments of principal thereof and interest thereon will be made in accordance with the operational arrangements of DTC referred to in the Letter of Representations between the County and DTC which, in turn, is obligated to remit such principal and interest to DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described herein in Appendix E—Book-Entry System.

### **Optional Redemption**

The 2015B Bonds maturing on and after December 1, 2026, are subject to redemption prior to their stated maturity at the option of the County in whole or in part, at any time on or after December 1, 2025, at the price of par plus accrued interest, if any, to the date fixed for redemption.

The 2015C Bonds maturing on and after January 1, 2027, are subject to redemption prior to their stated maturity at the option of the County in whole or in part, at any time on or after January 1, 2026, at the price of par plus accrued interest, if any, to the date fixed for redemption.

*Selection of Bonds for Redemption.* If fewer than all of the Bonds subject to optional redemption are called for redemption, the County will choose the maturities to be redeemed. If fewer than all of the Bonds maturing on the same date are called for redemption, the Bond Registrar will select for redemption such Bonds or portions thereof randomly, or in such other manner as the Bond Registrar determines, except that, for so long as the Bonds are registered in the name of DTC or its nominee, DTC will select for redemption such Bonds or portions thereof in accordance with the DTC Letter of Representations. In no event will any Bond be outstanding in a principal amount that is not \$5,000 or any integral multiple thereof.

*Notice of Redemption.* While Bonds are held by DTC in book-entry only form, any notice of redemption must be given at the time, to the entity, and in the manner required by DTC in accordance with the DTC Letter of Representations, and the Bond Registrar is not required to give any other notice of redemption. See “Book-Entry System” below and Appendix E. If the Bonds cease to be in book-entry only form, unless waived by any Registered Owner of the Bonds to be redeemed, the County will cause notice of any intended redemption of Bonds to be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on registration books for the Bonds maintained by the Bond Registrar (the “Bond Register”) at the time the Bond Registrar prepares the notice. The notice requirements of the Bond Legislation will be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the owner of any Bond.

*Conditional Redemption; Cancellation of Redemption.* In the case of an optional redemption, the notice of redemption may state that the County retains the right to rescind the redemption notice and the redemption by giving a notice of rescission to the affected Registered Owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded will be of no effect, and each Bond for which a notice of optional redemption has been rescinded will remain outstanding.

*Effect of Redemption.* Interest on each Bond called for redemption will cease to accrue on the date fixed for redemption, except in the case of a rescinded optional redemption or unless the Bond or Bonds called are not redeemed when presented pursuant to the call.

### **Purchase**

The County has reserved the right and option to purchase any or all of the Bonds at any time at any price.



## **Book-Entry System**

*Book-Entry Bonds.* DTC will act as initial securities depository for the Bonds. Individual purchases may be made in book-entry form only, and purchasers will not receive certificates representing their interest in the Bonds purchased. The ownership of one fully registered Bond in the aggregate principal amount of each maturity of each series of the Bonds will be registered in the name of Cede & Co., as nominee for DTC. So long as Cede & Co. is the Registered Owner of the Bonds, references herein to the Registered Owners or Bond owners will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds. Neither the County nor the Bond Registrar will have any responsibility or obligation to DTC participants or Beneficial Owners regarding the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on the Bonds, any notice that is permitted or required to be given to Registered Owners under the Bond Legislation (except those notices that are required to be given by the County to the Bond Registrar or to DTC), or any consent given or other action taken by DTC as the Registered Owner. See Appendix E for additional information.

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

*Termination of Book-Entry System.* If DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or the County determines that it is in the best interest of the Beneficial Owners of any of the Bonds that they be able to obtain such Bonds in the form of bond certificates, the ownership of Bonds may then be transferred to any person or entity as provided in the Bond Legislation, and the Bonds will no longer be held in fully immobilized form. If the 2015B Bonds are no longer held in fully immobilized form, interest on the 2015B Bonds will be paid by check or draft mailed, or by wire transfer, to the Registered Owners of the 2015B Bonds at the addresses appearing on the Bond Register on the 15th day of the calendar month preceding the interest payment date. Wire transfer will only be made if so requested in writing and if the Registered Owner owns at least \$1,000,000 par value of the 2015B Bonds. If the 2015C Bonds are no longer held in fully immobilized form, interest on the 2015C Bonds will be paid by check or draft mailed on the interest payment date to the Registered Owners of the 2015C Bonds at the addresses appearing on the Bond Register on the 15th day of the calendar month preceding the interest payment date or by electronic transfer on the interest payment date. The County is not required to make electronic transfers to a Registered Owner of 2015C Bonds except pursuant to a request in writing received at least ten days before an interest payment date, and any such electronic transfer will be at the sole expense of that Registered Owner. In either case, principal of the Bonds is payable at maturity upon presentation and surrender of the Bonds by the Registered Owners at the principal office of the Bond Registrar.

## **Refunding or Defeasance of Bonds**

The County may issue refunding obligations pursuant to the laws of the State of Washington (the "State") or use money available from any other lawful source to pay when due the principal of and premium, if any, and interest on the Bonds, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, refund, or defease all such then-outstanding Bonds (hereinafter collectively called the "defeased Bonds") and to pay the costs of the refunding or defeasance. If money and/or Government Obligations (as defined below) maturing at a time or times and bearing interest in amounts (together with money, if necessary) sufficient to redeem and retire, refund, or defease the defeased Bonds in accordance with their terms are set aside in a special trust fund or escrow account irrevocably pledged to that redemption, retirement, or defeasance of defeased Bonds (a "trust account"), then all right and interest of the Registered Owners of the defeased Bonds in the covenants of the Bond Legislation and in the funds and accounts obligated to the payment of the defeased Bonds will cease and become void. The Registered Owners of defeased Bonds have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account. The County will include in the refunding or defeasance plan such provisions as the County deems necessary for the random selection of any defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be given to the owners of the defeased Bonds and to such other persons as the County determines, and for any required replacement of Bond certificates for defeased Bonds. The defeased Bonds will be deemed no longer outstanding, and the County may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes as it determines. If the defeased Bonds are registered in the name of DTC or its nominee, notice of any defeasance of Bonds will be given to DTC in the manner prescribed in the DTC Letter of Representations for notices of redemption of Bonds.

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

## USE OF PROCEEDS

### Purpose

The 2015B Bonds are being issued to provide financing for an open space acquisition, real estate purchases, several technology projects, and several energy conservation programs and to pay the costs of issuing the 2015B Bonds. The 2015C Bonds are being issued to refund certain outstanding obligations of the County and to pay the costs of issuing the 2015C Bonds and refunding the Refunded Bonds (defined below), as described below under “Plan of Refunding.”

### Sources and Uses of Funds

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

|   | 2015B         | 2015C         | TOTAL         |
|---|---------------|---------------|---------------|
| <b>SOURCES OF FUNDS</b>                     |               |               |               |
| Par Amount of Bonds                         | \$ 27,415,000 | \$ 25,970,000 | \$ 53,385,000 |
| Reoffering Premium (Discount)               | 3,920,408     | 3,622,463     | 7,542,871     |
| Total Sources of Funds                      | \$ 31,335,408 | \$ 29,592,463 | \$ 60,927,871 |
| <b>USES OF FUNDS</b>                        |               |               |               |
| Deposit to Project Fund                     | \$ 31,129,718 | \$ -          | \$ 31,129,718 |
| Deposit to Refunding Escrow                 | -             | 29,411,393    | 29,411,393    |
| Payment of Costs of Issuance <sup>(1)</sup> | 205,690       | 181,070       | 386,760       |
| Total Uses of Funds                         | \$ 31,335,408 | \$ 29,592,463 | \$ 60,927,871 |

(1) Includes rating agency fees, financial advisory fees, escrow agent fees, verification agent fees, underwriters’ discount, legal fees, printing costs, and other costs of issuing the Bonds and refunding the Refunded Bonds.

### Plan of Refunding

A portion of the proceeds from the sale of the 2015C Bonds will be used to advance refund a portion of the County’s outstanding callable Limited Tax General Obligation Bonds, 2007, Series C, and Limited Tax General Obligation Bonds, 2007, Series D (together, the “Refunded Bonds”), for the purpose of realizing debt service savings.

**REFUNDED BONDS**

| <b>Bond Component</b>                                       | <b>Maturity Date</b> | <b>Par Amount</b> | <b>Interest Rate</b> | <b>Redemption Price</b> | <b>Redemption Date</b> | <b>CUSIP Number</b> |
|---|----------------------|-------------------|----------------------|-------------------------|------------------------|---------------------|
| <i>Limited Tax General Obligation Bonds, 2007, Series C</i> |                      |                   |                      |                         |                        |                     |
| Serial  | 1/1/2020             | \$ 550,000        | 4.125%               | 100%                    | 1/1/2018               | 49474EC76           |
| Term  | 1/1/2022             | 1,165,000         | 4.300%               | 100%                    | 1/1/2018               | 49474EC84           |
| Serial  | 1/1/2023             | 620,000           | 4.300%               | 100%                    | 1/1/2018               | 49474EC92           |
|   | 1/1/2024             | 650,000           | 4.375%               | 100%                    | 1/1/2018               | 49474ED26           |
|   | 1/1/2025             | 675,000           | 4.375%               | 100%                    | 1/1/2018               | 49474ED34           |
|   | 1/1/2026             | 705,000           | 4.375%               | 100%                    | 1/1/2018               | 49474ED42           |
| Term  | 1/1/2028             | <u>1,505,000</u>  | 4.500%               | 100%                    | 1/1/2018               | 49474ED59           |
| Subtotal  |                      | \$ 5,870,000      |                      |                         |                        |                     |

| <b>Bond Component</b>                                       | <b>Maturity Date</b> | <b>Par Amount</b>    | <b>Interest Rate</b> | <b>Redemption Price</b> | <b>Redemption Date</b> | <b>CUSIP Number</b> |
|---|----------------------|----------------------|----------------------|-------------------------|------------------------|---------------------|
| <i>Limited Tax General Obligation Bonds, 2007, Series D</i> |                      |                      |                      |                         |                        |                     |
| Serial  | 1/1/2019             | \$ 1,700,000         | 5.000%               | 100%                    | 1/1/2018               | 49474EE90           |
|   | 1/1/2020             | 1,785,000            | 5.000%               | 100%                    | 1/1/2018               | 49474EF24           |
|   | 1/1/2021             | 1,875,000            | 4.125%               | 100%                    | 1/1/2018               | 49474EF32           |
|   | 1/1/2022             | 1,950,000            | 4.250%               | 100%                    | 1/1/2018               | 49474EF40           |
|   | 1/1/2023             | 2,035,000            | 4.250%               | 100%                    | 1/1/2018               | 49474EF57           |
|   | 1/1/2024             | 2,120,000            | 4.625%               | 100%                    | 1/1/2018               | 49474EF65           |
|   | 1/1/2025             | 2,215,000            | 4.750%               | 100%                    | 1/1/2018               | 49474EF73           |
|   | 1/1/2026             | 2,325,000            | 4.750%               | 100%                    | 1/1/2018               | 49474EF81           |
|   | 1/1/2027             | 2,435,000            | 4.750%               | 100%                    | 1/1/2018               | 49474EF99           |
|   | 1/1/2028             | <u>2,550,000</u>     | 4.750%               | 100%                    | 1/1/2018               | 49474EG23           |
| Subtotal  |                      | \$ 20,990,000        |                      |                         |                        |                     |
| Total   |                      | <u>\$ 26,860,000</u> |                      |                         |                        |                     |

*Procedure.* With a portion of the proceeds of the 2015C Bonds, the County will purchase certain direct obligations of the United States of America or other Government Obligations. These Government Obligations will be deposited in the custody of U.S. Bank National Association (together with any duly appointed successor, the “Escrow Agent”). The Government Obligations, interest earned thereon, and any beginning cash balance will be used to provide for the payment of the Refunded Bonds, pursuant to an escrow deposit agreement to be executed by the County and the Escrow Agent.

*Verification of Calculations.* The mathematical accuracy of (i) the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations and cash on deposit to be held by the Escrow Agent to pay principal of and interest on the Refunded Bonds as described above, and (ii) the computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” under Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), will be verified by Causey Demgen & Moore P.C., independent certified public accountants (the “Verification Agent”).

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

**General**

The Bonds are general obligations of the County. The County has irrevocably covenanted to levy nonvoted property taxes in an amount sufficient, together with other legally available money, to pay the principal of and interest on the

Bonds when due. The County's nonvoted property taxes are subject to constitutional and statutory limits as described herein. See "Property Tax Information." The County has irrevocably pledged its full faith, credit, and resources for the annual levy and collection of such nonvoted property taxes and for the payment of the principal of and interest on the Bonds when due.

The County may, subject to applicable laws, apply other funds available to make payments with respect to the Bonds.

Bond owners do not have a security interest in particular revenues or assets of the County. The Bonds do not constitute a debt or indebtedness of the State or any political subdivision thereof other than the County.

State law provides that the payment of general obligation bonds is enforceable in mandamus against the issuer. There is no express provision in the State Constitution or statutes on the priority of payment of debt service on general obligations incurred by a Washington municipality. Certain taxes and other money deposited in the County's governmental funds are restricted by State law to specific purposes and may not be available to pay debt service on the Bonds. The rights and remedies of anyone seeking enforcement of the Bonds are subject to laws of bankruptcy and insolvency and to other laws affecting the rights and remedies of creditors and to the exercise of judicial discretion. See "Legal and Tax Information—Limitations on Remedies and Municipal Bankruptcy."

### **No Acceleration Upon Default**

If the County were to default on the payment of principal of or interest on the Bonds, payment of the principal of and accrued interest on the Bonds would not be subject to acceleration. The County is liable for principal and interest payments only as they become due. In the event of multiple defaults in payment of principal of or interest on the Bonds, Bondholders would be required to bring a separate action for each such payment not made. 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.

## **KING COUNTY**

### **General**

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

### **Organization of the County**

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

*County Executive.* The County Executive serves as the chief executive officer of the County. The County Executive presents to the County Council annual statements of the financial and governmental affairs of the County, budgets, and capital improvement plans. The County Executive signs, or causes to be signed on behalf of the County, all deeds, contracts, and other instruments. All County employees report to the County Executive except those appointed by the County Council, Superior and District Courts, Prosecuting Attorney, Assessor, Director of Elections, or Sheriff.

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

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

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

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

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

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

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

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

### **Auditing**

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

The County's Comprehensive Annual Financial Report in its entirety may be accessed on the internet at the following link, which is not incorporated into this Official Statement by reference:

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

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

### **County Fund Accounting**

The County uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the County are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Most of the basic services provided by the County are financed through its governmental funds. The County's governmental funds are comprised of a General Fund and several individual Special Revenue, Debt Service, and capital project funds. The proprietary funds are generally used to account for services for which the County charges

customers a fee, while the fiduciary funds are used to account for resources held for the benefit of parties other than the County.

### Major Governmental Fund Revenue Sources

The County’s two major revenue sources for general County purposes are taxes and intergovernmental revenues. The General, Special Revenue, and Debt Service Funds received approximately 93% of taxes and 96% of intergovernmental revenues in 2014. Taxes and intergovernmental revenues provided approximately 80% of the total revenue in the governmental funds of the County. Additional sources of revenue are licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues.

*Taxes.* The following table lists various taxes collected and deposited in the governmental funds of the County, excluding the Flood Control Zone District Fund and the Ferry District Fund. A description of each type of tax follows the table.

| <b>TAXES COLLECTED<br/>AS OF DECEMBER 31<br/>(\$000)</b> |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Source</b>  | <b>2010</b>       | <b>2011</b>       | <b>2012</b>       | <b>2013</b>       | <b>2014</b>       |
| Real and Personal Property Tax <sup>(1)</sup>            | \$ 556,144        | \$ 557,957        | \$ 555,994        | \$ 582,478        | \$ 681,954        |
| Retail Sales and Use Tax <sup>(2)</sup>                  | 126,262           | 133,458           | 137,176           | 147,129           | 160,635           |
| Penalty and Interest on Property Taxes                   | 21,328            | 21,889            | 21,476            | 20,867            | 20,993            |
| Hotel/Motel Tax  | 18,245            | 19,715            | 21,268            | 20,244            | 23,237            |
| Real Estate Excise tax                                   | 7,369             | 6,783             | 8,004             | 11,059            | 10,924            |
| E-911 Excise Tax   | 16,169            | 22,833            | 23,316            | 23,515            | 22,440            |
| Public Facilities District-related Taxes <sup>(3)</sup>  | 33,670            | 24,965            | 166               | 91                | 133               |
| Other Taxes  | 11,541            | 13,680            | 14,511            | 14,912            | 15,982            |
| <b>Total</b>   | <b>\$ 790,728</b> | <b>\$ 801,280</b> | <b>\$ 781,911</b> | <b>\$ 820,295</b> | <b>\$ 936,298</b> |

(1) Excludes revenue generated by real and personal property taxes to support public transit.

(2) Excludes revenue generated by the 0.9% levy to support public transit.

(3) No longer collected after October 1, 2011. See “Public Facilities District Taxes” below.

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

**REAL AND PERSONAL PROPERTY TAX.** The method of determining the assessed value of real and personal property, the County’s taxing authority, tax collection procedures, tax collection information, and the allocation of such taxes are described in “Property Tax Information” herein.

**RETAIL SALES AND USE TAX.** The State first levied a retail sales tax and a corresponding use tax on taxable uses of certain services and personal property in 1935. Counties, cities, and certain other municipal corporations in the State are also authorized to levy various sales and use taxes. Neither the State nor local governments in the State collect an income tax.

A sales and use tax of 9.5% is charged on all gross retail sales in the County within the boundaries of the Central Puget Sound Regional Transit Authority (“Sound Transit”) and 8.6% outside its boundaries (excluding food products for off-premise consumption and certain other exempt items described below). The resulting tax revenues are allocated 6.5% to the State, 0.9% to the County to support public transit, 0.15% to the County and 0.85% to a city or town if the area is incorporated or 1% to the County in unincorporated areas, 0.1% to cities within the County and to the County for criminal justice purposes, 0.1% to the County for the purpose of providing new or expanded chemical dependency or mental health treatment services and for the operation of new or expanded therapeutic court programs, and 0.9% collected within the boundaries of Sound Transit to fund Sound Transit.

The sales tax currently is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), machinery and supplies used by

businesses, services and repair of real and personal property, and many other transactions not taxed in other states. The use tax supplements the sales tax by taxing the use of certain services and the use of certain personal property on which a sales tax has not been paid (such as items purchased in a state that imposes no sales tax). The State Legislature, and the voters through the initiative process, have changed the base of the sales and use tax on occasion, and this may occur again in the future. See “Initiatives and Referenda.” Among the various items not currently subject to the sales and use tax are most personal services, motor vehicle fuel, most food for off-premises consumption, trade-ins, and purchases for resale. Most lodging is not subject to the sales tax because the State Legislature has limited the total sales taxes that may be imposed on lodging. See “Hotel/Motel Tax” below.

Sales taxes upon applicable retail sales are collected by the seller from the consumer. Use taxes are payable by the consumer upon the applicable rendering of service or use of personal property. The County collects any use tax imposed on the use of motor vehicles. Each seller (and the County) is required to hold taxes in trust until remitted to the State Department of Revenue, which usually occurs on a monthly basis. The State Department of Revenue administers and collects sales and use taxes from sellers, consumers, and the County and makes disbursements to the County on a monthly basis.

**PENALTY AND INTEREST ON PROPERTY TAXES.** Interest of 12% per annum is charged on all delinquent real and personal property taxes until the taxes are paid. There is an 11% penalty in addition to the 12% interest rate on delinquent taxes: 3% is assessed on the amount of tax delinquent on June 1 of the year in which the tax is due and 8% is assessed on the total amount of delinquent tax on December 1 of the year in which the tax is due. The amount of penalty and interest collected is credited to the County’s General Fund.

**HOTEL/MOTEL TAX.** Under the authority of State legislation, the County levies a 2% excise tax on all transient lodging within the County. Effective January 1, 2013, the County no longer levies this tax on transient lodging within the City of Bellevue. The tax is collected by the State through its sales tax program and distributed to the County. The revenue has been used for the payment of certain of the County’s general obligation bonds, excluding the Bonds.

Since January 1, 2013, all such taxes collected were first applied to retiring the debt on the former multi-purpose sports stadium (which was fully retired in May 2015) and thereafter, through December 31, 2015, are deposited into an account dedicated to arts, culture, and heritage programs. From January 1, 2016, through December 31, 2020, all such taxes are to be retained by the State and used primarily to pay the debt service on bonds issued by the State to finance a new football stadium and exhibition hall.

**REAL ESTATE EXCISE TAX.** The County imposes a real estate excise tax of 0.5% on property sales in unincorporated areas. The funds are used for capital projects benefiting unincorporated area residents and parks in unincorporated areas of the County. The County’s tax is in addition to the current State real estate excise tax of 1.28%. A portion of the revenue is used for the payment of certain of the County’s general obligation bonds, excluding the Bonds.

**E-911 EXCISE TAX.** The County has levied a tax on all telephone access lines since 1984, to provide enhanced emergency telephone service throughout the entire County.

**PUBLIC FACILITIES DISTRICT TAXES.** The County levied additional taxes to pay the debt service on bonds issued by the County to provide funds for the construction of a baseball stadium (“Safeco Field”) and parking facilities by the Washington State Major League Baseball Stadium Public Facilities District. These taxes included additional sales taxes on food and beverage service and car rentals, as well as a tax on stadium admissions. The County also received a tax credit of 0.017% of the general sales taxes collected in the County which otherwise would have been paid to the State. The remaining County bonds issued in connection with the construction of Safeco Field were fully defeased in September 2011, and effective October 1, 2011, the County ceased collecting the taxes and receiving the tax credit associated with these bonds.

**OTHER TAXES.** Other taxes include an automobile rental sales and use tax, business taxes, a leasehold excise tax, a timber harvest tax, and gambling taxes.

*Intergovernmental Revenue.* The following table lists various intergovernmental revenues. A description of each type of intergovernmental revenue follows the table.

**VARIOUS INTERGOVERNMENTAL REVENUES  
AS OF DECEMBER 31  
(\$000)**

| <b>Source</b>   | <b>2010</b>       | <b>2011</b>       | <b>2012</b>       | <b>2013</b>       | <b>2014</b>       |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Grants  | \$ 183,523        | \$ 218,736        | \$ 205,690        | \$ 161,851        | \$ 145,518        |
| Revenue Sharing   | 11,083            | 7,217             | 12,065            | 10,753            | 13,637            |
| Gas Tax   | 13,802            | 13,762            | 13,098            | 12,989            | 12,838            |
| Liquor Tax and Profits  | 1,830             | 1,626             | 1,664             | 1,088             | 1,169             |
| Intergovernmental Payments  | 342,290           | 331,775           | 360,674           | 369,344           | 465,378           |
| Public Facilities District-related<br>Lottery Allocation <sup>(1)</sup> | 5,195             | 5,403             | -                 | -                 | -                 |
| Other Intergovernmental Revenues  | 10,507            | 10,488            | 10,737            | 10,363            | 10,580            |
| <b>Total</b>  | <b>\$ 568,230</b> | <b>\$ 589,007</b> | <b>\$ 603,928</b> | <b>\$ 566,388</b> | <b>\$ 649,120</b> |

(1) No longer collected after October 1, 2011.

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

**GRANTS.** In 2014, operating, health, public employment, and capital improvement grants from the federal government, either directly or indirectly through the State or local governmental agencies, contributed an estimated \$93.5 million in intergovernmental revenues to the County. As the following schedule shows, this comprised 64.2% of total 2014 grants. A total of 35.8% of estimated grant revenue was from the State.



**2013 AND 2014 GRANT REVENUE  
BY SOURCE AND FUNCTION  
(\$000)**

|                             | 2013       |   | 2014       |   |
|-----------------------------|------------|---|------------|---|
|                             | Actual     | Item as a<br>Percent of<br>Total Actual | Actual     | Item as a<br>Percent of<br>Total Actual |
| Federal                     |            |   |            |   |
| General Government Services | \$ 827     | 0.5%                                    | \$ -       | 0.0%                                    |
| Law, Safety and Justice     | 16,534     | 10.2%                                   | 13,392     | 9.2%                                    |
| Physical Environment        | 8,455      | 5.2%                                    | 6,864      | 4.7%                                    |
| Transportation              | 17,034     | 10.5%                                   | 10,367     | 7.1%                                    |
| Economic Environment        | 17,845     | 11.0%                                   | 18,802     | 12.9%                                   |
| Mental and Physical Health  | 50,636     | 31.3%                                   | 44,057     | 30.3%                                   |
| Culture and Recreation      | 105        | 0.1%                                    | -          | 0.0%                                    |
| Total Federal               | \$ 111,436 | 68.9%                                   | \$ 93,482  | 64.2%                                   |
| State:                      |            |   |            |   |
| General Government Services | \$ -       | 0.0%                                    | \$ -       | 0.0%                                    |
| Law, Safety and Justice     | 5,164      | 3.2%                                    | 4,870      | 3.3%                                    |
| Physical Environment        | 6,913      | 4.3%                                    | 11,116     | 7.6%                                    |
| Transportation              | 1,691      | 1.0%                                    | 953        | 0.7%                                    |
| Economic Environment        | 13,116     | 8.1%                                    | 13,844     | 9.5%                                    |
| Mental and Physical Health  | 23,495     | 14.5%                                   | 21,039     | 14.5%                                   |
| Culture and Recreation      | 36         | 0.0%                                    | 214        | 0.1%                                    |
| Total State                 | \$ 50,415  | 31.1%                                   | \$ 52,036  | 35.8%                                   |
| Total Grants                | \$ 161,851 | 100.0%                                  | \$ 145,518 | 100.0%                                  |

Source: King County Finance and Business Operations Division—Financial Management Section

**REVENUE SHARING.** In 1999, passage of Initiative 695 and the subsequent repeal of the Motor Vehicle Excise Tax by the State Legislature in 2000 eliminated a dedicated funding source for public health. As backfill, the State Legislature began allocating State General Fund revenues to local health jurisdictions in support of their responsibilities under the Health Reform Act of 1993. In 2014, this legislative allocation generated \$8.8 million in revenues for public health purposes in the County.

**GAS TAX.** Counties are entitled to 19.2287% of 23 cents of the State motor vehicle fuel tax collected by the State, less amounts for State supervision and studies and amounts withheld for the County Road Administration Board (RCW 46.68.090(2)(h)). The motor vehicle fuel tax is allocated to counties by the County Road Administration Board according to a formula based on population, needs, and financial resources. The County received 8.515% of the tax distributed to counties in 2014.

In addition, the County Road Administration Board program allocates funds to the County for the construction of arterial streets in urban areas. The State's County Arterial Preservation Program receives 1.9565% of 23 cents of the State motor vehicle fuel tax (RCW 46.68.090(2)(i)). The County received 3.751% and 3.702% of these funds in 2013 and 2014, respectively, based on the County's share of State-wide arterial preservation funds.

**LIQUOR TAX AND PROFITS.** Prior to June 1, 2012, a county's share of State liquor excise taxes and State Liquor Board profits was based on four variables: (i) the county's unincorporated population, (ii) total unincorporated population in the balance of the State, (iii) liquor sales, and (iv) State Liquor Board profits. Counties were entitled to 10% of the State Liquor Board profits which, together with 20% of the money made available from the State liquor excise tax, were allocated among the counties on the basis of each county's proportion of the total unincorporated population in the State.

In November 2011, voters passed Initiative 1183, which privatized liquor distribution and sales within the State effective June 1, 2012. As a result, the State closed its distribution center and retail liquor stores and sold new liquor distributor and retailer licenses.

Local government liquor excise tax revenues have been, and will continue to be, affected both by changes in sales volumes associated with privatization and with State legislative changes made after passage of the initiative. During the 2012 legislative session, the State Legislature diverted all liquor excise tax revenue that would have normally been distributed to cities, counties, and border cities and counties to the State General Fund for one year beginning in October 2012. In addition, beginning with the October 2013 distribution, the State Treasurer was directed to transfer \$10 million each year from the Liquor Excise Tax Fund to the State General Fund prior to the distribution to the cities and counties. Both changes reduced liquor tax revenues received by the County. Though local distributions commenced again in October 2013, the 2013 State Legislature passed a 2013-2015 budget that increases the share of liquor taxes deposited in the State general fund from 65% to 82.5% for the 2013-2015 biennium. This resulted in lower local distributions than would have been the case without the change.

Initiative 1183 required that liquor revolving fund distributions remain at least as large as distributions prior to privatization (although they are now funded by license fees), and that, beginning in September 2012, an additional \$10 million annually be distributed on a quarterly basis State-wide to counties, cities, towns, and border areas.

**INTERGOVERNMENTAL PAYMENTS.** These are payments made to one unit of government for performing a service that is a statutory responsibility of another unit of government. In 2014, these payments were primarily related to the County's provision of mental health, public health, law enforcement, jail, and flood control services and were primarily received from various cities, including the City of Seattle (the "City"), and the State.

**PUBLIC FACILITIES DISTRICT-RELATED LOTTERY ALLOCATION.** The State granted authority to the State Lottery Commission to issue two to four scratch games with sports themes per year. Since 1996, lottery revenues of \$3 million, increasing at 4% per year, have been allocated to the County and committed to debt service on the limited tax general obligation bonds issued by the County for the construction of Safeco Field. The remaining County bonds issued in connection with the construction of Safeco Field were fully defeased in September 2011, and the County no longer receives lottery revenues.

**OTHER INTERGOVERNMENTAL REVENUE.** Other sources of intergovernmental revenue include distributions from the State for criminal justice purposes and criminal justice costs related to aggravated murder cases, vessel registration fees, mitigation payments relating to certain changes in the administration of the sales and use tax, and other miscellaneous items.

### **Operating Deficits**

If a County fund experiences an operating deficit, that fund is able to borrow from the County's portion of the King County Investment Pool (the "Investment Pool"). All such borrowings must comply with the procedures established by the Executive Finance Committee (the "Committee"). Interest accrues on borrowed amounts at the interest rate earned by the Investment Pool during the term of such borrowing. County policies with respect to such borrowings do not require that funds be repaid prior to the end of the County's fiscal year. Such borrowings are infrequent, as the County has systems in place intended to ensure, on a planning basis, that funds on hand are sufficient to meet operating requirements. At no time in the past five years was there an operating deficit in the General Fund.

### **Financial Results**

The following tables provide a comparative balance sheet and comparative statement of revenues, expenditures, and changes in fund balance for the County's General Fund and a comparative statement of revenues, expenditures, and changes in fund balance for the governmental funds (General, Special Revenue, and Debt Service) (notes for that statement are on the succeeding page).

**GENERAL FUND  
COMPARATIVE BALANCE SHEET  
(Years Ended December 31) (\$000)**

|  | <b>2010</b>       | <b>2011</b>       | <b>2012</b>       | <b>2013</b>       | <b>2014</b>       |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |                   |                   |                   |
| Cash and cash equivalents  | \$ 55,685         | \$ 90,164         | \$ 106,168        | \$ 87,093         | \$ 71,558         |
| Taxes receivable - delinquent  | 7,533             | 7,192             | 7,264             | 7,652             | 7,716             |
| Accounts receivable  | 82,582            | 83,690            | 80,328            | 81,750            | 85,476            |
| Estimated uncollectible accounts receivable                                  | (73,095)          | (71,924)          | (66,973)          | (68,035)          | (71,194)          |
| Interest receivable  | 6,829             | 9,885             | 9,003             | 7,453             | 6,817             |
| Due from other funds   | 5,057             | 6,835             | 2,610             | 8,232             | 92                |
| Interfund short-term loans receivable  | 4,731             | 3,978             | 6,194             | -                 | -                 |
| Due from other governments   | 41,898            | 43,198            | 44,677            | 45,341            | 34,828            |
| Estimated uncollectible due from other governments                           | (79)              | (320)             | (285)             | (187)             | (297)             |
| Advances to other funds  | 3,800             | 3,800             | 3,800             | 300               | 300               |
| <b>TOTAL ASSETS</b>  | <b>\$ 134,941</b> | <b>\$ 176,498</b> | <b>\$ 192,786</b> | <b>\$ 169,599</b> | <b>\$ 135,296</b> |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES<br/>AND FUND BALANCE</b>       |                   |                   |                   |                   |                   |
| <b>Liabilities</b>   |                   |                   |                   |                   |                   |
| Accounts payable   | \$ 8,426          | \$ 2,810          | \$ 4,304          | \$ 3,377          | \$ 3,806          |
| Due to other funds   | 5,048             | 5,097             | 9,300             | 6,629             | 2,407             |
| Due to other governments   | 898               | 936               | 621               | -                 | 513               |
| Wages payable  | 15,928            | 14,915            | 20,613            | 24,620            | 14,471            |
| Taxes payable  | 95                | 19                | 204               | 189               | 179               |
| Unearned revenues  | 7,033             | 8,343             | 6                 | 3,411             | 1,724             |
| Custodial accounts   | 1,737             | 2,418             | 2,934             | 1,886             | 1,021             |
| <b>Total Liabilities</b>   | <b>\$ 39,165</b>  | <b>\$ 34,538</b>  | <b>\$ 37,982</b>  | <b>\$ 40,112</b>  | <b>\$ 24,121</b>  |
| <b>Deferred Inflows of Resources<sup>(1)</sup></b>                           |                   |                   |                   |                   |                   |
| Unavailable revenue  | \$ 7,533          | \$ 7,192          | \$ 15,160         | \$ 15,117         | \$ 7,967          |
| <b>Fund balance</b>  |                   |                   |                   |                   |                   |
| Nonspendable   | \$ -              | \$ 3,800          | \$ 3,800          | \$ 300            | \$ 300            |
| Restricted   | -                 | 3,309             | 2,702             | 2,506             | 2,803             |
| Committed  | -                 | 23,694            | 21,761            | 24,982            | 20,212            |
| Assigned   | -                 | 7,420             | 8,827             | 8,264             | 8,151             |
| Unassigned   | -                 | 96,545            | 102,554           | 78,318            | 71,742            |
| Reserved   | 16,632            | -                 | -                 | -                 | -                 |
| Unreserved   |                   |                   |                   |                   |                   |
| Designated   | 4,001             | -                 | -                 | -                 | -                 |
| Undesignated   | 67,610            | -                 | -                 | -                 | -                 |
| <b>Total Fund Balance<sup>(2)(3)</sup></b>                                   | <b>\$ 88,243</b>  | <b>\$ 134,768</b> | <b>\$ 139,644</b> | <b>\$ 114,370</b> | <b>\$ 103,208</b> |
| <b>TOTAL LIABILITIES, DEFERRED INFLOW OF<br/>RESOURCES, AND FUND BALANCE</b> | <b>\$ 134,941</b> | <b>\$ 176,498</b> | <b>\$ 192,786</b> | <b>\$ 169,599</b> | <b>\$ 135,296</b> |

**NOTES TO TABLE:**

- (1) As a result of the implementation of GASB Statement No. 65 in 2013, certain liabilities were reclassified retroactively under Deferred Inflows of Resources.
- (2) As a result of the implementation of Governmental Accounting Standards Board (“GASB”) Statement No. 54 in 2011, the Rainy Day Reserve Fund (see “Management Discussion of Financial Results—Fund Balances”) is reported as part of the General Fund.
- (3) After the release of the County’s 2012 Comprehensive Annual Financial Report (“CAFR”), it was identified that the General Fund balance for 2012 was overstated by \$6.186 million as a result of both an overestimation of revenues for election cost billings and the reversal of a year-end recognition of unrealized Investment Pool gains. This overstatement was also included in the beginning fund balance for 2013 shown in the 2013 CAFR. The overstatement was corrected through 2013 current period activity in the 2013 audited financial statements, and the 2013 ending fund balance reflects this correction.

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

**GENERAL FUND**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**(Years Ended December 31) (\$000)**

|  | <b>2010</b>        | <b>2011</b>        | <b>2012</b>        | <b>2013</b>        | <b>2014</b>        |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>REVENUES</b>  |                    |                    |                    |                    |                    |
| Property taxes   | \$ 271,832         | \$ 276,387         | \$ 282,775         | \$ 311,500         | \$ 319,188         |
| Penalties and interest-delinquent taxes  | 21,328             | 21,889             | 21,476             | 20,869             | 20,993             |
| Sales, excise, and other taxes   | 89,000             | 95,504             | 97,551             | 104,291            | 112,333            |
| Licenses and permits   | 8,242              | 4,563              | 4,418              | 4,741              | 4,753              |
| Federal grants   | 10,018             | 9,393              | 9,311              | 8,287              | 9,028              |
| State grants   | 2,135              | 2,078              | 3,273              | 2,531              | 2,326              |
| Entitlements and shared revenues   | 10,911             | 10,789             | 11,148             | 10,109             | 10,422             |
| Intergovernmental services   | 85,655             | 81,910             | 77,619             | 82,718             | 96,716             |
| Charges for services   | 109,034            | 117,591            | 114,226            | 114,208            | 113,553            |
| Fines and forfeits   | 8,740              | 8,169              | 8,262              | 7,233              | 5,922              |
| Interest earnings  | 2,067              | 2,444              | 3,612              | 1,458              | 1,632              |
| Rents and royalties  | 12,169             | 12,117             | 15,103             | 3,045              | 7,490              |
| Other miscellaneous revenues   | 2,353              | 2,420              | 2,443              | 13,668             | 4,653              |
| <b>TOTAL REVENUES</b>  | <b>\$ 633,484</b>  | <b>\$ 645,254</b>  | <b>\$ 651,217</b>  | <b>\$ 684,658</b>  | <b>\$ 709,009</b>  |
| <b>EXPENDITURES</b>  |                    |                    |                    |                    |                    |
| Current  |                    |                    |                    |                    |                    |
| Personal services  | \$ 427,450         | \$ 410,613         | \$ 429,240         | \$ 460,039         | \$ 491,145         |
| Supplies   | 14,402             | 14,317             | 13,021             | 14,189             | 14,619             |
| Contract services and other charges  | 65,671             | 62,825             | 68,605             | 53,504             | 40,186             |
| Contributions  | 1,960              | 2,192              | 2,786              | 2,733              | 2,901              |
| Interfund service support  | 75,740             | 76,295             | 82,217             | 89,794             | 99,114             |
| Debt service   | 5                  | -                  | -                  | 17                 | 44                 |
| Capital outlay   | 819                | 756                | 1,149              | 1,452              | 1,895              |
| <b>TOTAL EXPENDITURES</b>  | <b>\$ 586,047</b>  | <b>\$ 566,998</b>  | <b>\$ 597,018</b>  | <b>\$ 621,728</b>  | <b>\$ 649,904</b>  |
| <b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>                                  | <b>\$ 47,437</b>   | <b>\$ 78,256</b>   | <b>\$ 54,199</b>   | <b>\$ 62,930</b>   | <b>\$ 59,105</b>   |
| <b>OTHER FINANCING SOURCES (USES)</b>  |                    |                    |                    |                    |                    |
| Sale of capital assets   | \$ 294             | \$ 10,300          | \$ 93              | \$ 62              | \$ 156             |
| Transfers in   | 951                | 936                | 238                | 5,328              | 118                |
| Transfers out  | (42,865)           | (58,897)           | (49,654)           | (93,594)           | (71,991)           |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>  | <b>\$ (41,620)</b> | <b>\$ (47,661)</b> | <b>\$ (49,323)</b> | <b>\$ (88,204)</b> | <b>\$ (71,717)</b> |
| <b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> | <b>\$ 5,817</b>    | <b>\$ 30,595</b>   | <b>\$ 4,876</b>    | <b>\$ (25,274)</b> | <b>\$ (12,612)</b> |
| <b>FUND BALANCE - JANUARY 1 (Restated) <sup>(1)(2)(3)</sup></b>                      | <b>82,426</b>      | <b>104,173</b>     | <b>134,768</b>     | <b>139,644</b>     | <b>115,820</b>     |
| <b>FUND BALANCE - DECEMBER 31 <sup>(1)(3)</sup></b>                                  | <b>\$ 88,243</b>   | <b>\$ 134,768</b>  | <b>\$ 139,644</b>  | <b>\$ 114,370</b>  | <b>\$ 103,208</b>  |

- (1) As a result of the implementation of GASB Statement No. 54 in 2011, the Rainy Day Reserve Fund (see "Management Discussion of Financial Results—Fund Balances") is reported as part of the General Fund.
- (2) In 2014, the beginning fund balance was restated to reflect a change in the property tax availability policy.
- (3) After the release of the County's 2012 Comprehensive Annual Financial Report ("CAFR"), it was identified that the General Fund balance for 2012 was overstated by \$6.186 million as a result of both an overestimation of revenues for election cost billings and the reversal of a year-end recognition of unrealized Investment Pool gains. This overstatement was also included in the beginning fund balance for 2013 shown in the 2013 CAFR. The overstatement was corrected through 2013 current period activity in the 2013 audited financial statements, and the 2013 ending fund balance reflects this correction.

Source: King County Finance and Business Operations Division—Financial Management Section

**GENERAL GOVERNMENT FUNDS**  
**COMBINED COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE <sup>(1)</sup>**  
**(Years Ended December 31) (\$000)**

|  | <u>2010</u>         | <u>2011</u>         | <u>2012</u>         | <u>2013</u>         | <u>2014</u>         |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>REVENUES</b>  |                     |                     |                     |                     |                     |
| Taxes  | \$ 810,700          | \$ 821,816          | \$ 801,565          | \$ 841,050          | \$ 867,250          |
| Licenses and permits   | 24,398              | 26,818              | 21,652              | 22,155              | 23,633              |
| Intergovernmental revenues   | 535,627             | 532,614             | 558,623             | 548,620             | 627,173             |
| Charges for services   | 215,865             | 243,599             | 242,491             | 264,907             | 269,959             |
| Fines and forfeits   | 9,001               | 8,635               | 8,499               | 7,376               | 6,357               |
| Interest earnings  | 5,583               | 5,299               | 6,006               | 3,170               | 4,358               |
| Miscellaneous revenues   | 27,621              | 55,884              | 86,084              | 77,618              | 67,924              |
| <b>TOTAL REVENUES</b>  | <b>\$ 1,628,795</b> | <b>\$ 1,694,665</b> | <b>\$ 1,724,920</b> | <b>\$ 1,764,896</b> | <b>\$ 1,866,654</b> |
| <b>EXPENDITURES</b>  |                     |                     |                     |                     |                     |
| <b>Current</b>   |                     |                     |                     |                     |                     |
| General government services <sup>(2)</sup>   | \$ 105,623          | \$ 135,970          | \$ 182,699          | \$ 176,679          | \$ 180,300          |
| Law, safety and justice <sup>(3)</sup>   | 556,416             | 553,127             | 570,772             | 590,415             | 618,175             |
| Physical environment <sup>(4)</sup>  | 84,926              | 90,412              | 94,807              | 116,434             | 184,211             |
| Transportation <sup>(5)</sup>  | 96,052              | 95,854              | 70,749              | 61,287              | 80,573              |
| Economic environment <sup>(6)</sup>  | 85,112              | 111,682             | 103,475             | 97,806              | 101,865             |
| Mental and physical health <sup>(7)</sup>  | 455,202             | 467,409             | 481,745             | 490,932             | 521,960             |
| Culture and recreation <sup>(8)</sup>  | 44,079              | 46,212              | 50,165              | 42,418              | 42,774              |
| <b>Total Current</b>   | <b>\$ 1,427,410</b> | <b>\$ 1,500,666</b> | <b>\$ 1,554,412</b> | <b>\$ 1,575,971</b> | <b>\$ 1,729,858</b> |
| <b>Debt Service <sup>(9)</sup></b>   |                     |                     |                     |                     |                     |
| Redemption of long-term debt   | \$ 62,901           | \$ 50,772           | \$ 56,913           | \$ 70,686           | \$ 71,998           |
| Interest and other debt service costs  | 30,426              | 30,333              | 27,121              | 32,713              | 31,429              |
| Payment to escrow agent  | 14,997              | 41,722              | -                   | -                   | 260                 |
| <b>Total Debt Service</b>  | <b>\$ 108,324</b>   | <b>\$ 122,827</b>   | <b>\$ 84,034</b>    | <b>\$ 103,399</b>   | <b>\$ 103,687</b>   |
| <b>Capital Outlay <sup>(10)</sup></b>  | <b>\$ 22,488</b>    | <b>\$ 17,546</b>    | <b>\$ 27,638</b>    | <b>\$ 40,046</b>    | <b>\$ 12,857</b>    |
| <b>TOTAL EXPENDITURES</b>  | <b>\$ 1,558,222</b> | <b>\$ 1,641,039</b> | <b>\$ 1,666,084</b> | <b>\$ 1,719,416</b> | <b>\$ 1,846,402</b> |
| <b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>                                  | <b>\$ 70,573</b>    | <b>\$ 53,626</b>    | <b>\$ 58,836</b>    | <b>\$ 45,480</b>    | <b>\$ 20,252</b>    |
| <b>OTHER FINANCING SOURCES (USES)</b>  |                     |                     |                     |                     |                     |
| General obligation bonds issued  | \$ -                | \$ 24,710           | \$ 3,010            | \$ (99,593)         | \$ 12,160           |
| Refunding bonds issued   | 41,250              | 25,700              | 256,615             | 92,940              | 34,815              |
| Premium on bonds sold  | 4,390               | 3,516               | 41,294              | 7,261               | 5,971               |
| Sale of capital assets   | (20)                | 10,835              | 543                 | 4,500               | 1,144               |
| Transfers in   | 54,415              | 87,310              | 85,393              | 125,404             | 111,746             |
| Transfers out  | (119,905)           | (128,310)           | (119,620)           | (171,135)           | (142,594)           |
| Payment to refunded bond escrow agent  | (45,561)            | (28,242)            | (296,322)           | -                   | (38,958)            |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>  | <b>\$ (65,431)</b>  | <b>\$ (4,481)</b>   | <b>\$ (29,087)</b>  | <b>\$ (40,623)</b>  | <b>\$ (15,716)</b>  |
| <b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> | <b>\$ 5,142</b>     | <b>\$ 49,145</b>    | <b>\$ 29,749</b>    | <b>\$ 4,857</b>     | <b>\$ 4,536</b>     |
| <b>FUND BALANCE - JANUARY 1 - RESTATED <sup>(11,12,13)</sup></b>                     | <b>\$ 432,408</b>   | <b>\$ 490,776</b>   | <b>\$ 516,301</b>   | <b>\$ 546,046</b>   | <b>\$ 528,973</b>   |
| <b>FUND BALANCE - DECEMBER 31 <sup>(14)</sup></b>                                    | <b>\$ 437,550</b>   | <b>\$ 539,921</b>   | <b>\$ 546,050</b>   | <b>\$ 550,903</b>   | <b>\$ 533,509</b>   |

**NOTES TO TABLE:**

- (1) Includes General Fund, Special Revenue Funds, and Debt Service Funds, and excludes Capital Project, Enterprise, and Internal Service Funds.
- (2) Legislative operations, executive operations, licensing, recording, election, special programs, personnel administration, facilities management, appraisal and assessments, financial accounting and budgeting, purchasing services, and real property management.
- (3) Law enforcement, jail operations, prosecution, superior, district, and juvenile courts, judicial administration, public defense, emergency services, and probation services.
- (4) Surface water management, animal control, flood control, and resource planning.
- (5) Road construction and maintenance and traffic planning.
- (6) Youth work training, public employment, veterans services, aging, planning and community development, housing and community development, and handicapped services.
- (7) Public health operations, medical examiner services, alcoholism and substance abuse services, and community mental health and mental retardation programs.
- (8) Parks and recreation services, park development cooperative extension services, and arts programs.
- (9) General long-term principal and interest and other debt service costs.
- (10) Will be capitalized in the government-wide financial statements.
- (11) As a result of the implementation of GASB Statement No. 54 in 2011, several funds formerly reported as Capital Projects Funds (and not included in this statement for 2010) are reported as Special Revenue Funds in 2011, 2012, 2013, and 2014.
- (12) The King County Ferry District reported a special revenue fund in 2008-2011 which is not included in 2012 and is now being reported as a nonmajor enterprise fund. The beginning balances of the Flood Control Zone District (a Special Revenue Fund) were adjusted for prior year expenditures.
- (13) For 2014, beginning fund balance was restated for the following: (i) exclusion of the Children and Family Justice Center fund, reclassified to a Capital Projects fund; (ii) change in property tax availability policy; (iii) revenue deferral for critical areas mitigation; and (iv) inclusion of King County Law Library as Special Revenue fund.
- (14) After the release of the County's 2012 Comprehensive Annual Financial Report ("CAFR"), it was identified that the General Fund balance for 2012 was overstated by \$6.186 million as a result of both an overestimation of revenues for election cost billings and the reversal of a year-end recognition of unrealized Investment Pool gains. This overstatement was also included in the beginning fund balance for 2013 shown in the 2013 CAFR. The overstatement was corrected through 2013 current period activity in the 2013 audited financial statements, and the 2013 ending fund balance reflects this correction.

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

**Management Discussion of Financial Results**

*Revenues and Economic Conditions.* The Puget Sound area's economy has fully recovered from the Great Recession. As of April 2015, the unemployment rate was 3.3% in the County, compared with 5.5% for the State and 5.4% for the nation. The region's relatively better performance was driven by the strength of major industry sectors, including software and health services as well as construction.

*Tax Limitation Legislation.* Future property tax revenue growth will remain low due to State legislation limiting annual property tax revenue growth without voter approval to the lesser of inflation or 1%, plus new construction. See "Property Tax Information" below.

*Annexations and Incorporations.* In 2009, the State Legislature expanded the credit for sales taxes (which would otherwise be payable to the State) received by cities that aid the efforts of certain counties, including the County, to move all urban unincorporated residents into cities through annexation. Under both the previous and the expanded legislation, cities that annex areas with more than 10,000 residents are eligible for the credit, which is equivalent to a sales tax rate of 0.1%, applied in both the newly annexed area and within the prior city boundaries. Annexations of more than 20,000 residents are eligible for a credit of 0.2%. The credit is available for a period of ten years, although the date by which an annexation must occur is 2015. Other provisions in the legislation give incentives to cities to annex additional areas, even if they are already receiving a sales tax credit for a previous annexation.

At the February 11, 2014, election, residents of the Klahanie neighborhood defeated a proposed annexation to the City of Issaquah. At the April 28, 2015 election, annexation of the same area to the City of Sammamish was approved by an 85.02% "yes" vote. This annexation covers approximately 10,800 residents and will likely be effective on January 1, 2016.

Annexations of several small residential areas in the northeast and east areas of the County and a small industrial and residential area along the Duwamish River are currently being considered. These proposed annexations would have almost no effect on the County's finances.

The County routinely reviews fiscal impact studies of potential incorporations, negotiates cost-reimbursable contracts for new cities desiring to contract with the County for services, and makes budget adjustments consistent with the anticipated savings in expenditures and loss of tax and service revenues.

*Fund Balances.* The financial policies of the County require that appropriate levels of reserves and undesignated balances be established based on the specific characteristics and purposes of each fund.

The County's fiscal policies provide that the undesignated balance for the General Fund be maintained between 6% and 8% of estimated annual revenues. This fund balance has been maintained above 6% each year without exception over the last two decades. The 2012 Adopted Budget increased the undesignated fund balance from 6% (as it had been for several years) to 6.5% to provide a larger undesignated reserve. This level has been maintained in all subsequent budgets.

The County also continues to maintain a separate balance in the Rainy Day Reserve Fund, which was first established outside of the General Fund in 2008. Use of this fund requires a declaration of emergency by the County Council. The County Executive increased this reserve from \$16.1 million to \$20.0 million in the 2013 Adopted Budget.

*Enterprise Funds.* The County has four enterprises that fund operations from sources other than the General Fund: the Transit, Water Quality, Solid Waste, and Airport enterprises. Each enterprise functions under different fiscal policies designed to make it self-sustaining with minimal risk that General Fund subsidies will be necessary during financial hardship.

## **2014 Results**

The financial performance of the General Fund in 2014 improved when compared to the assumptions in the 2015-2016 Adopted Budget. The year-end 2014 total fund balance in the General Fund is \$83.1 million. This is higher than what was projected due to slightly higher revenue collections and larger than anticipated under-expenditures. In addition, employee benefits costs were lower than anticipated in 2014 and, as a result, the General Fund was refunded a portion of the employee benefits charges at the end of 2014. Approximately \$6.1 million of the year-end fund balance was planned to be reappropriated to the 2015-2016 biennial budget to fund prior contracts that had not been fully paid and long-term capital projects that had already been approved. The ending 2014 undesignated fund balance met the 6.5% target established in the budget process. This fund balance will be available to mitigate future risks and stabilize the General Fund. The Rainy Day Reserve Fund holds an additional approximately \$20.2 million in fund balance.

At the April 22, 2014, special election, County voters did not approve the creation and funding of a King County Transportation District. This proposition would have increased funding for the County Department of Transportation and County cities to maintain transit services and roads. At the November 4, 2014, general election, Seattle voters approved the creation and funding of a Seattle Transportation Benefit District. This provides the City with funding to maintain and expand bus service in the City. This service is provided by the County Department of Transportation.

## **2015/2016 Adopted Budget**

The County Executive submitted his 2015/2016 Proposed Budget to the County Council on September 22, 2014. The County Council adopted a 2015/2016 budget on November 17, 2014. Only small changes were made to the 2015/2016 Proposed Budget. The 2015/2016 Adopted Budget totals \$9 billion, including \$1.5 billion for the General Fund. This is the first fully biennial (two-year) budget in the County's history. The County has been moving to this model gradually for about a decade.

General Fund spending was increased by about \$3 million, which was partially offset by additional ongoing revenue from internal audit functions, higher property tax forecasts based on the most recent assessed value, and changes to



reserve levels. These increases will fund new services such as a domestic violence unit in the County Sherriff's Office, help build internal audit capacity, and provide for one-time grants to human service providers.

The 2015/2016 Adopted Budget for the General Fund includes \$1.49 billion in estimated expenditures and \$1.48 billion in revenues and transfers. The adopted 2015/2016 year-end fund balance in the General Fund is \$92.9 million, including the Rainy Day Reserve Fund. The General Fund total reflects a couple of changes in budgeting practice. Previously, the revenues and expenditures associated with the provision of certain human services and the operations of the County-owned parking garage were not budgeted directly in the General Fund. Starting with the 2015/2016 Adopted Budget, the General Fund includes additional sales tax collections that were previously transferred directly to other funds. This new revenue helps fund the transfer to the Department of Community and Human Services. In addition, the parking garage operations subfund was added to the General Fund to better track the revenues and costs associated with those operations. These changes were net zero changes to the fund; however, they increase overall transparency and provide for future flexibility.

The General Fund was balanced through a combination of operational efficiencies, workload reductions, lower internal service rates, and effective management of health care costs. The 2015/2016 Adopted Budget continues the trend of finding annual efficiencies and the deployment of the Lean management methodology throughout County government. In addition, the County has expanded its use of Line of Business planning and will continue this discipline in the 2015/2016 biennium. The 2015/2016 Adopted Budget invests in the replacement of major technology systems in the District Court, Superior Court, and Records and Licensing Services. Lastly, the adopted budget sets aside funding for a new Office of Equity and Social Justice, which will continue to work to make sure that all individuals and communities are treated equitably in County programs.

The year-end General Fund balance target was increased to 6.5% in the 2012 Adopted Budget. This level was maintained in the 2015/2016 Adopted Budget. The Rainy Day Reserve Fund balance remains at approximately \$20.2 million.

### **2015/2016 Biennium to Date Results**

The biennium to date financial performance of the General Fund for the 2015/2016 biennium to date has not varied significantly from the assumptions in the 2015/2016 Adopted Budget. General Fund revenues are expected to be higher than budgeted due to the strength of County sales tax collections. However, some of the higher revenues will be used to offset supplemental activity, which appears to be in line with historical trends. No major unplanned expenditures have emerged. The General Fund is projected to meet its 6.5% undesignated balance target.

At the April 28, 2015, special election, County voters approved Proposition 1, which funded the update of the Puget Sound Emergency Radio Network through an increase in the regular property tax levy. This proposition passed with 65% of the vote and funds the project for nine years.

### **Future General Obligation Financing Plans**

Prior to year-end, the County expects to issue approximately \$50 million of limited tax general obligation bonds to provide \$40 million of continued financing for the capital program of its Solid Waste Division and to refund certain outstanding bonds. In addition, two new series of lease revenue bonds totaling approximately \$120 million are expected to be issued on behalf of the County which will be secured by rental payments that are limited tax general obligations of the County.

Other than such new money issuances, when and if market conditions allow refunding of any outstanding bonds for the purpose of realizing debt service savings, the County may pursue such refundings.

### **Debt Repayment Record**

The County has met promptly all principal and interest payments on its outstanding bonds and notes. The County has never defaulted on a payment of principal of or interest on any of its bonds and notes. Furthermore, the County has never issued refunding bonds for the purpose of avoiding an impending default.

## King County Investment Pool

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

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

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 June 30, 2015, PFM concluded that "the County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality." The most recent portfolio review can be obtained at the following website, which is not incorporated into this Official Statement by reference:

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

## County Employees

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

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

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

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

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

## Retirement Programs

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

### NUMBER OF EMPLOYEES

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

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

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

Substantially all full-time and qualifying part-time employees of the County participate in one of the retirement plans listed in the table titled “Overview of Retirement Plans” below. PERS, PSERS, and LEOFF are State-wide governmental retirement systems administered by the State of Washington’s Department of Retirement Systems (“WSDRS”). SCERS is a retirement plan administered by Seattle in accordance with Seattle Municipal Code Chapter 4.36. County employees who are former employees of Seattle Transit are covered by SCERS, as are King County Health Department employees.

### OVERVIEW OF RETIREMENT PLANS

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

Source: State Department of Retirement Systems and SCERS

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

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

**ACTUARIAL ASSUMPTIONS FOR FUNDING CALCULATIONS**

|                               | <b>WSDRS-<br/>Administered Plans</b> | <b>SCERS</b> |
|-------------------------------|--------------------------------------|--------------|
| Investment return             | 7.90% <sup>(1)</sup>                 | 7.50%        |
| General salary increases      | 3.75%                                | 4.00%        |
| Consumer Price Index increase | 3.00%                                | 3.25%        |
| Annual growth in membership   | 0.95% <sup>(2)</sup>                 | 0.50%        |

(1) Investment rate of return assumption decreased to 7.80% as of July 1, 2015. Assumed rate of 7.50% for LEOFF Plan 2.

(2) Assumed rate of 1.25% for LEOFF.

*Source: 2013 Actuarial Valuation from the Office of the State Actuary and SCERS January 1, 2015, Actuarial Valuation*

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

**COUNTY CONTRIBUTION RATES AND AMOUNTS**

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

(1) The State contributed an additional 3.36%.

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

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

*Sources: King County, WSDRS, and SCERS*

Under State statute, contribution rates are adopted by the State Pension Funding Council ("PFC") (and, for LEOFF 2, by the LEOFF 2 Board) in even-numbered years for the next ensuing State biennium. The rate-setting process begins with an actuarial valuation by the Office of the State Actuary, which makes non-binding recommendations to the Select Committee on Pension Policy, which then recommends contribution rates to the PFC and the LEOFF 2 Board. No later than the end of July in even-numbered years, the PFC and LEOFF 2 Board adopt contribution rates, which are subject to revision by the State Legislature.

The County has met its funding obligations to these systems when they have come due. While the County's contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates.

To calculate the funded status, the WSDRS-administered plans compare the Actuarial Value of Assets ("AVA") to the Projected Unit Credit ("PUC") liabilities. The PUC 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 2013 Actuarial Valuation Report, which can be found on the Office of the State Actuary’s website at

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

which link is not incorporated into this Official Statement by reference.

To calculate the funded status of the SCERS plan, the assets are valued using a five-year smoothing method based on the difference between the expected market value and the actual market value of the assets in each year. The actuarial liabilities include the actuarial present value of all future benefits expected to be paid with respect to each member. For an active member, this value includes a measure of both benefits already earned and future benefits to be earned. Additional information on this measure is provided in the 2014 Actuarial Valuation Report (published January 1, 2015), which can be found on the SCERS website at

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

which link is not incorporated into this Official Statement by reference.

Information regarding the funded status from the most recent actuarial report for each system is shown in the following table:

| <b>RETIREMENT SYSTEM FUNDED STATUS<sup>(1)</sup></b> |                        |                         |                     |                                |                           |                    |                    |
|--|------------------------|-------------------------|---------------------|--------------------------------|---------------------------|--------------------|--------------------|
| <b>(dollar amounts in millions)</b>                  |                        |                         |                     |                                |                           |                    |                    |
|  |                        | <b>Most Recent</b>      | <b>Actuarial</b>    | <b>Actuarial</b>               | <b>UAAL<sup>(3)</sup></b> | <b>Funded</b>      |                    |
|  | <b>Administered by</b> | <b>Actuarial</b>        | <b>Accrued</b>      | <b>Valuation of</b>            | <b>(a-b)</b>              | <b>Ratio (b/a)</b> | <b>Plan Status</b> |
|  |                        | <b>Valuation Report</b> | <b>Liability(a)</b> | <b>Assets(b)<sup>(2)</sup></b> |                           |                    |                    |
| PERS - Plan 1  | WSDRS                  | As of 6/30/2013         | \$ 12,884           | \$ 8,053                       | \$ 4,831                  | 63%                | Closed in 1977     |
| PERS - Plan 2/3                                      | WSDRS                  | As of 6/30/2013         | 23,798              | 24,335                         | (537)                     | 102%               | Open               |
| PSERS - Plan 2                                       | WSDRS                  | As of 6/30/2013         | 180                 | 224                            | (44)                      | 124%               | Open               |
| LEOFF - Plan 1                                       | WSDRS                  | As of 6/30/2013         | 4,410               | 5,516                          | (1,107)                   | 125%               | Closed in 1977     |
| LEOFF - Plan 2                                       | WSDRS                  | As of 6/30/2013         | 6,859               | 7,862                          | (1,003)                   | 115%               | Open               |
| SCERS  | City of Seattle        | As of 1/1/2015          | 3,433               | 2,267                          | 1,166                     | 66%                | Open               |

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

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

(3) Unfunded actuarial accrued liability.

Sources: 2013 Actuarial Valuations from the Office of the State Actuary and SCERS January 1, 2015, Actuarial Valuation

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

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

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

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

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

(1) As of June 30.

(2) As of December 31.

For more information on employee retirement plans, see Appendix B—Excerpts from King County’s 2014 Comprehensive Annual Financial Report.

**Other Post-Employment Benefits**

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

For additional information regarding the County’s OPEB liability, see Appendix B—Excerpts from King County’s 2014 Comprehensive Annual Financial Report.

**Risk Management and Insurance**

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

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

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

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

See Appendix B—Excerpts from King County’s 2014 Comprehensive Annual Financial Report.

### **Emergency Management and Preparedness**

The County’s Office of Emergency Management (“OEM”) is responsible for managing and coordinating the County’s resources and responsibilities in dealing with all aspects of emergencies. It also provides regional leadership in developing operational and communication strategies among cities, tribes, private businesses, and other key stakeholders within the County. The OEM prepares for emergencies, trains County staff in emergency response, provides education to the community about emergency preparedness, plans for emergency recovery, and works to mitigate known hazards. It has identified and assessed many types of hazards that may impact the County, including geophysical hazards (e.g., earthquakes, seismic seiches, landslides, tsunamis, volcanic eruptions, and lahars), infectious disease outbreaks, intentional hazards (e.g., terrorism and civil disorder), transportation incidents, fires, hazardous materials, and unusual weather conditions (e.g., floods, snow, extreme temperatures, water shortages, and wind storms). However, the County cannot anticipate all potential hazards and their impacts on people, property, the environment, the local economy, and the County’s finances.

## **GENERAL OBLIGATION DEBT INFORMATION**

### **General Obligation Debt Limitation**

The statutory limitation (RCW 39.36.020) on non-voted general obligation debt of counties, such as the Bonds, is 1.5% of the assessed value of all taxable property within the county at the time of issuance. Of this, 0.75% may be incurred by a county that performs metropolitan functions, such as the County. Voter approval is required to exceed these limits. Any election to authorize debt incurred for county purposes must have a voter turnout of at least 40% of those who voted in the last State general election, and of those voting, 60% must vote in the affirmative. The statutory limitation on the combination of voted and non-voted general obligation debt are 2.5% of the assessed value of all taxable property within a county at the time of issuance for county purposes and 2.5% for metropolitan functions.

The State constitution limits non-voted general obligation debt of a county to 1.5% of the assessed value of taxable property within the county, and limits all general obligation debt of the county—voted and non-voted debt together—to 5% of the assessed value of taxable property within the county.

### **Debt Capacity and Debt Service Summary**

The assessed value of all property in the County for the 2015 tax year is \$388,118,855,592, resulting in a voted and non-voted total general obligation debt capacity of \$9,702,971,390 (2.5%) for County purposes and an additional \$9,702,971,390 (2.5%) for metropolitan functions. The non-voted general obligation debt capacity within these limitations is \$5,821,782,834 (1.5%), of which a maximum of \$2,910,891,417 (0.75%) may be incurred for metropolitan functions.

The following table shows a computation of the County’s debt capacity for voted (unlimited tax general obligation, or “UTGO”) and non-voted (limited tax general obligation, or “LTGO”) debt for County purposes and for metropolitan functions. The table reflects general obligation debt of the County as of December 31, 2014, adjusted for subsequent County debt-related transactions, and is followed by a table that summarizes the total general obligation debt service requirements of the County.

UTGO bonds are payable from excess property taxes levied specifically for the purpose of paying debt service on such bonds. LTGO bonds, such as the Bonds, are payable from revenues and money of the County legally available for such purposes, including regular property taxes permitted to counties without voter approval. See “Property Tax Information.”

*Federal Sequestration.* The sequestration provisions of the Budget Control Act of 2011 (“Sequestration”) went into effect in March 2013. Sequestration has resulted in and is expected to continue to result in a reduction in the amount that the County expects to receive from the federal government in connection with interest payments on approximately \$80 million of outstanding County limited tax general obligation bonds that were issued as taxable bonds eligible for federal interest subsidies. Payments made by the federal government between October 1, 2014, and October 1, 2015, were reduced by 7.3%, totaling approximately \$59,000. In August 2015, the Internal Revenue Service Office of Tax Exempt Bonds announced that the federal interest subsidy payments would be reduced by 6.8% for payments scheduled to be received between October 1, 2015, and October 1, 2016. Sequestration has been extended by Congress and is scheduled to remain in effect through federal fiscal year 2024.



**COMPUTATION OF STATUTORY DEBT CAPACITY**

|   |                                |
|---|--------------------------------|
| 2014 Assessed Value (2015 Tax Year)   | \$ 388,118,855,592             |
| Limited Tax General Obligation Debt Capacity for County Purposes and Metropolitan Functions                                   |                                |
| 1 1/2 % of Assessed Value   | \$ 5,821,782,834               |
| <b><i>County Purposes</i></b>   |                                |
| Outstanding Limited Tax General Obligation Bonds for County Purposes <sup>(1)</sup>   | \$ 740,070,258                 |
| 2015B Bonds   | 27,415,000                     |
| 2015C Bonds   | 25,970,000                     |
| General Obligation Lease Revenue Bonds for County Purposes  | 217,900,000                    |
| County Credit Enhancement Program for Housing <sup>(2)</sup>  | 132,826,641                    |
| Capital Leases/Installment Purchase Contracts for County Purposes   | -                              |
| General Obligation Long-Term Liabilities for County Purposes  | 98,420,000                     |
| Less: Amount Legally Available for Payment of All Limited Tax General<br>Obligation Indebtedness for County Purposes          | <u>(6,077,084)</u>             |
| Net Limited Tax General Obligation Debt for County Purposes   | <u>\$ 1,236,524,815</u>        |
| <b><i>Metropolitan Functions</i></b>  |                                |
| Outstanding Limited Tax General Obligation Bonds for Metropolitan Functions   | \$ 26,565,000                  |
| Outstanding Limited Sales Tax General Obligation Bonds  | 86,385,000                     |
| Outstanding Limited Tax General Obligation Bonds (Payable from Sewer Revenues)  | 762,385,000                    |
| Credit Enhancement Program for Reimbursement Agreements <sup>(3)</sup>  | 100,000,000                    |
| General Obligation Long-Term Liabilities for Metropolitan Functions   | 71,117,000                     |
| Capital Leases/Installment Purchase Contracts for Metropolitan Functions  | -                              |
| Less: Amount Legally Available for Payment of all Limited Tax General<br>Obligation Indebtedness for Metropolitan Functions   | <u>(25,397,572)</u>            |
| Net Limited Tax General Obligation Debt for Metropolitan Functions  | <u>\$ 1,021,054,428</u>        |
| Total Net Limited Tax General Obligation Debt for County Purposes and Metropolitan Functions                                  | <u>\$ 2,257,579,243</u>        |
| Remaining Capacity: LTGO Debt for County Purposes and Metropolitan Functions  | <u><u>\$ 3,564,203,591</u></u> |
| Total General Obligation Debt Capacity for County Purposes  |                                |
| 2 1/2 % of Assessed Value   | \$ 9,702,971,390               |
| Outstanding Unlimited Tax General Obligation Debt for County Purposes   | 113,255,000                    |
| Less: Amount Legally Available for Payment of all Unlimited Tax General<br>Obligation Indebtedness for County Purposes        | <u>(7,148,505)</u>             |
| Net Unlimited Tax General Obligation Debt for County Purposes   | \$ 106,106,495                 |
| Net Limited Tax General Obligation Debt for County Purposes (from above)  | <u>1,236,524,815</u>           |
| Total Net General Obligation Debt for County Purposes   | <u>\$ 1,342,631,310</u>        |
| Remaining Capacity: General Obligation Debt for County Purposes   | <u><u>\$ 8,360,340,080</u></u> |
| Total General Obligation Debt Capacity for Metropolitan Functions   |                                |
| 2 1/2 % of Assessed Value   | \$ 9,702,971,390               |
| Outstanding Unlimited Tax General Obligation Debt for Metropolitan Functions  | -                              |
| Less: Amount Legally Available for Payment of all Unlimited Tax General<br>Obligation Indebtedness for Metropolitan Functions | <u>-</u>                       |
| Net Unlimited Tax General Obligation Debt for Metropolitan Functions  | \$ -                           |
| Net Limited Tax General Obligation Debt for Metropolitan Functions (from above)   | <u>1,021,054,428</u>           |
| Total Net General Obligation Debt for Metropolitan Functions  | <u>1,021,054,428</u>           |
| Remaining Capacity: General Obligation Debt for Metropolitan Functions  | <u><u>\$ 8,681,916,962</u></u> |

**NOTES TO TABLE:**

- (1) Excludes the Refunded Bonds.
- (2) Reflects the outstanding principal amount plus accrued interest as of December 31, 2014, under contingent loan agreements authorized by the County Credit Enhancement Program. See “General Obligation Debt Information—Contingent Loan Agreements.”
- (3) The County has pledged its full faith and credit as a limited tax general obligation to the reimbursement agreements with Landesbank Hessen- Thüringen Girozentrale (Helaba) related to the letters of credit securing the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and 2001B. The County is currently in the process of replacing this letter of credit with a new letter of credit from Helaba Bank and expects to deliver this alternate credit facility to the Bond Registrar by October 1, 2015. See the table titled “Summary of Credit Facilities” under “General Obligation Debt Information—Credit Facilities.”

*Source: King County Finance and Business Operations Division—Financial Management Section and Treasury Section*

**AGGREGATE DEBT SERVICE REQUIREMENTS FOR ALL GENERAL OBLIGATION DEBT OF THE COUNTY  
(Fiscal Years Ending December 31)**

| Year         | Unlimited Tax<br>General<br>Obligation Bonds | Limited Tax General Obligation Bonds |                      |                     |                      |                                |   |                            |                         |
|--------------|--|--------------------------------------|----------------------|---------------------|----------------------|--------------------------------|---|----------------------------|-------------------------|
|              |  | County Purposes                      |                      |                     |                      | Lease Revenue<br>Bond Payments | Metropolitan<br>Functions <sup>(2)(3)</sup> | Total LTGO<br>Debt Service |                         |
|              |  | Outstanding <sup>(1)(2)</sup>        | 2015B Bonds          |                     | 2015C Bonds          |                                |   |                            |                         |
|              | Principal                                    |                                      | Interest             | Principal           | Interest             |                                |   |                            |                         |
| 2015         | \$ 16,778,025                                | \$ 115,304,014                       | \$ -                 | \$ -                | \$ -                 | \$ -                           | \$ 18,406,574                               | \$ 61,326,249              | \$ 195,036,836          |
| 2016         | 16,658,475                                   | 83,939,956                           | 2,015,000            | 1,470,868           | 275,000              | 750,561                        | 18,407,875                                  | 62,493,010                 | 169,352,270             |
| 2017         | 16,708,975                                   | 77,045,657                           | 2,555,000            | 1,197,075           | -                    | 1,044,800                      | 18,404,975                                  | 73,325,153                 | 173,572,660             |
| 2018         | 17,128,925                                   | 71,526,244                           | 2,690,000            | 1,069,325           | -                    | 1,044,800                      | 18,403,774                                  | 73,274,426                 | 168,008,569             |
| 2019         | 16,209,475                                   | 69,900,012                           | 2,820,000            | 934,825             | 1,685,000            | 1,019,525                      | 18,406,772                                  | 73,207,165                 | 167,973,299             |
| 2020         | 15,080,700                                   | 65,583,920                           | 2,955,000            | 793,825             | 2,265,000            | 960,275                        | 18,404,630                                  | 69,718,692                 | 160,681,342             |
| 2021         | 13,807,700                                   | 58,520,568                           | 3,105,000            | 646,075             | 2,350,000            | 879,300                        | 18,410,537                                  | 64,735,401                 | 148,646,880             |
| 2022         | 14,126,950                                   | 65,048,070                           | 3,255,000            | 490,825             | 2,440,000            | 783,500                        | 18,407,979                                  | 61,463,955                 | 151,889,329             |
| 2023         | 14,460,825                                   | 40,669,736                           | 1,205,000            | 328,075             | 2,540,000            | 683,900                        | 18,407,220                                  | 61,411,499                 | 125,245,429             |
| 2024         | -  | 36,840,135                           | 1,235,000            | 297,950             | 2,645,000            | 566,975                        | 18,402,534                                  | 61,367,339                 | 121,354,932             |
| 2025         | -  | 36,916,205                           | 1,300,000            | 236,200             | 2,775,000            | 431,475                        | 16,640,427                                  | 61,295,019                 | 119,594,326             |
| 2026         | -  | 32,866,061                           | 790,000              | 171,200             | 2,890,000            | 318,750                        | 13,235,268                                  | 61,298,414                 | 111,569,693             |
| 2027         | -  | 34,110,959                           | 820,000              | 139,600             | 2,985,000            | 215,700                        | 13,237,351                                  | 61,231,198                 | 112,739,807             |
| 2028         | -  | 29,539,326                           | 855,000              | 106,800             | 3,120,000            | 78,000                         | 13,234,831                                  | 61,143,161                 | 108,077,118             |
| 2029         | -  | 29,812,144                           | 890,000              | 72,600              | -                    | -                              | 13,236,934                                  | 61,081,767                 | 105,093,444             |
| 2030         | -  | 23,269,151                           | 925,000              | 37,000              | -                    | -                              | 13,237,384                                  | 61,079,797                 | 98,548,332              |
| 2031         | -  | 19,582,971                           | -                    | -                   | -                    | -                              | 13,235,207                                  | 47,133,994                 | 79,952,171              |
| 2032         | -  | 15,290,626                           | -                    | -                   | -                    | -                              | 13,234,376                                  | 59,916,594                 | 88,441,596              |
| 2033         | -  | 6,492,691                            | -                    | -                   | -                    | -                              | 13,233,643                                  | 59,847,666                 | 79,574,000              |
| 2034         | -  | 6,489,016                            | -                    | -                   | -                    | -                              | 13,236,756                                  | 52,019,304                 | 71,745,076              |
| 2035         | -  | 4,126,156                            | -                    | -                   | -                    | -                              | 13,237,191                                  | 24,342,600                 | 41,705,947              |
| 2036         | -  | 4,127,836                            | -                    | -                   | -                    | -                              | 13,233,698                                  | 24,399,850                 | 41,761,384              |
| 2037         | -  | 4,129,249                            | -                    | -                   | -                    | -                              | -   | 24,346,600                 | 28,475,849              |
| 2038         | -  | 4,125,119                            | -                    | -                   | -                    | -                              | -   | 24,389,200                 | 28,514,319              |
| 2039         | -  | 4,129,400                            | -                    | -                   | -                    | -                              | -   | 4,000,000                  | 8,129,400               |
| 2040         | -  | 4,124,475                            | -                    | -                   | -                    | -                              | -   | 100,000,000                | 104,124,475             |
| <b>Total</b> | <b>\$ 140,960,050</b>                        | <b>\$ 943,509,699</b>                | <b>\$ 27,415,000</b> | <b>\$ 7,992,243</b> | <b>\$ 25,970,000</b> | <b>\$ 8,777,561</b>            | <b>\$ 346,295,931</b>                       | <b>\$ 1,449,848,051</b>    | <b>\$ 2,809,808,485</b> |

- (1) Includes debt service on the Multi-Modal Limited Tax General Obligation Refunding Bonds, 2013, at an assumed interest rate of 4.00%. The principal of such bonds amortizes annually through June 1, 2029, to produce approximately level estimated annual debt service payments. Excludes debt service on the Refunded Bonds.
- (2) Reflects taxable rates on certain bonds issued as taxable bonds and eligible for a federal subsidy, but does not reflect the interest credit subsidy associated with those bonds.
- (3) These bonds are mostly secured by an additional pledge of certain taxes and revenues of the metropolitan functions of the County. Includes debt service at an assumed interest rate of 4.00% on the Multi-Modal Limited Tax General Obligation Bonds (Payable From Sewer Revenue), Series 2010A and Series 2010B, the principal of which is payable in full on January 1, 2040.

Source: King County Finance and Business Operations Division—Financial Management Section and Treasury Section

## Net Direct and Overlapping Debt Outstanding

The following table lists the net outstanding direct debt and overlapping debt payable from taxes on property within the County.

### NET DIRECT AND OVERLAPPING DEBT

|   |                                |
|---|--------------------------------|
| 2014 Assessed Value (for 2015 Tax Year)           | \$ 388,118,855,592             |
| Net Direct Debt <sup>(1)</sup>                    | \$ 868,954,669                 |
| Estimated Overlapping Debt:                       |                                |
| School Districts                                  | \$ 3,308,586,247               |
| City of Seattle                                   | 857,818,775                    |
| Other Cities and Towns                            | 746,858,610                    |
| Port of Seattle                                   | 225,420,000                    |
| Hospital Districts                                | 219,138,195                    |
| Fire Districts                                    | 72,284,434                     |
| Park Districts                                    | 5,184,065                      |
| King County Library System                        | 116,097,583                    |
| Library Capital Facilities                        | 4,263,435                      |
| Parks and Recreation Service District             | 1,071,613                      |
| Total Estimated Overlapping Debt                  | <u>\$ 5,556,722,957</u>        |
| Total Net Direct and Estimated Overlapping Debt   | <u><u>\$ 6,425,677,626</u></u> |
| County Debt Ratios :                              |                                |
| Net Direct Debt to Assessed Value                 | 0.22%                          |
| Net Direct and Overlapping Debt to Assessed Value | 1.66%                          |
| 2014 Population (estimated)                       | 2,017,250                      |
| Per Capita Net Direct Debt                        | \$431                          |
| Per Capita Net Direct and Overlapping Debt        | \$3,185                        |
| Per Capita Assessed Value                         | \$192,400                      |

(1) Total Net General Obligation Debt per Debt Capacity Schedules, as of December 31, 2014, Adjusted for Subsequent County Debt-Related Transactions:

|  |                         |
|--|-------------------------|
| Total Net General Obligation Debt for County Purposes        | \$ 1,342,631,310        |
| Total Net General Obligation Debt for Metropolitan Functions | 1,021,054,428           |
| Total Net General Obligation Debt                            | <u>\$ 2,363,685,738</u> |
| General Obligation Debt Serviced by Proprietary-Type Funds*  | (124,170,000)           |
| General Obligation Debt Issued for Component Units*          | (216,680,000)           |
| County Credit Enhancement Program**                          | (132,826,641)           |
| General Obligation Debt Issued for Metropolitan Functions*   | <u>(1,021,054,428)</u>  |
| Net Direct Debt  | \$ 868,954,669          |

\* The debt service on these bonds is payable first from other revenues of the County.

\*\* Reflects the outstanding principal amount plus accrued interest as of December 31, 2014, under contingent loan agreements authorized by the County Credit Enhancement Program. See "General Obligation Debt Information-Contingent Loan Agreements."

Source: King County Finance and Business Operations Division—Financial Management Section and Treasury Section

## Contingent Loan Agreements

Since 1997, the County has maintained a program to provide credit enhancement by entering into contingent loan agreements in connection with the financing of workforce housing projects assisting the poor and infirm. The program permits the County to provide credit enhancement for projects undertaken by public housing authorities, non-profit organizations, for-profit organizations, local governments, public agencies, and public development authorities, primarily the King County Housing Authority. The maximum principal amount permitted under the County's credit enhancement program is \$200,000,000. The aggregate outstanding principal of and accrued interest on the contingent loan agreements provided under the County's credit enhancement program was \$132,826,641 as of December 31, 2014.

In 2012, the Washington State Supreme Court issued its decision *In the Matter of the Bond Issuance of Greater Wenatchee Regional Events Center Public Facilities District*, involving a proposed contingent loan agreement between the City of Wenatchee and a public facilities district. Under the reasoning of the lead opinion in the case, the principal amount of any contingent loan agreement plus any accrued interest (but not interest still to be accrued) may be considered debt of the County for purposes of calculating constitutional and statutory debt limits. See the footnotes to the tables titled "Computation of Statutory Debt Capacity" and "Net Direct and Overlapping Debt."

## Credit Facilities

The County has entered into certain credit facilities to which it has pledged its full faith and credit. Unless extended, such facilities terminate prior to the final maturity of the obligations secured thereby. A summary of such facilities is shown in the following table.

### SUMMARY OF CREDIT FACILITIES

| Series   | Amount<br>Outstanding as<br>of 9/1/2015 | Type of Facility                      | Provider   | Expiration | Term-Out<br>Provision | Maturity   |
|--|---|---------------------------------------|--|------------|-----------------------|------------|
| Multi-Modal Limited Tax General<br>Obligation Bonds (Payable from<br>Sewer Revenue), Series 2010 A and B | \$100,000,000                           | Standby Bond<br>Purchase<br>Agreement | State Street Bank and<br>Trust Company                   | 11/3/2017  | Three Years           | 01/01/2040 |
| Multi-Modal Limited Tax General<br>Obligation Bonds, Series 2013   | \$37,340,000                            | Continuing<br>Covenant<br>Agreement   | Bank of America<br>Preferred Funding<br>Corporation      | 8/6/2016   | Three Years           | 06/01/2029 |
| Junior Lien Variable Rate Demand<br>Sewer Revenue Bonds, Series 2001<br>A&B <sup>(1)</sup>               | \$100,000,000                           | Letter of Credit                      | Landesbank Hessen-<br>Thuringen<br>Girozentrale (Helaba) | 12/31/2015 | Three Years           | 01/01/2032 |

(1) The County is currently in the process of obtaining a new letter of credit from Helaba Bank, expected to expire in 2020. The County expects to deliver this alternate credit facility to the Bond Registrar by October 1, 2015.

The County currently intends to keep these obligations outstanding until the stated maturity date. However, if the County is unable to extend or replace any such credit facility, the provider of that credit facility is obligated to purchase the outstanding obligations secured thereby before that credit facility terminates. In that case, the County would be obligated to repay during a "term-out" period all principal of the obligations secured thereby before the stated maturity date. In addition, if fees for extensions or replacements of any such credit facility increase substantially or such extensions or replacements otherwise cease to benefit the County, the County may seek to refund or convert the obligations secured by that credit facility with fixed rate bonds, which may increase debt service associated with those obligations above that currently projected by the County. See the table above titled "Aggregate Debt Service Requirements for All General Obligation Debt of the County."

## PROPERTY TAX INFORMATION

### Authorized Property Taxes

The County is authorized to levy both “regular” property taxes and “excess” property taxes.

*Regular Property Taxes.* The County may levy regular property taxes for general municipal purposes, including the payment of debt service on limited tax general obligation bonds, such as the Bonds, and for road district purposes. Such regular property taxes are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1, of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the taxing district. Under the State Constitution, all real property constitutes one class for purposes of this uniformity requirement, with limited exceptions. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

The information in this Official Statement relating to regular property tax limitations and requirements is based on existing statutes and constitutional provisions. Changes in such laws could alter the impact of other interrelated tax limitations on the County.

- (i) *Maximum Rate Limitations.* The County may levy regular property taxes for two purposes: for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to \$1.80 per \$1,000 of assessed value, and the County is levying \$1.1995 per \$1,000 of assessed value for the 2015 tax year. The road district levy, which is levied in unincorporated areas of the County for road construction and maintenance and other County services provided in the unincorporated areas, is limited to \$2.25 per \$1,000 of assessed value, and the County currently is levying at the maximum rate of \$2.25 per \$1,000 of assessed value for the 2015 tax year. Additional statutory provisions limit the increase in the aggregate amount of taxes levied. See “Authorized Property Taxes—Regular Property Tax Increase Limitation.”

The County is authorized to increase its general municipal purposes levy to a maximum of \$2.475 per \$1,000 of assessed value if the total combined levies for both general and road district purposes do not exceed \$4.05 per \$1,000 of assessed value and if no other taxing district has its levy reduced as a result of the increased County levy (RCW 84.52.043).

The \$1.80 per \$1,000 of assessed value limitation on the general purposes levy is exclusive of the following regular property taxes:

- (a) a voted levy for emergency medical services, limited to \$0.50 per \$1,000 of assessed value (authorized by RCW 84.52.069),
- (b) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per \$1,000 of assessed value (authorized by RCW 84.52.105, although the County has not sought approval from voters for this levy),
- (c) a non-voted levy for conservation futures, limited to \$0.0625 per \$1,000 of assessed value (authorized by RCW 84.34.230), and
- (d) a non-voted levy for transit-related purposes, limited to \$0.075 per \$1,000 of assessed value (authorized by RCW 84.52.140).

The County’s EMS levy was approved in November 2013 for an additional six years, at a rate of \$0.335 or less per \$1,000 of assessed value. The current second-year rate is \$0.30217 per \$1,000 of assessed value. The County’s levy rate for conservation futures in 2015 is \$0.04757 per \$1,000 of assessed value, and its levy rate for transit-related purposes is \$0.06792 per \$1,000 of assessed value.

- (ii) *One Percent Aggregate Regular Property Tax Levy Limitation.* Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of 1% of the true and fair value of property (or \$10.00 per \$1,000 of assessed value) by Article VII, Section 2, of the State Constitution and by RCW 84.52.050.

- (iii) *\$5.90 per \$1,000 Aggregate Regular Property Tax Levy Limitation.* Within the 1% limitation described above, aggregate regular property tax levies by all taxing districts are subject to a rate limitation of \$5.90 per \$1,000 of assessed value by RCW 84.52.043(2) except: levies by the State, port districts, and public utility districts; excess levies authorized by Article VII, Section 2, of the State Constitution; levies for acquiring conservation futures, for emergency medical services, to finance affordable housing for very low income households, for ferry districts, for criminal justice purposes, for transit-related purposes, and for regional transit authorities; and portions of certain levies by metropolitan park districts, fire protection districts, and certain flood control zone districts.

If aggregate regular property tax levies exceed the 1% or \$5.90 per \$1,000 of assessed value limitations, then, in order to bring the aggregate levy into compliance, levies requested by “junior” taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010). Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

- (iv) *Regular Property Tax Increase Limitation.* The regular property tax increase limitation (chapter 84.55 RCW) limits the total dollar amount of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year’s rate. The limit factor is defined as the lesser of 101% or 100% plus inflation, but if the inflation rate is less than 1%, the limit factor may be increased to 101%, if approved by a majority plus one vote of the governing body of the taxing district, upon a finding of substantial need. In addition, the limit factor may be increased, regardless of inflation, if such increase is authorized by the governing body of the taxing district upon a finding of substantial need and is also approved by the voters at a general or special election within the taxing district. Such election must be held less than 12 months before the date on which the proposed levy will be made, and any tax increase cannot be greater than described above under “Maximum Rate Limitations.” The new limit factor is effective for taxes collected in the following year only.

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) that exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy, and *vice versa* for decreases in assessed value.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as “banked” levy capacity. The County currently has no such banked levy capacity.

With majority voter approval, a taxing district may levy, within the statutory rate limitations described above, more than what otherwise would be allowed by the tax increase limitation, as allowed by RCW 84.55.050. This is known as a “levy lid lift,” which has the effect of increasing the taxing district’s levy “base” when calculating permitted levy increases in subsequent years. The new base can apply for a limited or unlimited period, except that if the levy lid lift was approved for the purpose of paying debt service on bonds, the new base can apply for no more than nine years. After the expiration of any limited purpose or limited duration specified in the levy lid lift, the levy is calculated as if the taxing district had levied only up to the limit factor in the interim period.

The table titled “Allocation of 2014 and 2015 Tax Levies” shows the allocation of the County’s existing levies. The automated fingerprint identification system (“AFIS”) levy, a regular property tax levy authorized by RCW 84.55.050, was renewed on November 6, 2012, for a six year term by a majority of voters in the County. The levy began in 2013 at a rate of not more than \$0.0592 per \$1,000 of assessed value, and in 2015 the rate is \$0.05069 per \$1,000 of assessed value. In August 2013, the Parks levy lid lift was renewed by voters for six years, for a rate of \$0.1877 per \$1,000 of assessed value. The 2015 tax year rate for the Parks levy lid lift is \$0.17014 per \$1,000 of assessed value. The Veterans and Family Human Services levy, approved by voters in 2011, is a regular property tax levy to be levied for six years beginning in 2012 at a rate of no more than \$0.05 per \$1,000 of assessed value. The 2015 rate is \$0.04488 per \$1,000

of assessed value. The Children and Family Justice Center levy is a nine-year temporary levy lid lift approved by voters in August 2012, at a rate of \$0.07 per \$1,000 of assessed value for the first year (2013). The rate for 2015 is \$0.05971 per \$1,000 of assessed value. A new regular property tax levy for the emergency public safety radio network replacement was approved by voters in April 2015, at a rate of \$0.07 per \$1,000 of assessed valuation for nine years, beginning in 2016. The proposed Best Starts for Kids levy has been approved by the County Council and will be on the November 3, 2015, ballot. This is a six-year levy at a rate of \$0.14 per \$1,000 of assessed value and, if approved by voters, will be used to invest in prevention and early intervention strategies for children and families.

*Excess Property Taxes.* The County also may impose “excess” property taxes, which are not subject to limitation, when authorized by 60% supermajority voter approval, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40% of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the number of voters approving the excess levy is at least 60% of a number equal to 40% of the number who voted at the last County general election. Excess levies also may be imposed without voter approval when necessary to prevent the impairment of the obligation of contracts.

*Component Units with Taxing Authority.* In 2007, the County Council created a County-wide flood control zone district and a County-wide ferry district which levy regular property taxes at rates of \$0.13860 and \$0.00306 per \$1,000 of assessed value, respectively, for the 2015 tax year. The boundaries of each district are coterminous with the boundaries of the County, and the members of the County Council serve initially as the legislative body for each district but, under State law, each district is a separate taxing district with independent taxing authority.

A County-wide transportation benefit district known as the King County Transportation District (“KCTD”) was formed by the County Council in February 2014, as authorized by the State’s transportation benefit district law. Shortly thereafter, the KCTD adopted a resolution to put a funding measure up for a public vote on April 22, 2014. The KCTD proposal was to enact a \$60 annual vehicle fee and a one-tenth-of-a-cent increase in the sales tax; both would have expired after ten years. The measure failed by a margin of 46% to 54%, and at this time, the KCTD has no plans to propose any additional funding measures.



## Allocation of Tax Levies

The following table sets forth the allocation of the County-wide, EMS, and unincorporated County (road district) levies.

### ALLOCATION OF 2014 AND 2015 TAX LEVIES

| County-Wide Levy Assessed Value <sup>(1)</sup>           | 2014 Original                  |                                     | 2015 Original                  |                                     |
|--|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|
|  | Taxes Levied<br>(in thousands) | 2014 Levy Rate<br>(\$ per thousand) | Taxes Levied<br>(in thousands) | 2015 Levy Rate<br>(\$ per thousand) |
| <b>\$388,118,855,592</b>                                 |                                |                                     |                                |                                     |
| Items Within Operating Levy <sup>(2)</sup>               |                                |                                     |                                |                                     |
| General Fund   | \$320,367                      | 0.94477                             | \$327,699                      | 0.84772                             |
| Veterans' Relief   | 2,705                          | 0.00798                             | 2,759                          | 0.00714                             |
| Human Services   | 6,069                          | 0.01790                             | 6,196                          | 0.01603                             |
| Intercounty River Improvement                            | 51                             | 0.00015                             | 50                             | 0.00013                             |
| Limited G.O. Bonds Debt Service                          | -                              | 0.00000                             | 6                              | 0.00000                             |
| AFIS Levy  | 18,947                         | 0.05588                             | 19,594                         | 0.05069                             |
| Parks Levy   | 63,653                         | 0.18770                             | 65,765                         | 0.17014                             |
| Veterans and Family Human Services                       | 16,778                         | 0.04948                             | 17,350                         | 0.04488                             |
| Children and Family Justice Center                       | 22,366                         | 0.06597                             | 23,081                         | 0.05971                             |
| Marine Operating (Ferry)                                 | -                              | 0.00000                             | 1,182                          | 0.00306                             |
| Total Operating Levy <sup>(2)</sup>                      | \$450,936                      | 1.32983                             | \$463,682                      | 1.19950                             |
| Transit Levy <sup>(3)</sup>                              | \$ 25,431                      | 0.07500                             | \$ 26,255                      | 0.06792                             |
| Conservation Futures Levy <sup>(4)</sup>                 |                                |                                     |                                |                                     |
| Conservation Futures Levy                                | \$ 9,379                       | 0.02766                             | \$ 10,104                      | 0.02614                             |
| Farmland and Park Debt Service                           | 8,578                          | 0.02530                             | 8,284                          | 0.02143                             |
| Total Conservation Futures Levy                          | \$ 17,957                      | 0.05296                             | \$ 18,388                      | 0.04757                             |
| Unlimited Tax G.O. Bonds<br>(Voter-approved Excess Levy) | \$ 19,627                      | 0.05826                             | \$ 11,618                      | 0.03023                             |
| Total County-wide Levy                                   | \$513,951                      | 1.51605                             | \$519,943                      | 1.34522                             |
| EMS Assessed Value <sup>(5)</sup>                        |                                |                                     |                                |                                     |
| \$242,938,385,808  |                                |                                     |                                |                                     |
| EMS Levy <sup>(5)</sup>                                  | \$ 70,608                      | 0.33500                             | \$ 73,111                      | 0.30217                             |
| Unincorporated County Assessed Value <sup>(1)</sup>      |                                |                                     |                                |                                     |
| \$32,075,397,556   |                                |                                     |                                |                                     |
| Road District Levy <sup>(6)</sup>                        | \$ 71,721                      | 2.25000                             | \$ 81,183                      | 2.25000                             |
| Total County Tax Levies                                  | <u>\$656,280</u>               |                                     | <u>\$674,237</u>               |                                     |

(1) Assessed value for taxes payable in 2015.

(2) The operating levy is limited statutorily to \$1.80 per \$1,000 of assessed value.

(3) The Transit Levy is limited statutorily to \$0.075 per \$1,000 of assessed value.

(4) The Conservation Futures Levy is limited statutorily to \$0.0625 per \$1,000 of assessed value.

(5) The EMS levy is limited statutorily to \$0.335 per \$1,000 of assessed value.

(6) The Road District Levy is levied only in the unincorporated areas of the County and is limited statutorily to \$2.25 per \$1,000 of assessed value.

Source: King County Department of Assessments

## Assessed Value Determination

The Assessor determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100% of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year, in order to levy taxes payable the following year, the County Council receives the Assessor's final certificate of assessed value of property within the County.

The following table presents the assessed value of the taxable property within the County for the current year and the last six years.

| KING COUNTY<br>ASSESSED VALUE |                    |   |
|-------------------------------|--------------------|---|
| Tax Year                      | Amount             | Percentage Change<br>From Previous Year |
| 2010                          | \$ 341,971,517,465 | -11.6%                                  |
| 2011                          | 330,414,998,614    | -3.4%                                   |
| 2012                          | 319,460,937,305    | -3.3%                                   |
| 2013                          | 314,746,206,667    | -1.5%                                   |
| 2014                          | 340,643,616,343    | 8.2%                                    |
| 2015                          | 388,118,855,592    | 13.9%                                   |

Source: King County Department of Assessments

## Tax Collection Procedure

Property taxes are levied in specific amounts by the County Council, and the rate for all taxes levied for all taxing districts in the County is determined by the Assessor based upon the assessed value of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district on a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Manager, who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds \$50, one half may be paid then and the balance no later than October 31 of that year (except that the half to be paid on April 30 may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods of giving notice of payment of taxes due, collecting taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed statutes. Personal property taxes levied by the County Council are secured by a lien on the personal property assessed. A federal tax lien filed before the County Council levies the personal property taxes is senior to the County's personal property tax lien. In addition, a federal civil judgment lien (but not a federal tax lien) is senior to real property taxes that are incurred after the judgment lien has been recorded. In all other respects, and subject to the possible "homestead exemption" described below, the lien that secures payment of property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (chapter 6.13 RCW) gives the occupying homeowner a right to retain the first \$125,000 proceeds of the forced sale of a family residence or other "homestead" property for

delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

The following table shows the County's property tax collection record.

**PROPERTY TAX COLLECTION RECORD  
ALL COUNTY FUNDS (\$000)**

| <b>Tax Year</b> | <b>Original Amount Levied<sup>(1)</sup></b> | <b>Amount Collected Year of Levy</b> | <b>Percent Collected Year of Levy</b> | <b>Percent Collected as of 5/31/2015</b> |
|-----------------|---|--------------------------------------|---------------------------------------|--|
| 2010            | \$ 587,009                                  | \$ 569,405                           | 97.00%                                | 98.88%                                   |
| 2011            | 588,486                                     | 571,256                              | 97.07%                                | 98.76%                                   |
| 2012            | 583,597                                     | 571,789                              | 97.98%                                | 99.50%                                   |
| 2013            | 608,445                                     | 597,455                              | 98.19%                                | 99.42%                                   |
| 2014            | 656,280                                     | 645,201                              | 98.31%                                | 99.16%                                   |
| 2015            | 674,237                                     | 345,666                              | 51.27%                                | 51.27% <sup>(2)</sup>                    |

(1) Excludes the portions of the EMS levy collected within the cities of Seattle and Milton, which are paid to those cities.

(2) Partial collection as of May 31, 2015.

Source: King County Finance and Business Operations Division—Financial Management Section

**Principal Taxpayers**

The following table lists the ten largest taxpayers in the County and the assessed value of their real and personal property for the 2015 tax collection year.

**LARGEST TAXPAYERS IN THE COUNTY  
2015 TAX COLLECTION YEAR**

| <b>Taxpayer</b>                             | <b>Assessed Value</b> | <b>AV as Percentage of County's Total AV</b> |
|---|-----------------------|--|
| Boeing                                      | \$ 3,153,954,309      | 0.81%  |
| Microsoft                                   | 2,736,627,732         | 0.71%  |
| Puget Sound Energy                          | 2,370,277,658         | 0.61%  |
| Alaska Airlines                             | 778,080,992           | 0.20%  |
| AT&T Mobility LLC                           | 645,729,153           | 0.17%  |
| Kemper Development                          | 606,557,469           | 0.16%  |
| Union Square LLC                            | 593,709,418           | 0.15%  |
| Qwest Corporation <sup>(1)</sup>            | 493,826,094           | 0.13%  |
| Urban Renaissance Property Co.              | 460,465,549           | 0.12%  |
| 1201 Tab Owner LLC                          | 457,615,155           | 0.12%  |
| Total Assessed Value of Top Ten Taxpayers   | \$ 12,296,843,529     | 3.17%  |
| Total Assessed Value of All Other Taxpayers | \$375,822,012,063     | 96.83%                                       |
| 2014 Assessed Value for Taxes Due in 2015   | \$388,118,855,592     | 100.00%                                      |

(1) Acquired by CenturyLink in 2011.

Source: King County Department of Assessments

**INITIATIVES AND REFERENDA**

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the State Legislature and then, if not enacted, to the voters) and require the State Legislature to refer legislation to the voters

through the power of referendum. Any law approved through the power of initiative by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The State Constitution may not be amended by initiative.

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

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

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.

## **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 excerpts from the County's 2014 Comprehensive Annual Financial Report attached as Appendix B include Note 19 concerning non-tort legal matters. Reflecting recent developments in those matters, the following information supplements the information in Appendix B:

- (i) In the Brightwater Treatment Plant influent pump station design engineer's error matter, the case has been remanded to Superior Court.
- (ii) In the lawsuit by public defenders claiming that they should have been enrolled in PERS, the parties have developed a case schedule for litigating the issues that remain in the case after remand.

The County and its agencies are also party to litigation involving tort claims. Information under the heading "King County—Risk Management and Insurance" herein describes the County's self-insurance program and the current insurance policies that cover tort litigation. The County expects that the amount of the Insurance Fund and County insurance coverage, together with routinized budget practices, are sufficient to cover all costs associated with known tort litigation pending. Although the County cannot predict the amount of damages that may be payable, if any, in its litigation, the County does not believe that any pending litigation would materially adversely affect the ability of the County to pay when due the principal of or interest on the Bonds.

### **Approval of Counsel**

Legal matters incident to the authorization, issuance and sale of the Bonds by the County are subject to the approving legal opinion of Hillis Clark Martin & Peterson P.S., Bond Counsel. Forms of the opinions of Bond Counsel with respect to the Bonds are attached hereto as Appendix A. The opinions of Bond Counsel are given based on factual representations made to Bond Counsel, and under existing law, as of the date of the initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinions of Bond Counsel are an expression of its professional judgment on the matters expressly addressed in its

opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

### **Potential Conflicts of Interest**

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

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

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

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

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

The opinions to be delivered by Hillis Clark Martin & Peterson P.S., as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights, and also to the exercise of judicial discretion in accordance with general principles of equity. The forms of legal opinions of Bond Counsel are set forth in Appendix A.

### **Tax Matters**

*General.* In the opinion of Hillis Clark Martin & Peterson P.S., Bond Counsel, as of the date of issue of the Bonds (the "Date of Issue") and assuming compliance by the County with the applicable requirements of the Code that must be satisfied subsequent to the Date of Issue, under existing federal law, 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 determining the federal alternative minimum tax imposed on individuals and corporations. However, under existing federal law, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

Except as stated in the previous paragraph, Bond Counsel expresses no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds.

*Continuing Requirements.* The Code contains certain requirements that must be satisfied subsequent to the Date of Issue in order to maintain the federal tax treatment described in "Legal and Tax Information—Tax Matters—General," including requirements relating to application of the proceeds of the Bonds, use of facilities financed or refinanced with such proceeds, limitations on income derived from the investment of gross proceeds of the Bonds (as defined in Section 148 of the Code), and rebate to the United States Treasury of certain investment earnings on such gross proceeds. The County has covenanted to comply with these requirements to the extent applicable, and Bond Counsel's opinion with respect to the Bonds described in "Legal and Tax Information—Tax Matters—General" assumes such compliance. However, if the County should fail to comply with such requirements, interest on the Bonds could become includable in gross income for federal income tax purposes and could be treated as an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals and

corporations, in each case, retroactively to the Date of Issue. Bond Counsel does not undertake to monitor the County's compliance with such requirements.

*Other Federal Tax Matters.* Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds, and taxpayers who have an initial basis in the Bonds greater or less than the principal amount thereof. Bond Counsel is not rendering any opinion as to any federal tax matters with respect to the Bonds other than as described in "Legal and Tax Information—Tax Matters—General." Prospective purchasers of the Bonds should consult their independent tax advisors.

### **Qualified Tax-Exempt Obligations**

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

### **Proposed Tax Legislation; Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) could affect the market price or marketability of the Bonds. For example, proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations, or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

### **Continuing Disclosure Undertaking**

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

*Annual Disclosure Report.* The County agrees 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 2016 for the fiscal year ended December 31, 2015):

- (i) annual financial statements prepared in accordance with the Budget Accounting and Reporting System ("BARS") prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statutes) and generally of the type attached hereto as Appendix B, 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) a summary of the assessed value of taxable property in the County;
- (iii) a summary of budgeted General Fund revenues and appropriations;
- (iv) a summary of *ad valorem* property tax levy rates per \$1,000 of assessed value and delinquency rates;
- (v) a summary of outstanding tax-supported indebtedness of the County; and
- (vi) a schedule of the aggregate annual debt service on tax-supported indebtedness of the County.

Items (ii) through (vi) above 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 its fiscal year by providing written notice to the MSRB. In lieu of providing the Annual Financial Information, the County may make specific 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, the County will provide to the MSRB the County's audited annual financial statements prepared in accordance with BARS when and if available.

The County agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the Annual Financial Information described above on or prior to the date set forth above.

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

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

Solely for purposes of disclosure and not intending to modify the Undertaking, the County advises with reference to items (iii), (x), and (xiv) that no debt service reserves secure payment of the Bonds, no property secures repayment of the Bonds, and there is no trustee for the Bonds.

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

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

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

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

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

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

## **OTHER BOND INFORMATION**

### **Ratings**

The Bonds have been rated "Aa1," "AA+," and "AAA" by Moody's Investors Service, Fitch Ratings, and Standard & Poor's Ratings Services, respectively. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

### **Financial Advisor**

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



**Purchasers of the Bonds**

The 2015B Bonds are being purchased by Morgan Stanley & Co. LLC (the “2015B Purchaser”) at a price of \$31,266,506.03, and will be reoffered at a price of \$31,335,408.15. The 2015C Bonds are being purchased by Citigroup Global Markets Inc. (the “2015C Purchaser”) at a price of \$29,540,254.63, and will be reoffered at a price of \$29,592,462.90. The Purchaser of either series of the Bonds may offer and sell such series of the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices and yields set forth on pages i and ii of this Official Statement, and such initial offering prices and yields may be changed from time to time by such Purchaser. After the initial public offering, the public offering prices and yields may be varied from time to time.

Morgan Stanley, parent company of the 2015B Purchaser, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2015B Bonds.

**Official Statement**

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

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

KING COUNTY, WASHINGTON

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

Ken Guy  
Director of Finance and Business Operations Division  
Department of Executive Services

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**APPENDIX A**  
**FORMS OF BOND COUNSEL OPINIONS**

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Form of Approving Opinion of  
Hillis Clark Martin & Peterson P.S., Bond Counsel  
with respect to the 2015B Bonds

October 13, 2015

County Executive and County Council  
King County, Washington  
Seattle, Washington 98104

We have acted as bond counsel to King County, Washington (the “County”), in connection with the issuance by the County of the bonds described below (the “2015B Bonds”):

\$27,415,000

KING COUNTY, WASHINGTON  
LIMITED TAX GENERAL OBLIGATION BONDS, 2015, SERIES B  
(Federally Tax-Exempt)

Dated: October 13, 2015 (the “Date of Issue”)

The 2015B Bonds are issued under and in accordance with the provisions of chapters 36.67 and 39.46 RCW; the County Charter; and County Ordinance 18090 (the “2015B Bond Ordinance”) and Motion 14430 of the King County Council (together with the 2015B Bond Ordinance, the “2015B Bond Legislation”). The 2015B Bonds are issued to provide long-term financing for all or part of the capital costs of the 420 Fourth Avenue Acquisition Project, the Archives Records Warehouse Lighting Project, the Eastside Rail Corridor Acquisition Project, the IT Projects, the Jail Toilet Controls Retrofit Project, the KCCF Lighting Retrofit Project, the MRJC Solar Project, the Orcas Fleet Management Facility Project, the RSD LED Conversion Project and the Solid Waste Lighting Project, including costs of issuing the 2015B Bonds. Capitalized terms used but not otherwise defined herein shall have the meanings set forth in the 2015B Bond Ordinance. The 2015B Bonds were sold at substantially the same time and pursuant to the same plan of financing as the King County, Washington Limited Tax General Obligation Refunding Bonds, 2015, Series C (Federally Tax-Exempt) (together with the 2015B Bonds, the “Bonds”).

In rendering this opinion letter, we have examined the following: (i) the 2015B Bond Legislation; (ii) a copy of one executed and authenticated 2015B Bond (we assume that all other 2015B Bonds are in the same form and have been similarly executed and authenticated); (iii) the Blanket Letter of Representations from the County to The Depository Trust Company; and (iv) the certified proceedings of the County and other certificates of public officials and representatives of the County and representatives of Morgan Stanley & Co. LLC, as the underwriter of the 2015B Bonds (the “Underwriter”) that have been furnished to us and which comprise the transcript of proceedings pertaining to the issuance of the Bonds (the “Transcript”).

As to questions of fact material to the opinions expressed herein, we are relying upon the certified proceedings of the County and other certifications of public officials and representatives of the County and the Underwriter that have been furnished to us as part of the Transcript, all without undertaking to verify the same by independent investigation.

Based upon the foregoing and our examination of such questions of law as we have deemed necessary or appropriate for the purpose of this opinion letter, and subject to the limitations and qualifications expressed below, we are of the opinion that, as of this date:

1. The 2015B Bonds are lawfully authorized and issued pursuant to and in full compliance with the Constitution and applicable statutes of the State of Washington, the County Charter and the 2015B Bond Legislation.

2. The 2015B Bonds are legal, valid and binding limited tax general obligations of the County, enforceable against the County in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, and also to the exercise of judicial discretion in accordance with general principles of equity.

3. The County has irrevocably covenanted in the 2015B Bond Ordinance that, for as long as any of the 2015B Bonds are outstanding and unpaid, each year it will include in its budget and levy an *ad valorem* tax within the constitutional and statutory tax limitations provided by law without a vote of the people upon all the property within the County subject to taxation in an amount that will be sufficient, together with all other revenues, taxes and money of the County legally available for such purposes, to pay the principal of and interest on the 2015B Bonds as the same shall become due. The County has irrevocably pledged its full faith, credit and resources for the annual levy and collection of such taxes and for the prompt payment of the principal of and interest on the 2015B Bonds as the same shall become due.

4. Assuming compliance by the County with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the Date of Issue, under existing federal law, interest on the 2015B Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals and corporations. However, under existing federal law, interest on the 2015B Bonds is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

Except as stated in the preceding paragraph 4, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2015B Bonds.

The Code contains certain requirements that must be satisfied subsequent to the Date of Issue in order to maintain the federal tax treatment described in paragraph 4, including requirements relating to the application of the proceeds of the Bonds, use of facilities financed or refinanced with such proceeds, limitations on income derived from the investment of gross proceeds (as defined in Section 148 of the Code) of the Bonds, and rebate to the United States Treasury of certain investment earnings on such gross proceeds. The County has covenanted to comply with these requirements to the extent applicable, and the opinion expressed in paragraph 4 assumes such compliance. However, we have not undertaken and do not undertake to monitor compliance by the County with such requirements; and if the County should fail to comply with such requirements, interest on the 2015B Bonds could become includable in gross income for federal income tax purposes and could be treated as an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals and corporations, in each case, retroactively to the Date of Issue.

We do not express any opinion herein concerning the completeness or accuracy of the official statement or other disclosure documentation used by any person in connection with the offer or sale of the 2015B Bonds.

The law covered by this letter is limited to the federal law of the United States of America and the law of the State of Washington.

The foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

This opinion is given as of the date hereof and we expressly disclaim any responsibility to advise you of any developments in areas covered by this opinion letter that may hereafter occur.

Respectfully submitted,

HILLIS CLARK MARTIN & PETERSON P.S.

By

Daniel S. Gottlieb

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Form of Approving Opinion of  
Hillis Clark Martin & Peterson P.S., Bond Counsel  
with respect to the 2015C Bonds

October 13, 2015

County Executive and County Council  
King County, Washington  
Seattle, Washington 98104

We have acted as bond counsel to King County, Washington (the “County”), in connection with the issuance by the County of the bonds described below (the “2015C Bonds”):

\$25,970,000  
KING COUNTY, WASHINGTON  
LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2015, SERIES C  
(Federally Tax-Exempt)  
Dated: October 13, 2015 (the “Date of Issue”)

The 2015C Bonds are issued under and in accordance with the provisions of chapters 36.67, 39.46 and 39.53 RCW; the County Charter; and County Ordinance 17564 (the “2015C Bond Ordinance”) and Motion 14431 of the King County Council (together with the 2015C Bond Ordinance, the “2015C Bond Legislation”). The 2015C Bonds are issued to refund a portion of the King County, Washington, Limited Tax General Obligation Bonds, 2007, Series C and the King County, Washington Limited Tax General Obligation Bonds, 2007, Series D, and paying costs of issuing the 2015C Bonds. Capitalized terms used but not otherwise defined herein shall have the meanings set forth in the 2015C Bond Ordinance. The 2015C Bonds were sold at substantially the same time and pursuant to the same plan of financing as the King County, Washington Limited Tax General Obligation Bonds, 2015, Series B (Federally Tax-Exempt) (together with the 2015C Bonds, the “Bonds”).

In rendering this opinion letter, we have examined the following: (i) the 2015C Bond Legislation; (ii) the Escrow Agreement, dated the Date of Issue, by and between the County and U.S. Bank National Association, as escrow agent; (iii) the escrow verification report (the “Verification”), dated the Date of Issue, of Causey Demgen & Moore P.C.; (iv) a copy of one executed and authenticated 2015C Bond (we assume that all other 2015C Bonds are in the same form and have been similarly executed and authenticated); (v) the Blanket Letter of Representations from the County to The Depository Trust Company; and (vi) the certified proceedings of the County and other certificates of public officials and representatives of the County and representatives of Citigroup Global Markets Inc., as the underwriter of the 2015C

Bonds (the “Underwriter”) that have been furnished to us and which comprise the transcript of proceedings pertaining to the issuance of the Bonds (the “Transcript”).

As to questions of fact material to the opinions expressed herein, we are relying upon the Verification, the certified proceedings of the County and other certifications of public officials and representatives of the County and the Underwriter that have been furnished to us as part of the Transcript, all without undertaking to verify the same by independent investigation.

Based upon the foregoing and our examination of such questions of law as we have deemed necessary or appropriate for the purpose of this opinion letter, and subject to the limitations and qualifications expressed below, we are of the opinion that, as of this date:

1. The 2015C Bonds are lawfully authorized and issued pursuant to and in full compliance with the Constitution and applicable statutes of the State of Washington, the County Charter and the 2015C Bond Legislation.

2. The 2015C Bonds are legal, valid and binding limited tax general obligations of the County, enforceable against the County in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights, and also to the exercise of judicial discretion in accordance with general principles of equity.

3. The County has irrevocably covenanted in the 2015C Bond Ordinance that, for as long as any of the 2015C Bonds are outstanding and unpaid, each year it will include in its budget and levy an *ad valorem* tax within the constitutional and statutory tax limitations provided by law without a vote of the people upon all the property within the County subject to taxation in an amount that will be sufficient, together with all other revenues, taxes and money of the County legally available for such purposes, to pay the principal of and interest on the 2015C Bonds as the same shall become due. The County has irrevocably pledged its full faith, credit and resources for the annual levy and collection of such taxes and for the prompt payment of the principal of and interest on the 2015C Bonds as the same shall become due.

4. Assuming compliance by the County with applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the Date of Issue, under existing federal law, interest on the 2015C Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals and corporations. However, under existing federal law, interest on the 2015C Bonds is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

Except as stated in the preceding paragraph 4, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2015C Bonds.

The Code contains certain requirements that must be satisfied subsequent to the Date of Issue in order to maintain the federal tax treatment described in paragraph 4, including requirements relating to the application of the proceeds of the Bonds, use of facilities financed or refinanced with such proceeds, limitations on income derived from the investment of gross proceeds (as defined in Section 148 of the Code) of the Bonds, and rebate to the United States Treasury of certain investment earnings on such gross proceeds. The County has covenanted to comply with these requirements to the extent applicable, and the opinion expressed in paragraph 4 assumes such compliance. However, we have not undertaken and do not undertake to monitor compliance by the County with such requirements; and if the County should fail to comply with such requirements, interest on the 2015C Bonds could become includable in gross income for federal income tax purposes and could be treated as an item of tax preference for purposes of determining the federal alternative minimum tax imposed on individuals and corporations, in each case, retroactively to the Date of Issue.

We do not express any opinion herein concerning the completeness or accuracy of the official statement or other disclosure documentation used by any person in connection with the offer or sale of the 2015C Bonds.

The law covered by this letter is limited to the federal law of the United States of America and the law of the State of Washington.

The foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

This opinion is given as of the date hereof and we expressly disclaim any responsibility to advise you of any developments in areas covered by this opinion letter that may hereafter occur.

Respectfully submitted,

HILLIS CLARK MARTIN & PETERSON P.S.

By

Daniel S. Gottlieb

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**APPENDIX B**

**EXCERPTS FROM KING COUNTY'S 2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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# Financial Section

# CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT





# Washington State Auditor's Office

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

June 22, 2015

Council and Executive  
King County  
Seattle, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Water Quality Enterprise Fund, a major fund which represents 65 percent, 21 percent and 30 percent, or the Public Transportation Fund, a major fund, which represents 27 percent, 67 percent and 59 percent, respectively, of the assets and deferred outflows, net position and revenues of the business-type activities. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Water Quality Enterprise, and Public Transportation funds, is based solely on the report of the other auditors. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Water Quality Enterprise, and Public Transportation funds were not audited in accordance with *Government Auditing Standards*.



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 County'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 County'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 opinions.

## **Opinion**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of King County, Washington, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Mental Health and Public Health funds 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 on pages 4 through 18 and condition assessments and preservation of infrastructure eligible for modified approach on pages 119 through 121 and postemployment health care plan information on page 119 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying information listed as combining fund statements and schedules and supplementary information on pages 123 through 174 is presented for purposes of additional analysis and is not a required part of the basic 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. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we will also issue our report dated June 22, 2015, on our consideration of the County'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 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 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 County's internal control over financial reporting and compliance.

Sincerely,



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of King County's Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the County for the year ended December 31, 2014. We encourage readers to consider this information in conjunction with that furnished in the letter of transmittal and with the County's financial statements and accompanying notes to the financial statements.

### FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

**As the economy of the County continues to improve, the overall financial position has also improved:**

- As of December 31, 2014, the assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources by \$5,360.1 million (net position). Because most of the County's net position is either invested in capital assets or restricted as to use, the combined unrestricted net position amounted to \$746.6 million at the end of the year.
- During 2014, the County's total net position increased by 4.3 percent or \$221.1 million. The governmental net position increased by 5.9 percent or \$149.7 million, and the business-type net position increased by 2.7 percent or \$71.4 million.
- As of December 31, 2014, the County's governmental funds reported combined ending fund balances of \$675.6 million. Approximately 9.5 percent or \$64.2 million is unassigned fund balance.
- At the end of 2014 the unassigned fund balance for the General Fund was \$71.7 million, amounting to 11.0 percent of total General Fund expenditures. Total fund balance for the General Fund decreased 10.9 percent or \$12.6 million for the year.

- The County's total bonded debt decreased by 2.8 percent or \$131.9 million in 2014 as the County paid down debt principal in the amount of \$157.3 million and defeased or refunded other borrowing of \$318.0 million. On the other hand, new bonds were issued during the year in the amount of \$343.2 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements which include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. In addition, this report also describes the nature of "required supplementary information" and the types of "other supplementary information" that are provided.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with an overview of the County's finances in a manner similar to a private sector business. The statements provide near-term and long-term information about the County's financial position, which assists in assessing the County's financial condition at the end of the fiscal year.

These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This means they follow methods that are similar to those used by most businesses, taking into account all revenues and expenses attributable to the fiscal year, even if the cash involved has not been received or paid. The government-wide financial statements include two statements:

The **statement of net position** presents all of the County's assets and deferred outflows of resources, and its liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the County's net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The **statement of activities** presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as

soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both government-wide financial statements have separate sections for three different types of County programs or activities:

**Governmental activities.** The activities in this section are principally supported by taxes and intergovernmental revenues. These include most of the County's basic services, such as, general government; law, safety and justice; physical environment; transportation; economic environment; mental and physical health; culture and recreation; and debt service. Also included within governmental activities are the operations of the County's flood control district and two nonprofit property management corporations. Although legally separate, these component units are blended with the King County primary government for reporting purposes to comply with governmental accounting standards.

**Business-type activities.** These functions are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities include the operation of the County's public transportation system, wastewater treatment facilities, solid waste disposal facilities, airport, and other services. Also included within business-type activities are the operations of the County's ferry district. Although legally separate, this component unit is blended with the King County primary government for reporting purposes to comply with governmental accounting standards.

**Discretely presented component units.** The County's government-wide financial statements include a separate column or section that aggregates financial data of other legally separate entities that are reported as discrete component units: the Harborview Medical Center (HMC) and the Cultural Development Authority (CDA) of King County. While governmental accounting standards call for these entities to be reported as part of the overall financial reporting entity, they are not included within the primary government.

Individual component unit statements for HMC and the CDA can be found immediately following the fiduciary funds financial statements in the Basic Statements section.

### **Fund Financial Statements**

The fund financial statements are designed to report financial information about the County's funds. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives.

The County, like most state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

**Governmental funds.** Most of the services provided by the County are accounted for in governmental funds. Governmental funds are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements.

Unlike government-wide financial statements, however, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing whether there will be sufficient near-term financial resources to meet the needs of the County.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

King County maintains a general fund and several other individual governmental funds organized according to their type (special revenue, debt service, and capital projects). Three governmental funds, namely, the General Fund, Mental Health Fund and the Public Health Fund, are reported as **major funds**. Each of the major funds is presented in a separate column in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor funds is provided as supplementary information in the form of combining statements in the Governmental Funds section.

The County adopted annual budgets for the General Fund, appropriated at the department or division level, and the Public Health Fund, appropriated at the fund level. The Mental Health fund had a biennial budget (2013-2014) appropriated at the fund level. A budgetary comparison statement has been provided for each of the major governmental funds. The basic governmental funds financial statements can be found immediately following the government-wide statements.

**Proprietary funds.** Proprietary funds are used to account for services for which the County charges customers a fee to recover all or a portion of the cost of providing the services. Proprietary funds provide the same type of information as shown in the government-wide financial statements but at a more detailed level, including the addition of cash flow statements. Like the government-wide financial statements, proprietary funds financial statements use the accrual basis of accounting. The basic proprietary funds financial statements can be found immediately following the governmental funds financial statements.

The County has two types of proprietary funds:

**Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The proprietary funds financial statements provide separate information for the Water Quality Enterprise and the Public Transportation Enterprise, both considered to be major funds of the County for financial reporting purposes. All other enterprise

funds are aggregated into a single presentation within the proprietary funds financial statements.

**Internal service funds** are used to report activities that provide services to the County's other programs and activities on a cost reimbursement basis. The County uses internal service funds to account for its motor pool, information and telecommunications services, employee benefits, facilities management, risk management, building development and construction, and financial and various other administrative services. Most of these services support or benefit governmental rather than business-type functions and have therefore been consolidated within governmental activities in the government-wide financial statements. One internal service fund, however, provides equipment and fleet maintenance services almost exclusively to the Water Quality Enterprise and is therefore consolidated within the business-type activities in the government-wide financial statements. At the fund level, these two types of internal service funds are aggregated for reporting purposes under Proprietary funds and individual financial statements are provided as other supplementary information in the Internal Service Funds section.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as agency funds. Fiduciary funds also include the investment trust funds that are used to report investment pool activity on behalf of special districts and public authorities. Since the resources of these funds are not available to support the County's own programs, they are not reflected in the government-wide financial statements. The accounting for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found immediately following the proprietary funds financial statements.

**Notes to the financial statements**

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following

the individual component unit financial statements in the Basic Statements section.

### **Other information**

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information on 1) the current funding progress for other post-employment benefits, and 2) infrastructure assets reported using the modified approach. The required supplementary information immediately follows the notes to the financial statements.

**Combining Statements.** The combining statements are presented in separate sections immediately after the required supplementary information.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Analysis of Net Position**

An analysis of net position may serve as a useful indicator of a government's financial position.

As indicated in the condensed financial information below which was derived from the government-wide statement of net position, the County's combined net position (governmental and business-type activities) was \$5,366.8 million at the end of 2014. This is an increase of

4.4 percent or \$228.6 million over the net position of the previous year, as restated.

**Governmental activities.** Although the net position of governmental activities increased 6.2 percent or \$157.5 million to \$2,691.3 million, all of the net position is either subject to external usage restrictions, or is already invested in the capital assets that support current and future service levels. Unrestricted net position for governmental activities was a negative \$83.8 million at the end of 2014. This is an \$18.8 million decrease from the deficit in unrestricted net position at the end of 2013. This deficit does not mean that the County's governmental activities do not have the resources available to pay their obligations in the coming year, but rather the result of governmental activities recognizing longer term commitments and obligations that are greater than currently available resources, and the existence of debt for which the associated assets are no longer reported. Specifically, governmental activities included general obligation debt of \$154.7 million that had no corresponding assets available to offset it, but for which future revenues are still obligated. It is the increase in total net position for governmental activities that reflects the County's ability, on an annual basis, to meet its current obligations in those activities including the related debt service requirements.

|                                       | <b>Governmental<br/>Activities</b> |                       | <b>Business-type<br/>Activities</b> |                     | <b>Total</b>        |                     |
|---------------------------------------|------------------------------------|-----------------------|-------------------------------------|---------------------|---------------------|---------------------|
|                                       | <b>2014</b>                        | <b>2013</b>           | <b>2014</b>                         | <b>2013</b>         | <b>2014</b>         | <b>2013</b>         |
| <b>Assets</b>                         |                                    |                       |                                     |                     |                     |                     |
| Current and other assets              | \$ 1,160,554                       | \$ 1,138,999 *        | \$ 1,728,599                        | \$ 1,718,882        | \$ 2,889,153        | \$ 2,857,881 *      |
| Capital assets                        | 3,023,482                          | 2,982,425 *           | 5,763,315                           | 5,770,423           | 8,786,797           | 8,752,848           |
| Total Assets                          | <u>4,184,036</u>                   | <u>4,121,424 *</u>    | <u>7,491,914</u>                    | <u>7,489,305</u>    | <u>11,675,950</u>   | <u>11,610,729 *</u> |
| <b>Deferred outflows of Resources</b> |                                    |                       |                                     |                     |                     |                     |
| Deferred amount on refunding          | 22,508                             | 24,963                | 107,388                             | 97,254              | 129,896             | 122,217             |
| <b>Liabilities</b>                    |                                    |                       |                                     |                     |                     |                     |
| Long-term liabilities                 | 1,348,139                          | 1,420,572 *           | 4,427,878                           | 4,452,662           | 5,776,017           | 5,873,234 *         |
| Other liabilities                     | 173,745                            | 190,870               | 461,348                             | 477,253             | 635,093             | 668,123             |
| Total Liabilities                     | <u>1,521,884</u>                   | <u>1,611,442 *</u>    | <u>4,889,226</u>                    | <u>4,929,915</u>    | <u>6,411,110</u>    | <u>6,541,357 *</u>  |
| <b>Deferred inflows of Resources</b>  |                                    |                       |                                     |                     |                     |                     |
| Rate Stabilization                    | -                                  |                       | 34,250                              | 52,250              | 34,250              | 52,250              |
| <b>Net Position</b>                   |                                    |                       |                                     |                     |                     |                     |
| Net investment in capital assets      | 2,204,046                          | 2,111,026 *           | 1,616,435                           | 1,612,685           | 3,820,481           | 3,723,711           |
| Restricted                            | 576,225                            | 488,982 *             | 216,803                             | 214,515             | 793,028             | 703,497 *           |
| Unrestricted                          | (95,611)                           | (65,063)              | 842,588                             | 777,194             | 746,977             | 712,131             |
| Total net position                    | <u>\$ 2,684,660</u>                | <u>\$ 2,534,945 *</u> | <u>\$ 2,675,826</u>                 | <u>\$ 2,604,394</u> | <u>\$ 5,360,486</u> | <u>\$ 5,139,339</u> |

\* Restated

Of the amount of debt with no corresponding assets, 68.2 percent or \$105.6 million is related to assets recorded on the books of one of the County's two discretely presented component units: the Harborview Medical Center. As a discretely presented component unit, this entity is not part of the primary government or incorporated into this analysis. The remaining debt, with no corresponding assets, consists of 17.9 percent or \$27.6 million associated with the defunct Kingdome stadium, and 13.9 percent or \$21.5 million that were used to finance assets that were previously owned by the County but have since been sold or transferred to other jurisdictions from various agreements or transactions.

**Business-type activities.** There was an increase of 2.7 percent to \$2,675.8 million in the net position of business-type activities. Of the total net position for business-type activities, 60.4 percent or \$1,616.4 million is the net investment in capital assets net of the related borrowing adjusted for unspent debt proceeds. The business-type activities use these capital assets to provide services to their customers; consequently, these assets are not available for future spending. The resources needed to repay the borrowing to acquire these assets must be provided from other sources since capital assets are essential and therefore cannot be liquidated. Another 8.1 percent or \$216.8 million of the total net position of business-type activities is restricted for debt service, regulatory assets and environmental liabilities. The remaining 31.5 percent or \$842.6 million is unrestricted net position. Balances in the unrestricted net position for business-type activities cannot be used to reduce the unrestricted net position deficit in governmental activities. The combination of the negative \$95.6 million of governmental activities unrestricted net position and the \$842.6 million positive balance in the business-type activities unrestricted net position netted to \$747.0 million in total unrestricted net position for the County as a whole.

**Analysis of Changes in Net Position**

The increase in the County's total net position in 2014 resulted from revenues exceeding related

expenses and reflects the County's ability to meet its ongoing obligations, including its debt service requirements. Approximately 43.6 percent of the County's total revenues came from taxes, primarily property taxes and retail sales and use taxes. Charges for various goods and services provided 47.2 percent of total revenues, while 8.8 percent was derived from operating and capital grants and contributions, including state and federal assistance. Major expense functions or activities include public transportation, law, safety and justice, mental and physical health, and water quality.

The condensed financial information on the following page is derived from the government-wide statement of activities and reflects how the County's net position changed during 2014.

**Governmental activities.** Governmental activities accounted for 67.7 percent of the total growth in net position of the County, resulting in an increase in the governmental activities net position of \$149.7 million. Program revenues for governmental activities totaled \$904.0 million and included the amount paid by those who directly benefitted from the programs - \$691.2 million, and by other governments and organizations that subsidized certain programs with operating grants and contributions \$182.5 million, and capital grants and contributions \$30.3 million. In 2014, the cost of all governmental activities was \$1,698.3 million. The remaining public benefit portion of governmental activities was funded with \$682.6 million in property taxes, \$187.5 million in retail sales and use taxes, and \$75.3 million in other revenues.

The growth in net position of governmental activities before transfers of \$151.1 million is primarily due to the increases in property taxes of \$63.7 million from the new Parks levy, charges for services of \$50.2 million, and retail sales and use taxes of \$16.9 million.

King County, Washington

| Changes in Net Position<br>(in thousands) |                            |                      |                             |                     |                      |                     |
|---|----------------------------|----------------------|-----------------------------|---------------------|----------------------|---------------------|
|   | Governmental<br>Activities |                      | Business-type<br>Activities |                     | Total                |                     |
|   | 2014                       | 2013                 | 2014                        | 2013                | 2014                 | 2013                |
| <b>Revenues</b>                           |                            |                      |                             |                     |                      |                     |
| Program revenues                          |                            |                      |                             |                     |                      |                     |
| Charges for services                      | \$ 691,220                 | \$ 641,003 (b)       | \$ 871,354                  | \$ 869,918          | \$ 1,562,574         | \$ 1,510,921        |
| Operating grants and contributions        | 182,500                    | 175,862              | 37,816                      | 35,824              | 220,316              | 211,686             |
| Capital grants and contributions          | 30,274                     | 99,812               | 40,204                      | 57,919              | 70,478               | 157,731             |
| General revenues                          |                            |                      |                             |                     |                      |                     |
| Property taxes                            | 682,616                    | 618,943 (b)          | 26,621                      | 24,645              | 709,237              | 643,588             |
| Retail sales and use taxes                | 187,500                    | 170,581              | 479,579                     | 442,975             | 667,079              | 613,556             |
| Other taxes                               | 67,273                     | 66,749               | -                           | -                   | 67,273               | 66,749              |
| Unrestricted interest earnings            | 7,994                      | 3,948                | 8,654                       | 712                 | 16,648               | 4,660               |
| Total revenues                            | <u>1,849,377</u>           | <u>1,776,898</u>     | <u>1,464,228</u>            | <u>1,431,993</u>    | <u>3,313,605</u>     | <u>3,208,891</u>    |
| <b>Expenses</b>                           |                            |                      |                             |                     |                      |                     |
| General government (a)                    | 120,781                    | 189,712 (b)          | -                           | -                   | 120,781              | 189,712             |
| Law, safety and justice                   | 654,941                    | 588,794 (b)          | -                           | -                   | 654,941              | 588,794             |
| Physical environment                      | 134,133                    | 94,138 (b)           | -                           | -                   | 134,133              | 94,138              |
| Transportation                            | 84,816                     | 68,363               | -                           | -                   | 84,816               | 68,363              |
| Economic environment                      | 104,087                    | 98,219               | -                           | -                   | 104,087              | 98,219              |
| Mental and physical health                | 513,407                    | 480,482              | -                           | -                   | 513,407              | 480,482             |
| Culture and recreation                    | 50,020                     | 48,748               | -                           | -                   | 50,020               | 48,748              |
| Interest and other debt service           | 36,098                     | 41,790               | -                           | -                   | 36,098               | 41,790              |
| Airport                                   | -                          | -                    | 25,477                      | 28,339              | 25,477               | 28,339              |
| Public transportation                     | -                          | -                    | 793,066                     | 764,580             | 793,066              | 764,580             |
| Solid waste                               | -                          | -                    | 116,488                     | 102,030             | 116,488              | 102,030             |
| Water quality                             | -                          | -                    | 444,461                     | 433,210             | 444,461              | 433,210             |
| Other enterprises activity                | -                          | -                    | 14,743                      | 15,432              | 14,743               | 15,432              |
| Total expenses                            | <u>1,698,283</u>           | <u>1,610,246</u>     | <u>1,394,235</u>            | <u>1,343,591</u>    | <u>3,092,518</u>     | <u>2,953,837</u>    |
| Increase in net position before transfers | 151,094                    | 166,652              | 69,993                      | 88,402              | 221,087              | 255,054             |
| Payment to escrow                         |                            | 767                  | -                           | -                   | -                    | 767                 |
| Transfers                                 | (1,439)                    | (733)                | 1,439                       | 733                 | -                    | -                   |
| Special item                              | 60                         | -                    | -                           | -                   | 60                   | -                   |
| Increase in net position                  | <u>149,715</u>             | <u>166,686</u>       | <u>71,432</u>               | <u>89,135</u>       | <u>221,147</u>       | <u>255,821</u>      |
| Net position, beginning of year           | <u>2,534,945 (b)</u>       | <u>2,368,259 (b)</u> | <u>2,604,394</u>            | <u>2,515,259</u>    | <u>5,139,339 (b)</u> | <u>4,883,518</u>    |
| Net position, end of year                 | <u>\$ 2,684,660</u>        | <u>\$ 2,534,945</u>  | <u>\$ 2,675,826</u>         | <u>\$ 2,604,394</u> | <u>\$ 5,360,486</u>  | <u>\$ 5,139,339</u> |

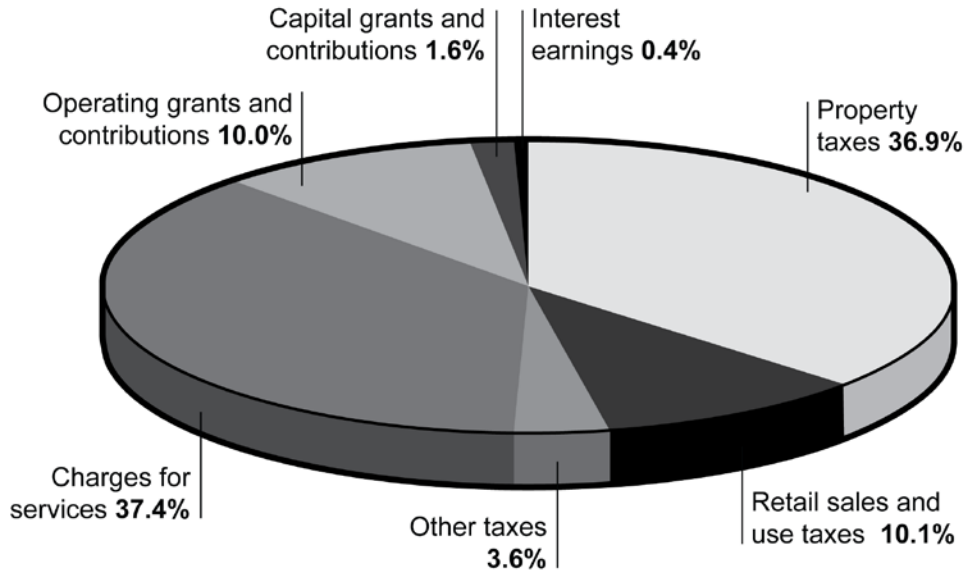
(a) Expenses for all other functions include the allocation of indirect expenses from the general government function. The amount of indirect general government expenses allocated to each function is shown in a separate column on the County's government-wide Statement of Activities alongside the column that reflects the direct operating expenses incurred by each function. As a result of this allocation, the \$120.8 million in General government expense above consists of \$172.6 million in direct program expenses reduced by indirect charges of \$51.8 million allocated to other County functions.

(b) Net position, beginning of year has been restated, see Note 18 - "Restrictions, Components of Fund Balance, and Changes in Equity" – Restatements of Beginning Balances.

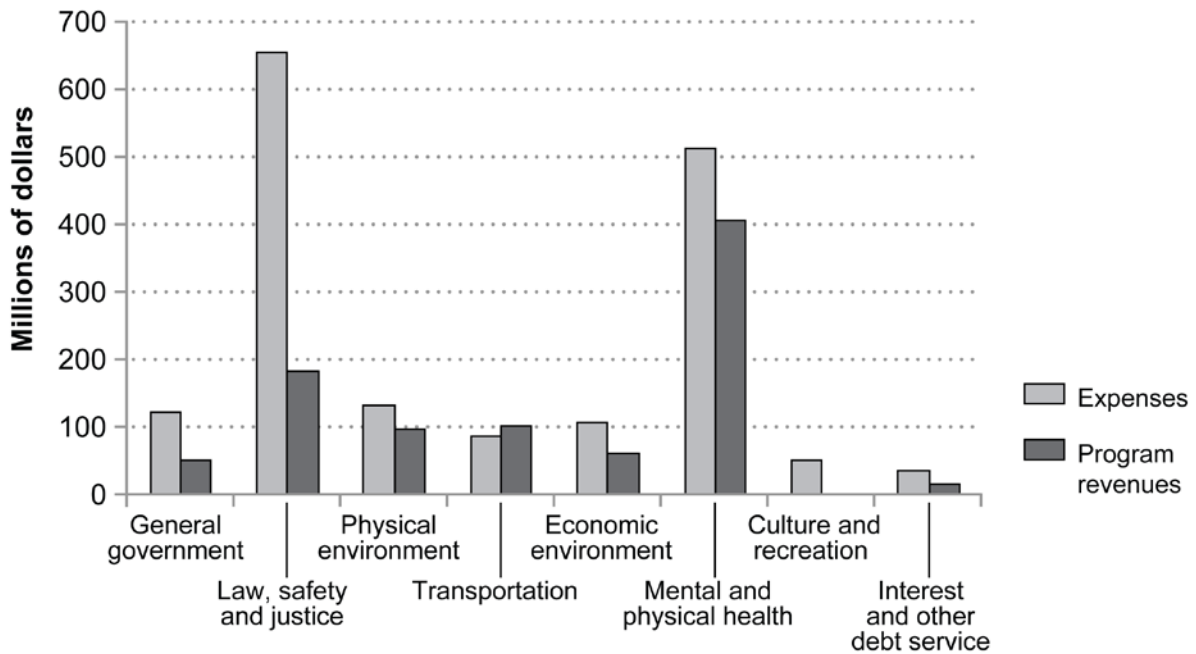


The charts below illustrate the County’s revenues by source and its expenses and program revenues by function for its governmental activities:

### Revenues by Source – Governmental Activities 2014



### Expenses and Program Revenues – Governmental Activities 2014



Charges for services provided 37.4 percent, and property taxes 36.9 percent of total revenues for governmental activities. The largest expense was for law, safety and justice, a function that required the greatest usage of general government revenues. The second largest expense was for mental and physical health where the primary revenue sources were charges

for services and operating grants and contributions, which funded 78.7 percent of its activities. Transportation received \$17.8 million in infrastructure and right-of-way capital assets from developers, which helped program revenues exceed expenses by \$14.9 million.

Below is a comparison of the cost of services by function for the County’s governmental activities, along with the revenues used to cover the net expenses of the governmental activities (in thousands).

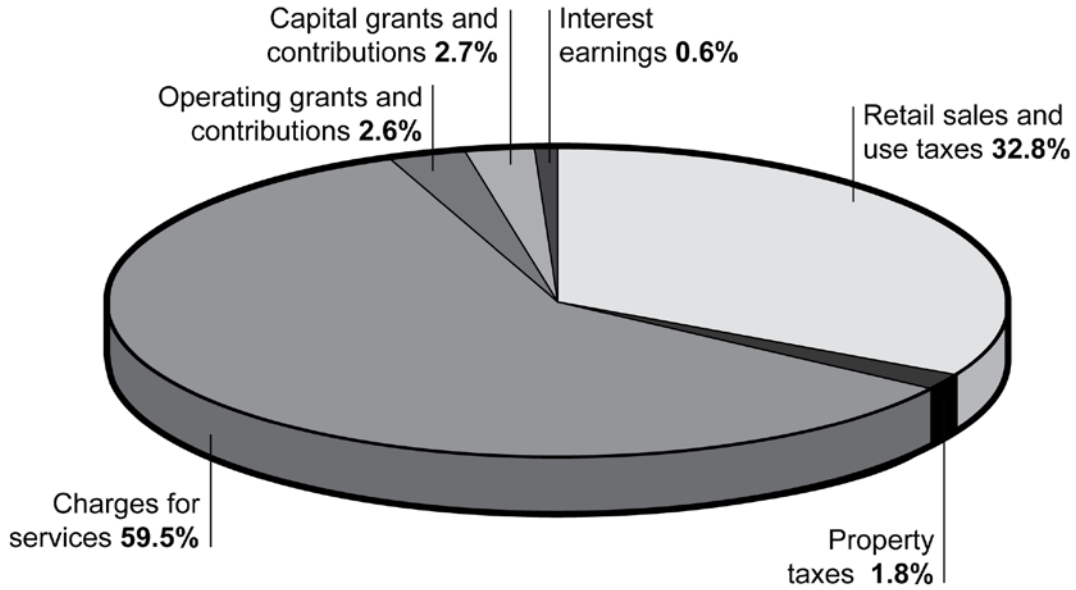
|   |                   |
|---|-------------------|
| <b>(Expenses) Net of Program Revenues</b> |                   |
| General government                        | \$ (71,904)       |
| Law, safety and justice                   | (474,565)         |
| Physical environment                      | (39,710)          |
| Transportation                            | 14,876            |
| Economic environment                      | (42,899)          |
| Mental and physical health                | (109,423)         |
| Culture and recreation                    | (49,563)          |
| Interest and other debt service costs     | <u>(21,101)</u>   |
| Total expenses                            | (794,289)         |
| <b>General revenues</b>                   |                   |
| Property taxes                            | 682,616           |
| Retail sales and use taxes                | 187,500           |
| Other taxes                               | 67,273            |
| Unrestricted interest earnings            | 7,994             |
| Transfers to Business-type                | (1,439)           |
| Special Item                              | <u>60</u>         |
| Increase in net position                  | <u>\$ 149,715</u> |

**Business-type activities.** Business-type activities increased the County’s net position by \$71.4 million in 2014, accounting for 32.3 percent of the total growth in net position of the County. Total revenues for business-type activities were \$1,464.2 million. The cost of all business-type activities for 2014 was \$1,394.2 million. Of that amount, 68.1 percent or \$949.4 million was funded from program revenues,

including \$871.4 million in charges for services, \$37.8 million from other governments and organizations that subsidized certain programs with operating grants, and \$40.2 million in capital grants and contributions. The Public Transportation operations are subsidized by retail sales and use tax revenues, which amounted to \$479.6 million in 2014 and property taxes which amounted to \$26.6 million.

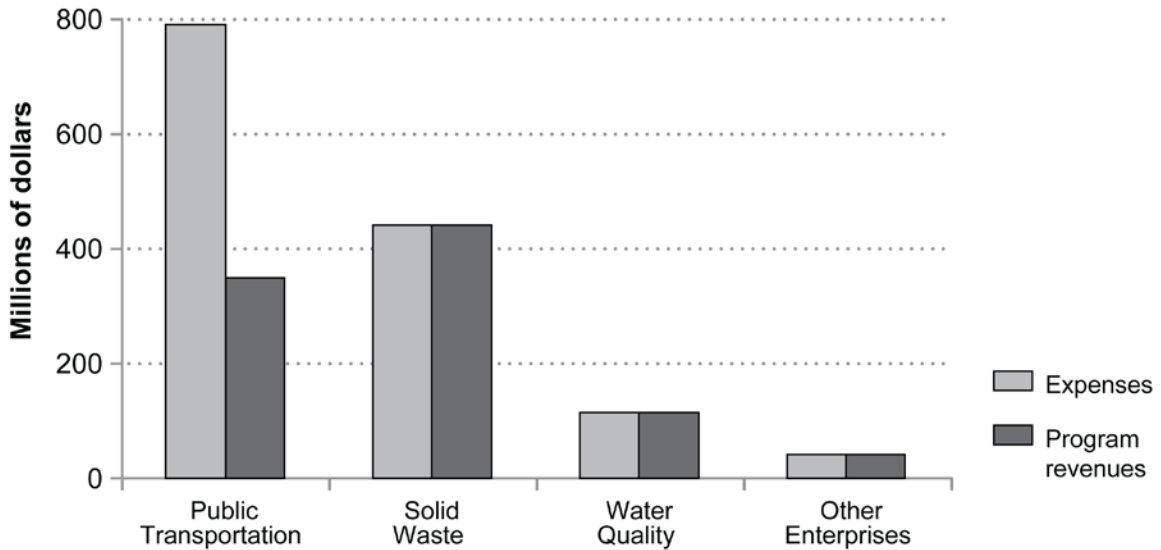
Business-type revenues by source:

### Revenues by Source – Business-type Activities 2014



Business-type expenses and program revenues by function (in millions):

### Expenses and Program Revenues – Business-type Activities 2014



## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use. It represents the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party or a group or individual that has been delegated authority to assign resources for use for particular purposes by the County Council.

As of December 31, 2014, the County's governmental funds reported a combined ending fund balance of \$675.6 million, an increase of 5.6 percent or \$37.8 million compared to the prior year, as restated. Approximately 9.4 percent or \$64.3 million constitutes unassigned fund balance available for spending in the coming year at the discretion of County management. The remainder of fund balance comprise: nonspendable with 1.9 percent or \$13.0 million, restricted with 28.8 percent or \$194.7 million, committed with 16.2 percent or \$294.4 million, and assigned with 43.6 percent or \$290.7 million.

For 2014, overall governmental fund revenues totaled approximately \$1,971.0 million, which represents an increase of 8.5 percent or \$154.4 million over 2013. Property taxes increased by 9.0 percent or \$56.2 million, retail sales and use taxes increased by 9.9 percent or \$16.9 million and intergovernmental revenues increased by 14.7 percent or \$84.4 million. Proceeds from a new levy for parks improvements helped increase property tax revenues while an improving regional economy boosted sales tax receipts. Medicaid expansion contributed to the increase in intergovernmental revenues although tempered by some reductions in grant programs.

In 2014, total expenditures for governmental funds were \$1,960.0 million, an increase of 5.8

percent or \$107.0 million from the previous fiscal year. Current expenditures were also up by 9.1 percent or \$148.8 million from the previous fiscal year. This included increases in expenditures for physical environment by 55.0 percent or \$67.7 million; law, safety and justice by 4.8 percent or \$28.5 million; transportation by 29.1 percent or \$22.5 million; mental and physical health by 6.3 percent or \$31.0 million; and culture and recreation by 5.6 percent or \$2.5 million. However, general government expenditures decreased by 3.4 percent or \$7.0 million. In 2014, capital outlay expenditures were down by 34.4 percent or \$41.2 million.

Total governmental funds have an excess of revenues over expenditures by 0.9 percent or \$18.4 million in 2014, compared to last year where total expenditures exceeded revenues by \$36.4 million. In 2014, there was an increase in governmental fund balance of \$45.3 million, while in 2013 there was a decrease in fund balance of \$31.4 million.

The **General Fund** is the primary operating fund for the County. At the end of the 2014, total fund balance for the General Fund was \$103.2 million. Unassigned fund balance, the amount considered available to spend, totaled \$71.7 million, a decrease of 8.4 percent or \$6.6 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures of \$649.9 million. Unassigned fund balance represents 11.0 percent of total General Fund expenditures, a modest decrease from the 12.6 percent for 2013. Total fund balance (excluding the Rainy Day Fund) was \$83.1 million, representing approximately 12.8 percent of total General Fund expenditures for 2014 and 15.2 percent or \$94.4 million for 2013.

Fund balance of the General Fund decreased by only 10.9 percent or \$12.6 million during 2014, compared to a decrease in fund balance of 18.1 percent or \$25.3 million in 2013. While revenues increased by 3.6 percent or \$24.4 million in 2014, expenditures also increased by 4.5 percent or \$28.2 million; Property tax revenues increased by 2.5 percent or \$7.7 million, and retail sales and use taxes also increased by 7.8 percent or \$7.5 million. The decrease in the General Fund's fund balance was largely due to a 3.8 percent increase in expenditures for law, safety and justice or 18.6 million. Spending increased for adult and juvenile

detention and public defense operations and administration.

The **Mental Health Fund** is part of the King County Mental Health Regional Support Network. This fund provides for the operations of the involuntary treatment program, the provision of mental health services for children and adults, community services for these individuals and criminal justice related programs to reduce jail populations. At the end of 2014 it had a total fund balance of \$54.5 million, an increase of 42.7 percent or \$16.3 million from the prior year. Revenues were up by 27.3 percent or \$44.9 million, largely due to the increase in Intergovernmental revenues by 28.4 percent or \$44.7 million from 2013 levels. Expenditures were also up 19.6 percent or \$31.6 million in 2014. This increase in both inflows and outflows of resources was largely an impact of the expanded health care coverages due to the Affordable Care Act.

The **Public Health Fund** is used to account for health service centers located throughout the County and other public health programs that promote health and prevent disease for King County residents. At the end of 2014 it had a total fund balance deficit of \$1.8 million, a decrease of 144.0% or \$5.9 million from the prior year. Total revenues increased slightly by 2.1 percent or \$3.4 million. Charges for services went up by 14.2 percent or \$2.3 million. Intergovernmental revenues were slightly increased by only 0.2 percent or \$197 thousand due largely to cuts and delays in federal Medicaid funding.

The State of Washington's Medicaid Administrative Claiming (MAC) has been operating under interim claiming since July 1, 2012. System-wide reimbursements have been reduced to 50 percent of allowable costs since July 1, 2013 while the Centers for Medicare and Medicaid Services (CMS) negotiated with the Washington State Health Care Authority (HCA) about resumption of normal claiming. Once normal claiming resumes on April 1, 2015, CMS and HCA will create a reconciliation plan under which Public Health management believes the vast majority of allowable costs for the period July 1, 2012 to March 31, 2015 will be recovered. While this will provide an important source of one-time funding to resolve the deficit, Public Health - Seattle and King County (PHSKC) is pursuing other strategies including the sale of

three surplus or underutilized properties held by the General Fund on behalf of PHSKC. The sale of these properties is projected to generate in excess of \$6.0 million for the Public Health fund.

Although the resumption of MAC claiming will help resolve the deficit, it will not help prevent future deficits from occurring. Among the new revenue options being pursued by the County as ongoing support for public health services is the Best Starts for Kids program. If passed, this potential prevention-oriented levy would invest, in part, in maternity support services provided within the Public Health Fund to prevent later interventions which are both more costly to the County and less effective. The department has also instituted expenditure controls, including employee step freezes with the cooperation of collective bargaining units for 2015, travel and training restrictions, and hiring controls for positions that do not directly generate revenue.

#### **Proprietary Funds**

The County's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities. This information is presented on the same basis of accounting, but in more detail.

The County's net position was increased by 2.7 percent, or \$71.0 million, from operations in its proprietary funds. The Public Transportation Enterprise net position increased 3.2 percent or \$55.2 million while the net position of the Water Quality Enterprise declined by 0.9 percent or \$4.8 million.

The **Public Transportation Enterprise** accounts for the operations, maintenance, and capital improvements of the County's public transportation facilities. At the end of 2014, the Public Transportation Enterprise had total net position of \$1,803.9 million of which 66.1 percent or \$1,192.9 million was the investment in capital assets net of the associated borrowing; 0.6 percent or \$11.5 million was restricted for capital, debt service, and other purposes; while 33.2 percent or \$599.5 million remained unrestricted and available for spending. Net position increased in 2014 and 2013 by 3.2 percent or \$55.2 million in 2014 and 4.3 percent or \$72.1 million in 2013. The change in 2014 is primarily attributed to increases in sales tax receipts at 8.3 percent or \$36.6 million, property taxes at 8.4 percent or \$2.0 million, and

intergovernmental revenues at 5.6 percent or \$2.0 million.

The **Water Quality Enterprise** accounts for the operations, maintenance, capital improvements, and expansion of the County's water pollution control facilities. Total net position in the Water Quality Enterprise was \$555.1 million, a decrease of 0.9 percent or \$4.8 million at the end of 2014 of which 37.9 percent or \$210.4 million was the net investment in capital assets; 37.0 percent or \$205.3 million was restricted for debt service and regulatory assets and environmental liabilities; and the remaining 25.1 percent or \$139.4 million was unrestricted. Water Quality operating revenues increased by 3.3 percent or \$13.8 million to \$435.8 million, while operating expenses net of depreciation increased by 6.3 percent or \$7.6 million to \$126.8 million.

### **General Fund Budgetary Highlights**

The County's final General Fund budget differs from the original budget in that it reflects an increase of \$26.0 million during the year due to 2014 supplemental budget appropriations. Budget adjustments were made during the year to law, safety and justice by \$13.0 million, which included, among others, \$6.9 million for public defense services and \$2.3 million for adult and juvenile detention. Other increases were for transfers to capital projects, \$6.1 million, and to the Public Health fund, \$3.0 million. The actual budgetary basis expenditures (including encumbrances) were \$22.4 million less than the final appropriation.

2014 was the final year for the General Fund annual budget as all County operating funds are now budgeted biennially. 2015-2016 is the first biennium for the General Fund. The biennial budget is a true twenty-four month budget, not two separate budgets enacted at the same time.

Revenues in 2014 came in slightly higher than budgeted but only by 0.4 percent. Declines in charges for services and fines and forfeits were offset by some gains in property and sales taxes and intergovernmental revenues. The fund ended 2014 with a 10.9 percent lower fund balance.

Sluggish revenue growth will be the prevalent pattern for the General Fund as it continues to face the challenges of state-imposed limitations on local property tax revenues. Capping property tax revenue growth so far below the rate of

inflation and population growth (typically 3.0-3.5 percent per year) has led to continued reductions in General Fund and other county services, despite significant efficiencies achieved in recent years.

### **CAPITAL ASSETS, INFRASTRUCTURE, AND DEBT ADMINISTRATION**

#### **Capital assets**

The King County primary government's capital assets for its governmental and business-type activities as of December 31, 2014, amounted to \$3,023.4 million for governmental activities and \$5,763.4 million for business-type activities totaling \$8,776.5 million, net of depreciation.

Capital assets include land, rights-of-way, easements and development rights, buildings, improvements other than buildings, infrastructure, vehicles, machinery, computers, software and other equipment, and construction work-in-progress. The total increase in capital assets over the previous year was 34.1 million, net of depreciation.

Major capital asset events during 2014 included the following:

- The Taxiway Alpha rehabilitation project was completed in 2014 costing \$26 million. The project included re-paving a nine thousand foot long taxiway and improvements to related facilities and systems on the east side of King County International Airport.
- The new Factoria Recycling and Transfer Station project will replace the old station with a state-of-the-art, efficient and sustainable facility at a cost of about \$88.8 million. Construction period is from 2014 to 2017.
- The new South Park Bridge opened in June 2014 at a cost of \$96.0 million. The bridge is expected to handle about 20 thousand vehicles per day, including three-thousand freight trucks.
- Planning is underway on the voter-approved, \$210-million Children and Family Justice Center, which will replace the existing Youth Services Center. Ground-breaking is scheduled in for the spring of 2016, with completion anticipated in 2019.

A summary of the 2014 capital assets activity is shown below. More detailed information on the County's capital assets can be found in Note 7 – "Capital Assets."

|   | Capital Assets<br>(in millions) |                  |                             |                   |                   |                   |
|---|---------------------------------|------------------|-----------------------------|-------------------|-------------------|-------------------|
|   | Governmental<br>Activities      |                  | Business-type<br>Activities |                   | Total             |                   |
|   | 2014                            | 2013             | 2014                        | 2013              | 2014              | 2013              |
| Land and land rights                    | \$ 993.2                        | \$ 965.0         | \$ 491.2                    | \$ 493.1          | \$ 1,484.4        | \$ 1,458.1        |
| Buildings*                              | 614.6                           | 651.9            | ** 1,935.1                  | 1,959.1           | ** 2,549.7        | 2,611.0           |
| Leasehold Improvements*                 | 15.4                            | 16.4             | 0.9                         | 1.0               | ** 16.3           | 17.4              |
| Improvements other than buildings*      | 45.8                            | 43.6             | 135.4                       | 117.0             | ** 181.2          | 160.6             |
| Infrastructure - roads and bridges      | 1,114.0                         | 1,075.7          | -                           | -                 | 1,114.0           | 1,075.7           |
| Infrastructure - other*                 | 11.1                            | 8.0              | 1,776.0                     | 1,709.1           | 1,787.1           | 1,717.1           |
| Equipment, software and art collection* | 110.6                           | 121.4            | 1,024.0                     | 1,079.3           | 1,134.6           | 1,200.7           |
| Construction in progress                | 118.7                           | 100.5            | 400.8                       | 411.6             | ** 519.5          | 512.1             |
| Total                                   | <u>\$3,023.4</u>                | <u>\$2,982.5</u> | <u>** \$ 5,763.4</u>        | <u>\$ 5,770.2</u> | <u>\$ 8,786.8</u> | <u>\$ 8,752.7</u> |

\* Net of depreciation/amortization

\*\* Restated

### **Infrastructure**

The County has elected to use the modified approach in reporting roads and bridges. Under the modified approach, capital assets are not depreciated because the presumption is that they will be preserved indefinitely. The condition of the assets is disclosed to provide evidence that established condition levels are being met. The rating scales for pavements (roads) and bridges and the results of the most recent condition assessments are further explained in the required supplementary information which follows the notes to the basic financial statements.

Condition assessments for roads are undertaken every three years using a pavement condition index (PCI). This is a 100-point scale numerical index that represents the pavement's functional condition based on the quantity, severity, and type of visual distress. It is the policy of the King County Road Services Division to maintain at least 50 percent of the road system at a PCI of 40 or better. In the most recent condition assessment, more than two-thirds of the arterial and local access roads met the established condition level.

The County currently maintains 181 bridges. Physical inspections to uncover deficiencies are carried out at least every two years. A prioritization scale is maintained to determine which bridges are due for replacement or rehabilitation. The most significant criterion is the sufficiency rating which utilizes a 100-point priority scale based on various factors of bridge condition. The policy of the King County Road Services Division is to maintain bridges in such a manner that no more than 6.5 percent will have a sufficiency rating of 20 or less. The most current complete assessment showed only five bridges at or below this threshold.

### **Debt Administration**

At the end of 2014, King County had a total of \$4,762.9 million in bonds outstanding. Of this amount, \$1,949.1 million comprises debt backed by the full faith and credit of the County. The other \$2,813.8 million represents bonds secured by specific revenue sources generated by the debt-financed capital assets. A summary of the County's debt by type and activity is shown on the following page.

|                          | Outstanding Debt<br>(in millions) |            |                             |            |            |            |
|--------------------------|-----------------------------------|------------|-----------------------------|------------|------------|------------|
|                          | Governmental<br>Activities        |            | Business-type<br>Activities |            | Total      |            |
|                          | 2014                              | 2013       | 2014                        | 2013       | 2014       | 2013       |
| General obligation bonds | \$ 717.6                          | \$ 741.4   | \$ 1,013.6                  | \$ 1,022.0 | \$ 1,731.2 | \$ 1,763.4 |
| Lease revenue bonds      | 217.9                             | 265.3      | -                           | -          | 217.9      | 265.3      |
| Revenue bonds            | -                                 | -          | 2,813.8                     | 2,866.1    | 2,813.8    | 2,866.1    |
| Total                    | \$ 935.5                          | \$ 1,006.7 | \$ 3,827.4                  | \$ 3,888.1 | \$ 4,762.9 | \$ 4,894.8 |

Lease revenue bonds were issued in accordance with the provisions of IRS Revenue Ruling 63-20 and IRS Revenue Procedure 82-26. Under the lease agreements, the County's obligation to pay rent is a limited tax general obligation.

Total debt decreased over the previous year by 2.7 percent or \$131.9 million (a 7.1 percent or \$71.2 million decrease for governmental activities and a 1.6 percent or \$60.7 million decrease for business-type activities). Governmental activities outstanding debt decreased primarily due to \$84.4 million debt service payments offset by an increase of \$15.4 million in new limited general obligation bond issuances. Business-type activities' outstanding debt decreased primarily due to the \$72.8 million debt service payment offset with an increase of \$15.8 million in new bonds to finance construction of solid waste facilities.

During 2014, the County refinanced some of its existing governmental activities debt to take advantage of favorable interest rates. The County refinanced \$37.1 million of lease revenue general obligation bonds that is expected to decrease future aggregate debt service payments by \$3.0 million over the life of the bonds. The County also refinanced business-type debt in the amount of \$280.8 million (\$10.0 million of general obligation bonds and \$270.9 million of revenue bonds) that is expected to decrease future aggregate debt service payments by \$20.8 million over the life of the bonds.

The County maintained a rating of "Aa1" from Moody's, a rating of "AAA" from Standard & Poor's, and a rating of "AA+" from Fitch for its limited tax general obligation debt. For its unlimited tax general obligation debt the County has a rating of "Aaa" from Moody's, a rating of "AAA" from Standard & Poor's, and a rating of "AAA" from Fitch. The ratings for Water Quality Enterprise's revenue debt are "Aa2" from Moody's and "AA+" from Standard & Poor's.

State statutes limit the amount of general obligation debt that the County may issue to 2.5 percent of its total assessed valuation for general county purposes and 2.5 percent for metropolitan functions. The current debt limitation of total general obligations for general county purposes is \$9.7 billion, significantly higher than the County's outstanding net general obligation long-term liabilities of \$1.1 billion. For metropolitan functions the debt limitation is \$9.7 billion and the County's outstanding net general obligation debt for metropolitan functions is \$1.1 billion.

Additional information on King County's long-term debt can be found in Note 15 - "Debt."

#### ECONOMIC OUTLOOK AND 2015 BUDGET

Economic factors have a direct impact on the County's revenues and the demand for its services. County revenue sources are sensitive to the performance of both regional and local economies, particularly on income, employment, market valuation, investment and inflation, which directly influence property tax assessments, retail sales, and real estate transactions. For example, sales tax revenues are largely driven by income, capital investment, inflation and employment - when these factors rise, sales tax receipts typically increase as demand for goods and services gets a boost.

Similarly, County expenditures are driven by the demand for its services which is positively influenced by levels of affordability and access, but negatively by inflation and recession. A significant portion of county costs are directly tied to the local Consumer Price Index, such as salaries and wages, fuel, utilities and inventories.



The County's revenue sources include taxes, charges for services, intergovernmental revenues and interest earnings. The largest single source is taxes, which now comprise close to fifty percent of total general revenues. These consist primarily of taxes on real property and retail sales. Property taxes tend to be stable because levy amounts are based on procedures outlined in Washington state law that govern the growth of property tax levies. In most cases this leads to very stable growth of 1.0 percent plus the value of eligible "add-ons." Property tax rates are calculated months in advance with the assessed values established from the preceding four years of real estate sales. On the other hand, retail sales taxes are more volatile and directly affected by economic conditions.

The County's economy is growing due to improvements in the global and national scene, and because of the unique composition of businesses in the region. Unemployment has dropped to 4.1 percent, the lowest in the state, and markedly below the national rate of 5.6 percent. The region's most prominent employers, namely Boeing, Microsoft and Amazon.com, retain strong demand for their products. While both Boeing and Microsoft experienced mild slowdowns in hiring last year, Amazon.com experienced a boost in its employment as it expanded its services and opened new lines of business.

Real estate prices climbed throughout 2014, with the Case-Shiller Home Price Index up by approximately 8.5 percent on a year to year basis. Total assessed valuation (TAV) grew by 8.2 percent in 2014 and continued its rise in 2015 by 13.9 percent reaching \$388.1 billion. In Unincorporated King County, the increase in 2014 is at 6.2 percent while the increase in 2015 is at 13.2 percent. This is expected to stabilize in 2017 due to the effects of planned annexations. New construction grew 71.7 percent in tax year 2014 and is still up significantly in tax year 2015 by 46.6 percent. There are positive signs for continued growth in 2016 and beyond.

Taxable sales increased by 7.8 percent in King County in 2014 with construction sales a large contributor to that growth, up 11 percent. Retail, food service and accommodation sales continued to improve from the previous year. The annual inflation rate in the area remained tame at 1.9 percent for 2014 (CPI-W Seattle-Tacoma-Bremerton). Corrected for the rebounding home

price appreciation, annual inflation was only 0.4 percent.

The County is required by law to adopt a balanced budget. In 2015, the County fully adopted biennial budgeting. For the 2015-2016 biennium, the County Council approved a budget of about \$9.0 billion, with \$1.5 billion allotted to the General Fund. The General Fund expense budget maintains a six-percent minimum budgetary unassigned fund balance as a percentage of revenues.

King County continues to be saddled by fiscal challenges from an ongoing structural gap, caused by revenue growth that is slower than inflation; and, from after-effects of the previous recession, such as an environment where both interest and investment rates are low. Without action by the federal and state governments, public safety, transportation and public health infrastructures will continue to be problematic along with the quality of life these services afford. In order for the County to continue providing critical services for its residents, it has to introduce reforms, develop efficiencies through reorganization, promote technology and involve the private sector through innovative partnerships.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide an overview of the County's financial activities for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Accountant, 500 Fourth Avenue Room 653, Seattle, WA 98104.

Basic Statements

CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT



**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2014**  
(IN THOUSANDS)

|   | Primary Government         |                             |                     | Component<br>Units |
|---|----------------------------|-----------------------------|---------------------|--------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total               |                    |
| <b>ASSETS</b>                                   |                            |                             |                     |                    |
| Cash and cash equivalents                       | \$ 1,041,666               | \$ 1,282,197                | \$ 2,323,863        | \$ 260,021         |
| Investments                                     | -                          | -                           | -                   | 23,076             |
| Receivables, net                                | 184,704                    | 233,670                     | 418,374             | 142,590            |
| Internal balances                               | (79,472)                   | 79,472                      | -                   | -                  |
| Inventories                                     | 2,728                      | 28,629                      | 31,357              | 8,568              |
| Prepayments and other assets                    | 10,928                     | 6,793                       | 17,721              | 9,316              |
| Capital assets                                  |                            |                             |                     |                    |
| Non-depreciable assets                          | 2,236,650                  | 888,777                     | 3,125,427           | 16,446             |
| Depreciable assets, net of depreciation         | 786,831                    | 4,874,538                   | 5,661,369           | 314,913            |
| Deposits with other governments                 | -                          | -                           | -                   | 644                |
| Regulatory assets - environmental remediation   | -                          | 63,303                      | 63,303              | -                  |
| Other utility assets                            | -                          | 29,835                      | 29,835              | -                  |
| Other assets                                    | -                          | 4,700                       | 4,700               | 13,583             |
| <b>TOTAL ASSETS</b>                             | <b>4,184,035</b>           | <b>7,491,914</b>            | <b>11,675,949</b>   | <b>789,157</b>     |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>           |                            |                             |                     |                    |
| Deferred amount on refunding                    | 22,508                     | 107,388                     | 129,896             | -                  |
| <b>LIABILITIES</b>                              |                            |                             |                     |                    |
| Accounts payable and other current liabilities  | 120,347                    | 253,231                     | 373,578             | 65,531             |
| Accrued liabilities                             | 32,853                     | 94,090                      | 126,943             | 42,206             |
| Notes payable                                   | -                          | 100,051                     | 100,051             | -                  |
| Unearned revenues                               | 20,545                     | 13,976                      | 34,521              | 2,931              |
| Noncurrent liabilities                          |                            |                             |                     |                    |
| Due within one year                             | 149,490                    | 108,421                     | 257,911             | 1,604              |
| Due in more than one year                       | 1,198,648                  | 4,319,457                   | 5,518,105           | 18,004             |
| <b>TOTAL LIABILITIES</b>                        | <b>1,521,883</b>           | <b>4,889,226</b>            | <b>6,411,109</b>    | <b>130,276</b>     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>            |                            |                             |                     |                    |
| Rate stabilization                              | -                          | 34,250                      | 34,250              | -                  |
| <b>NET POSITION</b>                             |                            |                             |                     |                    |
| Net investment in capital assets                | 2,204,046                  | 1,616,435                   | 3,820,481           | 328,277            |
| Restricted for:                                 |                            |                             |                     |                    |
| Capital projects                                | 147,168                    | 247                         | 147,415             | -                  |
| Debt service                                    | 48,915                     | 193,852                     | 242,767             | -                  |
| General government                              | 50,155                     | -                           | 50,155              | -                  |
| Law, safety and justice                         | 92,976                     | -                           | 92,976              | -                  |
| Physical environment                            | 63,384                     | -                           | 63,384              | -                  |
| Transportation                                  | 21,267                     | -                           | 21,267              | -                  |
| Economic environment                            | 41,783                     | -                           | 41,783              | -                  |
| Mental and physical health                      | 95,841                     | -                           | 95,841              | -                  |
| Culture and recreation                          | 14,735                     | -                           | 14,735              | -                  |
| Regulatory assets and environmental liabilities | -                          | 22,704                      | 22,704              | -                  |
| Expendable                                      | -                          | -                           | -                   | 60,882             |
| Nonexpendable                                   | -                          | -                           | -                   | 3,709              |
| Unrestricted                                    | (95,610)                   | 842,588                     | 746,978             | 266,013            |
| <b>TOTAL NET POSITION</b>                       | <b>\$ 2,684,660</b>        | <b>\$ 2,675,826</b>         | <b>\$ 5,360,486</b> | <b>\$ 658,881</b>  |

The notes to the financial statements are an integral part of this statement.

King County, Washington

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(IN THOUSANDS)**

| Functions/Programs                        | Expenses            | Indirect Expenses Allocation | Program Revenues     |                                    |                                  |
|---|---------------------|------------------------------|----------------------|------------------------------------|----------------------------------|
|   |                     |                              | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Primary government:</b>                |                     |                              |                      |                                    |                                  |
| Governmental activities:                  |                     | \$ 120,781                   |                      |                                    |                                  |
| General government                        | \$ 172,554          | \$ (51,773)                  | \$ 26,764            | \$ 21,234                          | \$ 879                           |
| Law, safety & justice                     | 634,454             | 20,487                       | 160,874              | 19,502                             | -                                |
| Physical environment                      | 132,917             | 1,216                        | 75,191               | 16,668                             | 2,564                            |
| Transportation                            | 82,787              | 2,029                        | 49,311               | 23,550                             | 26,831                           |
| Economic environment                      | 103,078             | 1,009                        | 28,440               | 32,748                             | -                                |
| Mental & physical health                  | 507,675             | 5,732                        | 335,188              | 68,796                             | -                                |
| Culture & recreation                      | 49,230              | 790                          | 457                  | -                                  | -                                |
| Interest and other                        |                     |                              |                      |                                    |                                  |
| debt service costs                        | 36,098              | -                            | 14,995               | 2                                  | -                                |
| Total governmental activities             | <u>1,718,793</u>    | <u>100,271</u>               | <u>691,220</u>       | <u>182,500</u>                     | <u>30,274</u>                    |
| Business-type activities:                 |                     |                              |                      |                                    |                                  |
| Airport                                   | 25,158              | 319                          | 17,457               | -                                  | 7,305                            |
| Public Transportation                     | 778,283             | 14,783                       | 289,943              | 37,751                             | 24,470                           |
| Solid Waste                               | 114,456             | 2,032                        | 114,270              | -                                  | -                                |
| Water Quality                             | 441,298             | 3,163                        | 440,720              | 65                                 | 9                                |
| Institutional Network                     | 2,107               | 47                           | 2,560                | -                                  | -                                |
| Ferry District                            | 6,709               | 82                           | 2,063                | -                                  | 8,420                            |
| Radio Communications Services             | 5,714               | 84                           | 4,341                | -                                  | -                                |
| Total business-type activities            | <u>1,373,725</u>    | <u>20,510</u>                | <u>871,354</u>       | <u>37,816</u>                      | <u>40,204</u>                    |
| Total primary government                  | <u>\$ 3,092,518</u> | <u>\$ 120,781</u>            | <u>\$ 1,562,574</u>  | <u>\$ 220,316</u>                  | <u>\$ 70,478</u>                 |
| <b>Component units</b>                    | <u>\$ 831,414</u>   |                              | <u>\$ 808,558</u>    | <u>\$ 8,620</u>                    | <u>\$ 1,418</u>                  |
| General revenues                          |                     |                              |                      |                                    |                                  |
| Property taxes                            |                     |                              |                      |                                    |                                  |
| Retail sales and use taxes                |                     |                              |                      |                                    |                                  |
| Business and other taxes                  |                     |                              |                      |                                    |                                  |
| Penalties and interest - delinquent taxes |                     |                              |                      |                                    |                                  |
| Interest earnings                         |                     |                              |                      |                                    |                                  |
| Transfers                                 |                     |                              |                      |                                    |                                  |
| Special item                              |                     |                              |                      |                                    |                                  |
| Total general revenues and transfers      |                     |                              |                      |                                    |                                  |
| Change in net position                    |                     |                              |                      |                                    |                                  |
| Net position - January 1, 2014 (Restated) |                     |                              |                      |                                    |                                  |
| Net position - December 31, 2014          |                     |                              |                      |                                    |                                  |

The notes to the financial statements are an integral part of this statement.

King County, Washington

| <b>Net (Expense) Revenue and Changes in Net Position</b> |                                     |                     |                                  |
|--|-------------------------------------|---------------------|----------------------------------|
| <b>Primary Government</b>                                |                                     |                     | <b>Component<br/>Units Total</b> |
| <b>Governmental<br/>Activities</b>                       | <b>Business-type<br/>Activities</b> | <b>Total</b>        |                                  |
| \$ (71,904)  | \$                                  | \$ (71,904)         | \$                               |
| (474,565)  |                                     | (474,565)           |                                  |
| (39,710)   |                                     | (39,710)            |                                  |
| 14,876   |                                     | 14,876              |                                  |
| (42,899)   |                                     | (42,899)            |                                  |
| (109,423)  |                                     | (109,423)           |                                  |
| (49,563)   |                                     | (49,563)            |                                  |
| <u>(21,101)</u>  |                                     | <u>(21,101)</u>     |                                  |
| <u>(794,289)</u>   |                                     | <u>(794,289)</u>    |                                  |
|  | (715)                               | (715)               |                                  |
|  | (440,902)                           | (440,902)           |                                  |
|  | (2,218)                             | (2,218)             |                                  |
|  | (3,667)                             | (3,667)             |                                  |
|  | 406                                 | 406                 |                                  |
|  | 3,692                               | 3,692               |                                  |
|  | <u>(1,457)</u>                      | <u>(1,457)</u>      |                                  |
| -  | <u>(444,861)</u>                    | <u>(444,861)</u>    |                                  |
| <u>(794,289)</u>   | <u>(444,861)</u>                    | <u>(1,239,150)</u>  |                                  |
|  |                                     |                     | <u>(12,818)</u>                  |
| 682,616  | 26,621                              | 709,237             | -                                |
| 187,500  | 479,579                             | 667,079             | -                                |
| 46,280   | -                                   | 46,280              | -                                |
| 20,993   | -                                   | 20,993              | -                                |
| 7,994  | 8,654                               | 16,648              | 256                              |
| (1,439)  | 1,439                               | -                   | -                                |
| 60   | -                                   | 60                  | -                                |
| <u>944,004</u>   | <u>516,293</u>                      | <u>1,460,297</u>    | <u>256</u>                       |
| 149,715  | 71,432                              | 221,147             | (12,562)                         |
| <u>2,534,945</u>   | <u>2,604,394</u>                    | <u>5,139,339</u>    | <u>671,443</u>                   |
| <u>\$ 2,684,660</u>                                      | <u>\$ 2,675,826</u>                 | <u>\$ 5,360,486</u> | <u>\$ 658,881</u>                |

King County, Washington

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014  
(IN THOUSANDS)**

|  | <b>GENERAL<br/>FUND</b> | <b>MENTAL<br/>HEALTH<br/>FUND</b> | <b>PUBLIC<br/>HEALTH<br/>FUND</b> | <b>NONMAJOR<br/>GOVERNMENTAL<br/>FUNDS</b> | <b>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</b> |
|--|-------------------------|-----------------------------------|-----------------------------------|--|---|
| <b>ASSETS</b>  |                         |                                   |                                   |  |   |
| Cash and cash equivalents  | \$ 71,558               | \$ 61,923                         | \$ 60                             | \$ 554,491                                 | \$ 688,032                              |
| Taxes receivable - delinquent  | 7,716                   | 63                                | -                                 | 7,899                                      | 15,678                                  |
| Accounts receivable, net   | 14,282                  | -                                 | 2,107                             | 34,649                                     | 51,038                                  |
| Other receivables, net   | -                       | -                                 | 752                               | 314  | 1,066                                   |
| Interest receivable  | 6,817                   | -                                 | -                                 | -  | 6,817                                   |
| Due from other funds   | 92                      | 290                               | 16                                | 3,576                                      | 3,974                                   |
| Due from other governments, net  | 34,531                  | 1,178                             | 34,688                            | 42,228                                     | 112,625                                 |
| Inventory of supplies  | -                       | -                                 | 1,248                             | -  | 1,248                                   |
| Prepayments  | -                       | -                                 | -                                 | 5,955                                      | 5,955                                   |
| Advances to other funds  | 300                     | -                                 | -                                 | 5,475                                      | 5,775                                   |
| Total assets   | <u>\$ 135,296</u>       | <u>\$ 63,454</u>                  | <u>\$ 38,871</u>                  | <u>\$ 654,587</u>                          | <u>\$ 892,208</u>                       |
| <b>LIABILITIES</b>   |                         |                                   |                                   |  |   |
| Accounts payable   | \$ 3,806                | \$ 7,665                          | \$ 10,296                         | \$ 66,692                                  | \$ 88,459                               |
| Due to other funds   | 2,407                   | -                                 | 22                                | 10,572                                     | 13,001                                  |
| Interfund short-term loans payable   | -                       | -                                 | 20,780                            | -  | 20,780                                  |
| Due to other governments   | 513                     | 349                               | 4,207                             | 5,239                                      | 10,308                                  |
| Interest payable   | -                       | -                                 | -                                 | 98   | 98                                      |
| Wages payable  | 14,471                  | 232                               | 2,923                             | 5,144                                      | 22,770                                  |
| Taxes payable  | 179                     | -                                 | 10                                | 39   | 228                                     |
| Bonds payable  | -                       | -                                 | -                                 | 3,905                                      | 3,905                                   |
| Unearned revenues  | 1,724                   | 664                               | 1,686                             | 16,794                                     | 20,868                                  |
| Custodial accounts   | 1,021                   | -                                 | -                                 | 7,587                                      | 8,608                                   |
| Advances from other funds  | -                       | -                                 | -                                 | 5,775                                      | 5,775                                   |
| Total liabilities  | <u>24,121</u>           | <u>8,910</u>                      | <u>39,924</u>                     | <u>121,845</u>                             | <u>194,800</u>                          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                         |                                   |                                   |  |   |
| Unavailable revenue-property taxes   | 6,236                   | 48                                | -                                 | 6,573                                      | 12,857                                  |
| Advanced mitigation fees   | -                       | -                                 | -                                 | 6,455                                      | 6,455                                   |
| Unavailable revenue-other receivables  | 1,731                   | -                                 | 752                               | -  | 2,483                                   |
| Total deferred inflows of resources  | <u>7,967</u>            | <u>48</u>                         | <u>752</u>                        | <u>13,028</u>                              | <u>21,795</u>                           |
| <b>FUND BALANCES (DEFICITS)</b>  |                         |                                   |                                   |  |   |
| Nonspendable   | 300                     | -                                 | 1,248                             | 11,430                                     | 12,978                                  |
| Restricted   | 2,803                   | 39,091                            | -                                 | 152,802                                    | 194,696                                 |
| Committed  | 20,212                  | -                                 | -                                 | 88,996                                     | 109,208                                 |
| Assigned   | 8,151                   | 15,405                            | -                                 | 270,895                                    | 294,451                                 |
| Unassigned   | 71,742                  | -                                 | (3,053)                           | (4,409)                                    | 64,280                                  |
| Total fund balances (deficits)   | <u>103,208</u>          | <u>54,496</u>                     | <u>(1,805)</u>                    | <u>519,714</u>                             | <u>675,613</u>                          |
| Total liabilities, deferred inflows of resources, and fund balances (deficits) | <u>\$ 135,296</u>       | <u>\$ 63,454</u>                  | <u>\$ 38,871</u>                  | <u>\$ 654,587</u>                          | <u>\$ 892,208</u>                       |

Amounts reported for governmental activities in the statement of net position are different because:

|   |                     |
|---|---------------------|
| Total fund balances - governmental funds  | \$ 675,613          |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds.                                       | 2,764,591           |
| Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.                                      | 17,700              |
| Governmental activities internal service funds assets and liabilities are included in the governmental activities in the statement of net position. | 110,214             |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.          | (883,458)           |
| Net position of governmental activities   | <u>\$ 2,684,660</u> |

The notes to the financial statements are an integral part of this statement.

King County, Washington

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
 (IN THOUSANDS)

|  | <b>GENERAL<br/>FUND</b> | <b>MENTAL<br/>HEALTH<br/>FUND</b> | <b>PUBLIC<br/>HEALTH<br/>FUND</b> | <b>NONMAJOR<br/>GOVERNMENTAL<br/>FUNDS</b> | <b>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</b> |
|--|-------------------------|-----------------------------------|-----------------------------------|--|---|
| <b>REVENUES</b>  |                         |                                   |                                   |  |   |
| Taxes  |                         |                                   |                                   |  |   |
| Property taxes   | \$ 319,189              | \$ 3,039                          | \$ -                              | \$ 358,301                                 | \$ 680,529                              |
| Retail sales and use taxes                                   | 102,837                 | -                                 | -                                 | 84,663                                     | 187,500                                 |
| Business and other taxes                                     | 9,496                   | -                                 | -                                 | 34,238                                     | 43,734                                  |
| Penalties and interest - delinquent taxes                    | 20,993                  | -                                 | -                                 | -  | 20,993                                  |
| Licenses and permits   | 4,753                   | -                                 | 15,882                            | 2,998                                      | 23,633                                  |
| Intergovernmental revenues                                   | 118,774                 | 202,150                           | 126,018                           | 209,888                                    | 656,830                                 |
| Charges for services   | 113,270                 | 3,056                             | 18,874                            | 135,777                                    | 270,977                                 |
| Fines and forfeits   | 5,922                   | -                                 | 73                                | 362  | 6,357                                   |
| Interest earnings  | 1,633                   | 337                               | -                                 | 3,038                                      | 5,008                                   |
| Miscellaneous revenues                                       | 12,142                  | 721                               | 3,940                             | 58,616                                     | 75,419                                  |
| <b>TOTAL REVENUES</b>  | <b>709,009</b>          | <b>209,303</b>                    | <b>164,787</b>                    | <b>887,881</b>                             | <b>1,970,980</b>                        |
| <b>EXPENDITURES</b>  |                         |                                   |                                   |  |   |
| Current  |                         |                                   |                                   |  |   |
| General government   | 119,721                 | -                                 | -                                 | 77,000                                     | 196,721                                 |
| Law, safety and justice                                      | 501,420                 | -                                 | -                                 | 117,741                                    | 619,161                                 |
| Physical environment   | -                       | -                                 | -                                 | 190,979                                    | 190,979                                 |
| Transportation   | -                       | -                                 | -                                 | 99,991                                     | 99,991                                  |
| Economic environment   | 408                     | -                                 | -                                 | 101,800                                    | 102,208                                 |
| Mental and physical health                                   | 26,392                  | 193,002                           | 200,022                           | 102,544                                    | 521,960                                 |
| Culture and recreation                                       | -                       | -                                 | -                                 | 46,665                                     | 46,665                                  |
| Debt Service   |                         |                                   |                                   |  |   |
| Principal  | -                       | -                                 | -                                 | 71,998                                     | 71,998                                  |
| Interest and other debt service costs                        | 68                      | -                                 | 42                                | 31,394                                     | 31,504                                  |
| Refunding bond issuance costs                                | -                       | -                                 | -                                 | 260  | 260                                     |
| Capital outlay   | 1,895                   | -                                 | 423                               | 76,277                                     | 78,595                                  |
| <b>TOTAL EXPENDITURES</b>                                    | <b>649,904</b>          | <b>193,002</b>                    | <b>200,487</b>                    | <b>916,649</b>                             | <b>1,960,042</b>                        |
| Excess (deficiency) of revenues<br>over (under) expenditures | 59,105                  | 16,301                            | (35,700)                          | (28,768)                                   | 10,938                                  |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                         |                                   |                                   |  |   |
| Transfers in   | 118                     | 1                                 | 30,188                            | 145,312                                    | 175,619                                 |
| Transfers out  | (71,991)                | (4)                               | (399)                             | (95,125)                                   | (167,519)                               |
| General government debt issued                               | -                       | -                                 | -                                 | 15,395                                     | 15,395                                  |
| Premium on bonds sold  | -                       | -                                 | -                                 | 6,370                                      | 6,370                                   |
| Refunding bonds issued                                       | -                       | -                                 | -                                 | 34,815                                     | 34,815                                  |
| Sale of capital assets                                       | 156                     | -                                 | -                                 | 1,001                                      | 1,157                                   |
| Payment to refunded bonds escrow agent                       | -                       | -                                 | -                                 | (38,958)                                   | (38,958)                                |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                  | <b>(71,717)</b>         | <b>(3)</b>                        | <b>29,789</b>                     | <b>68,810</b>                              | <b>26,879</b>                           |
| Net change in fund balances                                  | (12,612)                | 16,298                            | (5,911)                           | 40,042                                     | 37,817                                  |
| Fund balances - January 1, 2014 (Restated)                   | 115,820                 | 38,198                            | 4,106                             | 479,672                                    | 637,796                                 |
| Fund balances - December 31, 2014                            | \$ 103,208              | \$ 54,496                         | \$ (1,805)                        | \$ 519,714                                 | \$ 675,613                              |

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(IN THOUSANDS)**

Amounts reported for governmental activities in the statement of activities are different because:

|  |                   |
|--|-------------------|
| Net change in fund balances - total governmental funds   | \$ 37,817         |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.  | 34,757            |
| The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net position.   | 10,894            |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.  | (1,931)           |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 51,951            |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  | 6,776             |
| The net revenues and expenses of certain activities of internal service funds are reported with governmental activities.   | 9,451             |
| Change in net position of governmental activities  | <u>\$ 149,715</u> |

The notes to the financial statements are an integral part of this statement.



**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
(IN THOUSANDS)

|  | <u>BUDGETED AMOUNTS (ANNUAL)</u> |                    |                      |                  |
|--|----------------------------------|--------------------|----------------------|------------------|
|  | <u>ORIGINAL</u>                  | <u>FINAL</u>       | <u>ACTUAL</u>        | <u>VARIANCE</u>  |
| <b>REVENUES</b>  |                                  |                    |                      |                  |
| Taxes  |                                  |                    |                      |                  |
| Property taxes   | \$ 316,958                       | \$ 316,958         | \$ 320,639           | \$ 3,681         |
| Retail sales and use taxes   | 98,231                           | 98,231             | 102,837              | 4,606            |
| Business and other taxes   | 8,448                            | 8,448              | 9,496                | 1,048            |
| Penalties and interest - delinquent taxes                          | 22,000                           | 22,000             | 20,993               | (1,007)          |
| Licenses and permits   | 3,844                            | 3,844              | 4,753                | 909              |
| Intergovernmental revenues   | 105,181                          | 115,058            | 118,774              | 3,716            |
| Charges for services   | 119,527                          | 119,560            | 113,270              | (6,290)          |
| Fines and forfeits   | 8,613                            | 8,613              | 5,922                | (2,691)          |
| Interest earnings  | 2,365                            | 2,365              | 1,412                | (953)            |
| Miscellaneous revenues   | 11,910                           | 11,910             | 12,143               | 233              |
| Sale of capital assets   | 30                               | 30                 | 155                  | 125              |
| Transfers in   | 345                              | 345                | 81                   | (264)            |
| <b>TOTAL REVENUES</b>  | <u>697,452</u>                   | <u>707,362</u>     | <u>710,475</u>       | <u>3,113</u>     |
| <b>EXPENDITURES</b>  |                                  |                    |                      |                  |
| Current  |                                  |                    |                      |                  |
| General government services  | 117,646                          | 123,039            | 120,269              | 2,770            |
| Law, safety and justice  | 503,512                          | 516,480            | 501,121              | 15,359           |
| Economic environment   | 615                              | 624                | 408                  | 216              |
| Mental and physical health   | 27,044                           | 27,581             | 26,392               | 1,189            |
| Debt service   |                                  |                    |                      |                  |
| Principal  | 34                               | 34                 | -                    | 34               |
| Interest and other debt service costs                              | 3                                | 3                  | 68                   | (65)             |
| Capital outlay   | 1,474                            | 2,174              | 1,895                | 279              |
| Transfers out  | 68,162                           | 74,594             | 71,991               | 2,603            |
| <b>TOTAL EXPENDITURES</b>  | <u>718,490</u>                   | <u>744,529</u>     | <u>722,144</u>       | <u>22,385</u>    |
| Deficiency of revenues under expenditures (budgetary basis)        | <u>\$ (21,038)</u>               | <u>\$ (37,167)</u> | (11,669)             | <u>\$ 25,498</u> |
| Adjustment from budgetary basis to GAAP basis                      |                                  |                    | (943) <sup>(a)</sup> |                  |
| Net change in fund balance   |                                  |                    | (12,612)             |                  |
| Fund balance - January 1, 2014 (Restated)                          |                                  |                    | <u>115,820</u>       |                  |
| Fund balance - December 31, 2014                                   |                                  |                    | <u>\$ 103,208</u>    |                  |
| <br>(a) Elements of adjustment from budgetary basis to GAAP basis: |                                  |                    |                      |                  |
| Adjustments to revenues  |                                  |                    |                      |                  |
| Recognition of unrealized gains on investments on a GAAP basis     |                                  |                    | \$ 220               |                  |
| Adjustments to expenditures  |                                  |                    |                      |                  |
| Non-budgeted expenditures  |                                  |                    | (384)                |                  |
| Encumbrances, not included in GAAP basis expenditures              |                                  |                    | <u>1,107</u>         |                  |
| Adjustment from budgetary basis to GAAP basis                      |                                  |                    | <u>\$ 943</u>        |                  |

The notes to the financial statements are an integral part of this statement.

**MENTAL HEALTH FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**FOR THE BIENNIUM ENDED DECEMBER 31, 2014**  
 (IN THOUSANDS)

|   | <u>BUDGETED AMOUNTS (BIENNIAL)</u> |                 |                  |                  |
|---|------------------------------------|-----------------|------------------|------------------|
|   | <u>ORIGINAL</u>                    | <u>FINAL</u>    | <u>ACTUAL</u>    | <u>VARIANCE</u>  |
| <b>REVENUES</b>   |                                    |                 |                  |                  |
| Taxes   | 5,998                              | 5,998           | 6,028            | 30               |
| Intergovernmental revenues  | 331,459                            | 365,461         | 359,574          | (5,887)          |
| Charges for services  | 6,907                              | 6,907           | 6,969            | 62               |
| Miscellaneous revenues  | -                                  | 2,722           | 1,108            | (1,614)          |
| Transfers in  | -                                  | -               | 1                | 1                |
| <b>TOTAL REVENUES</b>   | <u>338,366</u>                     | <u>381,088</u>  | <u>373,680</u>   | <u>(7,408)</u>   |
| <b>EXPENDITURES</b>   |                                    |                 |                  |                  |
| Current   |                                    |                 |                  |                  |
| Mental and physical health  | 341,848                            | 381,848         | 354,428          | 27,420           |
| Transfers out   | -                                  | -               | 425              | (425)            |
| <b>TOTAL EXPENDITURES</b>   | <u>341,848</u>                     | <u>381,848</u>  | <u>354,853</u>   | <u>26,995</u>    |
| Excess (deficiency) of revenues over (under) expenditures (budgetary basis) | <u>\$ (3,482)</u>                  | <u>\$ (760)</u> | 18,827           | <u>\$ 19,587</u> |
| Adjustment from budgetary basis to GAAP basis - encumbrances                |                                    |                 | <u>-</u>         |                  |
| Net change in fund balance  |                                    |                 | 18,827           |                  |
| Fund balance - January 1, 2013 (Restated)                                   |                                    |                 | <u>35,669</u>    |                  |
| Fund balance - December 31, 2014  |                                    |                 | <u>\$ 54,496</u> |                  |

The notes to the financial statements are an integral part of this statement.

**PUBLIC HEALTH FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
 (IN THOUSANDS)

|  | <u>BUDGETED AMOUNTS (ANNUAL)</u> |                   |                   |                 |
|--|----------------------------------|-------------------|-------------------|-----------------|
|  | <u>ORIGINAL</u>                  | <u>FINAL</u>      | <u>ACTUAL</u>     | <u>VARIANCE</u> |
| <b>REVENUES</b>  |                                  |                   |                   |                 |
| Licenses and permits   | \$ 14,969                        | \$ 15,578         | \$ 15,882         | \$ 304          |
| Intergovernmental revenues                                   | 123,917                          | 117,950           | 126,018           | 8,068           |
| Charges for services   | 18,510                           | 17,774            | 18,874            | 1,100           |
| Fines and forfeits   | -                                | 6                 | 73                | 67              |
| Contribution donations from private sources                  | 24,245                           | 13,468            | 3,533             | (9,935)         |
| Miscellaneous revenues                                       | 41,542                           | 12                | 407               | 395             |
| Transfers in   | 28,857                           | 30,187            | 30,188            | 1               |
| <b>TOTAL REVENUES</b>  | <u>252,040</u>                   | <u>194,975</u>    | <u>194,975</u>    | <u>-</u>        |
| <b>EXPENDITURES</b>  |                                  |                   |                   |                 |
| Current  |                                  |                   |                   |                 |
| Mental and physical health                                   | 253,173                          | 200,237           | 200,022           | 215             |
| Debt service   |                                  |                   |                   |                 |
| Interest and other debt service costs                        | 40                               | 42                | 42                | -               |
| Capital outlay   | 86                               | 208               | 423               | (215)           |
| Transfers out  | 851                              | 399               | 399               | -               |
| <b>TOTAL EXPENDITURES</b>                                    | <u>254,150</u>                   | <u>200,886</u>    | <u>200,886</u>    | <u>-</u>        |
| Deficiency of revenues under expenditures (budgetary basis)  | <u>\$ (2,110)</u>                | <u>\$ (5,911)</u> | (5,911)           | <u>\$ -</u>     |
| Adjustment from budgetary basis to GAAP basis - encumbrances |                                  |                   | -                 |                 |
| Net change in fund balance                                   |                                  |                   | (5,911)           |                 |
| Fund balance - January 1, 2014                               |                                  |                   | <u>4,106</u>      |                 |
| Fund balance - December 31, 2014                             |                                  |                   | <u>\$ (1,805)</u> |                 |

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2014  
(IN THOUSANDS)  
(PAGE 1 OF 2)**

|   | <b>BUSINESS-TYPE ACTIVITIES</b>        |                          |  |                  | <b>INTERNAL<br/>SERVICE<br/>FUNDS</b> |
|---|--|--------------------------|--|------------------|---------------------------------------|
|   | <b>PUBLIC<br/>TRANSPOR-<br/>TATION</b> | <b>WATER<br/>QUALITY</b> | <b>NONMAJOR<br/>ENTERPRISE<br/>FUNDS</b> | <b>TOTAL</b>     |                                       |
| <b>ASSETS</b>   |  |                          |  |                  |                                       |
| Current assets  |  |                          |  |                  |                                       |
| Cash and cash equivalents                             | \$ 524,990                             | \$ 204,064               | \$ 104,427                               | \$ 833,481       | \$ 357,876                            |
| Restricted cash and cash equivalents                  | 20,200                                 | 146,651                  | 486                                      | 167,337          | 81                                    |
| Accounts receivable, net                              | 50,019                                 | 44,081                   | 8,576                                    | 102,676          | 665                                   |
| Due from other funds                                  | 474                                    | 1,150                    | 5,845                                    | 7,469            | 1,572                                 |
| Interfund short-term loans receivable                 | 20,780                                 | -                        | 308                                      | 21,088           | -                                     |
| Property tax receivable-delinquent                    | 506                                    | -                        | 29                                       | 535              | -                                     |
| Due from other governments, net                       | 122,434                                | 3,782                    | 4,219                                    | 130,435          | 56                                    |
| Inventory of supplies                                 | 19,331                                 | 7,672                    | 1,622                                    | 28,625           | 1,486                                 |
| Prepayments and other assets                          | 393                                    | 85                       | 124                                      | 602              | 3,852                                 |
| Total current assets                                  | <u>759,127</u>                         | <u>407,485</u>           | <u>125,636</u>                           | <u>1,292,248</u> | <u>365,588</u>                        |
| Noncurrent assets                                     |  |                          |  |                  |                                       |
| Restricted assets                                     |  |                          |  |                  |                                       |
| Cash and cash equivalents                             | 223                                    | 216,868                  | 56,448                                   | 273,539          | 3,518                                 |
| Due from other governments, net                       | 24                                     | -                        | -  | 24               | -                                     |
| Total restricted assets                               | <u>247</u>                             | <u>216,868</u>           | <u>56,448</u>                            | <u>273,563</u>   | <u>3,518</u>                          |
| Capital assets  |  |                          |  |                  |                                       |
| Non-depreciable assets                                | 250,762                                | 537,498                  | 100,517                                  | 888,777          | 23,996                                |
| Depreciable assets, net of depreciation               | 1,056,475                              | 3,585,369                | 224,013                                  | 4,865,857        | 243,575                               |
| Total capital assets                                  | <u>1,307,237</u>                       | <u>4,122,867</u>         | <u>324,530</u>                           | <u>5,754,634</u> | <u>267,571</u>                        |
| Other noncurrent                                      |  |                          |  |                  |                                       |
| Prepayments   | 5,766                                  | 425                      | -  | 6,191            | -                                     |
| Notes receivable                                      | 500                                    | -                        | -  | 500              | -                                     |
| Advances to other funds                               | -                                      | -                        | 607                                      | 607              | -                                     |
| Regulatory assets - environmental remediation         | -                                      | 63,303                   | -  | 63,303           | -                                     |
| Other utility assets, net of accumulated depreciation | -                                      | 29,835                   | -  | 29,835           | -                                     |
| Other assets  | -                                      | 4,200                    | -  | 4,200            | -                                     |
| Total other noncurrent                                | <u>6,266</u>                           | <u>97,763</u>            | <u>607</u>                               | <u>104,636</u>   | <u>-</u>                              |
| Total noncurrent assets                               | <u>1,313,750</u>                       | <u>4,437,498</u>         | <u>381,585</u>                           | <u>6,132,833</u> | <u>271,089</u>                        |
| <b>TOTAL ASSETS</b>                                   | <u>2,072,877</u>                       | <u>4,844,983</u>         | <u>507,221</u>                           | <u>7,425,081</u> | <u>636,677</u>                        |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                 |  |                          |  |                  |                                       |
| Deferred amount on refunding                          | 4,293                                  | 101,942                  | 1,153                                    | 107,388          | -                                     |

The notes to the financial statements are an integral part of this statement.

King County, Washington

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2014**  
 (IN THOUSANDS)  
 (PAGE 2 OF 2)

|   | <b>BUSINESS-TYPE ACTIVITIES</b>        |                          |  |                     | <b>INTERNAL<br/>SERVICE<br/>FUNDS</b> |
|---|--|--------------------------|--|---------------------|---------------------------------------|
|   | <b>PUBLIC<br/>TRANSPOR-<br/>TATION</b> | <b>WATER<br/>QUALITY</b> | <b>NONMAJOR<br/>ENTERPRISE<br/>FUNDS</b> | <b>TOTAL</b>        |                                       |
| <b>LIABILITIES</b>  |  |                          |  |                     |                                       |
| <b>Current liabilities</b>  |  |                          |  |                     |                                       |
| Accounts payable  | \$ 67,295                              | \$ 27,283                | \$ 6,492                                 | \$ 101,070          | \$ 11,763                             |
| Retainage payable   | 4,653                                  | 2,352                    | 468                                      | 7,473               | 11                                    |
| Estimated claim settlements   | -                                      | -                        | -  | -                   | 52,695                                |
| Due to other funds  | -                                      | -                        | 2  | 2                   | 13                                    |
| Interest payable  | 393                                    | 79,115                   | 451                                      | 79,959              | 1,028                                 |
| Interfund short-term loans payable  | -                                      | -                        | 308                                      | 308                 | -                                     |
| Wages payable   | 10,353                                 | 2,210                    | 1,562                                    | 14,125              | 3,620                                 |
| Compensated absences payable  | 8,753                                  | 565                      | 348                                      | 9,666               | 888                                   |
| Taxes payable   | 89                                     | 17                       | 159                                      | 265                 | 12                                    |
| Unearned revenues   | 8,709                                  | 1,628                    | 3,639                                    | 13,976              | 2,544                                 |
| Pollution remediation   | -                                      | 5,632                    | -  | 5,632               | -                                     |
| Revenue bonds payable   | -                                      | 51,615                   | -  | 51,615              | 7,820                                 |
| General obligation bonds payable  | 10,830                                 | 9,000                    | 5,235                                    | 25,065              | 4,340                                 |
| Capital leases payable  | 114                                    | -                        | -  | 114                 | -                                     |
| State revolving loan payable  | -                                      | 11,133                   | -  | 11,133              | -                                     |
| Notes payable   | -                                      | 100,000                  | 51                                       | 100,051             | -                                     |
| Landfill closure and post-closure care  | -                                      | -                        | 4,804                                    | 4,804               | -                                     |
| Other liabilities   | -                                      | 144,299                  | 502                                      | 144,801             | 2,233                                 |
| Total current liabilities   | <u>111,189</u>                         | <u>434,849</u>           | <u>24,021</u>                            | <u>570,059</u>      | <u>86,967</u>                         |
| <b>Noncurrent liabilities</b>   |  |                          |  |                     |                                       |
| Compensated absences payable  | 44,806                                 | 10,919                   | 5,726                                    | 61,451              | 15,267                                |
| Other postemployment benefits   | 9,267                                  | 1,351                    | 1,117                                    | 11,735              | 2,160                                 |
| Advances from other funds   | -                                      | -                        | 607                                      | 607                 | -                                     |
| General obligation bonds payable  | 99,110                                 | 770,505                  | 118,935                                  | 988,550             | 23,465                                |
| Revenue bonds payable   | -                                      | 2,762,190                | -  | 2,762,190           | 210,080                               |
| Unamortized bond premium and discount   | 5,797                                  | 190,669                  | 11,239                                   | 207,705             | 6,476                                 |
| Capital leases payable  | 2,760                                  | -                        | -  | 2,760               | -                                     |
| State revolving loans payable   | -                                      | 147,920                  | -  | 147,920             | -                                     |
| Landfill closure and post-closure care  | -                                      | -                        | 96,379                                   | 96,379              | -                                     |
| Estimated claim settlements   | -                                      | -                        | -  | -                   | 114,318                               |
| Pollution remediation   | 379                                    | 39,168                   | 670                                      | 40,217              | -                                     |
| Other liabilities   | -                                      | -                        | 550                                      | 550                 | -                                     |
| Total noncurrent liabilities  | <u>162,119</u>                         | <u>3,922,722</u>         | <u>235,223</u>                           | <u>4,320,064</u>    | <u>371,766</u>                        |
| <b>TOTAL LIABILITIES</b>  | <u>273,308</u>                         | <u>4,357,571</u>         | <u>259,244</u>                           | <u>4,890,123</u>    | <u>458,733</u>                        |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |  |                          |  |                     |                                       |
| Rate stabilization  | -                                      | 34,250                   | -  | 34,250              | -                                     |
| <b>NET POSITION</b>   |  |                          |  |                     |                                       |
| Net investment in capital assets  | 1,192,919                              | 210,360                  | 204,475                                  | 1,607,754           | 19,296                                |
| Restricted for:   |  |                          |  |                     |                                       |
| Capital projects  | 247                                    | -                        | -  | 247                 | 70                                    |
| Debt service  | 11,234                                 | 182,618                  | -  | 193,852             | -                                     |
| Regulatory assets and environmental liabilities   | -                                      | 22,704                   | -  | 22,704              | -                                     |
| Unrestricted  | 599,462                                | 139,422                  | 44,655                                   | 783,539             | 158,578                               |
| <b>TOTAL NET POSITION</b>   | <u>\$ 1,803,862</u>                    | <u>\$ 555,104</u>        | <u>\$ 249,130</u>                        | <u>2,608,096</u>    | <u>\$ 177,944</u>                     |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds |  |                          |  | <u>67,730</u>       |                                       |
| Net position of business-type activities  |  |                          |  | <u>\$ 2,675,826</u> |                                       |

King County, Washington

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2014  
 (IN THOUSANDS)

|   | BUSINESS-TYPE ACTIVITIES      |                   |                                |                  |                              |
|---|-------------------------------|-------------------|--------------------------------|------------------|------------------------------|
|   | PUBLIC<br>TRANSPOR-<br>TATION | WATER<br>QUALITY  | NOMAJOR<br>ENTERPRISE<br>FUNDS | TOTAL            | INTERNAL<br>SERVICE<br>FUNDS |
| <b>OPERATING REVENUES</b>   |                               |                   |                                |                  |                              |
| I-Net fees  | \$ -                          | \$ -              | \$ 2,560                       | \$ 2,560         | \$ -                         |
| Radio services  | -                             | -                 | 4,118                          | 4,118            | -                            |
| Solid waste disposal charges  | -                             | -                 | 106,292                        | 106,292          | -                            |
| Airfield fees   | -                             | -                 | 3,394                          | 3,394            | -                            |
| Hangar, building, and site rentals and leases   | -                             | -                 | 13,937                         | 13,937           | -                            |
| Passenger   | 161,726                       | -                 | 1,764                          | 163,490          | -                            |
| Service contracts   | 85,082                        | -                 | -                              | 85,082           | -                            |
| Sewage disposal fees  | -                             | 364,591           | -                              | 364,591          | -                            |
| Other operating revenues  | 23,053                        | 71,197            | 3,069                          | 97,319           | 524,544                      |
| Total operating revenues  | <u>269,861</u>                | <u>435,788</u>    | <u>135,134</u>                 | <u>840,783</u>   | <u>524,544</u>               |
| <b>OPERATING EXPENSES</b>   |                               |                   |                                |                  |                              |
| Personal services   | 427,529                       | 47,508            | 53,611                         | 528,648          | 127,845                      |
| Materials and supplies  | 74,806                        | 16,529            | 10,367                         | 101,702          | 14,046                       |
| Contract services and other charges   | 29,944                        | 14,228            | 25,630                         | 69,802           | 298,842                      |
| Utilities   | 4,970                         | 14,373            | 3,087                          | 22,430           | -                            |
| Purchased transportation  | 56,526                        | -                 | 2,838                          | 59,364           | -                            |
| Internal services   | 72,562                        | 31,563            | 18,428                         | 122,553          | 26,249                       |
| Environmental related amortization  | -                             | 2,581             | -                              | 2,581            | -                            |
| Depreciation and amortization   | 121,199                       | 163,976           | 18,227                         | 303,402          | 17,847                       |
| Total operating expenses  | <u>787,536</u>                | <u>290,758</u>    | <u>132,188</u>                 | <u>1,210,482</u> | <u>484,829</u>               |
| OPERATING INCOME (LOSS)   | <u>(517,675)</u>              | <u>145,030</u>    | <u>2,946</u>                   | <u>(369,699)</u> | <u>39,715</u>                |
| <b>NONOPERATING REVENUES</b>  |                               |                   |                                |                  |                              |
| Sales tax   | 479,579                       | -                 | -                              | 479,579          | -                            |
| Property tax  | 25,436                        | -                 | 1,185                          | 26,621           | -                            |
| Intergovernmental   | 37,751                        | 65                | -                              | 37,816           | 3                            |
| Interest earnings   | 3,569                         | 3,856             | 1,185                          | 8,610            | 2,689                        |
| DNRP administration   | -                             | -                 | 4,857                          | 4,857            | -                            |
| Other nonoperating revenues   | 20,082                        | 1,787             | 700                            | 22,569           | -                            |
| Total nonoperating revenues   | <u>566,417</u>                | <u>5,708</u>      | <u>7,927</u>                   | <u>580,052</u>   | <u>2,692</u>                 |
| <b>NONOPERATING EXPENSES</b>  |                               |                   |                                |                  |                              |
| Interest  | 2,710                         | 150,007           | 2,871                          | 155,588          | 11,777                       |
| DNRP administration   | -                             | -                 | 4,889                          | 4,889            | -                            |
| Loss on disposal of capital assets  | 5,137                         | 3,001             | 2,247                          | 10,385           | 139                          |
| Landfill closure and post-closure care  | -                             | -                 | 14,758                         | 14,758           | -                            |
| Other nonoperating expenses   | 8,841                         | 2,356             | 908                            | 12,105           | 434                          |
| Total nonoperating expenses   | <u>16,688</u>                 | <u>155,364</u>    | <u>25,673</u>                  | <u>197,725</u>   | <u>12,350</u>                |
| Income (loss) before contributions and transfers  | 32,054                        | (4,626)           | (14,800)                       | 12,628           | 30,057                       |
| Capital grants and contributions  | 24,470                        | -                 | 17,890                         | 42,360           | 3,504                        |
| Transfers in  | -                             | -                 | 1,093                          | 1,093            | 2,009                        |
| Transfers out   | (1,355)                       | (173)             | (262)                          | (1,790)          | (9,411)                      |
| Special items   | -                             | -                 | -                              | -                | 3,256                        |
| <b>CHANGE IN NET POSITION</b>   | <u>55,169</u>                 | <u>(4,799)</u>    | <u>3,921</u>                   | <u>54,291</u>    | <u>29,415</u>                |
| NET POSITION - JANUARY 1, 2014 (RESTATEd)   | <u>1,748,693</u>              | <u>559,903</u>    | <u>245,209</u>                 |                  | <u>148,529</u>               |
| NET POSITION - DECEMBER 31, 2014  | <u>\$ 1,803,862</u>           | <u>\$ 555,104</u> | <u>\$ 249,130</u>              |                  | <u>\$ 177,944</u>            |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds |                               |                   |                                | 17,141           |                              |
| Change in net position of business-type activities  |                               |                   |                                | <u>\$ 71,432</u> |                              |

The notes to the financial statements are an integral part of this statement.

# CAFR

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

King County, Washington

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**  
(IN THOUSANDS)  
(PAGE 1 OF 2)

|   | BUSINESS-TYPE ACTIVITIES      |                   |                                 |                     |                              |
|---|-------------------------------|-------------------|---------------------------------|---------------------|------------------------------|
|   | PUBLIC<br>TRANSPOR-<br>TATION | WATER<br>QUALITY  | NONMAJOR<br>ENTERPRISE<br>FUNDS | TOTAL               | INTERNAL<br>SERVICE<br>FUNDS |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                               |                   |                                 |                     |                              |
| Cash received from customers  | \$ 275,039                    | \$ 414,909        | \$ 135,125                      | \$ 825,073          | \$ 528,886                   |
| Cash payments to suppliers for goods and services   | (238,380)                     | (79,950)          | (62,662)                        | (380,992)           | (351,077)                    |
| Cash payments for employee services   | (438,606)                     | (48,703)          | (54,730)                        | (542,039)           | (132,290)                    |
| Other receipts  | -                             | -                 | 4,957                           | 4,957               | 4,250                        |
| Other payments  | -                             | (5,957)           | (5,768)                         | (11,725)            | -                            |
| Net cash provided (used) by operating activities  | <u>(401,947)</u>              | <u>280,299</u>    | <u>16,922</u>                   | <u>(104,726)</u>    | <u>49,769</u>                |
| <b>CASH FLOWS FROM NONCAPITAL<br/>FINANCING ACTIVITIES</b>  |                               |                   |                                 |                     |                              |
| Operating grants and subsidies received   | 549,433                       | 65                | 1,653                           | 551,151             | 63                           |
| Interfund loan principal amounts loaned to other funds  | (20,779)                      | -                 | (2,775)                         | (23,554)            | -                            |
| Interfund loan principal repayments from other funds  | 5,864                         | -                 | 303                             | 6,167               | -                            |
| Notes repayment from others   | 710                           | -                 | -                               | 710                 | -                            |
| Grants to others  | (8,841)                       | (17)              | -                               | (8,858)             | -                            |
| Transfers in  | -                             | -                 | 1,093                           | 1,093               | 2,009                        |
| Transfers out   | (1,355)                       | (173)             | (262)                           | (1,790)             | (9,411)                      |
| Net cash provided (used) by noncapital financing activities                                       | <u>525,032</u>                | <u>(125)</u>      | <u>12</u>                       | <u>524,919</u>      | <u>(7,339)</u>               |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>                               |                               |                   |                                 |                     |                              |
| Acquisition of capital assets   | (108,001)                     | (154,085)         | (28,924)                        | (291,010)           | (12,176)                     |
| Proceeds from capital debt  | -                             | 27,618            | 17,000                          | 44,618              | -                            |
| Principal paid on capital debt  | (10,479)                      | (67,331)          | (4,835)                         | (82,645)            | (12,415)                     |
| Interest paid on capital debt   | (4,962)                       | (169,072)         | (3,242)                         | (177,276)           | (12,641)                     |
| Capital grants and contributions  | 26,340                        | -                 | 15,275                          | 41,615              | -                            |
| Other capitalized payments  | -                             | -                 | (303)                           | (303)               | -                            |
| Proceeds from disposal of capital assets  | 1,657                         | 23                | 382                             | 2,062               | 1,225                        |
| Landfill closure and post-closure care  | -                             | -                 | (3,540)                         | (3,540)             | -                            |
| Net cash used by capital and related financing activities   | <u>(95,445)</u>               | <u>(362,847)</u>  | <u>(8,187)</u>                  | <u>(466,479)</u>    | <u>(36,007)</u>              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                               |                   |                                 |                     |                              |
| Interest on investments (including unrealized gains/losses reported as cash and cash equivalents) | 3,569                         | 3,856             | 1,185                           | 8,610               | 2,690                        |
| Net cash provided by investing activities   | <u>3,569</u>                  | <u>3,856</u>      | <u>1,185</u>                    | <u>8,610</u>        | <u>2,690</u>                 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | 31,209                        | (78,817)          | 9,932                           | (37,676)            | 9,113                        |
| CASH AND CASH EQUIVALENTS - JANUARY 1, 2014   | 514,204                       | 646,400           | 151,429                         | 1,312,033           | 352,362                      |
| CASH AND CASH EQUIVALENTS - DECEMBER 31, 2014   | <u>\$ 545,413</u>             | <u>\$ 567,583</u> | <u>\$ 161,361</u>               | <u>\$ 1,274,357</u> | <u>\$ 361,475</u>            |

The notes to the financial statements are an integral part of this statement.



King County, Washington

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2014  
 (IN THOUSANDS)  
 (PAGE 2 OF 2)

|   | BUSINESS-TYPE ACTIVITIES |               |                           |              | INTERNAL SERVICE FUNDS |
|---|--------------------------|---------------|---------------------------|--------------|------------------------|
|   | PUBLIC TRANSPORTATION    | WATER QUALITY | NONMAJOR ENTERPRISE FUNDS | TOTAL        |                        |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>        |                          |               |                           |              |                        |
| Operating income (loss)   | \$ (517,675)             | \$ 145,030    | \$ 2,946                  | \$ (369,699) | \$ 39,715              |
| <b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b> |                          |               |                           |              |                        |
| Depreciation and amortization   | 121,199                  | 163,976       | 18,227                    | 303,402      | 17,847                 |
| Other nonoperating revenue/expense  | 1,550                    | 1,646         | (811)                     | 2,385        | -                      |
| Changes in assets - (increase) decrease   |                          |               |                           |              |                        |
| Accounts receivable, net  | 3,924                    | (7,859)       | (209)                     | (4,144)      | 404                    |
| Due from other funds  | 331                      | 2,892         | 149                       | 3,372        | 601                    |
| Due from other governments, net   | -                        | -             | (271)                     | (271)        | 18                     |
| Inventory of supplies   | 1,981                    | (420)         | 53                        | 1,614        | 161                    |
| Prepayments   | 430                      | (40)          | 10                        | 400          | 288                    |
| Other assets  | (500)                    | (3,476)       | -                         | (3,976)      | -                      |
| Changes in liabilities - increase (decrease)  |                          |               |                           |              |                        |
| Accounts payable  | (1,887)                  | (2,783)       | (1,395)                   | (6,065)      | (4,903)                |
| Due to other funds  | (144)                    | (5)           | (72)                      | (221)        | (1,971)                |
| Retainage payable   | 15                       | (17)          | 143                       | 141          | (96)                   |
| Wages payable   | (12,055)                 | (1,523)       | (1,488)                   | (15,066)     | (5,213)                |
| Taxes payable   | 33                       | 10            | (2)                       | 41           | 3                      |
| Unearned revenues   | (127)                    | 300           | 127                       | 300          | 20                     |
| Claims and judgments payable  | -                        | -             | -                         | -            | 2,737                  |
| Compensated absences  | (85)                     | 172           | 243                       | 330          | 487                    |
| Other postemployment benefits   | 1,063                    | 156           | 126                       | 1,345        | 282                    |
| Customer deposits and other liabilities   | -                        | 240           | (854)                     | (614)        | (611)                  |
| Changes in deferred inflows of resources - increase (decrease)  |                          |               |                           |              |                        |
| Rate stabilization  | -                        | (18,000)      | -                         | (18,000)     | -                      |
| Total adjustments   | 115,728                  | 135,269       | 13,976                    | 264,973      | 10,054                 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES  | \$ (401,947)             | \$ 280,299    | \$ 16,922                 | \$ (104,726) | \$ 49,769              |

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

Public Transportation capital grants on account decreased by \$1,870 thousand in 2014.

Water Quality issued bonds in 2014 to refund debt issued from 2004 to 2008. The bond proceeds, \$295,108 thousand, were deposited into escrow for the defeasance of \$270,860 thousand of outstanding revenue bond principal and \$22,822 thousand of interest.

Nonmajor Enterprise Funds received \$2,165 thousand of capital assets from other funds and transferred \$29 thousand of capital assets to other funds.

Nonmajor Enterprise Funds issued capital bonds to refund debt issued in 2007. The \$11,325 thousand proceeds were deposited into escrow for the defeasance of \$9,955 thousand of outstanding bond principal and \$1,742 thousand of interest.

Internal Service Funds received \$3,444 thousand of capital assets from other funds and transferred \$165 thousand of capital assets to other funds.

**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2014**  
(IN THOUSANDS)

|  | <b>INVESTMENT<br/>TRUST FUNDS</b> | <b>AGENCY<br/>FUNDS</b> |
|--|-----------------------------------|-------------------------|
| <b>ASSETS</b>                                  |                                   |                         |
| Cash and cash equivalents                      | \$ -                              | \$ 128,325              |
| Assets held in trust                           |                                   |                         |
| External investment pool participants          |                                   | 2,610,589               |
| External impaired investment pool participants | -                                 | 5,742                   |
| Investments                                    | 2,615,249                         | 3,308                   |
| Taxes receivable - delinquent                  | -                                 | 66,820                  |
| Accounts receivable                            | -                                 | 4,245                   |
| Interest receivable                            | 1,082                             | -                       |
| Assessments receivable                         | -                                 | 6,038                   |
| Notes and contracts receivable                 | -                                 | 51                      |
| <b>TOTAL ASSETS</b>                            | <b>2,616,331</b>                  | <b>2,825,118</b>        |
| <b>LIABILITIES</b>                             |                                   |                         |
| Warrants payable                               | -                                 | 81,259                  |
| Accounts payable                               | -                                 | 1,253                   |
| Wages payable                                  | -                                 | 21,954                  |
| Custodial accounts - County agencies           | -                                 | 64,198                  |
| Due to special districts/other governments     | -                                 | 2,656,454               |
| <b>TOTAL LIABILITIES</b>                       | <b>-</b>                          | <b>\$ 2,825,118</b>     |
| <b>NET POSITION</b>                            |                                   |                         |
| Held in trust for pool participants            | <b>\$ 2,616,331</b>               |                         |

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(IN THOUSANDS)**

|   | <u>INVESTMENT<br/>TRUST FUNDS</u> |
|---|-----------------------------------|
| <b>ADDITIONS</b>                          |                                   |
| Contributions                             | \$ 5,945,131                      |
| Net investment earnings                   |                                   |
| Interest                                  | 12,900                            |
| Increase in the fair value of investments | <u>5,011</u>                      |
| TOTAL ADDITIONS                           | 5,963,042                         |
| <b>DEDUCTIONS</b>                         |                                   |
| Distributions                             | <u>5,874,783</u>                  |
| Change in net position                    | 88,259                            |
| Net position - January 1, 2014            | <u>2,528,072</u>                  |
| Net position - December 31, 2014          | <u>\$ 2,616,331</u>               |

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF NET POSITION**  
**COMPONENT UNITS**  
**DECEMBER 31, 2014**  
(IN THOUSANDS)

|  | <b>Harborview<br/>Medical<br/>Center</b> | <b>Cultural<br/>Development<br/>Authority</b> | <b>Total</b>      |
|--|--|---|-------------------|
| <b>ASSETS</b>                                  |  |   |                   |
| Cash and cash equivalents                      | \$ 235,881                               | \$ 24,140                                     | \$ 260,021        |
| Investments                                    | -  | 23,076  | 23,076            |
| Receivables, net                               | 142,590                                  | -   | 142,590           |
| Inventories                                    | 8,568                                    | -   | 8,568             |
| Prepayments                                    | 8,942                                    | 374   | 9,316             |
| Non-depreciable assets                         | 16,446                                   | -   | 16,446            |
| Depreciable assets, net of depreciation        | 314,913                                  | -   | 314,913           |
| Deposits with other governments                | 600                                      | 44  | 644               |
| Other assets                                   | 13,583                                   | -   | 13,583            |
| Total assets                                   | <u>741,523</u>                           | <u>47,634</u>                                 | <u>789,157</u>    |
| <b>LIABILITIES</b>                             |  |   |                   |
| Accounts payable and other current liabilities | 65,195                                   | 336   | 65,531            |
| Accrued liabilities                            | 42,206                                   | -   | 42,206            |
| Unearned revenues                              | -  | 2,931   | 2,931             |
| Noncurrent liabilities                         |  |   |                   |
| Due within one year                            | 1,459                                    | 145   | 1,604             |
| Due in more than one year                      | 16,996                                   | 1,008   | 18,004            |
| Total liabilities                              | <u>125,856</u>                           | <u>4,420</u>                                  | <u>130,276</u>    |
| <b>NET POSITION</b>                            |  |   |                   |
| Net investment in capital assets               | 328,277                                  | -   | 328,277           |
| Restricted for:                                |  |   |                   |
| Expendable                                     | 16,618                                   | 44,264  | 60,882            |
| Nonexpendable                                  | 3,709                                    | -   | 3,709             |
| Unrestricted                                   | 267,063                                  | (1,050)                                       | 266,013           |
| Total net position                             | <u>\$ 615,667</u>                        | <u>\$ 43,214</u>                              | <u>\$ 658,881</u> |

The notes to the financial statements are an integral part of this statement.

# CAFR

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(IN THOUSANDS)**

| <u>Functions/Programs</u>      | <u>Expenses</u>   | <u>Program Revenues</u>         |   |   |
|--------------------------------|-------------------|---------------------------------|---|---|
|                                |                   | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> |
| <b>Component units:</b>        |                   |                                 |   |   |
| Harborview Medical Center      | \$ 822,872        | \$ 808,527                      | \$ 6,125  | \$ 1,418  |
| Cultural Development Authority | <u>8,542</u>      | <u>31</u>                       | <u>2,495</u>                                      | <u>-</u>  |
| Total Component units          | <u>\$ 831,414</u> | <u>\$ 808,558</u>               | <u>\$ 8,620</u>                                   | <u>\$ 1,418</u>                                 |

Payments to King County for debt service interest

Interest earnings

Net general revenues

Change in net position

Net position - January 1, 2014

Net position - December 31, 2014

The notes to the financial statements are an integral part of this statement.

**Net (Expense) Revenue  
and Changes in Net Position**

| <b>Harborview<br/>Medical<br/>Center</b> | <b>Cultural<br/>Development<br/>Authority</b> | <b>Total</b>      |
|--|---|-------------------|
| \$ (6,802)                               | \$ -  | \$ (6,802)        |
| <u>-</u>                                 | <u>(6,016)</u>                                | <u>(6,016)</u>    |
| <u>(6,802)</u>                           | <u>(6,016)</u>                                | <u>(12,818)</u>   |
|  | (49)  | (49)              |
| <u>-</u>                                 | <u>305</u>                                    | <u>305</u>        |
| <u>-</u>                                 | <u>256</u>                                    | <u>256</u>        |
| (6,802)                                  | (5,760)                                       | (12,562)          |
| <u>622,469</u>                           | <u>48,974</u>                                 | <u>671,443</u>    |
| <u>\$ 615,667</u>                        | <u>\$ 43,214</u>                              | <u>\$ 658,881</u> |

**Notes to the Financial Section**  
For the Year Ended December 31, 2014

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## Note 1

### Summary of Significant Accounting Policies

#### The Reporting Entity

The reporting entity "King County" consists of the Primary Government, its blended component units: (1) the King County Ferry District, (2) the Flood Control Zone District, and (3) two non-profit property management corporations; and, its discretely presented component units: (1) Harborview Medical Center (HMC) and (2) the Cultural Development Authority of King County (CDA). Most funds in this report pertain to the entity King County Government or its component units. Certain agency funds pertain to the County's custodianship of assets belonging to independent governments and are reported as Special Districts/Other Governments.

Under the County's Home Rule Charter, the King County Executive is the *ex officio* treasurer of all special districts of King County, other than incorporated cities and towns and the Port of Seattle. Pursuant to King County Code, the Director of the Finance and Business Operations Division (FBOD) is responsible for the duties of the comptroller and treasurer. Money received from or for the special districts is deposited in a central bank account. The FBOD Director invests or disburses money pursuant to the instructions of the designated officers of the respective special districts.

#### Component Units – Discretely Presented

##### Harborview Medical Center (HMC)

The Harborview Medical Center (HMC), a 413 licensed-bed hospital with extensive ambulatory services, is located in Seattle, Washington. HMC is managed by the University of Washington (UW).

The HMC Board of Trustees is appointed by the County Executive. The County's FBOD Director is the Treasurer of HMC. The management contract between the HMC Board of Trustees and the UW Board of Regents recognizes the Trustees' desire to maintain HMC as a means of meeting King County's obligation to provide the community with a resource for health services, and UW's desire that HMC be maintained as a continuing resource for medical education, training, and research. The general conditions of the

management contract specify that King County retains title to all real and personal property acquired for King County with HMC capital or operating funds.

The Trustees determine major institutional policies and retain control of programs and fiscal matters. The Trustees agree to secure UW's recommendations on any changes to the above. The Trustees are accountable to the public and King County Government for all financial aspects of HMC's operation and agree to maintain a fiscal policy that keeps the operating program and expenditures of HMC within the limits of operating income.

HMC is a component unit of the County for the following reasons: (1) it possesses *de facto* corporate powers evident from the UW management agreement; (2) the County Executive appoints HMC's Board of Trustees, who may be removed only for statutorily defined causes; and (3) HMC creates a financial burden on the County because the County is responsible for the issuance and repayment of all general obligation bonds for HMC capital improvements.

HMC is reported in the County's CAFR using the discrete presentation method because the County and HMC's governing boards are not substantively the same and the hospital does not provide services solely to King County. HMC's fiscal year-end is June 30, 2014 while the County's fiscal year-end is December 31, 2014.

The primary classification of HMC is that of a component unit, however, the County is the issuer of HMC's general obligation bonds. Note 15 reports on all the general obligation bonds issued by the County as of December 31, 2014, including bonds reported by HMC as of June 30, 2014.

HMC hires independent auditors and prepares its own financial statements. These statements may be obtained from the Finance Section of the Harborview Medical Center, Box 359750, 325 Ninth Ave., Seattle, Washington, 98104.

##### Cultural Development Authority of King County (CDA)

The Cultural Development Authority of King County (CDA) is a public authority organized pursuant to chapter 35.21 RCW and King County Ordinance 14482. The CDA operates under the

name “4Culture”. It was created to support, advocate for, and preserve the cultural resources of the region in a manner that fosters excellence, vitality, and diversity.

The CDA is located in Seattle, Washington, and is governed by a 15-member board of directors and five *ex officio* members. The directors are appointed by the County Executive and confirmed by the County Council. The CDA receives funds from King County through the Public Art Program where one-percent of certain County construction project budgets are allocated to the CDA to be used in providing artwork at County public spaces. For 2013-2020, the CDA is authorized to spend an endowment that was set-aside in prior years from a portion of the King County lodging tax receipts.

The CDA is a component unit of the County for the following reasons: (1) it is a separate legal entity; (2) the CDA’s board of directors is appointed by the County Executive (from a nonrestrictive pool of candidates) and confirmed by the County Council; and (3) the County is able to impose its will on the CDA, for example, the County has the power to remove a director from the CDA board and the power to dissolve the CDA. The CDA’s financial presentation is as a discrete component unit because the County and CDA’s governing bodies are not substantively the same and the CDA does not provide services solely to King County government.

The CDA reports on a fiscal year-end consistent with the King County primary government. It issues its own financial statements, which are audited by the State Auditor. These statements may be obtained from the Cultural Development Authority of King County at 4Culture, 101 Prefontaine Place South, Seattle, Washington 98104.

#### **Change in Reporting Entity**

The Public Law Library of King County (hereinafter referred to as the Law Library) provides library services to lawyers, judges and other members of the legal community, unrepresented litigants and the general public. It has branches in Seattle, located at the King County Courthouse, and at the Regional Justice Center in Kent. It is governed by a five-member board of trustees that consists of the Chair of the King County Council (or her designee), one Superior Court judge, and three members of the

King County Bar Association. The main funding for the Law Library’s activities is through a portion of the fees for civil filings with the King County Superior Court. State law requires the Law Library to submit to the King County Council an annual financial report showing all its receipts and disbursements.

The State Auditor’s Office recently made a determination that county law libraries in the State of Washington are not separate legal entities from their counties of origin. Because of this, the Law Library is now reported as part of the primary government. (See Note 18 – “Restrictions, Components of Fund Balance, and Changes in Equity – Restatements of Beginning Net Position and Fund Balances.”)

#### **Component Units – Blended**

##### **King County Ferry District**

The King County Ferry District (KCFD) was created under the authority of chapter 36.54 RCW to expand local transportation options through water taxi services. By statute, the King County Council serves as the Board of Supervisors for the KCFD.

The KCFD is a component unit of the County for the following reasons: (1) it is a legally separate entity established as a quasi-municipal corporation and independent taxing authority; (2) King County appoints the voting majority of the KCFD board because the County Council members are the *ex officio* supervisors of the KCFD; and (3) the County can impose its will on the KCFD.

The KCFD financial presentation is on a blended basis because the two governing boards are substantively the same. It issues its own financial statements, which are audited by the State Auditor. Financial statements for the KCFD are included with other Nonmajor Enterprise Funds in the Proprietary Funds section of this CAFR. The audited statements for the KCFD can be obtained from Francis & Company, PLLC, 701 Dexter Avenue N, Suite 404, Seattle, WA 98109.

### Flood Control Zone District (FCZD)

The Flood Control Zone District was created under the authority of chapter 86.15 RCW to manage, plan, and construct flood control facilities within district boundaries. By statute, the King County Council serves as the Board of Supervisors for the FCZD.

The FCZD is a component unit of the County for the following reasons: (1) it is a legally separate entity established as a quasi-municipal corporation and independent taxing authority; (2) King County appoints the voting majority of the FCZD board because the County Council members are the *ex officio* supervisors of the district; and (3) the County can impose its will on the FCZD. The FCZD financial presentation is on a blended basis because the two governing boards are substantively the same. It issues its own financial statements, which are audited by the State Auditor. Financial statements of the FCZD are included in Nonmajor Special Revenue Funds in the Governmental Funds section of this CAFR. Independently audited statements for the FCZD can be obtained from Francis & Company, PLLC, 701 Dexter Ave. N, Suite 404, Seattle, WA 98109.

### Building Development and Management Corporations

King County has project lease agreements with two Washington state nonprofit corporations, each a single-purpose entity created to facilitate the development and construction of particular public buildings. Each agreement provided for the design and construction of a specific building financed primarily with tax-exempt bonds issued on behalf of the County by each of the corporations in accordance with IRS Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the agreements, the buildings are leased by the County from the nonprofit corporations with guaranteed monthly rent payments throughout the term of the lease or until the bonds are fully retired, after which ownership transfers to the County.

These nonprofit corporations are recognized as component units of the County. Although they have independently-appointed boards, the nature and significance of their relationships with the County's primary government are such that their exclusion would cause the King County reporting entity's financial statements to be misleading or incomplete. Because they provide services

exclusively to the County, these corporations are reported using the blended method. A single internal service fund, the Building Development and Management Corporations Fund, is used to report the combined activities of the corporations.

The nonprofit corporations and the related buildings under their management include: (1) CDP-King County III for the King Street Center building; and (2) NJB Properties for the Ninth & Jefferson Building. At the end of February 2014 the County refinanced the Lease Revenue bonds issued by Goat Hill Properties to finance the Chinook Building and Goat Hill Parking Garage. Title to the buildings effectively transferred to the County in December 2014 and Goat Hill Properties ceased to be a component unit. Separately issued and audited financial statements for the blended nonprofits may be obtained from the National Development Council, 1218 Third Avenue, Suite 1403, Seattle, WA 98101.

### Joint Venture

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the United States Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because of the potential for liability to grantors over disallowed costs. If expenditures of funds is disallowed by a grantor agency, the WDC can recover the funds from (in order): (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle, each responsible for one-half of the disallowed amount. As of December 31, 2014, there are no outstanding program eligibility issues that might lead to a liability on the part of King County.

The WDC contracts with King County to provide programs related to dislocated workers and workforce centers. For 2014, the WDC reimbursed King County approximately \$3.63 million for the Employment and Education Resource Program in eligible program costs.

Separately issued and independently audited financial statements may be obtained from the Workforce Development Council, 2003 Western Avenue, Suite 250, Seattle, Washington 98121.

#### **Jointly governed organization**

The Washington State Convention Center (WSCC) public facilities district was created in July 2010 to acquire, own and operate the convention and trade center transferred from a public nonprofit corporation that owned the original WSCC. The transfer of assets to the WSCC public facilities district has been completed and debt has been issued by the district to replace the State's outstanding bonds related to the WSCC. The district's initial board of directors consists of those nine directors who served at the time of the district's creation. Following the expiration of the terms of the initial board, three members will be nominated by the County Executive subject to confirmation by the County Council, three members will be nominated by the City of Seattle, and three members will be appointed by the Washington state governor. Because there is equal representation in the governance of the district among the two local governments and the state, and because the participant governments do not retain any ongoing financial interest, the WSCC public facilities district is a jointly governed organization.

#### **Related Organizations**

Four entities are classified as related organizations because they are legally separate entities, though each is related to King County. These are the King County Library System (KCLS), the Library Capital Facility District (LCFD), the King County Housing Authority (KCHA) and the Washington State Major League Baseball Public Facilities District (PFD). The County Council appoints a majority of the board of the KCLS, the KCHA and PFD; and, selected Councilmembers make up the three-member board of the LCFD. There is no evidence that the County Council can influence the programs and activities of these three organizations or that they create a significant financial benefit or burden to

the County. For these reasons, they are related organizations.

The County serves as the treasurer for the KCLS and the LCFD, providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are reported as agency funds to distinguish them from County funds.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule include interfund services provided and used between functions which are not eliminated because to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses that have been allocated from general government to various functional activities are reported in a separate column. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. The County also has 67 nonmajor Special Revenue and Capital Projects funds that are combined into 14 roll-up funds.

Major Governmental Funds

The County reports three major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in other funds.

The Mental Health Fund is part of the King County Mental Health Regional Support Network, one of 13 Regional Support Networks in the state of Washington. This fund provides for the operations of the involuntary treatment program, the provision of mental health services for children and adults, and community services for these individuals. This fund also includes criminal justice-related programs to reduce jail populations. Its main sources of funding are federal and state grants, charges for services, intergovernmental services, and property taxes.

The Public Health Fund is used to finance health service centers located throughout King County and public health programs. The Public Health Fund supports clinical health services/primary care assurance, management and business practice, population and environmental health services, and targeted community health services. Its main sources of funding are federal and state grants, license and permit fees, charges for services and fines.

Major Proprietary Funds

The County reports two major proprietary funds.

The Public Transportation Enterprise accounts for the operations, maintenance, capital improvements, and expansion of public transportation facilities in King County under the King County Metro Transit Division. Primary revenue sources include sales tax and passenger service fees. Construction and fleet replacement

are funded through sales taxes, bonds, and federal grants.

The Water Quality Enterprise accounts for the operations, capital improvements, and maintenance of the County's water pollution control facilities. The enterprise has three large treatment plants, the recently constructed Brightwater Treatment Plant that came online in 2011-12, the West Point Treatment Plant in Seattle, and the South Treatment Plant in Renton, as well as two smaller facilities, namely the Carnation and Vashon Island Treatment Plants.

Nonmajor Governmental Funds

Special Revenue Funds are used to account for a variety of County programs including alcohol and substance abuse, the arts, an automated fingerprint identification system, community development, road maintenance, emergency medical services, the enhanced 911 emergency telephone system, local hazardous waste management, parks, surface water management, and other services.

Debt Service Funds are used by the County to account for the accumulation of resources for, and the payment of, principal and interest on the County's general obligation bonds, and special assessment debt for certain special districts.

Capital Projects Funds are used to account for the acquisition, construction, and improvement of major capital assets and other capital-related activities such as infrastructure preservation, parks development and open space preservation, flood control, technology systems, and historic preservation.

Nonmajor Proprietary Funds

Enterprise Funds are used to account for the County's business-type operations, including the King County International Airport, solid waste disposal facilities, and other services.

Internal Service Funds are used to account for the provision of motor pool, data processing, risk management, construction and facilities management, financial, employee benefits program, and other services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The Wastewater Equipment Rental Fund was established to exclusively serve the Water

Quality Enterprise. It is consolidated for reporting purposes with business-type activities in the government-wide financial statements.

#### Fiduciary Funds

Investment Trust Funds are used to report investment activity conducted by King County on behalf of legally separate entities such as special districts and public authorities that are not part of the County's reporting entity.

King County recognizes two major classifications of Agency Funds: (1) those used with the operations of county government, such as the Undistributed Taxes Fund and the Accounts Payable Clearing Fund; and (2) those which account for cash received and disbursed in the County's capacity as *ex officio* treasurer or collection agent for special districts and other governments, such as school districts and fire districts.

#### Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. User fees (sewage fees, passenger fares, disposal charges, etc.) charged by the County's enterprise funds for the use of its business-type facilities and charges for services of internal service funds are classified as operating revenues. Rental income is operating revenue to the Airport enterprise, whose principal operation is leasing real property. The corresponding costs of service provision and delivery, including direct administration costs, depreciation or amortization of capital assets,

and other allocations of future costs to current year operations (e.g., landfill post-closure, other postemployment benefits), comprise operating expenses. All other revenues and expenses not meeting this definition are reported as nonoperating.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first. For governmental funds, whenever committed, assigned and unassigned resources are available to spend on the same purpose, committed are used first, followed by assigned, and lastly, unassigned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include property taxes, sales and use taxes, business and occupation taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collectible within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure-driven grant agreements are recognized when the qualifying expenditures are made, provided that the availability criteria are met. Expenditure-driven grant revenue is considered available if it can be collected at the same time cash is disbursed to cover the associated grant expenditure. All other accrued revenue sources are determined to be available if collectible within 12 months.

#### New Accounting Standards

GASB Statement 67 – *Financial Reporting for Pension Plans – An amendment of GASB Statement 25*. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for*

*Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement does not directly apply to the County since its pension benefits are administered by the Washington State Public Employees Retirement System (PERS) and other pension plan trusts.

*GASB Statement 69 – Government Combinations and Disposals of Government Operations*. The new standard establishes accounting and financial reporting related to government combinations such as mergers, acquisitions and transfers of operations, as well as disposals of government operations. There were no significant transactions during 2014 that relate to this new guidance.

*GASB Statement 70 – Accounting and Financial Reporting for Nonexchange Guarantees*. The new standard gives accounting and financial reporting guidance to state or local governments that either offer nonexchange financial guarantees or receive guarantees on their obligations. This was early implemented by the County in 2013.

## **Terminology**

### **Expenditure Functions**

General Government Services – Provided by the legislative and administrative branches of the government entity for the benefit of the public or governmental body as a whole. This function includes the County Council, County Executive, Performance, Strategy and Budget, Information and Technology, Records and Licensing Services, Elections, and Assessments.

Law, Safety and Justice – Essential to the safety of the public, including expenditures for law enforcement, detention and/or correction, judicial operations, protective inspections, emergency services, and juvenile services. This function includes the Sheriff’s Office, Prosecuting Attorney, Superior Court, District Court, Public Defense, Judicial Administration, Adult and Juvenile Detention, and Emergency Medical Services.

Physical Environment – Provided to achieve a satisfactory living environment for the community and the individual. This function

includes Natural Resources, River Improvement, Animal Control, Surface Water Management, and River and Flood Control Construction.

Transportation – Provided by the governmental entity for the safe and adequate flow of vehicles and pedestrians that includes expenditures for road and street construction, maintenance, transportation facilities and systems, and general administration. This function includes Road Services, Arterial Highway Development, Renton Maintenance Facilities, and county road construction.

Economic Environment – Provided for the development and improvement of the welfare of the community and individual. This function includes expenditures for employment opportunity and development, veterans’ services, child-care services, and services for the aging and disabled. This function includes Veterans’ Relief, Youth Employment Programs, Office of Aging, Women’s Programs, Development and Environmental Services, and Planning and Community Development.

Mental and Physical Health – Provided to promote healthy people and healthy communities by preventing and treating mental, physical, and environmentally induced illnesses. This function includes expenditures for community mental health, communicable diseases, environmental health, public health clinics and programs, alcoholism treatment, drug abuse prevention, programs for the mentally disabled and mentally ill, the medical examiner, hospitals, and jail health services. This function also includes regional hazardous waste management.

Culture and Recreation – Provided to increase the individual’s understanding and enjoyment that includes expenditures for education, libraries, community events, parks, and cultural facilities. This function includes Parks, Cooperative Extension Service, and various Park Capital Project Funds.

Debt Service – Accounts for the redemption of general long-term debt principal and interest and other debt service costs in the General, Special Revenue, Debt Service, and Capital Projects Funds and payments to escrow agents other than refunding bond proceeds.

Capital Outlay – Accounts for expenditures related to capital projects and expenditures for capital assets acquired by outright purchase and by capital lease financing agreements.

Certain Accounts are Grouped on the Statement of Net Position:

- The asset account *Receivables, net* combines Taxes receivable – delinquent; Accounts receivable, net; Other receivables, net; Interest receivable; Notes and contracts receivable; and Due from other governments, net.
- The liability account *Accounts payable and other current liabilities* combines Accounts payable, Due to other governments, Taxes payable, Contracts payable, Custodial accounts, and other liabilities.
- The liability account *Accrued liabilities* combines Wages payable and Interest payable.
- The liability account *Noncurrent liabilities* includes Claims and judgments payable, Estimated claim settlements, General obligation bonds, Special assessment bonds, Revenue bonds payable, Capital leases, State revolving loans payable, Compensated absences, Pollution remediation, Unamortized bond premium or discount and other liabilities.

**Cash and Cash Equivalents**

Cash and cash equivalents consists of: Cash and pooled investments, Petty cash/change funds, Cash with escrow agent, and Cash held in trust.

All County funds and most component units and special districts participate in the King County Investment Pool (the Pool) maintained by the King County Treasury Operations Section. (See Note 4 - “Deposits and Investments.”) The Pool consists of internal and external portions. For Pool participants, the Pool functions essentially as a demand deposit account where participants receive an allocation of their proportionate share of pooled earnings. Each fund’s equity share of the internal portion of the Pool’s net position is reported on the balance sheet as Cash and cash equivalents and reflects the change in fair value

of the corresponding investment securities. Included in the internal portion of the Pool is the investment of short-term cash surpluses not otherwise invested by individual funds. The interest earnings related to investment of short-term cash surpluses that are not pool participants are allocated to the General Fund in accordance with legal requirements and are used in financing general County operations.

**Investments (See Note 4 – “Deposits and Investments”)**

In addition to pooled investments described under Cash and cash equivalents, King County holds other investments in qualified public depositories for County government and special districts for which, either by Washington state law or by contract, King County is the custodian. Money is invested as directed by the governing authority for the fund or agency and proceeds are returned to the investing fund.

Investments purchased for individual funds are reported as investments, regardless of length of maturity. Those attributed to both the external portion of the Pool and those in individual investment accounts are classified as “Investments” in separate investment trust funds. Statements of participants in the Pool’s internal portion report pooled investments as cash equivalents. Statements of participants in the external portion report pooled investments as “Assets held in trust – external investment pool.” Special district funds with individual investment accounts report their portion of net position as “Assets held in trust – individual investment accounts.” Investments are reported at fair value in compliance with the GASB Codification, Section 150.105, which provides for reporting investments of governmental entities using fair value. Fair value is the amount at which a financial instrument could be exchanged in a transaction between willing parties, other than in a forced or liquidation sale.

**Receivables (See Note 5 – “Receivables”)**

Receivables include charges for services rendered by the County 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 an analysis of an aging of the year-end Accounts receivable balance or the historical rate of uncollectibility.



Taxes Receivable – Property taxes levied for the current year are recorded on the balance sheet as Taxes receivable and unearned revenues.

Abatements Receivable – This account records the unpaid abatement costs due the County from violations reported by the Code Enforcement Section on property within the County. Revenue is recognized when payment is received. Abatement costs may be certified to the property tax parcel; as a result, these costs might not be paid until the property is sold, which may take years.

Civil Penalties Receivable – This account records the unpaid civil penalty costs due the County from violations reported by the Code Enforcement Section within the County. Revenue is recognized when payment is received. Liens may be filed by the County against the property and are released once the penalties have been paid.

Assessments Receivable – In the governmental funds, unpaid assessments are reported in three accounts: Current, Delinquent, and Deferred. Current assessments are those due within one year, Delinquent assessments are past due, and unearned assessments are due in the future.

Short-term Interfund Receivables and Payables – Activity between funds that is representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either “Interfund short-term loans receivable or payable,” (the current portion of interfund loans), or “Advances to/from other funds,” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “Due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “Internal balances.”

Advances to/from Other Funds – Noncurrent portions of long-term interfund loans are reported as advances. In governmental funds, Advances to Other Funds represent nonspendable fund balance that indicates they do not constitute expendable financial resources and are not available for appropriation.

### **Inventories**

Inventories of governmental funds are recorded using the consumption method; expenditures are recognized when inventories are actually consumed. Proprietary funds expense inventories when used or sold. The first-in, first-out (FIFO) valuation method is used by Facilities Management, and the Public Health funds. Last-in, first-out (LIFO) is used by Radio Communications. The Weighted Average valuation method is used by the Motor Pool Equipment Rental Fund, Public Works Equipment Rental Fund, King County International Airport, the Solid Waste Construction, and the Public Transportation and Water Quality Enterprises.

### **Prepayments**

Payments made in advance to vendors for certain goods or services, such as building rent that will benefit future periods are recorded as prepaid items. The expenditures are recognized in the period of consumption or occupancy.

### **Capital Assets (See Note 7 – “Capital Assets”)**

Capital assets include: Land (fee simple land, rights-of-way and easements, and farmland development rights); Infrastructure (roads and bridges network); Buildings; Improvements other than buildings; Furniture, machinery and equipment; Software and Artwork. Work-in-progress is reported for all unfinished construction, development and extended acquisitions for most capital assets except for roads and bridges infrastructure.

General capital assets, including those in internal service funds that support governmental funds, are reported in the governmental activities column of the government-wide statement of net position.

Capital assets of enterprise funds, including those in internal service funds that exclusively support enterprise funds, are reported in the business-type column of the government-wide Statement of Net Position. Enterprise and internal service fund capital assets are also reported in the individual proprietary fund statement of net position.

The capitalization threshold in the King County primary government is \$5 thousand for machinery and equipment, \$500 thousand for

internally developed and purchased software, and \$100 thousand for buildings, and other improvements.

Because the County is committed to maintaining the roads and bridges infrastructure indefinitely, it has elected to use the modified approach to infrastructure reporting in lieu of the depreciation method. The County is eligible to use the modified approach because it has an asset management system in place that allows for periodic monitoring of the infrastructure to ensure that assets are maintained and preserved at the predetermined condition level set by the Road Services Division. The asset management system tracks the mileage, condition, and the actual and planned maintenance and preservation costs of individual infrastructure assets.

Certain equipment and facilities used in the Solid Waste Enterprise landfill closure and post-closure activities are not reported as capital assets. Instead, the liability for landfill post-closure care is reduced by these costs.

Capital assets and their components useful lives are as follows:

| <u>Description</u>               | <u>Life (Years)</u> |
|----------------------------------|---------------------|
| Buildings and other improvements | 10 - 50             |
| Buses and trolleys               | 12 - 18             |
| Cars, vans, and trucks           | 5 - 10              |
| Downtown transit tunnel          | 50                  |
| Equipment - Other                | 5 - 25              |
| Software                         | 3 - 10              |
| Sewer Plant                      | 20 - 50             |

**Deferred Outflows of Resources**

Deferred outflows of resources arise from debt refunding in proprietary funds and represent the difference between the reacquisition price and the old cost of the refunded debt.

**Deferred Inflows of Resources**

Deferred inflows of resources in business-type activities and proprietary funds represent sewer revenues that are reserved annually to normalize future sewer rates (see Rate Stabilization, p. 51). In governmental funds, deferred inflows of resources represent delinquent taxes and fees that are not realizable within the availability

Interest incurred during the construction phase of capital assets in enterprise funds is included as part of the capitalized value of the assets constructed. This year total interest expenses incurred for were \$175.5 million , of which \$15.1 million was capitalized.

Capital assets are valued at historical cost or estimated historical cost where actual historical cost is not available. Donated capital assets are valued at their estimated fair market value at the time of donation. Expenditures for normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item, or extend its useful life beyond the original estimate, are expensed as incurred. Expenditures for repairs and upgrades that materially add to the value or life of an asset are capitalized. Costs incurred to extend the life of governmental infrastructure assets are considered preservation costs and are therefore not capitalized.

Capital assets other than land, roads and bridges infrastructure, and artwork are depreciated or amortized over their estimated useful lives using a standard straight-line allocation method.

period and advanced grants subject to timing requirements.

**Unearned Revenues**

Unearned revenues are liabilities and should be distinguished from deferred inflows of resources. Unearned revenues are true obligations that the County has little or no discretion to avoid such as parks program revenue and building, land development permit fees in governmental funds, rent prepaid by tenants in internal service funds, and other advanced inflows of resources of proprietary funds.

### **Regulatory Accounting**

The King County Council has taken various regulatory actions resulting in differences between the recognition of revenues for rate-making purposes in the Water Quality Enterprise fund and their treatment under generally accepted accounting principles for nonregulated entities. Currently, the Water Quality Enterprise is authorized to apply the accounting treatment of costs under the GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" criteria because the rates for its services are regulated by the King County Council, and the regulated rates chargeable to its customers are designed to recover the enterprise's allowable costs of operations.

**Rate Stabilization** – The County Council established a Rate Stabilization Reserve in the Water Quality Enterprise fund. This allows for certain operating revenues to be treated as deferred inflows of resources and recognized as revenue in subsequent years through amortization in order to maintain stable sewer rates.

**Regulatory Assets** – GASB Statement No. 62 is used 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.

### **Rebatable Arbitrage**

The County's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. All of the County's bonded debts are tax-exempt except certain taxable debts as identified in Note 15 - "Debt." Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. Because investment yields of the County's Investment Pool remained at low-levels, during 2014, arbitrage on outstanding bond proceeds were insignificant.

### **Compensated Absences**

Eligible King County employees earn 12 days of sick leave and 12 to 30 days of vacation per year. An unlimited amount of sick leave and a

maximum of 60 days of vacation may be carried over at year-end. An employee leaving employment at King County is entitled to be paid for unused vacation leave and, if leaving employment due to death or retirement, for 35 percent of the value of unused sick leave. For reporting purposes, a variety of factors are used to estimate the portion of the accumulated sick leave that is subject to accrual.

A liability is accrued for estimated excess compensation payable 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.

All vacation pay liability and a portion of sick leave liability are accrued in the government-wide and proprietary statements.

### **Long-term Obligations**

Long-term debt and other long-term obligations are reported in the applicable accrual basis statements of net position. Bond premiums and discounts, refunding gains and losses, are deferred and amortized over the life of the bonds using outstanding principal balance method. Bonds payable are reported net of the applicable premium or discount. Refunding losses are reported as deferred outflows of resources while refunding gains are reported as deferred inflows of resources. (See Note 15 - "Debt").

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and bond issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Note 2

**Reconciliation of Government-wide and Fund Financial Statements**

**Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position (in thousands):** The governmental funds balance sheet includes reconciliation

between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position.

One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds."

|   |                   |
|---|-------------------|
| Bonds payable   | \$ 685,930        |
| Plus: Unamortized premiums on bonds sold  | 56,850            |
| Accrued interest payable  | 6,841             |
| Deferred charge on refunding (to be amortized as interest expense)  | (22,508)          |
| Compensated absences  | 82,220            |
| Retroactive retirement contribution settlement  | 28,409            |
| Other postemployment benefits   | <u>45,716</u>     |
| Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at net position - governmental activities | <u>\$ 883,458</u> |

Another element of that reconciliation states, "Capital assets used in governmental activities are not financial resources and are not reported in the funds."

|   |                     |
|---|---------------------|
| Capital assets reported for governmental activities:  |                     |
| Nondepreciable  | \$ 2,236,650        |
| Depreciable   | 786,831             |
| Less: Capital assets in governmental internal service funds (All ISFs except Wastewater Equipment Replacement)                | <u>(258,890)</u>    |
| Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at net position - governmental activities | <u>\$ 2,764,591</u> |

Another element of the reconciliation states, "Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds."

|  |                 |
|--|-----------------|
| Receivables from component units   | \$ 1,185        |
| Earned but unavailable taxes and assessments   | 14,784          |
| Earned but unavailable court fines and penalties   | <u>1,731</u>    |
| Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$17,700</u> |

Another element of that reconciliation states, Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and

liabilities of the internal service funds are included in governmental activities in the statement of net position.”

|   |                   |
|---|-------------------|
| Net position of the governmental activities internal service funds  | \$ 161,436        |
| Internal payable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds - prior years | (37,277)          |
| Internal payable representing the amount overcharged to the enterprise funds by the governmental activities internal service funds - current year   | <u>(13,945)</u>   |
| Net adjustment to increase fund balance - <i>total governmental funds</i> to arrive at <i>net position of governmental activities</i>               | <u>\$ 110,214</u> |

**Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (in thousands):** The governmental funds statement of revenues, expenditures, and

changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds and changes in net positions of governmental activities* reported in the government-wide statement of activities.

One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

|  |                  |
|--|------------------|
| Capital outlay   | \$ 78,581        |
| Depreciation expense   | <u>(43,824)</u>  |
| Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$ 34,757</u> |

Another element of that reconciliation states, “The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net position.”

|   |                  |
|---|------------------|
| In the statement of activities, only the gain on the sale of capital assets is reported in governmental activities while gross proceeds increase financial resources in the funds. The difference is the net book value of capital assets sold. | \$ (8,758)       |
| Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds   | <u>19,652</u>    |
| Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>  | <u>\$ 10,894</u> |

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.”

|                       |          |
|-----------------------|----------|
| Property tax accrual  | \$ 3,922 |
| Abatement fee accrual | 164      |

King County, Washington

|   |                          |
|---|--------------------------|
| Noxious weed assessment accrual   | 755                      |
| Surface Water Management service charge accrual   | 1,442                    |
| Fines and forfeits net accrual  | (4,595)                  |
| Advance grant   | (3,679)                  |
| Special Item  | 60                       |
| Net adjustment to increase <i>net changes in fund</i><br><i>balances - total governmental funds to arrive at</i><br><i>changes in net position of governmental activities</i> | <u><u>\$ (1,931)</u></u> |

Another element of that reconciliation states, "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any

effect on net position. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

|   |                           |
|---|---------------------------|
| Debt issued or incurred   |                           |
| Issuance of general government debt   | \$ 15,395                 |
| Issuance of refunding bonds   | 34,815                    |
| Premium on bonds sold   | 6,370                     |
| Principal repayments  | (71,998)                  |
| Receipts from component units for principal repayments  | 2,425                     |
| Payment to escrow agent   | <u>(38,958)</u>           |
| Net adjustment to increase <i>net changes in fund</i><br><i>balances - total governmental funds to arrive at</i><br><i>changes in net position of governmental activities</i> | <u><u>\$ (51,951)</u></u> |

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds."

|   |                        |
|---|------------------------|
| Compensated absences  | \$ (293)               |
| Accrued unemployment compensation   | 2,569                  |
| Other postemployment benefits   | (5,063)                |
| Interest on long term debt  | 7,246                  |
| Transfers   | 817                    |
| Retroactive retirement contribution settlement  | <u>1,500</u>           |
| Net adjustment to increase <i>net changes in fund</i><br><i>balances - total governmental funds to arrive at</i><br><i>changes in net position of governmental activities</i> | <u><u>\$ 6,776</u></u> |

Another element of that reconciliation states, "Net revenues and expenses of certain activities of internal service funds are reported with governmental activities."

|  |          |
|--|----------|
| Investment interest earnings                             | \$ 2,645 |
| Intergovernmental revenues                               | 3        |
| Revenues related to services provided to outside parties | 2,829    |

|  |                 |
|--|-----------------|
| Expenses related to services provided to outside parties   | (2,611)         |
| Gain on disposal of capital assets   | (303)           |
| Interest on long-term debt   | (11,777)        |
| Capital contributions  | 1,042           |
| Transfers in   | 2,006           |
| Transfers out  | (9,359)         |
| Internal service fund gains allocated to governmental activities   | <u>24,976</u>   |
| Net adjustment to increase net changes in fund<br>balances - total governmental funds to arrive at<br>changes in net position of governmental activities | <u>\$ 9,451</u> |

**Explanation of certain differences between the Proprietary Funds Statement of Net Position and the Government-wide Statement of Net Position (in thousands):** The proprietary funds statement of *net position* includes reconciliation between *net position - total enterprise funds* and *net position of business-type activities* as reported in the government-wide statement of *net position*. The description of the

reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The assets and liabilities of one internal service fund, Wastewater Equipment Rental Fund, are included in the business-type activities in the statement of net position because the fund was established to serve the Water Quality Enterprise.

|  |                  |
|--|------------------|
| Net position of the business-type activities internal service fund   | \$ 16,508        |
| Internal receivable representing charges in excess of cost to<br>the enterprise funds by the governmental activities<br>internal service funds - prior years | 37,277           |
| Internal receivable representing the amount overcharged to<br>the enterprise funds by the governmental activities<br>internal service funds - current year   | <u>13,556</u>    |
| Net adjustment to increase <i>net position - total enterprise<br/>funds</i> to arrive at <i>net position of business-type activities</i>                     | <u>\$ 67,341</u> |

**Explanation of certain differences between the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position and the Government-wide Statement of Activities (in thousands):** The proprietary funds statement of revenues, expenses, and changes in fund net position includes a reconciliation

between *change in net position - total enterprise funds* and *change in net position of business-type activities* as reported in the government-wide statement of activities. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds."

|  |                  |
|--|------------------|
| Investment interest earnings   | \$ 44            |
| Revenues related to services provided to outside parties   | 185              |
| Expenses related to services provided to outside parties   | (171)            |
| Gain on disposal of capital assets   | 164              |
| Capital contributions  | 2,462            |
| Transfers out  | (49)             |
| Internal service fund gains allocated to business-type activities  | <u>14,117</u>    |
| Net adjustment to increase <i>net position - total enterprise<br/>funds</i> to arrive at <i>net position of business-type activities</i> | <u>\$ 16,752</u> |

**Note 3**  
**Stewardship, Compliance, and**  
**Accountability**

**Basis of Budgeting**

With the exception of the reconciling items described in the Reconciliation of Budgetary Basis and Generally Accepted Accounting Principles (GAAP) Basis Statements and Schedules section of this note, King County uses the modified accrual basis of budgeting for the General Fund and most Debt Service and Special Revenue Funds. Revenues are estimated on the basis of when they become susceptible to accrual. Budgeted appropriations include both expenditures and other financing uses; they are budgeted based on liabilities expected to be incurred in the acquisition of goods and services. These are annual budgets applicable to the current fiscal year.

The Special Revenue Funds have adopted biennial budgets for 2013–2014 except for the following funds: Public Health, Emergency Medical Services, Youth Sport Facilities Grants, Parks Operating Levy, Open Space Trails and Zoo Levy, Local Hazardous Waste, Miscellaneous Grant and Major Maintenance Capital Improvement Program.

The Flood Control District Fund, the King County Ferry District Fund, the Parks Trust and Contribution Fund, the Road Improvement Districts Maintenance Fund, and the Treasurer’s Operations and Maintenance Fund are not budgeted.

The Debt Service Funds have adopted biennial budgets for 2013–2014.

The Road Improvement Districts Construction Fund is budgeted for 2013–2014.

**Encumbrances**

Encumbrances outstanding as of December 31, 2014, by fund type (in thousands):

|                           |                       |
|---------------------------|-----------------------|
| General Fund              | \$1,107               |
| Special Revenue Funds     | 669                   |
| Nonmajor Enterprise Funds | 245                   |
| Internal Service Funds    | <u>4,042</u>          |
| Total All Funds           | <u><u>\$6,063</u></u> |

The Road Improvement Districts Special Assessment Debt Redemption Fund is not budgeted.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund, are controlled by multiyear budgets. However, capital budget appropriations are canceled at the end of the year unless the County Executive submits to the County Council the report of the final year-end reconciliation of expenditures for all capital projects on or before March 1 of the year following the year of the appropriation and each year thereafter in which the appropriation remains open.

Most Enterprise and Internal Service Funds have adopted biennial budgets for 2013–2014 except for Finance Management Services Fund and the Business Resources Center Fund. These budgets are on the modified accrual basis rather than the accrual basis. Appropriations are based on an estimate of expenditures expected to be incurred during the fiscal year or biennium. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year or biennium.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claims settlements that is known and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations, is deferred to the following year when the claim is paid.

The Building Development and Management Corporations Fund and the Trust and Agency Funds are not budgeted.



**Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules for Governmental Funds**

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the GAAP basis. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. All statements that do not have budget comparisons are prepared on the GAAP basis.

**Budgeted Level of Expenditures**

The King County Council enacts appropriations by ordinance, generally at the fund level. Exceptions to this are:

- The General Fund is appropriated at the department/division level,
- Selected Special Revenue Funds are also appropriated at the department/ division level:
  - Children and Family Services
  - Community Development Block Grant
  - County Roads
  - Developmental Disabilities
  - Mental Illness and Drug Dependency
  - Miscellaneous Grants
  - Public Health
- Capital Projects Funds are appropriated at the project level.

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at year-end. The budgetary comparison schedules (budgetary basis) include variances at the function of expenditure level. These variances are presented for informational purposes only and, if negative, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

**Expenditures including Other Financing Uses, Materially in Excess of Amounts Legally Authorized**

**Funds with Annual or Biennial Budgets**

All funds with annual or biennial budgets completed the year within their legally

authorized expenditures, including other financing uses. Two departments of the General Fund overspent their 2014 annual budget, namely, Public Defense, by \$351 thousand, and Special Programs - Internal Support, by \$40 thousand. The Internal Support variance resulted from 2013 unemployment benefits charges that were made in 2014. Also, in the Children and Family Services Fund, the Children and Family Services - DCHS unit overspent its 2013-14 budget by \$390 thousand due to a contract expenditure that was charged to the wrong appropriation unit. The other unit ended the year under budget.

**Material Fund Balance Deficits**

**Renton Maintenance Facilities Construction Fund**

The unassigned fund balance deficit of \$3.1 million was the result of prior pre-funding of expenditures through interfund borrowing in anticipation that the sale of Summit Pit property to the Tahoma School District in 2014 would make the fund whole. However, due to the allocation of \$2.9 million of the sale proceeds to the Roads Capital Construction Fund per Council action, a shortfall remains for the fund going into 2015. It is anticipated that future sales of other land will cover the cash deficit although the timing is uncertain.

**Park Facilities Rehabilitation Fund**

- The unassigned deficit of \$192 thousand is due to timing of reimbursements from the Real Estate Excise Tax (REET) funds. The reimbursement process is being streamlined to ensure deficiencies do not occur in the future.

**Parks, Recreation and Open Space Fund**

- The unassigned deficit of \$1.1 million is due to timing of reimbursements from the REET funds. The reimbursement process is being streamlined to ensure deficiencies do not occur in the future.

**Public Health Fund**

- The deficit of \$1.8 million resulted from similar challenges for funding that public health services in other counties are facing across the state. This budget shortfall in the Public Health Fund, at its root, is neither new nor unexpected, but the problem has been accelerated by cuts to state and federal funding - including changes in the federal reimbursement policy for Medicaid Administrative Claiming (MAC). While the expected resumption in MAC claims reimbursements in 2015 will provide an important source of funds to resolve the deficit, Public Health - Seattle and King County (PHSKC)

is pursuing other strategies as well including the sale of three surplus properties held by the General Fund on behalf of PHSKC in Kent, Bothell/Northshore, and Renton which could, with the approval of the Metropolitan King County Council, generate in excess of \$6 million of one-time funds for the Public Health Fund.

**Material Net Position Deficits**

Building Development and Management Corporations Fund – The deficit of \$10.5 million is the result of the depreciation on capital assets being greater than the principal payments on the lease revenue bonds, and bond interest expenses exceeding rent collected in the initial years of a building’s operation. When bond payments become progressively larger the deficit will be reduced.

Construction and Facilities Management Fund – Based on the budgetary basis, the Facilities Management Division’s ending fund balance is \$1.1 million for the year ended December 31, 2014. Due to required GAAP adjustments recorded for financial reporting, recognizing long-term obligations for compensated absences and other post-employment benefits liabilities, the resulting fund balance for GAAP financial statement’s is a net deficit of \$2.1 million. This condition is consistent with current County budgetary policy which does not call for internal service funds to accumulate sufficient reserves to cover these types of liabilities.

I-Net Enterprise Fund – The current deficit of \$42 thousand in unrestricted net position is due to the cost of constructing IT investments. \$1.8 million was transferred in 2012 to the KCIT

capital fund to plan and replace the aged I-Net infrastructure system. The negative unrestricted net position is expected to be reduced as the fund collects the revenue from customers in future years. I-Net service fees include a surcharge for system replacement.

Office of Information Resource Management Operating Fund – The deficit of \$699 thousand is primarily caused by \$458 thousand of vacation/sick leave liability increase due to the Information Technology (IT) departmental reorganization. The IT reorganization efforts consolidated IT employees from various departments in the executive branch to a single department resulting in a large increase in the operating fund’s long-term liabilities. The future efforts to accumulate equity to cover these unfunded liabilities will improve the net position of the fund.

Solid Waste Enterprise Fund – The deficit of \$394 thousand in unrestricted net position is the result of recognizing a long-term liability for landfill closure and post-closure care which is being funded through annual contributions from operations.

## Note 4

### Deposits and Investments

#### Deposits

King County maintains deposit relationships with several local commercial banks in addition to its concentration bank. All deposits that are not entirely insured by the Federal Deposit Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC). Effective July 1, 2009, all public depositories were required to pledge securities at 100 percent of their public deposits not covered by FDIC insurance. 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.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that, in the event of a bank failure, the County's deposits may

not be recovered. 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. The County further limits deposits to institutions with a short-term investment grade rating of Moody's P-3, S&P A-3 or Fitch F-3 or better and a Safe & Sound Star rating of 3 or better. Those institutions not meeting the minimum credit rating requirements may receive deposits up to the FDIC or federally guaranteed amounts. No new deposits will be placed with institutions that are on credit watch "negative" by Moody's, S&P or Fitch, or where Safe & Sound's predictive indicator is negative. 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 2.5 percent from a single issuer.

As of December 31, 2014 the County's total deposits, excluding the equity in the component units, were \$106.8 million in carrying amount and \$107.7 million in bank balance, of which \$3.6 million was exposed to custodial credit risk as uninsured and uncollateralized as shown in the following schedule (in thousands):

|                       | <u>Carrying<br/>Amount</u> | <u>Bank<br/>Balance</u> | <u>Uninsured and<br/>Uncollateralized</u> |
|-----------------------|----------------------------|-------------------------|---|
| Demand deposits       | \$ 103,201                 | \$ 104,128              | \$ -                                      |
| Money Market accounts | 3,588                      | 3,588                   | 3,588                                     |
| Total deposits        | <u>\$ 106,789</u>          | <u>\$ 107,716</u>       | <u>\$ 3,588</u>                           |

The money market accounts in the schedule above are comprised of cash held with trustees for two Washington state nonprofit corporations reported as Building Development and Management Corporations, a blended component unit of King County. The cash held in the Bank of New York Mellon Trust Company (Trustee) is invested in United States Government Money Market accounts. All of the \$3.6 million cash balance held at The Bank of New York Mellon is exposed to custodial credit risk as uninsured and uncollateralized.

#### Investments

King County Investment Pool - The King County Investment Pool (the main Pool) operates in accordance with the King County Investment Policy which has been prepared in accordance with State law. This policy is reviewed and approved annually by the King County Executive Finance Committee (EFC). The policy applies to all financial assets invested in the Pool as defined in King County Code (KCC) 4.10.090. This policy also covers King County non-pooled investments and investments made by individual districts unless otherwise requested by those districts.

Non-pooled King County investments which do not meet the criteria of this policy require approval by the EFC.

These policies are designed to help King County meet the objectives of the Pool. The objectives of the County's investment policy are to invest public funds in a manner which will preserve the safety and liquidity of all investments within the Pool while obtaining a reasonable return within established investment guidelines. The Pool consists of the pooled monies invested on behalf of the County and other special purpose districts within the County including school, fire, sewer, library, water and other districts.

The King County Investment Pool 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 Investment Pool Advisory Committee (IPAC) was created by Ordinance 16280 to provide input to the EFC on matters related to the County Investment Pool. The IPAC is comprised of 10 members drawn from representatives of King County government agencies and nearly 100 other special purpose districts, including school, fire, sewer, library, water and other districts within the County. The IPAC has not been vested with decision-making authority for the Pool; it makes recommendations to the EFC on agenda items related to the Pool.

Investment Instruments State statutes authorize King County to invest in:

- Savings or time accounts in designated qualified public depositories; and certificates, notes, or bonds of the United States.
- Other obligations of the United States, its agencies, or in any corporation wholly owned by the U.S. government.
- Bankers' acceptances purchased on the secondary market, Federal Home Loan bank notes and bonds, Federal Land Bank bonds, Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation.
- Obligations of any other government-sponsored corporation whose obligation is or may become eligible as collateral for

advances to member banks as determined by the board of governors of the Federal Reserve System.

- Commercial paper (within the policies established by the State Investment Board)
- Debt instruments of banking institutions, local and state general obligations.
- GO bonds issued by any states and Revenue bonds issued by Washington State governments that are rated at least "A" by a nationally recognized rating agency.

King County voluntarily invests in the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP is a 2a7-like pool which values its investments at amortized cost, which approximates fair value. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office.

The County is authorized to enter into repurchase agreements to meet the investment needs of the Pool. Such transactions are governed by a Master Repurchase Agreement. County investment policies require that securities' tri-party underlying repurchase agreements must have a market value equal to at least 102 percent of repurchase price, plus accrued interest. Repurchase agreements in excess of 60 days are not allowed. Currently, the County's tri-party custodial bank monitors compliance with these provisions.

Although the County is authorized to enter into reverse repurchase agreements, the County chose not to enter into this type of transaction during the year. Also, the County did not buy, sell, or hold any derivative or similar instrument except for certain U.S. agency collateralized mortgage obligation securities during the year. Although these securities, usually resulting from a decline in interest rates, County's policies are in place to ensure that only the lowest risk securities of this type are acquired.

External Investment Pool The King County Investment Pool administered by the King County Treasury Operations Section is an external investment pool. For investment purposes, the County pools the cash balances of County funds and participating component units, and allows for

participation by other legally separate entities such as special districts, for which the County is the *ex officio* treasurer, and public authorities. The external portion of the Pool (the portion that belongs to special districts and public authorities other than component units) is reported in an Investment Trust Fund. It is County policy to invest all County funds in the Pool. All non-County participation in the Pool is voluntary.

All securities are reported at fair value. Fair value reports are prepared monthly and are distributed to all Pool participants. Fair value pricing is provided by the County's investment accounting system. If a security is not priced by the County's accounting system vendor, prices are obtained from the County's safekeeping bank or from Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. In 2014, the County also obtained quotes from primary investment dealers to help determine the fair values of the impaired Victoria investment. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares.

The main Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative

participation during the period. Income is calculated based on: (1) realized investment gains and losses; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon fees. This method differs from the fair value method used to value investments in the financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses due to changes in the fair values. The net change in the fair values of the investments is reported as an increase or decrease in cash and cash equivalents in the statement of net position.

The Main Pool Balance The main Pool's total investment was \$5,241.7 million. Excluding \$236.1 million of equity in the component unit, the net total investment was \$5,005.6 million. At year-end, the change in the fair value of the total investments for the reporting entity, after considering purchases, sales and maturities, resulted in a net markdown from cost of \$983 thousand. The following schedule shows the types of investments, the average interest rate, and the effective duration limits of the various components of the King County Investment Pool as of December 31, 2014 (in thousands):

**KING COUNTY INVESTMENT POOL**

| <u>Investment Type</u>                             | <u>Fair Value</u>   | <u>Principal</u>    | <u>Average Interest Rate</u> | <u>Effective Duration (Yrs)</u> |
|--|---------------------|---------------------|------------------------------|---------------------------------|
| Repurchase Agreements                              | \$ 144,000          | \$ 144,000          | 0.09%                        | 0.005                           |
| Commercial Paper                                   | 164,989             | 165,000             | 0.12%                        | 0.049                           |
| U.S. Agency Discount Notes                         | 559,230             | 559,792             | 0.15%                        | 0.622                           |
| Bank Notes   | 169,536             | 167,731             | 0.64%                        | 1.067                           |
| U.S. Treasury Notes                                | 1,839,864           | 1,835,000           | 0.71%                        | 1.796                           |
| U.S. Agency Notes                                  | 1,798,259           | 1,799,498           | 0.64%                        | 1.525                           |
| U.S. Agency Collateralized<br>Mortgage Obligations | 8,629               | 8,028               | 4.34%                        | 2.636                           |
| State Treasurer's Investment Pool                  | 556,391             | 556,391             | 0.10%                        | 0.003                           |
| Totals   | <u>\$ 5,240,898</u> | <u>\$ 5,235,440</u> | <u>0.53%</u>                 | <u>1.261</u>                    |

Custodial credit risk – Investments Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. County policy mandates that all security transactions, including repurchase agreements, are settled "delivery versus payment

(DVP)." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party custodian banks. Exempt from the DVP policy are Certificates of Deposits (CDs) and funds placed with the State of Washington Local Government Investment Pool.

Concentration of credit risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issuers: Federal Home Loan Mortgage Corporation, 11.3 percent, Federal National Mortgage Association, 13.1 percent, Federal Home Loan Bank, 13.6 percent, Federal Farm Credit Bank, 7.1 percent and Wells Fargo Bank, 5.0 percent.

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 main 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 less. Securities in the portfolio cannot have an average life greater than five years at purchase. As of December 31, 2014, the effective duration of the main Pool was 1.261 years.

Credit risk of Debt Securities Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At year-end, the King County Investment Pool was not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

The credit quality distribution below is categorized to display the greatest degree of credit risk as rated by Standard and Poor's, Moody's, or Fitch. For example, a security rated "AAA" by one rating agency and "AA" by another would be listed as "AA." This table shows the credit quality for all securities in the main Pool not backed by the full faith and credit of the United States (in thousands):

**Credit Quality Distribution**

| <u>Investment Type</u>                             | <u>AAA or A-1</u> | <u>AA</u>           | <u>A</u>          | <u>Not Rated</u>  | <u>Total</u>        |
|--|-------------------|---------------------|-------------------|-------------------|---------------------|
| Repurchase Agreements                              | \$ 144,000        | \$ -                | \$ -              | \$ -              | \$ 144,000          |
| Commercial Paper                                   | 164,988           | -                   | -                 | -                 | 164,988             |
| U.S. Agency Discount Notes                         | 659,203           | -                   | -                 | -                 | 659,203             |
| Bank Notes   | -                 | 60,473              | 109,062           | -                 | 169,535             |
| U.S. Agency Notes                                  | -                 | 1,698,286           | -                 | -                 | 1,698,286           |
| U.S. Agency Collateralized<br>Mortgage Obligations | -                 | 8,629               | -                 | -                 | 8,629               |
| State Treasurer's Investment Pool                  | -                 | -                   | -                 | 556,391           | 556,391             |
| <b>TOTAL</b>                                       | <b>\$ 968,191</b> | <b>\$ 1,767,388</b> | <b>\$ 109,062</b> | <b>\$ 556,391</b> | <b>\$ 3,401,032</b> |

The main Pool's policies limit the maximum amount that can be invested in various securities. At year-end the Pool was in compliance. The Pool's actual composition consisted of Repurchase Agreements, 2.8 percent, Commercial Paper, 3.1 percent, U.S. Agency Discount Notes, 10.7 percent, Bank Notes, 3.2 percent, U.S.

Treasury Notes, 35.1 percent, U.S. Agency Notes, 34.3 percent, U.S. Agency Collateralized Mortgage Obligations, 0.2 percent, and the State Treasurer's Investment Pool, 10.6 percent. The following table summarizes the Pool's diversification policy:

**OVERVIEW OF THE KING COUNTY INVESTMENT POOL'S POLICIES  
TO LIMIT INTEREST RATE & CREDIT RISK**

| <u>Investment Type</u>                 | <u>Maximum Maturity</u> | <u>Security Type Limit</u> | <u>Single Issuer Limit</u> | <u>Minimum Credit Rating</u> |
|--|-------------------------|----------------------------|----------------------------|------------------------------|
| U.S. Treasury                          | 5 Years                 | 100%                       | None                       | N/A                          |
| U.S. Federal Agency                    | 5 Years                 | 100%                       | 35%                        | N/A                          |
| U.S. Federal Agency MBS <sup>(1)</sup> | 5 Year WAL              | 25%                        | 25%                        | N/A                          |
| Certificates of Deposit <sup>(2)</sup> | 1 Year                  | 25%                        | 2.5%                       | A3/P3/F3                     |
| Municipal Securities <sup>(3)</sup>    | 5 Years                 | 20%                        | 2.5%                       | A <sup>(4)</sup>             |
| Bank Securities                        | 5 Years                 | 20%                        | 2.5%                       | A <sup>(4)</sup>             |
| Repurchase Agreements <sup>(5)</sup>   | 60 Days                 | 40%                        | 5%                         | A1/P1/F1                     |
| Commercial Paper                       | 180 Days                | 25%                        | 2.5%                       | A1/P1/F1 <sup>(6)</sup>      |
| Bankers' Acceptances                   | 180 Days                | 25%                        | 2.5%                       | A1/P1/F1 <sup>(7)</sup>      |
| State LGIP <sup>(8)</sup>              | N/A                     | 25%                        | 25%                        | N/A                          |

N/A = Not applicable

(1) MBS count toward the total that can be invested in any one U.S. Federal Agency.

(2) Institution must be a Washington State depository and participate in the PDPC collateralization program.

(3) County policy limits purchases to general obligation bonds.

(4) Must be rated A or better by two rating agencies.

(5) Tri-party repurchase agreements collateralized at 102%.

(6) Must be rated in top credit category by at least two rating agencies. Maturities > 100 days must have AA long-term rating.

(7) Bankers' acceptances must be rated in top credit category by at least two rating agencies.

(8) The State LGIP is a money market-like fund managed by the State Treasurer's Office.

**Impaired Investment Pool** The King County Executive Finance Committee approved the bifurcation of the investment pool as of September 1, 2008. This separated the impaired investments into their own pool distinct from the main pool of performing investments. The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; (3) ease the implementation of the restructuring processes for the impaired investments.

For the bifurcation, the County placed four impaired commercial paper investments into an impaired investment pool (Impaired Pool). The Impaired Pool holds one commercial paper asset (Victoria), in which the County accepted an exchange offer in 2009 and is receiving the cash flows from the investment's underlying securities. For the other three commercial paper investments (Cheyne, Mainsail and Rhinebridge), the County accepted a cash-out option in 2008, based on the results of three separate restructuring auctions conducted by the designated "receiver" of each commercial paper asset.

The Depository Trust Company (DTC), a clearing house for settling trades, was responsible for distributing the cash proceeds from each restructuring auction based on directions provided by each applicable receiver. However, DTC insisted on being indemnified before it would consent to distribute proceeds from the restructuring process. The receivers agreed to set aside a "reserve" for potential legal claims that might arise and potentially impact the receiver and/or DTC. The receivers also retained funds for possible legal actions and to protect other parties involved in the restructuring process. At year-end, the amount reserved for the County remained at a total of \$2.0 million for the Cheyne, Rhinebridge, and Mainsail restructurings. The "estimated fair value" of the \$2.0 million was based on the value of the cash retained by the receivers as of December 31, 2014.

Between 2008 and 2010, the County initiated lawsuits seeking recovery for losses associated with all four of the impaired investments. In 2012, the County settled the litigation concerning Mainsail and Victoria, and executed a settlement with three of the defendants in the lawsuits concerning Rhinebridge. The net settlement payments have been distributed to each pool participant. In 2013, the County received final

settlement payments for the litigation concerning Rhinebridge and Cheyne and has distributed the net settlement payments to each pool participant.

When accounting for all four impaired investments, the fair value of the Impaired Pool at December 31, 2014, was \$10 million and the book value was \$16.5 million. The fair value at year-end was determined by a combination of the December 2014 value of Victoria based on a market quote from one dealer and, as stated earlier, the value of the cash retained by the receivers as of December 31, 2014. The majority of the amount remaining in the impaired

investment pool is associated with VFNC Trust (Victoria). VFNC Trust continues to make monthly cash distributions. During 2014, VFNC Trust distributed a total of \$3.7 million to the County. Including all the receipts to date brings the cash recovery rate on the original Victoria investment to 76 percent. Monthly distributions will continue for as long as the underlying securities in the trust continue to pay. This monthly distribution is expected to continue for at least the next five years. Also, because of extremely low interest rates, the County chose not to discount these future cash flows.

### **King County Investment Pool and Impaired Investment Pool Condensed Statements**

The King County Investment Pool's (the main Pool) and the Impaired Investment Pool's Condensed Statements of Net Position and Changes in Net Position as of December 31, 2014 (in thousands):

#### **Condensed Statement of Net Position**

|  | <u>Total</u>        | <u>Main<br/>Pool</u> | <u>Impaired<br/>Pool</u> |
|--|---------------------|----------------------|--------------------------|
| Assets   | \$ 5,252,818        | \$ 5,242,812         | \$ 10,006                |
| Net Position held in trust for pool participants | <u>\$ 5,252,818</u> | <u>\$ 5,242,812</u>  | <u>\$ 10,006</u>         |
| Equity of internal pool participants             | \$ 2,636,487        | \$ 2,632,223         | \$ 4,264                 |
| Equity of external pool participants             | <u>2,616,331</u>    | <u>2,610,589</u>     | <u>5,742</u>             |
| Total equity                                     | <u>\$ 5,252,818</u> | <u>\$ 5,242,812</u>  | <u>\$ 10,006</u>         |

#### **Condensed Statement of Changes in Net Position**

|  |                     |                     |                  |
|--|---------------------|---------------------|------------------|
| Net Position - January 1, 2014                 | \$ 4,848,515        | \$ 4,836,543        | \$ 11,972        |
| Net change in investments by pool participants | <u>404,303</u>      | <u>406,269</u>      | <u>(1,966)</u>   |
| Net Position - December 31, 2014               | <u>\$ 5,252,818</u> | <u>\$ 5,242,812</u> | <u>\$ 10,006</u> |

### **Individual Investment Accounts**

King County also purchases individual investments for other legally separate entities, such as special districts and public authorities that are not part of the financial reporting entity. Net position in these individual investment accounts are reported in a separate Investment Trust Fund in the Fiduciary Funds section. At year-end, all special districts have joined the Pool, therefore the net position of held in trust for individual investment account participants was zero.

### **Component Units**

#### **Harborview Medical Center (HMC)**

Harborview Medical Center (HMC) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

**Custodial credit risk - Deposits** The custodial credit risk for deposits is the risk that in the event of a bank failure, the HMC's deposits may not be recovered. HMC maintains demand deposit accounts in various banks (insured up to



\$250 thousand per bank) totaling \$4.5 million in bank balance and reports a carrying amount of \$5.8 million. In addition, HMC has equity in the Investment Pool (reported as cash equivalents on June 30, 2014) totaling \$229.6 million in bank balance and report a carrying amount of \$230.1 million. As of June 30, 2014, all of the deposits

were covered entirely by the FDIC or uninsured but fully collateralized under the PDPC collateral pool. Accordingly, the HMC has no custodial credit risk for its deposits as shown in the following table (in thousands):

| <b>Harborview Medical Center<br/>Deposits and Investments</b> |                            |                         |
|---|----------------------------|-------------------------|
|   | <b>Carrying<br/>Amount</b> | <b>Bank<br/>Balance</b> |
| Cash in other banks   | \$ 5,783                   | \$ 4,473                |
| Equity in Investment Pool                                     | 230,098                    | 229,562                 |
| Total   | \$ 235,881                 | \$ 234,035              |

Cultural Development Authority of King County (CDA)

**Deposits** The Cultural Development Authority of King County (CDA) maintains a deposit relationship with a local commercial bank. All deposits with this qualified public depository that are not insured by the FDIC are fully collateralized by the PDPC. Accordingly, the CDA has no custodial credit risk for its deposits. Carrying amounts of deposits for book purposes are materially the same as bank balances.

**Investments** The CDA has an investment policy to guide the management of its assets and ensure that all investment activity is within regulations established by state law and county codes. The primary objective is the preservation of principal.

State statutes authorize the CDA to invest in certificates, notes, and bonds of the United States, and other obligations of the United States or its agencies, or any corporation wholly owned by the government of the United States. Statutes also authorize the CDA to invest in bankers' acceptances purchased on the secondary market, Federal Home Loan bank notes and bonds, Federal Land Bank bonds, Federal National Mortgage Association notes and debentures, and guaranteed certificates of participation.

The CDA is also authorized to invest in the Washington State Local Government Investment Pool (LGIP), which is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. The LGIP funds are limited to high quality obligations with limited maximum and average maturities, which has the effect of minimizing both market and credit risk.

All investment securities are recorded at fair market value based on fair value reports provided by the CDA's investment trustee.

The following schedule shows the types of investments, the average interest rate, the effective duration limits and the concentration of all CDA investments as of December 31, 2014 (in thousands):

**Cultural Development Authority  
Investments By Type**

| <u>Investment Type</u>                                   | <u>Fair Value</u> | <u>Principal</u> | <u>Average Interest Rate</u> | <u>Effective Duration (Yrs)</u> | <u>Concentration</u> |
|--|-------------------|------------------|------------------------------|---------------------------------|----------------------|
| U.S. Treasury Notes                                      | \$ 9,983          | \$ 9,399         | 3.18%                        | 3.057                           | 21.66%               |
| Federal Home Loan Mortgage Corp Debentures               | 2,121             | 2,051            | 4.20%                        | 1.667                           | 4.60%                |
| Federal National Mortgage Association Notes              | 2,716             | 2,657            | 4.81%                        | 1.729                           | 5.89%                |
| Federal Home Loan Bank Bonds                             | 2,918             | 2,767            | 4.10%                        | 4.564                           | 6.33%                |
| Federal Farm Credit Bank Bonds                           | 688               | 634              | 4.24%                        | 3.162                           | 1.49%                |
| State Treasurer's Investment Pool                        | 23,009            | 23,009           | 0.10%                        | 0.003                           | 49.93%               |
| Other/Money Market Fund                                  | 4,650             | 4,650            | 0.03%                        | 0.003                           | 10.09%               |
| Subtotals  | <u>\$ 46,085</u>  | <u>\$ 45,167</u> | <u>1.54%</u>                 | <u>1.179</u>                    | <u>100.00%</u>       |
| Less State Treasurer's Investment Pool (Cash Equivalent) | <u>(23,009)</u>   |                  |                              |                                 |                      |
| Total Investments per Statement of Net Position          | <u>\$ 23,076</u>  |                  |                              |                                 |                      |

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 CDA manages its exposure to interest rate risk by setting maturity and effective duration limits for its portfolio. As of December 31, 2014, the combined weighted average effective duration of the CDA's portfolio was 1.179 years.

Credit risk Credit risk is the risk that an issuer will not fulfill its obligations. As of December 31, 2014, all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AA+." The Washington State Local Government Investment Pool is not rated.

Concentration of credit risk - Investments Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. As of December 31, 2014, the CDA had concentrations greater than 5 percent of its total portfolio, excluding U.S. Treasury obligations, in the following issuers: Federal National Mortgage Association, 5.9 percent, and Federal Home Loan Bank, 6.3 percent.

**Note 5**  
**Receivables**

Estimated Uncollectible Accounts Receivable

Receivables are reported net of estimated uncollectible amounts in the basic financial statements: Balance Sheet –Governmental Funds and Statement of Net Position – Proprietary

Funds. The schedule below shows receivables at gross with the related estimated uncollectible amounts (in thousands):

| <b>Governmental</b>                                | <b>General Fund</b>          | <b>Mental Health Fund</b> | <b>Public Health Fund</b>        | <b>Nonmajor Governmental Funds</b> | <b>Total Governmental Funds</b> |
|--|------------------------------|---------------------------|----------------------------------|------------------------------------|---------------------------------|
| Accounts receivable                                |                              |                           |                                  |                                    |                                 |
| Accounts receivable                                | \$ 85,476                    | \$ -                      | \$ 3,960                         | \$ 36,625                          | \$ 126,061                      |
| Estimated uncollectible accounts receivable        | (71,194)                     | -                         | (1,853)                          | (1,976)                            | (75,023)                        |
| Net accounts receivable                            | <u>\$ 14,282</u>             | <u>\$ -</u>               | <u>\$ 2,107</u>                  | <u>\$ 34,649</u>                   | <u>\$ 51,038</u>                |
| Other receivables                                  |                              |                           |                                  |                                    |                                 |
| Abatements receivable                              | \$ -                         | \$ -                      | \$ 2,891                         | \$ 398                             | \$ 3,289                        |
| Estimated uncollectible abatements receivable      | -                            | -                         | (2,139)                          | (84)                               | (2,223)                         |
| Net other receivables                              | <u>\$ -</u>                  | <u>\$ -</u>               | <u>\$ 752</u>                    | <u>\$ 314</u>                      | <u>\$ 1,066</u>                 |
| Due from other governments                         | \$ 34,828                    | \$ 1,178                  | \$ 34,688                        | \$ 42,227                          | \$ 112,921                      |
| Estimated uncollectible due from other governments | (297)                        | -                         | -                                | -                                  | (297)                           |
| Net due from other governments                     | <u>\$ 34,531</u>             | <u>\$ 1,178</u>           | <u>\$ 34,688</u>                 | <u>\$ 42,227</u>                   | <u>\$ 112,624</u>               |
| <b>Proprietary</b>                                 | <b>Public Transportation</b> | <b>Water Quality</b>      | <b>Nonmajor Enterprise Funds</b> | <b>Total Enterprise Funds</b>      | <b>Internal Service Funds</b>   |
| Current  |                              |                           |                                  |                                    |                                 |
| Accounts receivable                                | \$ 50,074                    | \$ 44,967                 | \$ 8,836                         | \$ 103,877                         | \$ 665                          |
| Estimated uncollectible accounts receivable        | (55)                         | (886)                     | (260)                            | (1,201)                            | -                               |
| Net accounts receivable                            | <u>\$ 50,019</u>             | <u>\$ 44,081</u>          | <u>\$ 8,576</u>                  | <u>\$ 102,676</u>                  | <u>\$ 665</u>                   |
| Due from other governments                         | \$ 122,434                   | \$ 3,782                  | \$ 4,219                         | \$ 130,435                         | \$ 56                           |
| Net due from other governments                     | <u>\$ 122,434</u>            | <u>\$ 3,782</u>           | <u>\$ 4,219</u>                  | <u>\$ 130,435</u>                  | <u>\$ 56</u>                    |
| Noncurrent   |                              |                           |                                  |                                    |                                 |
| Due from other governments                         | \$ 24                        | \$ -                      | \$ -                             | \$ 24                              | \$ -                            |
| Net noncurrent due from other governments          | <u>\$ 24</u>                 | <u>\$ -</u>               | <u>\$ -</u>                      | <u>\$ 24</u>                       | <u>\$ -</u>                     |

## Note 6

### Property Taxation

#### Taxing Powers

The County is authorized to levy both “regular” property taxes and “excess” property taxes.

*Regular property taxes* are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. Regular property tax levies are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1, of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

*Excess Property Taxes.* The County also may impose “excess” property taxes, which are not subject to limitation, when authorized by a 60 percent majority popular vote, as provided in Article VII, Section 2 of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the number of voters approving the excess levy is at least 60 percent of a number equal to 40 percent of the number who voted at the last County general election. Excess levies also may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

*Maximum Rate Limitations.* The County may levy regular property taxes for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to \$1.80 per thousand of assessed value, and the County levied \$1.32983 in 2014. The road district levy, which is levied in unincorporated areas of the county for road construction and maintenance and other County services provided in the unincorporated areas, is limited to \$2.25 per thousand of assessed value, for which the County currently is at its maximum rate in 2014 tax year. Additional statutory provisions limit the increase in the aggregate amount of taxes levied.

The County is authorized to increase its general purposes levy to a maximum of \$2.475 per thousand of assessed value if the total combined levies for both general and road district purposes do not exceed \$4.05 per thousand and if no other taxing district has its levy reduced as a result of the increased County levy (RCW 84.52.043).

The \$1.80 per thousand limitation on the general purposes levy is exclusive of the following regular property taxes:

- (1) A voted levy for emergency medical services, limited to \$0.50 per thousand (RCW 84.52.069),
- (2) A voted levy to finance affordable housing for very low income households, limited to \$0.50 per thousand (RCW 84.52.105), however, the County has not sought approval from voters for this levy,
- (3) A non-voted levy for conservation futures, limited to \$0.0625 per thousand (RCW 84.34.230), and
- (4) A non-voted levy for transit-related purposes, limited to \$0.075 per thousand (RCW 84.52.140).

*One Percent Aggregate Regular Property Tax Levy Limitation.* Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or \$10.00 per thousand) by Article VII, Section 2, of the State Constitution and RCW 84.52.050.

*\$5.90/\$1,000 Aggregate Regular Property Tax Levy Limitation.* Within the one percent limitation described above, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of \$5.90 per thousand of assessed value by RCW 84.52.043(2). This limitation is exclusive of excess levies authorized by Article VII, Section 2, of the State Constitution; levies for emergency medical services, affordable housing for very low income households, transit-related purposes, for criminal justice purposes, and acquisition of conservation futures; a portion of certain levies by metropolitan park districts and by fire protection districts; levies imposed by ferry districts, and certain flood control zone districts.

If aggregate regular property tax levies exceed the one percent or \$5.90 per \$1,000 of assessed value limitations, then, in order to bring the aggregate levy into compliance, levies requested by “junior” taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010). Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

*Regular Property Tax Increase Limitation.* The regular property tax increase limitation (RCW 84.55) limits the total dollar amounts of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year’s rate. The limit factor is defined as the lesser of 101 percent or 100 percent plus inflation, but if the inflation rate is less than one percent, the limit factor can be increased to 101 percent, if approved by a majority plus one vote of the governing body of the taxing district, upon a finding of substantial need. In addition, the limit factor may be increased, regardless of inflation, if such increase is authorized by the governing body of the taxing district upon a finding of substantial need and is also approved by the voters at a general or special election within the taxing district. Such election must be held less than 12 months before the date on which the proposed levy will be made, and any tax increase cannot be greater than described under “Maximum Rate Limitations.” The approval of a majority of the voters would be required for the limit factor to be increased. The new limit factor will be effective for taxes collected in the following year only.

Since the regular property tax increase limitation applies to the total dollar amount levied, rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) which exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy and vice versa for decreases in assessed value.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had

been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as “banked” levy capacity. The County currently has no such banked levy capacity.

With a majority vote of its electors, a taxing district may levy, within the statutory rate limitations described above, more than what otherwise would be allowed by the tax increase limitations (RCW 84.55.050). This is known as a “levy lid lift,” which has the effect of increasing the jurisdiction’s levy “base” when calculating permitted levy increases in subsequent years. The new base can apply for a limited or unlimited period, except that if the levy lid lift was approved for the purpose of paying debt service on bonds, the new base can apply for no more than nine years. After the expiration of any limited purpose or limited duration specified in the levy lid lift, the levy is calculated as if the taxing district had levied only up to the limit factor in the interim period.

*Component Units with Taxing Authority.* In 2014, the countywide flood control zone district levy rate was \$0.15369 and the countywide ferry district levy rate was \$0.00349 per thousand of assessed value. The boundaries of each district are coterminous with the boundaries of the County and the members of the County Council serve (at least initially) as the legislative body for each district, but under State law, each district is a separate taxing district with independent taxing authority.

### **Assessed Valuation Determination**

The County Assessor (the “Assessor”) determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued

each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year, in order to levy taxes payable the following year, the County Council receives the Assessor's final certificate of assessed value of property within the County.

**Tax Collection Procedures**

Property taxes are levied in specific amounts by the County Council and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the Assessor based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district upon a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Section Manager, who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds \$50, one-half may be paid then and the balance no later than October 31 of that year (except that the half to be paid on April 30 may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods for giving notice of payment of taxes due, collecting such taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed State statutes. Personal property taxes levied by the County Council are secured by a lien on the personal property assessed. A federal tax lien filed before the County Council levies the personal property taxes is senior to the County's personal property tax lien. In addition, a federal civil judgment lien is senior to a lien on real property taxes once the federal lien has been recorded. In all other respects, and subject to the possible "homestead exemption" described below, the lien of property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law,

the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (chapter 6.13 RCW) gives the occupying homeowner a right to retain the first \$125 thousand in proceeds of the forced sale of a family residency or other "homestead" property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

**Property Tax Calendar**

|             |  |
|-------------|--|
| January 1   | Taxes are levied and become an enforceable lien against properties                         |
| February 14 | Tax bills are mailed   |
| April 30    | First of two equal installment payments due  |
| May 31      | Assessed value of property established for next year's levy at 100 percent of market value |
| October 31  | Second installment due   |

**Accounting for Property Taxes Receivable**

In the governmental funds, property taxes levied for the current year are recorded on the balance sheet as taxes receivable and unavailable revenue – property taxes at the beginning of the year. The County uses a 60-day availability period to recognize revenues on taxes receivables at year-end that would be collected soon enough to be used to pay liabilities of the current period. For the government-wide financial statements, the deferred inflow of resources related to the current period, net of the allowance for uncollectible property taxes, is reclassified as revenue.

**Allocation of Tax Levies**

The following table compares the allocation of the 2014 and 2013 countywide, Emergency Medical Services (EMS), and unincorporated County (road district) levies. The original tax levy reflects the levy before any supplemental levies, tax cancellations, or other adjustments. The 2014 countywide assessed valuation was \$340.6 billion, an increase of \$25.9 billion from 2013; the assessed valuation for the unincorporated area levy was \$32.1 billion, an increase of \$1.8 billion from 2013.

The AFIS levy, a regular property tax levy (RCW 84.55.050), was renewed on November 6, 2012, for a six-year term by a majority of voters in the County. The levy began in 2013 at a rate of \$0.0592 or less per thousand of assessed value, and in 2014 the rate is \$0.05588 per thousand of assessed value.

In August 2013, the Park lid lift levy was renewed by voters for six years, for a rate of \$0.1877 per thousand of assessed value.

The Veterans and Family Human Services Levy, approved by voters in 2011, is a regular property tax levy to be levied for six years beginning in 2012 at a rate of \$0.05243 or less per thousand of assessed value. The 2014 rate is \$0.04948.

The Children and Family Justice Center is a nine-year temporary levy lid lift approved by voters on August 7, 2012. In the first year, 2013, the levy rate was \$0.07000 per thousand. The rate for 2014 is \$0.06597 per thousand assessed value.

The County's levy rate for transit-related purposes is \$0.07500 and its levy rate for conservation futures is \$0.05296 in 2014.

The County's EMS levy was approved at a special election on November 5, 2013, for an additional six years, at a rate of \$0.33500 or less per thousand of assessed value, with collections beginning in 2014.

## ALLOCATION OF 2014 AND 2013 TAX LEVIES

|  | <u>2014 Original<br/>Taxes Levied<br/>(in thousands)</u> | <u>2014<br/>Levy Rate<br/>(per thousand)</u> | <u>2013 Original<br/>Taxes Levied<br/>(in thousands)</u> | <u>2013<br/>Levy Rate<br/>(per thousand)</u> |
|--|--|--|--|--|
| <b>Countywide Levy</b>                         |  |  |  |  |
| <b>Assessed Valuation:</b>                     |  |  |  |  |
| \$340,643,616 thousand <sup>(a)</sup>          |  |  |  |  |
| Items Within Operating Levy <sup>(b)</sup>     |  |  |  |  |
| General Fund                                   | \$ 320,367   | \$ 0.94477                                   | \$ 313,220   | \$ 1.00051                                   |
| Veterans' Relief                               | 2,706  | 0.00798                                      | 2,649  | 0.00846                                      |
| Human Services                                 | 6,070  | 0.01790                                      | 5,946  | 0.01899                                      |
| Intercounty River Improvement                  | 51   | 0.00015                                      | 50   | 0.00016                                      |
| Limited GO Bonds Debt Service                  | -  | 0.00000                                      | 7  | 0.00000                                      |
| Automated Fingerprint<br>Identification System | 18,948   | 0.05588                                      | 18,533   | 0.05920                                      |
| Parks Levy                                     | 63,643   | 0.18770                                      | 41,295   | 0.13190                                      |
| Veterans and Human Services                    | 16,778   | 0.04948                                      | 16,417   | 0.05243                                      |
| Children and Family Justice Center             | 22,367   | 0.06597                                      | 21,909   | 0.07000                                      |
| Total Operating Levy                           | <u>450,930</u>   | <u>1.32983</u>                               | <u>420,026</u>   | <u>1.34165</u>                               |
| Public Transportation <sup>(c)</sup>           | <u>25,431</u>  | <u>0.07500</u>                               | <u>23,480</u>  | <u>0.07500</u>                               |
| <b>Conservation Futures Levy</b>               |  |  |  |  |
| Conservation Futures Levy <sup>(d)</sup>       | 9,380  | 0.02766                                      | 9,505  | 0.03036                                      |
| Farmland and Park Debt Service                 | 8,579  | 0.02530                                      | 8,067  | 0.02577                                      |
| Total Conservation Futures Levy                | <u>17,959</u>  | <u>0.05296</u>                               | <u>17,572</u>  | <u>0.05613</u>                               |
| <b>Unlimited Tax GO Bonds</b>                  |  |  |  |  |
| (Voter-approved Excess Levy)                   | 19,628   | 0.05826                                      | 21,037   | 0.06772                                      |
| Total Countywide Levy                          | <u>513,948</u>   | <u>1.51605</u>                               | <u>482,115</u>   | <u>1.54050</u>                               |
| <b>EMS Levy</b>                                |  |  |  |  |
| <b>Assessed Valuation:</b>                     |  |  |  |  |
| \$211,742,668 thousand <sup>(a)</sup>          |  |  |  |  |
| EMS Levy                                       | <u>70,608</u>  | <u>0.33500</u>                               | <u>58,786</u>  | <u>0.30000</u>                               |
| <b>Unincorporated County Levy</b>              |  |  |  |  |
| <b>Assessed Valuation:</b>                     |  |  |  |  |
| \$32,075,398 thousand <sup>(a)</sup>           |  |  |  |  |
| County Road Fund <sup>(e)</sup>                | <u>71,721</u>  | <u>\$ 2.25000</u>                            | <u>67,544</u>  | <u>\$ 2.25000</u>                            |
| Total County Tax Levies <sup>(f)</sup>         | <u>\$ 656,277</u>  |  | <u>\$ 608,445</u>  |  |

(a) Assessed valuation for taxes payable in 2014.

(b) The operating levy tax rate is statutorily limited to \$1.80 per thousand of assessed valuation.

(c) The Public Transportation Levy is limited statutorily to \$0.075 per thousand of assessed valuation.

(d) The Conservation Futures Levy is limited statutorily to \$0.0625 per thousand of assessed valuation.

(e) The County Road Fund levy is levied only in the unincorporated areas of the County and the tax rate is statutorily limited to a maximum of \$2.25 per thousand of assessed valuation.

(f) 2014 and 2013 original tax levies excludes tax levy of the blended component units a) the Flood Control Zone District of \$52,112 thousand and \$41,355 thousand, respectively, and b) the Ferry District of \$1,183 thousand and \$1,184 thousand, respectively.



## Note 7

### Capital Assets

#### Primary Government

A summary of changes in capital assets for the King County Primary Government (in thousands):

|   | Balance<br>1/1/2014 | Additions         | Retirements       | Transfers/ Re-<br>classifications | Balance<br>12/31/2014 |
|---|---------------------|-------------------|-------------------|-----------------------------------|-----------------------|
| <b>Governmental Activities:</b>               |                     |                   |                   |                                   |                       |
| Capital assets not being depreciated          |                     |                   |                   |                                   |                       |
| Land  | \$ 503,513          | \$ 19,449         | \$ -              | \$ 3,618                          | \$ 526,580            |
| Rights-of-way and easements                   | 461,484             | 5,822             | (727)             | -                                 | 466,579               |
| Infrastructure - road and bridges             | 1,075,716           | 42,754            | (4,422)           | -                                 | 1,114,048             |
| Art collections                               | 10,970              | 1                 | (236)             | 26                                | 10,761                |
| Work in progress                              | 100,512             | 29,191            | -                 | (11,021)                          | 118,682               |
| Total capital assets not being depreciated    | <u>2,152,195</u>    | <u>97,217</u>     | <u>(5,385)</u>    | <u>(7,377)</u>                    | <u>2,236,650</u>      |
| Capital assets being depreciated              |                     |                   |                   |                                   |                       |
| Buildings                                     | 1,039,001           | 26                | -                 | -                                 | 1,039,027             |
| Leasehold Improvements                        | 19,076              | -                 | -                 | -                                 | 19,076                |
| Improvements other than buildings             | 58,068              | 812               | -                 | 3,800                             | 62,680                |
| Infrastructure – levees                       | 8,921               | -                 | -                 | 3,514                             | 12,435                |
| Furniture, machinery & equipment              | 147,023             | 12,016            | (10,082)          | (2,551)                           | 146,406               |
| Software                                      | 108,359             | 87                | (3,705)           | (87)                              | 104,654               |
| Total capital assets being depreciated        | <u>1,380,448</u>    | <u>12,941</u>     | <u>(13,787)</u>   | <u>4,676</u>                      | <u>1,384,278</u>      |
| Less accumulated depreciation for:            |                     |                   |                   |                                   |                       |
| Buildings                                     | (387,145)           | (37,216)          | -                 | -                                 | (424,361)             |
| Leasehold Improvements                        | (2,710)             | (954)             | -                 | -                                 | (3,664)               |
| Improvements other than buildings             | (14,494)            | (2,435)           | -                 | 8                                 | (16,921)              |
| Infrastructure – levees                       | (880)               | (415)             | -                 | -                                 | (1,295)               |
| Furniture, machinery & equipment              | (104,478)           | (11,410)          | 9,675             | 543                               | (105,670)             |
| Software                                      | (40,511)            | (7,618)           | 2,582             | 12                                | (45,535)              |
| Total capital assets being depreciated - net  | <u>830,230</u>      | <u>(47,107)</u>   | <u>(1,530)</u>    | <u>5,239</u>                      | <u>786,832</u>        |
| Governmental activities capital assets - net  | <u>\$ 2,982,425</u> | <u>\$ 50,110</u>  | <u>\$ (6,915)</u> | <u>\$ (2,138)</u>                 | <u>\$ 3,023,482</u>   |
| <b>Business-type Activities:</b>              |                     |                   |                   |                                   |                       |
| Capital assets not being depreciated          |                     |                   |                   |                                   |                       |
| Land  | \$ 458,534          | \$ -              | \$ (5,234)        | \$ 3,295                          | \$ 456,595            |
| Rights-of-way and easements                   | 27,458              | -                 | -                 | 251                               | 27,709                |
| Art collections                               | 3,701               | -                 | -                 | -                                 | 3,701                 |
| Work in progress                              | 411,599             | 273,080           | -                 | (283,907)                         | 400,772               |
| Total capital assets not being depreciated    | <u>901,292</u>      | <u>273,080</u>    | <u>(5,234)</u>    | <u>(280,361)</u>                  | <u>888,777</u>        |
| Capital assets being depreciated              |                     |                   |                   |                                   |                       |
| Buildings                                     | 3,240,392           | 4,345             | (1,400)           | 71,844                            | 3,315,181             |
| Leasehold Improvements                        | 1,467               | -                 | -                 | -                                 | 1,467                 |
| Improvements other than buildings             | 236,715             | 172               | -                 | 27,675                            | 264,562               |
| Rights-of-way - temporary easement            | 7,635               | -                 | -                 | -                                 | 7,635                 |
| Infrastructure – water quality                | 2,146,454           | 12,353            | -                 | 100,555                           | 2,259,362             |
| Furniture, machinery & equipment              | 2,242,275           | 6,787             | (49,641)          | 76,614                            | 2,276,035             |
| Software                                      | 151,890             | -                 | (9,501)           | 6,375                             | 148,764               |
| Total capital assets being depreciated        | <u>8,026,828</u>    | <u>23,657</u>     | <u>(60,542)</u>   | <u>283,063</u>                    | <u>8,273,006</u>      |
| Less accumulated depreciation for:            |                     |                   |                   |                                   |                       |
| Buildings                                     | (1,281,273)         | (99,951)          | 1,116             | (8)                               | (1,380,116)           |
| Leasehold Improvements                        | (440)               | (147)             | -                 | -                                 | (587)                 |
| Improvements other than buildings             | (119,697)           | (9,429)           | -                 | -                                 | (129,126)             |
| Rights-of-way - temporary easement            | (491)               | (218)             | -                 | -                                 | (709)                 |
| Infrastructure – water quality                | (437,331)           | (46,066)          | -                 | -                                 | (483,397)             |
| Furniture, machinery & equipment              | (1,247,268)         | (130,250)         | 47,688            | (556)                             | (1,330,386)           |
| Software                                      | (71,282)            | (12,366)          | 9,501             | -                                 | (74,147)              |
| Total capital assets being depreciated - net  | <u>4,869,046</u>    | <u>(274,769)</u>  | <u>(2,237)</u>    | <u>282,499</u>                    | <u>4,874,538</u>      |
| Business-type activities capital assets - net | <u>\$ 5,770,338</u> | <u>\$ (1,690)</u> | <u>\$ (7,471)</u> | <u>\$ 2,138</u>                   | <u>\$ 5,763,315</u>   |

Governmental activities include capital assets of governmental internal service funds except for the Wastewater Equipment Rental Fund, which is

reported under business-type activities because it provides services exclusively to the Water Quality Enterprise.

**Depreciation Expense**

Depreciation expense charged to functions of the Primary Government (in thousands):

|   | <b>2014</b>       |
|---|-------------------|
| <b>Governmental Activities</b>  |                   |
| General government services   | \$ 19,614         |
| Law, safety and justice   | 18,647            |
| Physical environment  | 211               |
| Transportation  | 367               |
| Economic environment  | 191               |
| Mental and physical health  | 1,176             |
| Culture and recreation  | 3,618             |
| Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets       | 16,224            |
| Total depreciation - Governmental activities  | <u>\$ 60,048</u>  |
| <b>Business-type Activities</b>   |                   |
| Water Quality   | \$ 163,976        |
| Public Transportation   | 121,199           |
| Solid Waste   | 12,678            |
| King County International Airport   | 4,211             |
| Institutional Network   | 96                |
| Radio Communications  | 730               |
| King County Ferry District  | 512               |
| Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets | 1,623             |
| Total depreciation and amortization expense - Business-type activities  | 305,025           |
| Less Amortization - Water Quality Other Assets  | (6,599)           |
| Total depreciation - Business-type activities   | <u>\$ 298,426</u> |

**Infrastructure**

**Roads and Bridges Infrastructure Valuation**

The roads and bridges infrastructure network acquired or constructed prior to 2002 is valued at estimated historical cost. Base year estimates of 2001 replacement costs for all existing roads and 1988 replacement costs for all bridges were obtained using standard costing methods with the resultant values being deflated to the acquisition year (or estimated acquisition year, where the actual year was unknown), using the Engineering News Record Construction Cost Index. Retroactive reporting of traffic control elements is based on replacement cost.

**Rights-of-Way**

Historical costs for infrastructure-related rights-of-way were obtained by estimating replacement costs at 2001 using land assessed valuation data and then deflating the resultant values to the acquisition year (or estimated acquisition year, where the actual year is unknown), using assessed land value indexes from the King County Assessor's Office.

**Construction Commitments**

Project commitments are defined as authorized and planned expenditures for the next fiscal year.

**Enterprise Funds**

Public Transportation Enterprise - \$213.4 million is committed to the maintenance of existing infrastructure, service delivery and partnership efforts.

Water Quality Enterprise - \$115.1 million is committed to completing construction of the conveyance to Puget Sound for a new major wastewater treatment plant and ensuring the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities.

Other Enterprises \$63.8 million is committed to improving the County's solid waste regional landfill and transfer stations and \$3.5 million is committed to maintaining the radio communications systems within the county.

**Capital Projects Funds**

\$363.3 million is committed to various capital projects, including: (1) open space and conservation easement acquisitions, (2) development and improvement of trails, playgrounds and ballfields, and other cultural facilities; (3) affordable housing; (4) technology initiatives to improve business efficiency, emergency preparedness, and network security; (5) flood control projects to protect the ecosystem and public property; (6) preservation of roads construction of bridges; and (7) improvements and major repairs to office buildings and other facilities. This amount is larger than reported in previous years because of the conversion from a single year to a biennial budget for 2015-2016.

**Discretely Presented Component Units**

**Harborview Medical Center (HMC)**

Capital assets activity for HMC during the fiscal year ended June 30, 2014 (in thousands):

|  | <b>Balance<br/>07/1/2013</b> | <b>Additions</b>   | <b>Retirements</b> | <b>Transfers</b> | <b>Balance<br/>06/30/14</b> |
|--|------------------------------|--------------------|--------------------|------------------|-----------------------------|
| Capital assets not being depreciated:      |                              |                    |                    |                  |                             |
| Land                                       | \$ 1,586                     | \$ -               | \$ -               | \$ -             | \$ 1,586                    |
| Work in progress                           | 13,344                       | 13,502             | -                  | (11,986)         | 14,860                      |
| Total capital assets not being depreciated | <u>14,930</u>                | <u>13,502</u>      | <u>-</u>           | <u>(11,986)</u>  | <u>16,446</u>               |
| Capital assets being depreciated:          |                              |                    |                    |                  |                             |
| Buildings                                  | 400,699                      | -                  | -                  | 6,390            | 407,089                     |
| Improvements other than buildings          | 14,494                       | -                  | -                  | 580              | 15,074                      |
| Equipment                                  | 409,020                      | 6,089              | (2,236)            | 5,016            | 417,889                     |
| Total capital assets being depreciated     | <u>824,213</u>               | <u>6,089</u>       | <u>(2,236)</u>     | <u>11,986</u>    | <u>840,052</u>              |
| Less accumulated depreciation for:         |                              |                    |                    |                  |                             |
| Buildings                                  | (161,522)                    | (13,377)           | -                  | -                | (174,899)                   |
| Improvements other than buildings          | (4,982)                      | (944)              | -                  | -                | (5,926)                     |
| Equipment                                  | (317,798)                    | (28,636)           | 2,120              | -                | (344,314)                   |
| Total accumulated depreciation             | <u>(484,302)</u>             | <u>(42,957)</u>    | <u>2,120</u>       | <u>-</u>         | <u>(525,139)</u>            |
| HMC capital assets, net                    | <u>\$ 354,841</u>            | <u>\$ (23,366)</u> | <u>\$ (116)</u>    | <u>\$ -</u>      | <u>\$ 331,359</u>           |

HMC owns other properties (net book value of \$13.6 million) which are held for future use and are reported under "Other assets" in the component unit's statement of net position.

**Note 8**  
**Restricted Assets**

Within the Statement of Net Position are amounts that are restricted as to their use.

The restricted assets for these funds are (in thousands):

**Proprietary Funds**

|  |                          |
|--|--------------------------|
| <u>Public Transportation</u> - restricted for future construction projects, debt service and obligations.          | \$ 20,447                |
| <u>Water Quality</u> - restricted for future construction projects, debt service, and reserves and obligations.    | 363,519                  |
| <u>King County International Airport</u> - restricted for construction projects and obligations.                   | 591                      |
| <u>Radio Communications Services</u> - restricted for construction projects and obligations.                       | 5                        |
| <u>Solid Waste</u> - restricted for landfill closure and post-closure care costs.                                  | 56,338                   |
| <u>Building Development &amp; Management Corporations</u> - restricted for construction projects and debt service. | 3,588                    |
| <u>Construction &amp; Facilities Management</u> - restricted for construction projects and obligations.            | 11                       |
| Total Proprietary Funds restricted assets  | <u><u>\$ 444,499</u></u> |

**Component Unit - Harborview Medical Center (HMC)**

|   |                          |
|---|--------------------------|
| <u>HMC Construction Fund</u> - restricted for construction projects, seismic, public safety and other improvements, and furnishings of HMC buildings.   | \$ 11,686                |
| <u>HMC Special Purpose Fund</u> - restricted donations, gifts, and bequests from various sources for specific uses.   | 8,683                    |
| <u>HMC Operating Fund</u> - restricted resources that are board-designated for specific purposes, including planned capital and service components, self-insurance, commuter services, research and training. | 54,927                   |
| <u>HMC Plant Fund</u> - restricted resources that are board-designated for building improvements, furnishings, and repair and replacement.  | 37,807                   |
| Total HMC restricted assets   | <u><u>\$ 113,103</u></u> |

**Component Unit - Cultural Development Authority of King County (CDA)**

|  |                         |
|--|-------------------------|
| <u>Public Arts Projects Fund</u> - restricted for the one percent for public art programs operated for the benefit of King County. | \$ 2,931                |
| <u>Cultural Grant Awards Fund</u> - restricted for arts and heritage cultural programs.  | 44,703                  |
| Total CDA restricted assets  | <u><u>\$ 47,634</u></u> |

## Note 9

### Pension Plans

Substantially all County employees participate in one of the following pension plans:

- Public Employees' Retirement System (PERS) Plans 1, 2, and 3
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
- Public Safety Employees' Retirement System (PSERS) Plan 2
- Seattle City Employees' Retirement System (SCERS)

PERS, LEOFF, and PSERS are administered by the Washington State Department of Retirement Systems (DRS). DRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

SCERS is administered by City of Seattle's Employees' Retirement System. Historical trend and other information regarding SCERS is presented in the Seattle City Employees' Retirement System annual financial report which is available at [www.seattle.gov/retire](http://www.seattle.gov/retire).

#### **Public Employees' Retirement System (PERS) Plans 1, 2, and 3**

##### Plan Descriptions

The State Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members who joined the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was 5.5 percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index (CPI). The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the CPI), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year

of service. The AFC is the monthly average of the 60 consecutive highest paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the CPI), capped at 3 percent annually.

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members.

Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service

credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the CPI) capped at 3 percent annually.

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

A one-time, duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

#### Judicial Benefit Multiplier

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

|  |                       |
|--|-----------------------|
| Retirees and beneficiaries receiving benefits                          | 85,328                |
| Terminated plan members entitled to,<br>but not yet receiving benefits | 31,047                |
| Active plan members vested   | 150,706               |
| Terminated plan members nonvested                                      | <u>101,191</u>        |
| Total  | <u><u>368,272</u></u> |

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member

contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with RCW 41.40 and 41.45.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members not participating in JBM:

|          | <u>PERS Plan 1</u> | <u>PERS Plan 2</u> | <u>PERS Plan 3</u> |
|----------|--------------------|--------------------|--------------------|
| Employer | 9.21%              | 9.21%              | 9.21%              |
| Employee | 6.00%              | 4.92%              | Variable           |

The employer rates include the employer administrative expense fee currently set at 0.18 percent. PERS Plan 3 is the defined benefit portion only. Variable rate: 5.0% minimum/15.0% maximum based on rate selected by the PERS 3 member.

Members participating in the JBM:

|                             | <u>PERS Plan 1</u> | <u>PERS Plan 2</u> | <u>PERS Plan 3</u> |
|-----------------------------|--------------------|--------------------|--------------------|
| Employer - Local government | 9.21%              | 9.21%              | 9.21%              |
| Employee - Local government | 12.26%             | 12.30%             | 7.50%              |

PERS Plan 3 is the defined benefit portion only and 7.5 percent is the minimum rate for PERS Plan 3 members participating in the JBM. Both the County and the employees made the required contributions.



The County's required contributions for the years ended December 31 (in thousands):

|      | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|------|-------------|-------------|-------------|
| 2012 | \$ 2,255    | \$ 50,402   | \$ 8,621    |
| 2013 | 2,211       | 60,285      | 10,408      |
| 2014 | 2,244       | 73,115      | 12,793      |

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

Plan Descriptions

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The

Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was 5.5 percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS):

| <u>Term of service</u>    | <u>Percent of Final Average</u> |
|---------------------------|---------------------------------|
| 20 or more years          | 2.0%                            |
| 10 but less than 20 years | 1.5%                            |
| 5 but less than 10 years  | 1.0%                            |

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the CPI).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30

percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation

and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

|  |                          |
|--|--------------------------|
| Retirees and beneficiaries receiving benefits                          | 10,511                   |
| Terminated plan members entitled to,<br>but not yet receiving benefits | 699                      |
| Active plan members vested   | 16,830                   |
| Terminated plan members nonvested                                      | <u>1,600</u>             |
| <br>Total  | <br><u><u>29,640</u></u> |

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board.

This special funding situation is not mandated by the state constitution and could be changed by statute.

For DRS' Fiscal Year 2014, Washington State contributed \$55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance RCW 41.26 and 41.45.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

|          | <u>LEOFF<br/>Plan 1</u> | <u>LEOFF<br/>Plan 2</u> |
|----------|-------------------------|-------------------------|
| Employer | 0.18%                   | 5.23%                   |
| Employee | None                    | 8.41%                   |

The employer rates include the employer administrative expense fee currently set at 0.18 percent. Both the County and the employees made the required contributions.

Below are the County's required contributions for the years ended December 31 (in thousands):

|      | <u>LEOFF<br/>Plan 1</u> | <u>LEOFF<br/>Plan 2</u> |
|------|-------------------------|-------------------------|
| 2012 | \$ 1                    | \$ 4,163                |
| 2013 | \$ 1                    | \$ 4,216                |
| 2014 | \$ 1                    | \$ 4,325                |

**Public Safety Employees' Retirement System (PSERS) Plan 2**

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources,
- Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and
- Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or

- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2014, the rate was 5.5 percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service. PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of living allowance is granted (based on the CPI), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost of

living allowance is granted (based on the CPI), capped at 3 percent annually.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors. A one-time duty-related death benefit is provided to the beneficiary or the estate of a PSERS member who

dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

|  |                  |
|--|------------------|
| Retirees and beneficiaries receiving benefits                          | 43               |
| Terminated plan members entitled to,<br>but not yet receiving benefits | 119              |
| Active plan members vested   | 4,513            |
| Terminated plan members nonvested                                      | <u>1,383</u>     |
| <br>Total  | <br><u>6,058</u> |

**Funding Policy**

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with RCW 41.37 and 41.45.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

|          |                         |
|----------|-------------------------|
|          | <u>PSERS<br/>Plan 2</u> |
| Employer | 10.54%                  |
| Employee | 6.36%                   |

The employer rate includes an employer administrative expense fee of 0.18 percent. Both the County and the employees made the required

contributions. The County's required contributions for the year ended December 31 (in thousands):

|      |                         |
|------|-------------------------|
|      | <u>PSERS<br/>Plan 2</u> |
| 2012 | \$ 2,120                |
| 2013 | \$ 2,565                |
| 2014 | \$ 3,064                |

**Seattle City Employees' Retirement System (SCERS)**

SCERS is a cost-sharing, multiple-employer retirement plan administered in accordance with

chapter 4.36 of the Seattle Municipal Code. County employees of the Department of Public Health who have established membership in SCERS remain covered by the City Retirement System. Employees of Public Transportation who

are former employees of Seattle Transit are also covered by the system. SCERS provides retirement, death, and disability benefits.

Employees covered by this plan may retire after 30 years of service regardless of age; after age 52 with 20 years or more of service; after age 57 with 10 or more years of service; and after age 62 with five or more years of service. Disability retirement is available after 10 years of service. The unmodified monthly retirement allowance is based on a percentage of average salary for every year of service to a maximum of 60 percent. The average salary for this plan is defined as the highest consecutive 24-months' average rate of pay. The percentage for each year of service used to compute the retirement benefit depends on the age at retirement and the years of service. It ranges from 1.2 percent at age 52 with 20 years of service to a maximum of 2 percent for each year of service. The maximum allowance a member can receive is the unmodified plan, which has no provision for a beneficiary and, at the member's death, stops all payments. Several optional retirement benefit formulas exist which provide for beneficiaries with reduced monthly allowances.

The SCERS member contribution rate is 14.31 percent of compensation except for members qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 12.89 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County

and the employees made the required contributions. The County's required contributions for the years 2012, 2013 and 2014 ending December 31 were \$540, \$582, and \$620 thousand, respectively.

**Component Unit - Harborview Medical Center (HMC)**

HMC personnel are University of Washington (UW) employees. HMC faculty and professional staff participate in the University of Washington Retirement Plan (UWRP), an IRC Section 403 (b) defined contribution retirement plan, authorized by the Board of Regents. HMC staff participate in a plan authorized by the State of Washington Department of Retirement Systems (DRS). Plan participation is defined by position, with the majority of HMC employees enrolled in one of the three Public Employees' Retirement Systems (PERS) plans.

All plans include contributions by both employee and employer. Employee contributions are tax-deferred. Employer contributions are paid semi-monthly by the UW in accordance with rates specified by the DRS.

**Component Unit - Cultural Development Authority of King County (CDA)**

All CDA personnel participate in PERS, a statewide local government retirement system administered by the DRS under cost-sharing, multiple-employer defined benefit plans.

## Note 10

### Postemployment Health Care Plan

The County is required to accrue other postemployment benefits (OPEB) expense related to its postretirement health care plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the County has recorded a liability of \$59.6 million for the difference between the actuarially calculated ARC and the estimated contributions made.

The effect of GASB No. 45 for the current fiscal year was to decrease the County's excess of revenue over expenses before capital contributions and the County's increase in net position for the year ended December 31, 2014 by approximately \$6.7 million.

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-

benefit health care plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. The Health Plan does not issue a separate stand-alone financial report.

Funding Policy LEOFF 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan.

For the fiscal year ended December 31, 2014, the County contributed an 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 pre-fund benefits.

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

The components of the County's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the County's net OPEB obligation to the Health Plan for the year ended December 31, 2014 (in thousands):

|   |                  |
|---|------------------|
| Normal cost - Unit Credit Method                            | \$ 4,266         |
| Amortization of unfunded actuarial accrued liability (UAAL) | 9,039            |
| Annual Required Contribution (ARC)                          | 13,305           |
| Interest on net OPEB obligation                             | 1,059            |
| Adjustment to annual required contribution                  | (2,525)          |
| Annual OPEB cost (expense)                                  | 11,839           |
| Contributions made  | (5,149)          |
| Increase in net OPEB obligation                             | 6,690            |
| Net OPEB obligation - beginning of year                     | 52,917           |
| Net OPEB obligation - end of year                           | <u>\$ 59,607</u> |

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation (in thousands):

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|---|----------------------------|
| 12/31/2012               | \$ 12,861               | 39.8%   | \$ 46,228                  |
| 12/31/2013               | 11,838                  | 43.5%   | 52,917                     |
| 12/31/2014               | 11,838                  | 43.5%   | 59,607                     |

**Funded Status and Funding Progress**

The funded status of the Health Plan as of December 31, 2014 (in thousands):

|   |                |
|---|----------------|
| Actuarial accrued liability (AAL) – Unit Credit     | \$ 167,420     |
| Actuarial value of plan assets                      | -              |
| Unfunded actuarial accrued liability (UAAL)         | <u>167,420</u> |
| Funded ratio (actuarial value of plan assets ÷ AAL) | <u>0.00%</u>   |
| Covered payroll                                     | \$1,073,511    |
| UAAL as a percentage of covered payroll             | 15.6%          |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The December 31, 2013 valuation used the projected unit credit actuarial cost method. The actuarial assumptions included a 2.29 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 8.0 percent for KingCare medical, 7.0 percent for KingCare pharmacy, and 8.0

percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 4.2 percent after 70 years and 7 years for medical and pharmacy, respectively. The miscellaneous trend rate is 7.0 percent, and the Medicare Premium trend rate is 6.0 percent, for all years. All trend rates include a 3.0 percent inflation assumption. The amortization of the UAAL at transition uses a level dollar amount on an open basis. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 24 years.

**Component Unit – Harborview Medical Center (HMC)**

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). All University of Washington employees, including Medical Center employees, are employees of the State of Washington. State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

An actuarial study performed by the Washington Office of the State Actuary calculated the total OPEB obligation of the State of Washington. Since sufficient specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been recorded in the University's nor the Medical Center's financial statements. This liability is recorded at the statewide level. The Medical Center was billed and paid \$46.7 million and \$56.9 million, for health care expenses for the years ended June 30, 2014, and 2013, respectively, which included funding of the OPEB liability.



**Note 11**  
**Risk Management**

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits 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 Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

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. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

**Insurance Fund**

The Insurance Fund, an internal service fund, accounts for the County's property/casualty

program. The fund accounts for the County's exposures to loss due to the tortious conduct of the County, including those exposures commonly covered by general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2014, is \$72.8 million.

The County purchases excess liability coverage that currently provides \$92.5 million in limits above a \$7.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice exposures.

Effective July 1, 2014, the County renewed the property insurance policy. This policy has a blanket limit of \$500 million above a \$250 thousand per occurrence deductible and provides an overall earthquake sublimit of \$100 million and a flood sublimit of \$250 million.

In addition to its excess liability policy and property insurance policies, the County has the following specific insurance policies to cover some of its other exposures.

| COVERAGE                                    | AMOUNT  | DEDUCTIBLE  |
|---|---|---|
| Aircraft liability & physical damage        | \$50 million per occurrence & scheduled value   | None for liability, \$1,000 to \$85,000 for property damage |
| Crime and fidelity for employee dishonesty  | \$2.5 million   | \$50,000  |
| Excess workers' compensation                | Statutory   | \$2.5 million per occurrence                                |
| Fiduciary liability for employees' benefit  | \$20 million  | None  |
| Foreign liability in general and automobile | \$1 million   | None  |
| Airport general liability                   | \$300 million per occurrence  | \$50,000 aggregate  |
| Airport property damage                     | \$160 million with sublimits of \$100 million for flood and \$50 million for earthquake | \$100,000   |
| Marine (includes Ferry District)            | \$150 million   | Various from \$2,500 to \$75,000                            |
| Parks swimming pools general liability      | \$7.5 million   | \$5,000   |

There was no occurrence that resulted in payment in excess of the \$7.5 million self-insured retention in 2013 or 2014.

historical claims experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability.

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon

Changes in the Insurance Fund's estimated claims liability in 2013 and 2014 (in thousands):

|      | <b>Beginning<br/>of Year<br/>Liability</b> | <b>Claims and<br/>Changes in<br/>Estimates</b> | <b>Claim<br/>Payments</b> | <b>End of Year<br/>Liability</b> |
|------|--|--|---------------------------|----------------------------------|
| 2013 | \$ 68,537                                  | \$ 14,635                                      | \$ (14,742)               | \$ 68,430                        |
| 2014 | 68,430                                     | 14,888   | (10,545)                  | 72,773                           |

**Safety and Workers' Compensation Fund**

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under Title 51 Revised Code of Washington (RCW), Industrial Insurance Act. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation and Water Quality internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the financial statements is not discounted due to low rate of return on investment. As of December 31, 2014, the total claim liability is \$75.7 million.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective September 1, 2004, was \$2.5 million. In the prior three years, there has been no settlement in excess of the insurance coverage.

The Fund's claims liability is estimated by an independent actuary. The claim liability represents the estimated ultimate amount to be paid for reported and incurred but not reported claims based on past experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability.

Changes in the Safety and Workers' Compensation Fund's claims liability in 2013 and 2014 (in thousands):

|      | <b>Beginning<br/>of Year<br/>Liability</b> | <b>Claims and<br/>Changes in<br/>Estimates</b> | <b>Claim<br/>Payments</b> | <b>End of Year<br/>Liability</b> |
|------|--|--|---------------------------|----------------------------------|
| 2013 | \$ 81,305                                  | \$ 13,165                                      | \$ (17,088)               | \$ 77,382                        |
| 2014 | 77,382                                     | 14,819   | (16,502)                  | 75,699                           |

**Employee Benefits Program Fund**

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment (AD&D), and long-term disability (LTD) benefit programs. There are two self-insured medical plans. The pharmacy, dental, and vision plans are also self-insured. The life, AD&D, and LTD are fully insured. Interfund premiums are determined on a per employee, per

month basis and charged to departments through a composite rate of expected claims and expenses. In some cases, there are employee contributions towards premiums.

The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2014, is \$18.5 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2013 and 2014 (in thousands) are shown below:

|      | <b>Beginning<br/>of Year<br/>Liability</b> | <b>Claims and<br/>Changes in<br/>Estimates</b> | <b>Claim<br/>Payments</b> | <b>End of Year<br/>Liability</b> |
|------|--|--|---------------------------|----------------------------------|
| 2013 | \$ 19,721                                  | \$ 204,497                                     | \$ (205,754)              | \$ 18,464                        |
| 2014 | 18,464                                     | 197,073  | (196,996)                 | 18,541                           |

**Component Unit - Harborview Medical Center**

**Insurance Fund**

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2010, the UW did not carry commercial general liability coverage at levels below \$10 million per occurrence. The UW's philosophy, with respect to its self-insurance programs, is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration, based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund was approximately \$2.9 million in the period July 1, 2012 to June 30, 2013, and \$3.2 million in the period July 1, 2013 to June 30, 2014.

**Employee Benefits Program**

Eligible permanent employees of HMC receive the basic insurance benefits package which is purchased by the University of Washington through the Public Employees Benefits Board (PEBB). HMC faculty and staff meeting PEBB eligibility rules receive this package of medical, dental, life, and long-term disability (LTD) insurance. In addition, there are optional employee-paid components to the life and LTD insurance which HMC employees may elect.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services; hospital care; ambulance; appliances; compensation for permanent, partial, and total disability; and allowances and pensions to surviving spouses and children in the case of fatal injuries. A majority of the premium cost is paid by the Medical Center and a small deduction is made from the employee's pay to conform with state law.

**Component Unit – Cultural Development Authority of King County**

Insurance Fund

The Cultural Development Authority of King County (CDA) carries comprehensive general liability, auto liability, and employee benefit liability coverage with a limit of \$10 million per occurrence and no aggregate limit. Commercial property losses are covered up to the replacement cost on file with Enduris Washington. The CDA also carries Public Official Errors and Omissions Liability coverage with a limit of \$10 million per occurrence and an aggregate limit of \$10 million.

Employee Benefits Program

The CDA provides its eligible employees with a comprehensive health benefits package through the Public Employees Benefits Board (PEBB), which includes medical, dental, basic life, and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto, and home insurance. WageWorks, Inc. is the administrating authority. The CDA also offers insurance with American Family Life Assurance Company (AFLAC). With the AFLAC coverage, the CDA employees can pick from a selection of insurance policies at their own expense.

## Note 12

### Leases

#### Capital Leases

King County has entered into agreements to purchase buildings, machinery, and equipment through capital lease and installment purchase

agreements. Assets acquired and liabilities incurred through such agreements for governmental funds are accounted for under Governmental Activities. All capital leases related to Governmental Activities were settled previously. Such assets and liabilities related to proprietary funds are accounted for within the proprietary funds (Business-type Activities).

Capital assets and outstanding liabilities relating to capital lease agreements contracts as of December 31, 2014 (in thousands):

|                        | <u>Business-type Activities</u> |                               |
|------------------------|---------------------------------|-------------------------------|
|                        | <u>Capital Assets</u>           | <u>Capital Leases Payable</u> |
| Leasehold improvements | \$ 4,881                        | \$ 2,874                      |
| Less depreciation      | (2,085)                         | -                             |
| Totals                 | <u>\$ 2,796</u>                 | <u>\$ 2,874</u>               |

Future minimum lease payments under capital lease agreements together with the present value of the net minimum lease payments as of December 31, 2014 (in thousands):

|   | <u>Minimum Lease Payments</u> |
|---|-------------------------------|
| 2015  | \$ 255                        |
| 2016  | 255                           |
| 2017  | 255                           |
| 2018  | 255                           |
| 2019  | 255                           |
| 2020-2024                                   | 1,275                         |
| 2025-2029                                   | 1,275                         |
| 2030-2034                                   | <u>404</u>                    |
| Total minimum lease payments                | 4,229                         |
| Less: Amount representing interest          | (1,355)                       |
| Present value of net minimum lease payments | <u>\$ 2,874</u>               |

#### Operating Leases

The County has numerous operating lease commitments for office space, equipment, radio towers, and railroad tracks. The Information and Telecommunications Services Fund leases computer hardware; these leases include maintenance agreements. Expenditures for the year ended December 31, 2014 for long-term operating expenses for office space, equipment,

and other operating leases amount to \$18.7 million. The patterns of future lease payment requirements are systematic and rational.

Future minimum lease payments for these leases (in thousands):

| <u>Year</u> | <u>Office Space</u> | <u>Other</u> | <u>Total</u> |
|-------------|---------------------|--------------|--------------|
| 2015        | \$ 29,527           | \$ 7,098     | \$ 36,625    |
| 2016        | 28,381              | 6,428        | 34,809       |
| 2017        | 27,596              | 5,755        | 33,351       |
| 2018        | 27,574              | 5,312        | 32,886       |
| 2019        | 27,324              | 4,936        | 32,260       |
| 2020-2024   | 132,681             | 11,851       | 144,532      |
| 2025-2029   | 82,890              | 3,347        | 86,237       |
| 2030-2034   | -                   | 2,319        | 2,319        |
| 2035-2039   | -                   | 1,364        | 1,364        |
| 2040-2044   | -                   | 1,364        | 1,364        |

The County currently leases some of its property to various tenants under long-term, renewable, and noncancelable contracts. Under business-type activities, the King County Airport Enterprise leases out most of the buildings and

grounds in the King County International Airport/Boeing Field complex to companies and government agencies in the aviation industry.

The County's investment in property under long-term, noncancelable operating leases as of December 31, 2014 (in thousands):

|                                    | <u>Governmental activities</u> | <u>Business-type Activities</u> |              |
|------------------------------------|--------------------------------|---------------------------------|--------------|
|                                    |                                | <u>Airport</u>                  | <u>Other</u> |
| Land                               | \$ 65                          | \$ 14,960                       | \$ 87        |
| Buildings                          | 397                            | 26,256                          | -            |
| Less depreciation                  | (397)                          | (12,423)                        | -            |
| Total cost of property under lease | <u>\$ 65</u>                   | <u>\$ 28,793</u>                | <u>\$ 87</u> |

Minimum future lease receipts on noncancelable operating leases based on contract amounts and terms as of December 31, 2014 (in thousands):

| <u>Year(s)</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> |              | <u>Total</u> |
|----------------|--------------------------------|---------------------------------|--------------|--------------|
|                |                                | <u>Airport</u>                  | <u>Other</u> |              |
| 2015           | 3,486                          | 12,172                          | 72           | 15,730       |
| 2016           | 2,386                          | 11,843                          | 38           | 14,267       |
| 2017           | 1,485                          | 11,520                          | 5            | 13,010       |
| 2018           | 1,269                          | 11,399                          | 5            | 12,673       |
| 2019           | 1,129                          | 11,331                          | 5            | 12,465       |
| 2020-2024      | 4,473                          | 53,049                          | 27           | 57,549       |
| 2025-2029      | 4,038                          | 50,733                          | 27           | 54,798       |
| 2030-2034      | 1,182                          | 21,248                          | 27           | 22,457       |

## Note 13

### Landfill Closure and Post-Closure Care

King County is legally responsible for closure and post-closure care costs associated with the County's solid waste landfills. Estimated costs of closure and post-closure care are recognized as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in current dollars. Actual cost may be different due to inflation or deflation, changes in technology, and changes in laws or regulations.

State and federal laws and regulations require King County to place a final cover on its Cedar Hills landfill site when the County stops accepting waste at this location. Certain maintenance and monitoring functions are also required at the sites for 30 years following closure. Enumclaw, Hobart, Duvall, Vashon, and Cedar Falls landfills have been covered. Puyallup, Houghton, Bow Lake, and First Northeast are custodial landfills which were covered 30 or more years ago and are no longer subject to these laws and regulations.

Although closure and post-closure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these costs as an operating expense in each period. The expense is based on landfill capacity used as of each year-end.

The County is required by state and federal laws and regulations to make annual contributions to a reserve fund to finance closure and post-closure care. The County is in compliance with these requirements. As of December 31, 2014, cash and cash equivalents of \$47.5 million were held in the Landfill Reserve Fund and \$8.4 million were held in the Landfill Post-closure Maintenance Fund.

The County expects that future cost increases resulting from inflation will be covered by the interest income earned on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined due to changes in technology or regulations, the County may need to increase future user fees or tax revenues.

The \$101.2 million reported as landfill closure and post-closure care liability as of December 31, 2014, represents the cumulative percentage reported based on the amount that each of the landfills has been filled to date as follows (dollars in thousands):

| Landfill    | Percent Filled | Estimated Liability | Estimated Remaining Liability | Estimated Year of Closure |
|-------------|----------------|---------------------|-------------------------------|---------------------------|
| Cedar Hills | 80.6%          | \$ 73,257           | \$ 23,277                     | 2024                      |
| Covered     | 100%           | 22,317              | -                             | Closed                    |
| Custodial   | 100%           | 5,609               | -                             | Closed                    |

## Note 14

### Pollution Remediation

The County recognizes a liability for pollution remediation whenever the County is obligated for future cleanup and the amounts are reasonably estimable.

Liabilities reported at the end of 2014 do not include potential costs of cleanup that may arise out of the legal issues described in Note 19 - "Legal Matters, Contingent Liabilities, and Other Commitments." The likelihood of negative outcomes in these matters, the amount of liabilities that may arise, and the resultant allocation among potentially responsible parties, cannot be reasonably estimated at this time. The major sites where the County is conducting remediation activities are:

*Elliott Bay and the Lower Duwamish Waterway* - These ongoing projects include the sediment management of aquatic habitats along Elliott Bay and the cleanup of certain sites along the Lower Duwamish Waterway. The Sediment Management Project has been approved by the Metropolitan King County Council as a self-obligated pollution remediation program. The Lower Duwamish Waterway project became an obligation when King County entered into an Administrative Order on Consent (AOC) with the Washington State Department of Ecology (DOE) and the U.S. Environmental Protection Agency (EPA). This AOC also includes the Boeing Company, the City of Seattle, and the Port of Seattle as parties to conduct the studies on which to base the cleanup decision. Each party has agreed to pay one-fourth of the cleanup costs.

Both projects may result in additional cleanup efforts as a result of future regulatory orders. These potential cleanup liabilities cannot be currently estimated. Ongoing regulatory action may identify other PRPs for the Lower Duwamish Waterway cleanup.

There are no estimated recoveries at this time that will reduce the amount of these obligations. However, the State of Washington has indicated that it intends to fund grants in support of the Lower Duwamish Waterway cleanup. The total pollution remediation

liability at December 31, 2014, stands at \$44.8 million. This liability is an estimate and is subject to changes resulting from price increases or reductions, changes in technology, or changes in applicable laws or regulations.

The methods for estimating liabilities continues to be based on internal engineering analysis, program experience, and cost projections 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. For the Lower Duwamish Waterway Project a weighted-average method is used to calculate the liability. The Sediment Management Plan does not employ a weighted-average cost estimate because the remaining work is well-defined which negates the utility of multiple estimates. The cost estimates continue to be re-measured as succeeding benchmarks are reached or when cost assumptions are modified. All pollution remediation obligations are being deferred as assets as permitted by regulatory accounting standards.

*Lake Union Tank and Dearborn Groundwater Monitoring* - The Public Transportation Enterprise reported a pollution remediation liability of \$379 thousand at December 31, 2014. The pollution obligation is primarily related to monitoring soil and ground water contamination at the Lake Union Tank and Dearborn sites (under consent decrees from the DOE, dating back to the mid-1990's) and groundwater monitoring at two bus operation bases on a voluntary basis. The liability was measured at the estimated amounts compiled by Metro Transit staff with knowledge of pollution issues at the sites, using the expected cash flow technique. Cost estimates are subject to changes when additional information becomes available regarding the level of contamination at specific sites, when existing agreements or remediation methods are modified, or when new applicable regulations emerge.

*Gasworks Park* - In 2005, the City of Seattle and Puget Sound Energy (PSE) entered an agreed order with the DOE for investigating and identifying cleanup options for Lake Union



sediments surrounding Gasworks Park. The City and PSE named Metro Transit and Chevron Corporation as additional potentially liable parties (PLP) related to the Gasworks sediment site. Subsequently, the DOE notified Metro Transit and Chevron Corporation that they might be PLPs under the Model Toxics Control Act. The DOE has not issued a final decision regarding Metro Transit's status as a PLP. No liability was recorded because outlays for the site cleanup were not reasonably estimable at December 31, 2014.

*Maury Island Gravel Mine Site* – King County acquired approximately 250 acres of property on Vashon Island back in 2010. The property is within the footprint of the former ASARCO smelter plume, and contains elevated levels of lead and arsenic, a condition that was known at the time of acquisition. In February 2011, King County was named a “potentially liable party” for cleanup of the site by the Washington State Department of Ecology. An Agreed Order between Ecology and King County was finalized in January 2013 requiring the County to conduct a remediation investigation, a feasibility study and a cleanup action plan. The County cannot estimate the cost of remediation at this time. Because the remediation was a prerequisite to the purchase agreement and is a necessary activity to prepare a portion of the land for its intended use, the County intends to capitalize the cost of pollution as part of the land. As of December 31, 2014, the remediation project is in a planning and permitting phase.

*Former Standard Service Station Site* - A tenant took a core sample of soil on undeveloped airport property in an area planned for a future development. The sample indicated that there was contamination in the soil and groundwater that was outside of the standards established by Washington State's Model Toxic Control Act. The Airport then contracted an environmental engineering firm to do a further investigation. The environmental firm confirmed the contamination in a report dated November 13, 2012 and recommended two cleanup alternatives. The estimated liability, which was estimated using the expected cash flow technique, is \$9 thousand at December 31, 2014. Remediation cost estimates are subject to changes due to price increases or reductions,

changes in technology, or changes in applicable laws or agreements.

*7400 Perimeter Road South Cleanup* - In September 2012, a Phase II Environmental Site Assessment was performed on the Standard Gas Oil Parcel located on the west side of Airport Way South and extends across 7490 Perimeter Road South in Seattle. The contaminants of concern identified for soil and groundwater were gasoline and BTEX. A feasibility study was performed in March 2013 to determine remedial alternatives and costs. Remedial action is under way in 2014. Quarterly groundwater monitoring will be performed for a year after remediation. The Airport reported a pollution remediation liability of \$71 thousand at December 31, 2014.

*Hangar 5 Site 7875 PRS* - In August 2013, a Phase II Environmental Site Assessment was completed on the Hangar 5 property located at 7575 and 7585 Perimeter Road South. Gasoline, diesel, and heavy oil range petroleum hydrocarbons were not detected above the laboratory reporting limit in any of the soil samples analyzed. However, BTEX concentrations were detected. Concentrations of benzene exceeding the MTCA Method A cleanup level of 30 ug/kg were detected in samples. PCE and TCE were detected above the MTCA Method A cleanup level of 30 ug/kg. The VOC compounds TCE and DCE were detected at low concentrations in several groundwater samples. Vinyl chloride was detected above the MTCA Method A cleanup level. A Feasibility Study was completed on September 27, 2013 to determine remedial alternatives and costs. Remedial action was underway in 2014. Quarterly groundwater monitoring will be performed for a year after remediation is completed. The Airport reported a pollution remediation liability of \$590 thousand at December 31, 2014.

**Note 15**  
**Debt**

**Short-term Debt Instruments and Liquidity**

The County has \$100 million of commercial paper outstanding in the Water Quality Enterprise Fund

at year-end. The commercial paper has remaining maturity dates ranging from 61 to 92 days as of year-end. At the time of initial issuance, the proceeds of the commercial paper were transferred to the construction fund for use in the capital activities of the Enterprise. The debt will be repaid from operating revenues.

**CHANGES IN SHORT-TERM DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(IN THOUSANDS)**

|  | <u>Balance<br/>01/01/14</u> | <u>Additions</u>  | <u>Reductions</u>   | <u>Balance<br/>12/31/14</u> |
|--|-----------------------------|-------------------|---------------------|-----------------------------|
| <b>Business-type activities:</b>         |                             |                   |                     |                             |
| Commercial paper                         | \$ 100,000                  | \$ 411,110        | \$ (411,110)        | \$ 100,000                  |
| Business-type activities short-term debt | <u>\$ 100,000</u>           | <u>\$ 411,110</u> | <u>\$ (411,110)</u> | <u>\$ 100,000</u>           |

**Long-term Debt**

King County has long-term debt reported with both governmental activities and business-type activities. For governmental activities, long-term debt consists of general obligation bonds and lease revenue bonds accounted for in the Internal Service Funds.

accounted for in the King County International Airport, Institutional Network (I-NET), Solid Waste, Public Transportation, and Water Quality Enterprise Funds; capital leases accounted for in the Public Transportation Fund; and Sewer Revenue Bonds and State of Washington revolving loans accounted for in the Water Quality Enterprise Fund.

For business-type activities, long-term debt consists of limited tax general obligation bonds

King County, Washington

SCHEDULE OF LONG-TERM DEBT  
(IN THOUSANDS)  
(PAGE 1 OF 2)

|   | Issue Date | Final Maturity | Interest Rates          | Original Issue Amount | Outstanding at 12/31/14 |
|---|------------|----------------|-------------------------|-----------------------|-------------------------|
| <b>I. GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT</b>            |            |                |                         |                       |                         |
| IA. Limited Tax General Obligation Bonds (LTGO)               |            |                |                         |                       |                         |
| 2004A LTGO Refunding 1996A Bonds                              | 09/21/04   | 01/01/16       | 2.00-5.00%              | \$ 57,045             | \$ 14,695               |
| 2004B LTGO (Payoff BAN2003A) Bonds                            | 10/01/04   | 01/01/25       | 2.50-5.00%              | 82,435                | 3,905                   |
| 2005A LTGO Refunding 1993B Bonds                              | 06/29/05   | 01/01/19       | 5.00%                   | 22,510                | 4,795                   |
| 2006 LTGO Refunding 1996B, 1997G and 1999A Bonds (Partial)    | 12/14/06   | 01/01/19       | 4.00-5.00%              | 38,330                | 15,045                  |
| 2006 LTGO HUD Section 108 Bonds – Greenbridge Project         | 09/14/06   | 08/01/24       | 4.96-5.70%              | 6,783                 | 2,465                   |
| 2007A LTGO Refunding 1997F (Kingdome Debt) Bonds              | 09/05/07   | 12/01/15       | 4.00-5.00%              | 48,665                | 17,770                  |
| 2007C LTGO (Payoff BAN2006A) Bonds                            | 11/01/07   | 01/01/28       | 4.00-4.50%              | 10,695                | 8,295                   |
| 2007D LTGO (Payoff BAN2006B) Bonds                            | 11/01/07   | 01/01/28       | 4.00-5.00%              | 34,630                | 27,065                  |
| 2007E LTGO Peoplesoft/Oracle Upgrade Bonds (Partial)          | 11/27/07   | 12/01/27       | 4.00-5.00%              | 3,070                 | 1,075                   |
| 2009B2 LTGO Capital Facilities Project Bonds                  | 05/12/09   | 06/01/29       | 2.00-5.13%              | 34,810                | 27,900                  |
| 2009C LTGO Refunding 1993B Bonds                              | 12/10/09   | 01/01/24       | 4.50%                   | 17,150                | 16,975                  |
| 2010A LTGO Refunding 2001 and 2002 Bonds (Partial)            | 10/28/10   | 06/01/21       | 2.00-5.00%              | 21,445                | 14,240                  |
| 2010B LTGO (BABs) (Taxable) Bonds                             | 12/01/10   | 12/01/30       | 2.85-6.05%              | 17,355                | 17,355                  |
| 2010C LTGO (RZEDBs) (Taxable) Bonds                           | 12/01/10   | 12/01/30       | 4.58-6.05%              | 23,165                | 23,165                  |
| 2010D LTGO (QECBs) (Taxable) Bonds                            | 12/01/10   | 12/01/25       | 5.43%                   | 2,825                 | 2,825                   |
| 2010E LTGO (Data Center Relocation) Bonds                     | 12/01/10   | 12/01/30       | 2.00-4.50%              | 10,025                | 8,525                   |
| 2011 LTGO Refunding 2002, 2003A, and 2003B Bonds              | 08/01/11   | 06/01/23       | 2.00-5.00%              | 25,700                | 20,380                  |
| 2011B LTGO Flood Planning/Payoff BAN2010B Bonds               | 12/01/11   | 12/01/19       | 2.00-4.00%              | 5,725                 | 5,725                   |
| 2011C LTGO Flood Planning/Payoff BAN2010C (Taxable) Bonds     | 12/01/11   | 12/01/17       | 0.03-1.85%              | 15,530                | 7,470                   |
| 2011D LTGO (Maury Island/Open Space Acquisition) Bonds        | 12/21/11   | 12/01/31       | 2.00-3.50%              | 21,895                | 17,685                  |
| 2012A LTGO (ABT Project) Bonds                                | 03/29/12   | 07/01/22       | 3.00-5.00%              | 65,935                | 62,015                  |
| 2012B LTGO (S. Park Bridge) Bonds                             | 05/08/12   | 09/01/32       | 3.00-5.00%              | 28,065                | 26,410                  |
| 2012C LTGO Refunding 2004B and 2005 Bonds                     | 08/28/12   | 01/01/25       | 5.00%                   | 54,260                | 54,260                  |
| 2012D LTGO Refunding 2002BOP Lease (HMC) Bonds                | 11/29/12   | 12/01/31       | 2.00-5.00%              | 41,810                | 38,815                  |
| 2012E LTGO SE District Court Relocation Bonds (Partial)       | 12/19/12   | 12/01/27       | 2.00-5.00%              | 3,000                 | 2,680                   |
| 2012F LTGO (QECBs) (Taxable) KCCF HVAC Project (Partial)      | 12/19/12   | 12/01/22       | 2.20%                   | 3,010                 | 3,010                   |
| 2013 Multi-Modal LTGO Variable Rate Refunding 2009A Bonds     | 08/06/13   | 06/01/29       | Variable <sup>(a)</sup> | 41,460                | 39,400                  |
| 2013B LTGO Refunding 2005 GHP Lease Bonds                     | 12/19/13   | 12/01/26       | 3.00-5.00%              | 42,820                | 42,820                  |
| 2014A LTGO Refunding 2005 GHP Lease Bonds                     | 02/26/14   | 12/01/32       | 5.00%                   | 34,815                | 34,420                  |
| 2014B LTGO (Tall Chief Acquisition/SWM) Bonds                 | 06/24/14   | 06/01/34       | 2.00-5.00%              | 15,395                | 15,395                  |
| Total Payable From Limited Tax GO Redemption Fund             |            |                |                         | <u>830,358</u>        | <u>576,580</u>          |
| Payable From Internal Service Funds                           |            |                |                         |                       |                         |
| 2010B LTGO (BABs) (Taxable) Bonds                             | 12/01/10   | 12/01/30       | 4.58-6.05%              | 7,125                 | 7,125                   |
| 2012E LTGO (IT Business Empowerment) Bonds (Partial)          | 12/19/12   | 12/01/27       | 2.00-5.00%              | 22,405                | 20,680                  |
| Total Payable From Internal Service Funds                     |            |                |                         | <u>29,530</u>         | <u>27,805</u>           |
| Total Limited Tax General Obligation Debt                     |            |                |                         | <u>859,888</u>        | <u>604,385</u>          |
| IB. Unlimited Tax General Obligation Bonds (UTGO)             |            |                |                         |                       |                         |
| Payable From Unlimited Tax GO Redemption Fund                 |            |                |                         |                       |                         |
| 2009A UTGO Refunding 2001(HMC) Bonds                          | 12/10/09   | 12/01/20       | 4.30-5.00%              | 19,570                | 12,160                  |
| 2010A UTGO Refunding 2000 Bonds                               | 10/28/10   | 12/01/15       | 3.00-5.00%              | 16,305                | 455                     |
| 2012 UTGO Refunding 2004 (HMC) and 2004B (HMC) Bonds          | 08/14/12   | 12/01/23       | 2.00-5.00%              | 94,610                | 93,420                  |
| 2013 UTGO Refunding 2003 Bonds                                | 07/02/13   | 06/01/19       | 3.00-5.00%              | 8,660                 | 7,220                   |
| Total Payable From Unlimited Tax GO Bond Redemption Fund      |            |                |                         | <u>139,145</u>        | <u>113,255</u>          |
| IC. Lease Revenue Bonds <sup>(b)</sup>                        |            |                |                         |                       |                         |
| Payable From Internal Service Funds                           |            |                |                         |                       |                         |
| 2006A NJB Properties – HMC                                    | 12/05/06   | 12/01/36       | 5.00%                   | 179,285               | 164,165                 |
| 2006B NJB Properties – HMC (Taxable)                          | 12/05/06   | 12/01/36       | 5.51%                   | 10,435                | 9,610                   |
| 2007 King Street Center Project Refunding 1997                | 03/08/07   | 06/01/25       | 4.00-5.00%              | 62,400                | 44,125                  |
| Total Lease Revenue Bonds Payable from Internal Service Funds |            |                |                         | <u>252,120</u>        | <u>217,900</u>          |
| <b>TOTAL GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT</b>         |            |                |                         | <u>1,251,153</u>      | <u>935,540</u>          |

King County, Washington

**SCHEDULE OF LONG-TERM DEBT**  
(IN THOUSANDS)  
(PAGE 2 OF 2)

|   | <b>Issue Date</b> | <b>Final Maturity</b> | <b>Interest Rates</b>   | <b>Original Issue Amount</b> | <b>Outstanding at 12/31/14</b> |
|---|-------------------|-----------------------|-------------------------|------------------------------|--------------------------------|
| <b>II. BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT</b>                        |                   |                       |                         |                              |                                |
| <b>IIA. Limited Tax General Obligation Bonds (LTGO)</b>                     |                   |                       |                         |                              |                                |
| Payable From Enterprise Funds   |                   |                       |                         |                              |                                |
| 2006 LTGO Refunding 1999A Bonds (Partial)                                   | 12/14/06          | 01/01/15              | 4.00-5.00%              | \$ 7,995                     | \$ 675                         |
| 2007E LTGO (Solid Waste) Bonds (Partial)                                    | 11/27/07          | 12/01/27              | 4.00-5.00%              | 40,635                       | 20,575                         |
| 2008 LTGO (WQ) Refunding 1998B Bonds  | 02/12/08          | 01/01/34              | 3.25-5.25%              | 236,950                      | 219,505                        |
| 2009 LTGO (Transit) Refunding 1998A Bonds                                   | 02/18/09          | 12/01/19              | 2.00-4.00%              | 48,535                       | 23,980                         |
| 2009B LTGO (WQ) Capital Improvement Projects Bonds                          | 04/08/09          | 07/01/39              | 5.00-5.25%              | 300,000                      | 294,105                        |
| 2010A LTGO Refunding 2001 (Airport) Bonds (Partial)                         | 10/28/10          | 06/01/21              | 2.00-5.00%              | 5,110                        | 3,680                          |
| 2010B LTGO (BABs) (Transit) Taxable Bonds                                   | 12/01/10          | 12/01/30              | 2.85-6.05%              | 20,555                       | 20,555                         |
| 2010D LTGO (QECBs) (Transit) Taxable Bonds                                  | 12/01/10          | 12/01/20              | 4.33%                   | 3,000                        | 3,000                          |
| 2010A Multi-Modal LTGO (WQ) Bonds   | 01/12/10          | 01/01/40              | Variable <sup>(a)</sup> | 50,000                       | 50,000                         |
| 2010B Multi-Modal LTGO (WQ) Bonds   | 01/12/10          | 01/01/40              | Variable <sup>(a)</sup> | 50,000                       | 50,000                         |
| 2012A LTGO (WQ) Refunding 2005A Bonds                                       | 04/18/12          | 01/01/25              | 2.00-5.00%              | 68,395                       | 67,755                         |
| 2012B LTGO (WQ) Refunding 2005A Bonds                                       | 08/02/12          | 01/01/29              | 5.00%                   | 41,725                       | 41,725                         |
| 2012C LTGO (WQ) Refunding 2005A Bonds                                       | 09/19/12          | 01/01/34              | 5.00%                   | 53,405                       | 53,405                         |
| 2012D LTGO (Transit) Refunding 2002 and 2004 Bonds                          | 10/16/12          | 06/01/34              | 2.00-5.00%              | 71,670                       | 62,405                         |
| 2012F LTGO (WQ) (South Plant Pump) Bonds                                    | 12/19/12          | 12/01/22              | 2.20%                   | 3,010                        | 3,010                          |
| 2013 LTGO (Solid Waste) Bonds   | 02/27/13          | 12/01/40              | 3.10-5.00%              | 77,100                       | 74,070                         |
| 2014C LTGO & Refunding 2007E (Solid Waste) Bonds                            | 07/30/14          | 12/01/34              | 2.00-5.00%              | 25,515                       | 25,170                         |
| Total Limited Tax GO Bonds Payable From Enterprise Funds                    |                   |                       |                         | <u>1,103,600</u>             | <u>1,013,615</u>               |
| <b>IIB. Revenue Bonds, Capital Leases and Loans</b>                         |                   |                       |                         |                              |                                |
| Payable From Enterprise Funds   |                   |                       |                         |                              |                                |
| 2001A WQ Revenue Junior Lien Variable Rate Demand Bonds                     | 08/06/01          | 01/01/32              | Variable <sup>(c)</sup> | \$ 50,000                    | \$ 50,000                      |
| 2001B WQ Revenue Junior Lien Variable Rate Demand Bonds                     | 08/06/01          | 01/01/32              | Variable <sup>(c)</sup> | 50,000                       | 50,000                         |
| 2006A WQ Revenue and Refunding 1999-1 Bonds                                 | 05/16/06          | 01/01/36              | 5.00%                   | 124,070                      | 24,070                         |
| 2006B2 WQ Revenue and Refg 1999-1, 02A & 96C WQ-LTGO Bonds                  | 11/30/06          | 01/01/36              | 3.50-5.00%              | 193,435                      | 128,765                        |
| 2007 WQ Revenue (Capital Improvement Projects) Bonds                        | 06/26/07          | 01/01/47              | 5.00%                   | 250,000                      | 144,335                        |
| 2008 WQ Revenue (Capital Improvement Projects) Bonds                        | 08/14/08          | 01/01/48              | 5.00-5.75%              | 350,000                      | 309,750                        |
| 2009 WQ Revenue (Capital Improvement Projects) Bonds                        | 08/12/09          | 01/01/42              | 4.00-5.25%              | 250,000                      | 247,290                        |
| 2010 WQ Revenue & Refunding 2001 Bonds                                      | 07/19/10          | 01/01/50              | 2.00-5.00%              | 334,365                      | 323,355                        |
| 2011 WQ Revenue (Capital Improvement Projects) Bonds                        | 01/25/11          | 01/01/41              | 5.00-5.125%             | 175,000                      | 171,795                        |
| 2011B WQ Revenue Refunding 2001, 2002A, 2002B, and 04A Bonds                | 10/05/11          | 01/01/41              | 1.00-5.00%              | 494,270                      | 436,450                        |
| 2011C WQ Revenue Refunding 2001, 2002A, and 2004A Bonds                     | 11/01/11          | 01/01/35              | 3.00-5.00%              | 32,445                       | 32,445                         |
| 2011 WQ Revenue Junior Lien Variable Rate Demand Bonds                      | 10/26/11          | 01/01/42              | Variable <sup>(c)</sup> | 100,000                      | 100,000                        |
| 2012 WQ Revenue and Refunding 2004A Bonds                                   | 04/18/12          | 01/01/52              | 5.00%                   | 104,445                      | 104,445                        |
| 2012B WQ Revenue and Refunding 2004A Bonds                                  | 08/02/12          | 01/01/35              | 4.00-5.00%              | 64,260                       | 64,260                         |
| 2012C WQ Revenue and Refunding 2004A and 2006 Bonds                         | 09/19/12          | 01/01/33              | 2.50-5.00%              | 65,415                       | 65,415                         |
| 2012 WQ Revenue Junior Lien Variable Rate Demand Bonds                      | 12/27/12          | 01/01/43              | Variable <sup>(c)</sup> | 100,000                      | 100,000                        |
| 2013A WQ Revenue Refg 2003, 2006, and 2005 WQ-LTGO Bonds                    | 04/09/13          | 01/01/35              | 2.00-5.00%              | 122,895                      | 119,495                        |
| 2013B WQ Revenue and Refunding 2004B Bonds                                  | 10/29/13          | 01/01/44              | 2.00-5.00%              | 74,930                       | 74,475                         |
| 2014A WQ Revenue Refunding 2007 Bonds                                       | 07/08/14          | 01/01/47              | 5.00%                   | 75,000                       | 75,000                         |
| 2014B WQ Revenue Refg 2004B, 2006, 2006B, 2007 and 2008 Bonds               | 08/12/14          | 07/01/35              | 1.00-5.00%              | 192,460                      | 192,460                        |
| 2000-2014 State of Washington Revolving Loans                               | Various           | Various               | 0.50-3.10%              | 195,906                      | 159,053                        |
| 2000 Public Transp. Park and Ride Capital Leases                            | 03/30/00          | 12/31/31              | 5.00%                   | 4,722                        | 2,874                          |
| Total Revenue Bonds, Capital Leases and Loans Payable From Enterprise Funds |                   |                       |                         | <u>3,403,618</u>             | <u>2,975,732</u>               |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT</b>                      |                   |                       |                         | <u>4,507,218</u>             | <u>3,989,347</u>               |
| <b>TOTAL LONG-TERM DEBT (EXCLUDING GO LONG-TERM LIABILITIES)</b>            |                   |                       |                         | <u>\$ 5,758,371</u>          | <u>\$ 4,924,887</u>            |

(a) The Multi-Modal bonds initially issued in the Weekly Mode bear interest at Weekly Rates. The bonds in the Weekly Mode may be converted to Daily Mode, Flexible Mode, Term Rate Mode or Fixed Rate Mode.

(b) Lease revenue bonds were issued in accordance with the provisions of Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the lease agreements, the County's obligation to pay rent is a limited tax general obligation.

(c) The junior lien variable rate demand bonds initially issued in the Weekly Mode will bear interest at Weekly Rates. The Weekly Rate for each Interest Period is determined by the Remarketing Agents. The bonds in the Weekly Mode may be changed to or from the Weekly Mode to or from a Daily Mode, a Commercial Paper Mode, or a Long-term Mode, or to a Fixed Mode, upon satisfaction of the "Change in Modes" conditions.

King County, Washington

DEBT SERVICE REQUIREMENTS TO MATURITY  
(IN THOUSANDS)

| GOVERNMENTAL ACTIVITIES |                          |            |                     |            |            |            |
|-------------------------|--------------------------|------------|---------------------|------------|------------|------------|
| Year                    | General Obligation Bonds |            | Lease Revenue Bonds |            | Total      |            |
|                         | Principal                | Interest   | Principal           | Interest   | Principal  | Interest   |
| 2015                    | 83,852                   | 29,922     | 7,820               | 10,587     | 91,672     | 40,509     |
| 2016                    | 67,626                   | 26,542     | 8,200               | 10,208     | 75,826     | 36,750     |
| 2017                    | 59,212                   | 23,910     | 8,595               | 9,810      | 67,807     | 33,720     |
| 2018                    | 56,728                   | 21,437     | 9,010               | 9,394      | 65,738     | 30,831     |
| 2019                    | 58,375                   | 18,968     | 9,430               | 8,977      | 67,805     | 27,945     |
| 2020-2024               | 229,887                  | 58,792     | 54,390              | 37,643     | 284,277    | 96,435     |
| 2025-2029               | 120,565                  | 21,398     | 43,950              | 25,635     | 164,515    | 47,033     |
| 2030-2034               | 41,395                   | 3,379      | 51,905              | 14,272     | 93,300     | 17,651     |
| 2035-2039               | -                        | -          | 24,600              | 1,871      | 24,600     | 1,871      |
| TOTAL                   | \$ 717,640               | \$ 204,348 | \$ 217,900          | \$ 128,397 | \$ 935,540 | \$ 332,745 |

| BUSINESS-TYPE ACTIVITIES |                          |            |   |              |              |              | DEBT SERVICE REQUIREMENTS TO MATURITY |              |
|--------------------------|--------------------------|------------|---|--------------|--------------|--------------|---------------------------------------|--------------|
| Year                     | General Obligation Bonds |            | Revenue Bonds, Capital Leases and Loans |              | Total        |              | Total                                 |              |
|                          | Principal                | Interest   | Principal                               | Interest     | Principal    | Interest     | Principal                             | Interest     |
| 2015                     | 25,065                   | 47,951     | 62,862                                  | 135,512      | 87,927       | 183,463      | 179,599                               | 223,972      |
| 2016                     | 25,475                   | 46,822     | 63,856                                  | 134,129      | 89,331       | 180,951      | 165,157                               | 217,701      |
| 2017                     | 37,670                   | 45,452     | 55,753                                  | 131,755      | 93,423       | 177,207      | 161,230                               | 210,927      |
| 2018                     | 39,415                   | 43,635     | 61,534                                  | 129,458      | 100,949      | 173,093      | 166,687                               | 203,924      |
| 2019                     | 41,265                   | 41,722     | 62,557                                  | 126,981      | 103,822      | 168,703      | 171,627                               | 196,648      |
| 2020-2024                | 183,465                  | 181,831    | 334,026                                 | 593,813      | 517,491      | 775,644      | 801,768                               | 872,079      |
| 2025-2029                | 216,325                  | 132,651    | 393,151                                 | 511,122      | 609,476      | 643,773      | 773,991                               | 690,806      |
| 2030-2034                | 231,140                  | 78,375     | 571,664                                 | 397,695      | 802,804      | 476,070      | 896,104                               | 493,721      |
| 2035-2039                | 109,810                  | 37,207     | 417,275                                 | 270,366      | 527,085      | 307,573      | 551,685                               | 309,444      |
| 2040-2044                | 103,985                  | 4,567      | 613,885                                 | 147,778      | 717,870      | 152,345      | 717,870                               | 152,345      |
| 2045-2049                | -                        | -          | 293,915                                 | 43,507       | 293,915      | 43,507       | 293,915                               | 43,507       |
| 2050-2054                | -                        | -          | 45,254                                  | 2,588        | 45,254       | 2,588        | 45,254                                | 2,588        |
| TOTAL                    | \$ 1,013,615             | \$ 660,213 | \$ 2,975,732                            | \$ 2,624,704 | \$ 3,989,347 | \$ 3,284,917 | \$ 4,924,887                          | \$ 3,617,662 |

King County, Washington

Summary of changes in long-term liabilities for the year ended December 31, 2014 (in thousands):

|  | <u>Balance<br/>01/01/14</u> | <u>Additions</u>  | <u>Reductions</u>   | <u>Balance<br/>12/31/14</u> | <u>Due Within<br/>One Year</u> |
|--|-----------------------------|-------------------|---------------------|-----------------------------|--------------------------------|
| <b>Governmental activities:</b>  |                             |                   |                     |                             |                                |
| Bonds payable:   |                             |                   |                     |                             |                                |
| General obligation bonds   | \$ 741,373                  | \$ 50,210         | \$ (73,943)         | \$ 717,640                  | \$ 83,852                      |
| Lease revenue bonds <sup>(a)</sup>                                     | 265,325                     | -                 | (47,425)            | 217,900                     | 7,820                          |
| Less: Unamortized bonds premium<br>and discount                        | <u>71,193</u> *             | <u>6,662</u>      | <u>(14,529)</u>     | <u>63,326</u>               | <u>-</u>                       |
| Total bonds payable  | <u>1,077,891</u>            | <u>56,872</u>     | <u>(135,897)</u>    | <u>998,866</u>              | <u>91,672</u>                  |
| Compensated absences liability   | 97,638                      | 113,086           | (112,304)           | 98,420                      | 5,123                          |
| Other postemployment benefits  | 42,531                      | 5,461             | (116)               | 47,876                      | -                              |
| Unemployment compensated liabilities                                   | 2,569                       | -                 | (2,569)             | -                           | -                              |
| Wetlands Mitigation  | -                           | 6,455             | -                   | 6,455                       | -                              |
| Estimated claims settlements<br>and other liabilities                  | <u>194,185</u>              | <u>234,587</u>    | <u>(233,350)</u>    | <u>195,422</u>              | <u>52,695</u>                  |
| Total Governmental activities<br>long-term liabilities                 | <u>\$ 1,414,814</u>         | <u>\$ 416,461</u> | <u>\$ (484,235)</u> | <u>\$ 1,347,039</u>         | <u>\$ 149,490</u>              |
| <b>Business-type activities:</b>                                       |                             |                   |                     |                             |                                |
| Bonds payable:   |                             |                   |                     |                             |                                |
| General obligation bonds   | \$ 1,022,010                | \$ 25,515         | \$ (33,910)         | \$ 1,013,615                | \$ 25,065                      |
| Revenue bonds  | 2,866,085                   | 267,460           | (319,740)           | 2,813,805                   | 51,615                         |
| Less: Unamortized bonds premium<br>and discount                        | <u>194,273</u>              | <u>36,234</u>     | <u>(22,802)</u>     | <u>207,705</u>              | <u>-</u>                       |
| Total bonds payable  | <u>4,082,368</u>            | <u>329,209</u>    | <u>(376,452)</u>    | <u>4,035,125</u>            | <u>76,680</u>                  |
| Capital leases   | 2,983                       | -                 | (109)               | 2,874                       | 114                            |
| State revolving loans  | 146,672                     | 22,343            | (9,962)             | 159,053                     | 11,133                         |
| Compensated absences liability   | 70,787                      | 80,444            | (80,114)            | 71,117                      | 9,666                          |
| Other postemployment benefits  | 10,390                      | 1,894             | (549)               | 11,735                      | -                              |
| Landfill closure and post-closure<br>care liability                    | 89,965                      | 11,218            | -                   | 101,183                     | 4,804                          |
| Pollution remediation  | 46,330                      | 5,180             | (5,661)             | 45,849                      | 5,632                          |
| Customer deposits  | <u>747</u>                  | <u>215</u>        | <u>(20)</u>         | <u>942</u>                  | <u>392</u>                     |
| Total Business-type activities<br>long-term liabilities <sup>(b)</sup> | <u>\$ 4,450,242</u>         | <u>\$ 450,503</u> | <u>\$ (472,867)</u> | <u>\$ 4,427,878</u>         | <u>\$ 108,421</u>              |

Governmental activities long-term liabilities, other than debt, are primarily estimated claims settlements liquidated by internal service funds. At year-end, internal service funds estimated claims settlements of \$167.0 million are included in the above amount. Governmental activities compensated absences and other postemployment benefits are liquidated by the governmental fund in which an employee receiving the payment is budgeted, including most notably the General Fund, the Public Health Fund, and the County Road Fund.

(a) Lease revenue bonds were issued in accordance with the provisions of Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the lease agreements, the County's obligation to pay rent is a limited tax general obligation.

(b) The beginning balance of retainage payable in the amount of \$7 million was reclassified from noncurrent liabilities to current liabilities in 2014 for the business-type activities long-term liabilities.

\* Restated

**Computation of Legal Debt Margin**

Under Washington State law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2.5 percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people; any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last state general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an

amount up to 1.5 percent of assessed value of property within the County for general county purposes and 0.75 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1.5 percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2.5 percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the \$1.80 per \$1,000 of assessed value operating levy.

The legal debt margin computation for the year ended December 31, 2014 (in thousands):

|   |                       |
|---|-----------------------|
| 2014 ASSESSED VALUE (2015 TAX YEAR)   | <u>\$ 388,118,856</u> |
| Debt limit of limited tax (LT) general obligations for metropolitan functions   |                       |
| 0.75 % of assessed value  | \$ 2,910,891          |
| Less: Net LT general obligation indebtedness for metropolitan functions   | <u>(1,084,234)</u>    |
| LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS  | <u>\$ 1,826,657</u>   |
| <br>  |                       |
| Debt limit of LT general obligations for general county purposes and metropolitan functions - 1.5 % of assessed value | \$ 5,821,783          |
| Less: Net LT general obligation indebtedness for general county purposes  | <u>(971,457)</u>      |
| Net LT general obligation indebtedness for metropolitan functions   | <u>(1,084,234)</u>    |
| Net total LT general obligation indebtedness for general county purposes and metropolitan functions                   | <u>(2,055,691)</u>    |
| LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS                              | <u>\$ 3,766,092</u>   |
| <br>  |                       |
| Debt limit of total general obligations for metropolitan functions  |                       |
| 2.5 % of assessed value   | \$ 9,702,971          |
| Less: Net total general obligation indebtedness for metropolitan functions  | <u>(1,084,234)</u>    |
| TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS   | <u>\$ 8,618,737</u>   |
| <br>  |                       |
| Debt limit of total general obligations for general county purposes   |                       |
| 2.5 % of assessed value   | \$ 9,702,971          |
| Less: Net unlimited tax general obligation indebtedness for general county purposes                                   | <u>(106,106)</u>      |
| Net LT general obligation indebtedness for general county purposes  | <u>(971,457)</u>      |
| Net total general obligation indebtedness for general county purposes   | <u>(1,077,563)</u>    |
| TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES  | <u>\$ 8,625,408</u>   |

**Refunding and Defeasing General Obligation Bond Issues – 2014**

**Limited Tax General Obligation (GO) Refunding Bonds, 2014A** – On February 26, 2014, the County issued \$34.8 million in limited tax general obligation bonds, 2014A with an effective interest cost of 4.0 percent to advance refund \$37.1 million of outstanding limited tax GO lease revenue bonds, 2005 Goat Hill Properties with an effective interest rate of 4.9 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$1.8 million. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2032, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$4.9 million over the life of the new bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$3 million.

**Limited Tax General Obligation and Refunding (Solidwaste) Bonds, 2014C** – On July 30, 2014, the County issued \$25.5 million in limited tax general obligation bonds, 2014C of which \$9.8 million with an effective interest cost of 2.4 percent was to advance refund \$10 million of outstanding limited tax general obligation bonds, 2007E, with an effective interest rate of 5.0 percent. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the business-type activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$1.1 million. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2024, using the

outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$790 thousand over the life of the new bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$697 thousand.

**Refunding and Defeasing Sewer Revenue Bond Issues – 2014**

**Sewer Revenue Refunding Bonds, 2014A** – On July 8, 2014, the County issued \$75 million in sewer revenue refunding bonds, 2014A, with an effective interest cost of 4.2 percent to purchase \$75 million of outstanding sewer revenue bonds, 2007, with an average coupon rate of 5.0 percent.

The reacquisition price exceeded the net carrying amount of the old debt by \$3.5 million. This transaction resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$5.3 million.

**Sewer Revenue Refunding Bonds, 2014B** – On August 12, 2014, the County issued \$192.5 million in sewer revenue refunding bonds, 2014B, with an effective interest cost of 3.4 percent to advance refund \$195.9 million of outstanding sewer revenue bonds, 2004B, 2006-1, 2006-2, 2007 and 2008 bonds, with an effective interest rate of 5.0 percent.

The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the business-type activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$15.8 million. This amount, reported in the statement of net position as a reduction in bonds payable, is being charged to operations through fiscal year 2036, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by \$32 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of \$20.1 million.



**Refunded Bonds**

King County has seven refunded and defeased bond issues consisting of limited tax general obligation bonds (\$268.9 million) and sewer revenue bonds (\$216.7 million) that were originally reported in the Primary Government's statement of net position. The payments of principal and interest on these bond issues are the responsibility of the escrow agent, U.S. Bank of Washington, and the liability for the defeased bonds has been removed from the statement of net position.

**Note 16**  
**Interfund Balances and Transfers**

**Interfund Balances**

Due from/to other funds and interfund short-term loans receivable and payable (in thousands):

Fund types with account balances of less than \$500 thousand are aggregated into "All Others."

| <u>Receivable Fund</u>           | <u>Payable Fund</u>         | <u>Amount</u>        |
|----------------------------------|-----------------------------|----------------------|
| General Fund                     | All Others                  | \$ 92                |
| Public Health Fund               | All Others                  | 16                   |
| Mental Health Fund               | All Others                  | 290                  |
| Nonmajor Governmental Funds      | General Fund                | 1,374                |
|                                  | Nonmajor Governmental Funds | 2,181                |
|                                  | All Others                  | 22                   |
| Public Transportation Enterprise | Public Health Fund          | 20,780               |
|                                  | All Others                  | 474                  |
| Water Quality Enterprise         | Nonmajor Governmental Funds | 810                  |
|                                  | All Others                  | 340                  |
| Nonmajor Enterprise Funds        | Nonmajor Governmental Funds | 5,710                |
|                                  | All Others                  | 443                  |
| Internal Service Funds           | Nonmajor Governmental Funds | 1,357                |
|                                  | All Others                  | 215                  |
| <br>Total                        |                             | <br><u>\$ 34,104</u> |

The interfund balances resulted from the time lag between the dates: (1) when interfund goods and services were provided or reimbursable expenditures incurred, and when interfund payments were made; and (2) when interfund short-term loans were made and when the loans were repaid. \$20.8 million due from Public Health Fund to the Public Transportation Enterprise was short-term loan made for the purpose of cash flow.

**Advances from/to other funds (in thousands)**

| <u>Receivable Fund</u>      | <u>Payable Fund</u>         | <u>Amount</u>   |
|-----------------------------|-----------------------------|-----------------|
| General Fund                | Nonmajor Governmental Funds | \$ 300          |
| Nonmajor Governmental Funds | Nonmajor Governmental Funds | 5,475           |
| Nonmajor Enterprise Funds   | Nonmajor Enterprise Funds   | 607             |
| Total                       |                             | <u>\$ 6,382</u> |

All of these advances consisted of loans made for the purpose of cash flow. None of the advances are scheduled to be repaid in 2015.

**Interfund Transfers (in thousands)**

Fund types with account balances of less than \$500 thousand are aggregated into "All Others."

| <u>Transfers Out</u>             | <u>Transfers In</u>         | <u>Amount</u>     |
|----------------------------------|-----------------------------|-------------------|
| General Fund                     | Public Health Fund          | \$ 29,858         |
|                                  | Nonmajor Governmental Funds | 41,420            |
|                                  | All Others                  | 713               |
| Public Health Fund               | All Others                  | 399               |
| Mental Health Fund               | All Others                  | 4                 |
| Nonmajor Governmental Funds      | Public Health Fund          | 330               |
|                                  | Nonmajor Governmental Funds | 92,704            |
|                                  | Nonmajor Enterprise Funds   | 698               |
|                                  | Internal Service Funds      | 1,274             |
| Public Transportation Enterprise | All Others                  | 119               |
|                                  | Nonmajor Governmental Funds | 1,313             |
|                                  | All Others                  | 42                |
| Water Quality Enterprise         | All Others                  | 173               |
| Nonmajor Enterprise Funds        | All Others                  | 262               |
| Internal Service Funds           | Nonmajor Governmental Funds | 9,203             |
|                                  | All Others                  | 208               |
| Total transfers out              |                             | <u>\$ 178,720</u> |

Transfers are used to move resources from a fund collecting them to the fund using them, as required by statute or budget, and to account for ongoing operating subsidies between funds in accordance with budget authorizations.

## Note 17

### Related Party Transactions

Harborview Medical Center (HMC), a discretely presented component unit of King County, makes monthly occupancy fee and rental payments to the County for use of the Patricia Steel Memorial Building and the Ninth & Jefferson Building. The County became the legal owner of the Patricia Steel Memorial Building in December 2012 when it refinanced the original developer issued bonds. HMC will continue to use the building. Rent is also paid by HMC to the County for use of Ninth and Jefferson Building (NJB), owned by a nonprofit corporation that is a blended component unit of the County. The County is contractually obligated for the debt service on the lease revenue bonds issued by the nonprofit which funded construction of NJB. In both situations, HMC has agreed to include the annual rental payments in their operating budget for as long as they use the buildings. In 2014, the primary government received \$17.6 million in building lease and occupancy revenues from HMC.

The Cultural Development Authority (CDA), a discretely presented component unit of King County, annually receives funding from various County funds under the One Percent for Art program. Revenues are used to support activities related to the development and maintenance of County public art. In 2014, the King County primary government transferred \$1.4 million to the CDA. The CDA spent \$551 thousand on art projects for which the County recorded a corresponding decrease in receivables from the CDA and an increase in artwork work-in-progress.

The Public Transportation Enterprise (Transit) entered into a ground lease agreement as lessor with King County Housing Authority (KCHA) for the development of affordable housing units and a parking garage in the City of Redmond. The land under the lease has a cost of \$1.3 million. KCHA is a related organization of King County. The lease provides for a minimum set-aside of 150 parking stalls for park-and-ride commuters.

The lease calls for an annual lease payment with a 3.0 percent increase each year, commencing with the year ended December 31, 2003. The lease payment is due within 90 days following the end of each calendar year. A portion of the annual lease payment is restricted for use on future Federal Transit Administration projects. The term of the lease is 50 years with one option to extend for 25 years. Metro Transit recorded lease revenue of \$42 thousand for 2014. The lease and loan payments are payable out of net cash flow in the order and priority established in the lease.

## Note 18

### Restrictions, Components of Fund Balance, and Changes in Equity

#### Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is classified into three components:

Net investment in capital assets – Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt attributed to the acquisition, construction, or improvement of those assets.

Restricted net position – Results when constraints are placed on net position use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net position – Consists of net position that does not meet the definition of the two preceding categories.

#### Components of Fund Balance

King County's governmental fund balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

· *Nonspendable*. Balances that either are not in a spendable form or are legally or contractually required to remain intact.

· *Restricted*. Balances restricted for specific purposes by the constitution, enabling legislation or external resource providers such as creditors, grantors, or laws or regulations of other governments.

· *Committed*. Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the King County Council. A Council ordinance or motion is required to establish, modify or rescind a commitment of fund balance.

· *Assigned*. Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed. Assignments are authorized by chief officers of executive departments and administrative offices.

· *Unassigned*. Residual balances that are not contained in the other classifications.

Rainy Day Reserve Ordinance 15961 created the Rainy Day Reserve for the purpose of accumulating revenues to be available for emergencies. The fund is fully invested for its own benefit.

The ordinance states that the Rainy Day Reserve shall be used in the event of an emergency, as declared by a vote of the County Council, for the following purposes:

1. Maintenance of essential county services in the event that current expense fund revenue collections in a given fiscal year are less than 97 percent of adopted estimates;
2. Payment of current expense fund legal settlements or judgments in excess of the County's ability to pay from other sources;
3. Catastrophic losses in excess of the County's other insurances against such losses; and
4. Other emergencies as determined by the County Council.

The Rainy Day Reserve is reported as part of the General Fund. As of December 31, 2014, it had a committed fund balance of \$20.1 million.

King County, Washington

A summary of governmental fund balances at December 31, 2014, is as follows (in thousands) (page 1 of 2):

|   | General<br>Fund  | Public<br>Health<br>Fund | Mental<br>Health<br>Fund | Nonmajor<br>Governmental<br>Funds | Total             |
|---|------------------|--------------------------|--------------------------|-----------------------------------|-------------------|
| Nonspendable:                                 |                  |                          |                          |                                   |                   |
| Advances                                      | \$ 300           | \$                       | \$                       | \$ 3,617                          | \$ 3,917          |
| Youth Sports Facilities                       |                  |                          |                          |                                   |                   |
| Grant Endowment                               |                  |                          |                          | 2,620                             | 2,620             |
| Inventories                                   |                  | 1,248                    |                          |                                   | 1,248             |
| Flood Control Zone District                   |                  |                          |                          | 4,000                             | 4,000             |
| Prepayments                                   |                  |                          |                          | 1,193                             | 1,193             |
| <b>Total Nonspendable Fund Balance</b>        | <b>\$ 300</b>    | <b>\$ 1,248</b>          | <b>\$ -</b>              | <b>\$ 11,430</b>                  | <b>\$ 12,978</b>  |
| Restricted for:                               |                  |                          |                          |                                   |                   |
| Crime Victim Compensation Program             | \$ 71            | \$                       | \$                       | \$                                | \$ 71             |
| Criminal Justice                              | 920              |                          |                          |                                   | 920               |
| Dispute Resolution                            | 205              |                          |                          |                                   | 205               |
| Drug Enforcement                              | 1,582            |                          |                          |                                   | 1,582             |
| Real Property Title Assurance                 | 25               |                          |                          |                                   | 25                |
| Mental Health                                 |                  |                          | 39,091                   |                                   | 39,091            |
| Conservation Futures                          |                  |                          |                          | 23,993                            | 23,993            |
| Children & Family Justice Center Construction |                  |                          |                          | 38,830                            | 38,830            |
| Open Space Projects                           |                  |                          |                          | 646                               | 646               |
| Real Estate Excise Tax Capital                |                  |                          |                          | 14,963                            | 14,963            |
| Information and Telecommunication Capital     |                  |                          |                          | 20,631                            | 20,631            |
| Building Construction and Improvements        |                  |                          |                          | 213                               | 213               |
| Road Construction and Improvement             |                  |                          |                          | 9,157                             | 9,157             |
| Flood Control Zone District                   |                  |                          |                          | 39,407                            | 39,407            |
| PFD Stadium Bond Debt Service                 |                  |                          |                          | 12,756                            | 12,756            |
| <b>Total Restricted Fund Balance</b>          | <b>\$ 2,803</b>  | <b>\$ -</b>              | <b>\$ 39,091</b>         | <b>\$ 160,596</b>                 | <b>\$ 202,490</b> |
| Committed for:                                |                  |                          |                          |                                   |                   |
| Antiprofitereing Program                      | \$ 69            | \$                       | \$                       | \$                                | \$ 69             |
| Rainy Day Reserve                             | 20,143           |                          |                          |                                   | 20,143            |
| Parks Capital Funding                         |                  |                          |                          | 35,673                            | 35,673            |
| Information and Telecommunication Capital     |                  |                          |                          | 7,480                             | 7,480             |
| Farmland and Open Space Acquisitions          |                  |                          |                          | 1,389                             | 1,389             |
| Building Repair and Replacement               |                  |                          |                          | 1,038                             | 1,038             |
| CDBG Greenbridge Loan                         |                  |                          |                          | 634                               | 634               |
| Debt Service                                  |                  |                          |                          | 42,488                            | 42,488            |
| <b>Total Committed Fund Balance</b>           | <b>\$ 20,212</b> | <b>\$ -</b>              | <b>\$ -</b>              | <b>\$ 88,702</b>                  | <b>\$ 108,914</b> |
| Assigned for:                                 |                  |                          |                          |                                   |                   |
| Inmate Welfare                                | \$ 3,892         | \$                       | \$                       | \$                                | \$ 3,892          |
| County Roads                                  |                  |                          |                          | 19,889                            | 19,889            |
| Capital Projects                              | 2,548            |                          |                          |                                   | 2,548             |
| Emergency Medical Services                    |                  |                          |                          | 39,516                            | 39,516            |
| Enhanced 911 Emergency Telephone System       |                  |                          |                          | 27,619                            | 27,619            |
| Local Hazardous Waste                         |                  |                          |                          | 13,244                            | 13,244            |
| Major Maintenance Reserve                     |                  |                          |                          | 19,186                            | 19,186            |
| Risk Abatement                                |                  |                          |                          | 28,580                            | 28,580            |
| Road Improvement Districts Construction       |                  |                          |                          | 5                                 | 5                 |
| Mental Illness and Drug Dependency            |                  |                          |                          | 16,258                            | 16,258            |

King County, Washington

A summary of governmental fund balances at December 31, 2014, continues (in thousands) (page 2 of 2):

|   | General<br>Fund   | Public<br>Health<br>Fund | Mental<br>Health<br>Fund | Nonmajor<br>Governmental<br>Funds | Total             |
|---|-------------------|--------------------------|--------------------------|-----------------------------------|-------------------|
| Assigned - continued:                             |                   |                          |                          |                                   |                   |
| Mental Health                                     | \$                | \$                       | \$ 15,405                | \$                                | \$ 15,405         |
| Youth Employment Programs                         |                   |                          |                          | 1,453                             | 1,453             |
| Youth Sports Facilities Grant                     |                   |                          |                          | 854                               | 854               |
| Long-term Leases                                  |                   |                          |                          | (763)                             | (763)             |
| Surface Water Management                          |                   |                          |                          | 8,432                             | 8,432             |
| Noxious Weed Control                              |                   |                          |                          | 903                               | 903               |
| King County Flood Control contract                |                   |                          |                          | (32)                              | (32)              |
| Intercounty River Improvement                     |                   |                          |                          | 6                                 | 6                 |
| SWM CIP Non-bond subfund                          |                   |                          |                          | 9,328                             | 9,328             |
| Recorder's Operations and Management              |                   |                          |                          | 2,114                             | 2,114             |
| Treasurer's Operations and Management             |                   |                          |                          | 81                                | 81                |
| Critical areas mitigation                         |                   |                          |                          | 1,002                             | 1,002             |
| Transfer of Development Credit Program            |                   |                          |                          | 592                               | 592               |
| Green River flood mitigation                      |                   |                          |                          | 2,538                             | 2,538             |
| Parks and Recreation                              |                   |                          |                          | 11,461                            | 11,461            |
| King County Marine Division                       |                   |                          |                          | 1                                 | 1                 |
| Community Development Block Grant                 |                   |                          |                          | 32,352                            | 32,352            |
| Arts and Culture                                  |                   |                          |                          | (1,864)                           | (1,864)           |
| Department of Permitting and Environmental Review |                   |                          |                          | 1,160                             | 1,160             |
| Historical Preservation and Programs              |                   |                          |                          | 86                                | 86                |
| Urban Restore Habitat Restoration                 |                   |                          |                          | 681                               | 681               |
| Animal Services                                   |                   |                          |                          | 1,075                             | 1,075             |
| Citizen Councilor Revolving                       |                   |                          |                          | 2                                 | 2                 |
| Automated Fingerprint ID System                   |                   |                          |                          | 16,683                            | 16,683            |
| Regional Justice Projects                         |                   |                          |                          | 1,065                             | 1,065             |
| Law Library                                       |                   |                          |                          | 376                               | 376               |
| Veterans' Relief                                  |                   |                          |                          | 399                               | 399               |
| Developmental Disabilities                        |                   |                          |                          | 7,432                             | 7,432             |
| Veterans and Human Services                       |                   |                          |                          | 4,007                             | 4,007             |
| Children and Families Services                    |                   |                          |                          | 1,651                             | 1,651             |
| Alcoholism and Substance Abuse Services           |                   |                          |                          | 4,433                             | 4,433             |
| Miscellaneous Grants                              |                   |                          |                          | (910)                             | (910)             |
| Reappropriation                                   | 1,711             |                          |                          |                                   | 1,711             |
| Total Assigned Fund Balance                       | <u>\$ 8,151</u>   | <u>\$ -</u>              | <u>\$ 15,405</u>         | <u>\$ 270,895</u>                 | <u>\$ 294,451</u> |
| Unassigned for:                                   |                   |                          |                          |                                   |                   |
| Renton Maintenance Facility                       | \$                | \$                       | \$                       | \$ (3,141)                        | \$ (3,141)        |
| Open Space Acquisitions for Parks and Recreation  |                   |                          |                          | (1,075)                           | (1,075)           |
| Parks Facility Rehabilitation                     |                   |                          |                          | (192)                             | (192)             |
| General Fund                                      | 71,742            |                          |                          |                                   | 71,742            |
| Public Health Fund                                |                   | (3,053)                  |                          |                                   | (3,053)           |
| Total Unassigned Fund Balance                     | <u>\$ 71,742</u>  | <u>\$ (3,053)</u>        | <u>\$ -</u>              | <u>\$ (4,409)</u>                 | <u>\$ 64,280</u>  |
| Total Fund Balance                                | <u>\$ 103,208</u> | <u>\$ (1,805)</u>        | <u>\$ 54,496</u>         | <u>\$ 527,214</u>                 | <u>\$ 683,113</u> |

**Reporting Entity Change**

The King County Law Library had been reported by the County, prior to 2014, as a Special District Fund under Miscellaneous Special Districts. Because of a determination by the State Auditor's Office that county law libraries in the State of

Washington are not legally separate from their counties of origin, the Law Library is now reported within the primary government under the Justice and Safety - Nonmajor Special Revenue Fund.

**Entity Change – Special Item**

In February 2014 the County exercised its option to refinance the lease revenue bonds held by Goat Hill Properties (GHP), a County blended component unit and lessor for the Chinook Building and the Goat Hill Parking Garage that is under lease to the County. Final defeasance of the bonds occurred in December 2014 when title to the property legally transferred to the County.

GHP then ceased to be a component unit and its residual assets and liabilities were removed from the County’s statements of net position with the resultant change of \$3.3 million reported as a special item in the Internal Service Funds activity statements. A related special item is also reported in governmental activities.

**Restatements of Beginning Balances**

Detailed information regarding restatements of beginning balances (in thousands):

| Changes in Net Position or Fund Balances               | Governmental<br>Activities | Total<br>Governmental<br>Funds | Major Funds      |                  | Nonmajor<br>Governmental<br>Funds | Internal<br>Service<br>Funds |
|--|----------------------------|--------------------------------|------------------|------------------|-----------------------------------|------------------------------|
|  |                            |                                | General          | Mental<br>Health |                                   |                              |
| Net Position/Fund Balance - January 1, 2014            | \$ 2,544,249               | \$ 636,350                     | \$114,370        | \$ -             | \$ 521,980                        | \$ 147,371                   |
| Mental Health determination to be a major fund         | -                          | -                              | -                | 38,184           | (38,184)                          | -                            |
| Capital projects transfer from special revenue funds   | -                          | 19,137                         | -                | -                | 19,137                            | -                            |
| Special revenue transfer to capital projects           | -                          | (19,137)                       | -                | -                | (19,137)                          | -                            |
| Property taxes:  |                            |                                |                  |                  |                                   |                              |
| Change in property tax availability policy             | -                          | 2,708                          | 1,450            | 14               | 1,244                             | -                            |
| Adjust prior year property taxes revenue               | (5,093)                    | -                              | -                | -                | -                                 | -                            |
| Critical areas mitigation revenue deferral             | (5,757)                    | (5,757)                        | -                | -                | (5,757)                           | -                            |
| Law Library inclusion within primary government        | 389                        | 389                            | -                | -                | 389                               | -                            |
| Effect of accounting method changes                    | 1,158                      | -                              | -                | -                | -                                 | 1,158                        |
| Net Position/Fund Balance - January 1, 2014 (Restated) | <u>\$ 2,533,788</u>        | <u>\$ 633,690</u>              | <u>\$115,820</u> | <u>\$ 38,198</u> | <u>\$ 479,672</u>                 | <u>\$ 148,529</u>            |

The Mental Health fund, which was previously reported under the Health - Nonmajor Special Revenue fund, became a major fund due to an increase in its service levels and reimbursement activity brought about by a significant rise in the demand for mental health services when insurance and Medicaid coverages were expanded under the Affordable Care Act.

The Children and Family Justice Center fund reported last year under the Justice and Safety - Nonmajor Special Revenue fund, was reclassified as a nonmajor capital projects fund because it accounts for property taxes restricted for the construction of capital facilities, (e.g. detention center, courthouse and parking garage). Amounts offset at the entity-wide level.

Prior year property taxes revenue was restated for adjustments, write-offs and other corrections to the recorded revenue of that year. The amount resulted from the difference between the 2014 levy amount which is recognized as revenue at the entity-wide level and the fund level amount recorded using the modified accrual basis.

Prior year mitigation fees recognized as revenues of the Critical Areas Mitigation fund, under

Environmental Sustainability - Nonmajor Special Revenue Fund, were deferred because they are legally restricted for specific future mitigation projects. At the government-wide level, a liability for performing future mitigation was recognized.

The King County Law Library was determined to be legally part of King County government and not a separate legal entity. It is now reported as part of the primary government in lieu of a County agency fund. The beginning fund balance of the Justice and Safety - Nonmajor Special Revenue fund was increased by \$389 thousand. (The Law Library was previously reported within the Miscellaneous Special Districts in the Fiduciary section as part of the County’s financial reporting entity. Both beginning total assets and liabilities of the Miscellaneous Special Districts fund were each reduced by \$389 thousand.)

The 63-20 nonprofit corporations blended component units that comprise the Building Development and Management Corporations internal service fund revised the accounting for bond premiums, cost of issuance, and interest calculation resulting in a retroactive restatement of net position.



**Component Unit – Harborview Medical Center (HMC)**

**Restricted Net Position**

Restricted expendable net position – \$16.6 million of expendable net position is restricted for either capital purposes use or through donor-restrictions. Restrictions are imposed by King County on the use of resources for designated capital projects. Other restrictions are placed by donors or external parties, such as creditors, through purpose or time restrictions on the use of the assets.

Restricted nonexpendable net position – The \$3.7 million consists of permanent endowments provided by donors with restrictions requiring HMC to maintain the assets in perpetuity.

**Component Unit – Cultural Development Authority of King County (CDA)**

**Restricted Net Position**

Restricted nonexpendable net position – \$44.3 million is restricted by RCW 67.28.180.3 and King County ordinance to be used only for the arts and heritage cultural program awards fund and special account, for which the amount is derived according to a specified formula.

## Note 19

### Legal Matters, Financial Guarantees, and Other Commitments

#### Pending Litigation and Other Claims

King County and its agencies are parties to routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits that could significantly impact expenditures and future budgets. The County's threshold for disclosure of loss contingencies is \$500 thousand.

- King County was the defendant in a lawsuit by public defenders claiming that they should have been enrolled in the State's Public Employees Retirement System (PERS). The Supreme Court affirmed that claim and remanded the case to the Superior Court for further proceedings. A settlement agreement was approved by the Superior Court on June 7, 2013. The State Department of Retirement Systems successfully appealed the settlement with the Court of Appeals who remanded the case back to Superior Court.
- King County has negotiated an Agreed Order with the Washington State Department of Ecology under the Model Toxics Control Act regarding the known contamination at the Maury Island Gravel Mine site. Due to the high level of regulatory review, approval requirements, and environmental permitting associated with any remediation project, the eventual alternative to be required, the schedule of the required remediation and the cost of any such remediation are not determinable at this time. The County expects to obtain partial funding for the remediation costs from the former owners of the property, and through Department of Energy remediation grants.

King County is contesting or negotiating the following claims and lawsuits which have the potential to result in material damages against the County although the outcomes are uncertain at this time:

- An administrative order from the Environmental Protection Agency (EPA) required the County, the City of Seattle, the

Boeing Company, and the Port of Seattle to conduct a feasibility study to determine the nature and extent of the contamination in the Lower Duwamish Waterway. The feasibility study has been issued in final form by the EPA. The EPA issued a Record of Decision in 2014 which contains the EPA's final plan for 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 the 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 the 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 it and the Wastewater Treatment Division will be responsible for the cost of such remediation.

- A potential requirement for additional cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. The King County Wastewater Treatment Division (WTD) has already performed interim cleanup costing \$3.6 million to comply with an agreed order issued by the Washington State Department of Ecology. There are no current plans underway for additional cleanup; however monitoring will be implemented at the site. The Department of Ecology has reserved the right to require additional or different remedial actions at the site. The County is unable to determine an amount, if any, for which the WTD may be responsible.
- Potential claims exist for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The City of Seattle, Port of Seattle and King County intend to negotiate the amount, if any, that the City and the County will contribute. This is an extremely complex negotiation for which the County is unable to determine an amount that the WTD may be responsible for, if any. The parties have also agreed to share the cost of a supplemental investigation and feasibility study required by the EPA. The agreement states that the WTD has only a one-third pro rata share of the study costs

although that portion may still be reallocated among the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the study has been completed.

- King County is pursuing insurance recovery for costs arising out of a design engineer's error in failing to provide sufficient surge protection to respond to an emergency power loss to pump motors. Insurers funded remedial installation of larger motors. In February 2015, King County filed suit against insurers in King County Superior Court. In March 2015, King County amended its filing to add the engineering firm to the complaint. The case has been removed to federal court. In April 2015, the firm formally admitted the design error, made no substantive claim against King County, and requested only its fees and costs.
- In a class action lawsuit alleging violations of State law regarding meal periods for transit operators, King County filed a motion for summary judgment regarding liability which was denied. The County's motion for discretionary review of this decision was granted. Briefing for the Court of Appeals is scheduled to be completed in the summer of 2015. If needed, class certification would be decided after a decision from the Court of Appeals. King County is vigorously defending the litigation.
- The County sued the prime contractor of the Brightwater Central Tunnel, including the contractor's sureties, and sought damages due for failure to complete the work within the contract time period. On December 21, 2012, the jury awarded the County \$155.0 million and the contractor \$26.2 million. In post-trial motions the court awarded the County an additional \$14.7 million for attorney's fees and costs. While the contractor has paid the net judgment amount, it has also filed an appeal, as have the sureties, which is currently pending in Division I Court of Appeals.
- A potential lawsuit by a contractor who worked on the Brightwater Liquids GCCM contract. The contractor may seek \$695 thousand for costs it incurred when the County directed it to remediate the damage to the 66-inch pipeline caused by its subcontractor's defective work. The contractor will likely abandon this claim if there is further insurance recovery.
- King County purchased property interests in the southern portion of the East Side Railroad Corridor (ESRC) from the Port of Seattle for use as a recreational trail. In 2014, over 80 adjacent property owners named King County and other public entities as defendants in a quiet title and declaratory judgment action. The owners contend that the Port of Seattle did not acquire railroad easement rights in portions of the ESRC and could not have conveyed those rights to King County or others because those rights were legally extinguished. No damages are sought but an adverse decision would presumably diminish the monetary value of the County's property interests in the ESRC and could potentially require the county to re-acquire certain property interests for its wastewater treatment system. The County, at this time, is not able to determine the likelihood of an adverse decision, nor the potential monetary diminution of the County's property interest.
- In a newly-filed case similar to the preceding one, seven property owners, in March 2015, filed a lawsuit against King County and other public entities as defendants, alleging that the Port of Seattle did not acquire railroad easement rights in portions of the ESRC and could not have conveyed those easement rights to King County or others because those rights were legally extinguished. Such a ruling could require the county to re-acquire certain property interests for its wastewater treatment system. The lawsuit seeks damages under diverse theories such as conspiracy to defraud, trespass, inverse condemnation, and slander of title. Plaintiffs' counsel has requested that the matter be certified as a class action, potentially involving hundreds of adjoining property owners. Because this lawsuit has just commenced, the County is not able to determine the likelihood of an adverse decision. The County has retained outside counsel with experience in defending class-action litigation relating to utilities and other corridors.

- A new \$192-million South Park Bridge has been built over the Duwamish River. The contractor is seeking \$6.8 million in additional compensation for what it asserts are differing soil conditions than what was represented in the plans and specifications. As the project neared completion, the contractor asserted several new bases claiming entitlement to receive additional compensation of \$20.0 million. The County disputes this and has retained outside counsel to assist in its defense. In December 2014, the County sued the contractor for payment of liquidated damages in the amount of \$4.4 million. In March 2015, the case was settled and the County agreed to pay \$7.5 million. The lawsuit is expected to be dismissed after the contractor completes several closeout tasks.
- A recent federal audit of Public Health - Seattle and King County questioned approximately \$6.8 million in costs under the Ryan White federal grant program for 2011 and 2012 due to alleged shortcomings in record-keeping and monitoring of grant sub-recipients. The actual value of this un-asserted assessment is unknown.

### **Financial Guarantees**

King County has extended nonexchange financial guarantees in the form of contingent loan agreements with the King County Housing Authority (KCHA), a related organization to the County, and other owners/developers of affordable housing. The County will provide credit support, such as assumption of monthly payments, for certain bonds and lines of credit issued by these agencies in the event of financial distress. Any guarantee payments made become liabilities of the guaranteed contract holders to be paid back after regaining financial stability. The County's credit enhancement program, managed by the Department of Community and Human Services, allows up to \$200 million in total commitment. At the end of 2014, there are 13 contingent loan agreements outstanding totaling \$110.7 million. These agreements have maturity dates ranging from 11 to 32 years. All projects are currently self-supporting and the County has not made any payments pursuant to these agreements. It is unlikely that the County will make any payments in relation to these guarantees based on available information at the end of December 31, 2014 and the standards

prescribed under GASB Statement 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

### **Other Commitments**

The Solid Waste Enterprise paid the County General Fund \$3.4 million for rent on the Cedar Hills landfill site in 2014. The Enterprise is committed to paying rent to the General Fund as long as the Cedar Hills site continues to accept waste.

### **Component Unit – Harborview Medical Center**

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including significant repayments of patient services previously billed. HMC believes that it complies with the fraud and abuse regulations, as well as other laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract, the University of Washington agrees to defend, indemnify, and save harmless King County's elected and appointed officials, employees, and agents, from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.

## Note 20

### **Subsequent Events**

#### **Debt Issuances in 2015**

In February 2015, the County issued \$721.9 million of Sewer Revenue Refunding and Limited Tax General Obligation (payable from sewer revenues) Refunding Bonds. The proceeds from these bonds were used to refund all of the Sewer Revenue Bonds, Series 2007; a portion of Sewer Revenue Bonds, Series 2008 and Series 2009; and a portion of the outstanding Limited Tax General Obligation Bonds (payable from sewer revenues), 2009.

In May 2015, the County completed the defeasance of limited tax general obligation (Kingdome stadium) refunding bonds, 2007A for \$18.7 million using the excess proceeds from hotel/motel tax revenues; and, the partial defeasance of the Harborview portion of limited tax general obligation bonds, 2006 and 2010A at a total amount of \$804 thousand.

#### **Change in Reporting Entity in 2015**

##### King County Ferry District

Effective January 1, 2015, under Ordinance 17935, King County assumed all rights, powers, functions and obligations of the King County Ferry District (KCFD) as set forth in RCW chapter 36.54. The KCFD will subsequently be reported as part of the primary government under the Marine Operations Enterprise Fund in the Proprietary Funds section of the CAFR. In prior years, it was reported as a blended component unit of the County.

# CAFR

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

## Required Supplementary Information

### I. Postemployment Health Care Plan

**Schedule of Funding Progress for the Plan**  
(in thousands)

| Year | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Unit Credit (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a ÷ b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) ÷ c) |
|------|--------------------------|-------------------------------|---|-----------------------------|----------------------|---------------------|---|
| 2012 | 12/31/2012               | \$ -                          | \$ 178,502  | \$ 178,502                  | 0.0%                 | \$ 961,982          | 18.6%   |
| 2013 | 12/31/2013               | \$ -                          | \$ 167,420  | \$ 167,420                  | 0.0%                 | \$ 1,000,353        | 16.7%   |
| 2014 | 12/31/2014               | \$ -                          | \$ 167,420  | \$ 167,420                  | 0.0%                 | \$ 1,073,511        | 15.6%   |

### II. Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach

#### Roads

The County performs condition assessments on its network of roads through the King County Pavement Management System. This system generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index from zero to one hundred (0-100) that represents the pavement's functional condition based on the quantity, severity, and type of visual distress,

such as pavement cracking. Based on the PCI score, condition ratings are assigned as follows: a PCI of less than 30 is defined as "poor to substandard" (heavy pavement cracking and potholes); a PCI of 30 or more but less than 50 is defined to be in "fair" condition (noticeable cracks and/or utility cuts); and a PCI of 50 and higher is defined to be in "excellent to good" condition (relatively smooth roadway). Condition assessments are undertaken every three years.

The condition assessments of the County's roads are shown below for the last three completed cycles.

| Condition ratings         | 2013-2011      |              | 2010-2008      |              | 2007-2005      |              |
|---------------------------|----------------|--------------|----------------|--------------|----------------|--------------|
|                           | (miles)        | %            | (miles)        | %            | (miles)        | %            |
| <b>Arterial roads</b>     |                |              |                |              |                |              |
| Excellent to good         | 297.7          | 64.9         | 348.2          | 71.8         | 485.4          | 89.6         |
| Fair                      | 32.0           | 7.0          | 20.3           | 4.2          | 14.5           | 2.7          |
| Poor to substandard       | 129.0          | 28.1         | 116.7          | 24.0         | 41.6           | 7.7          |
| Total                     | <u>458.7</u>   | <u>100.0</u> | <u>485.2</u>   | <u>100.0</u> | <u>541.5</u>   | <u>100.0</u> |
| <b>Local access roads</b> |                |              |                |              |                |              |
| Excellent to good         | 742.0          | 70.7         | 867.0          | 75.6         | 1,094.5        | 83.4         |
| Fair                      | 91.4           | 8.7          | 74.2           | 6.5          | 127.3          | 9.7          |
| Poor to substandard       | 216.5          | 20.6         | 205.8          | 17.9         | 91.2           | 6.9          |
| Total                     | <u>1,049.9</u> | <u>100.0</u> | <u>1,147.0</u> | <u>100.0</u> | <u>1,313.0</u> | <u>100.0</u> |

The following table (derived from the table of condition ratings) shows the number and percentage of miles of roads that meet the 40 PCI level.

| <u>PCI score interval</u> | <u>2013-2011</u> |              | <u>2010-2008</u> |              | <u>2007-2005</u> |              |
|---------------------------|------------------|--------------|------------------|--------------|------------------|--------------|
|                           | <u>(miles)</u>   | <u>%</u>     | <u>(miles)</u>   | <u>%</u>     | <u>(miles)</u>   | <u>%</u>     |
| Arterial roads            |                  |              |                  |              |                  |              |
| PCI 40 - 100              | 315.7            | 68.8         | 360.0            | 74.2         | 493.4            | 91.1         |
| PCI 0 - 39                | 143.0            | 31.2         | 125.2            | 25.8         | 48.1             | 8.9          |
| Total                     | <u>458.7</u>     | <u>100.0</u> | <u>485.2</u>     | <u>100.0</u> | <u>541.5</u>     | <u>100.0</u> |
| Local access roads        |                  |              |                  |              |                  |              |
| PCI 40 - 100              | 786.5            | 74.9         | 900.0            | 78.5         | 1,170.3          | 89.1         |
| PCI 0 - 39                | 263.4            | 25.1         | 247.0            | 21.5         | 142.7            | 10.9         |
| Total                     | <u>1,049.9</u>   | <u>100.0</u> | <u>1,147.0</u>   | <u>100.0</u> | <u>1,313.0</u>   | <u>100.0</u> |

In the most recent condition assessments, 68.8 percent of the arterial roads in the County and 74.9 percent of the local access roads in the County had a PCI rating of 40 and above.

It is the policy of the King County Road Services Division to maintain at least 50 percent of the road system at a PCI of 40 or better. This is a change from prior years where it was set at 80 percent at a PCI of 40 or better. The roads condition assessments have shown a declining trend over the past three maintenance cycles. The accelerated condition deterioration observed between the 2008-2010, and continuing in 2011-2013, are primarily the result of weather and system age. Many of the arterial roadways are beyond their cost-effective life cycles, resulting in roadway deterioration earlier than what was estimated or budgeted. In the meantime, resources allocated to maintenance and

preservation have declined due to the impact of low property valuations and annexations on taxes and the reduction in gas tax revenues. Because of the uncertainty in future funding for roads, the County formally lowered its established condition level to 50 percent of the roads at a PCI of 40 or better. The 2014 budgeted amounts below already account for the change in the established condition level.

Below is information on planned (budgeted) and actual expenditures incurred to maintain and preserve the road network from 2010 to 2014. The budgeted amount is equivalent to the anticipated amount needed to maintain roads at the 50/40 required condition level for the Modified Approach (in thousands). The amount budgeted in 2014 for road preservation and maintenance was \$50.4 million. The amount actually expended was \$36.2 million.

|          | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|----------|-------------|-------------|-------------|-------------|-------------|
| Budgeted | \$50,453    | \$59,110    | \$52,658    | \$62,947    | \$78,844    |
| Expended | 36,269      | 46,782      | 45,082      | 52,080      | 52,701      |

Bridges

King County currently maintains 181 bridges including co-owned and pedestrian bridges. Physical inspections to determine the condition of bridges and the degree of wear and deterioration are carried out at least every two years. Inspections reveal deficiencies in bridges such as steel corrosion, damaged guardrails,

rotted timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspection report along with recommended repairs. Three pedestrian bridges are included in the list of bridges being maintained by the County. These are also subject to condition assessments, but are subject to different standards than the more heavily used vehicular bridges.



Each year the County undergoes a bridge prioritization process to determine potential candidates for replacement or rehabilitation. A weighted 10-point priority scale (sufficiency rating, seismic rating, geometrics, hydraulics, load limits, traffic safety, serviceability, importance, useful life, and structural concern) ranks the bridges in order; the results are considered in the planning and programming of major bridge studies and construction projects in the Roads Capital Improvement Program.

A key element in the priority score is the sufficiency rating, the measure considered by state and federal governments as the basis for establishing eligibility and priority for bridge replacement or rehabilitation funding.

The sufficiency rating is a numerical rating of a bridge based on its structural adequacy and safety, essentiality for public use, and its serviceability and functional obsolescence. The formula used to calculate the sufficiency rating for a particular bridge is dictated by the Federal Highway Administration. The sufficiency rating may vary from 100 (a bridge in new condition) to 0 (a bridge incapable of carrying traffic). A sufficiency rating of 50 or over indicates a bridge with a good deal of service life remaining. A bridge that scores between 0 and 49 could be considered for replacement or rehabilitation funding, though typically only bridges that score less than 30 are selected for funding.

The three most recent bridge sufficiency ratings:

| <b>Bridge Sufficiency Rating</b> | <b>Number of Bridges</b> |             |             |
|----------------------------------|--------------------------|-------------|-------------|
|                                  | <b>2014</b>              | <b>2013</b> | <b>2012</b> |
| 0-20                             | 5                        | 5           | 8           |
| 21-30                            | 2                        | 1           | 1           |
| 31-49                            | 17                       | 17          | 17          |
| 50-100                           | 150                      | 150         | 146         |
| <b>Totals</b>                    | <b>174</b>               | <b>173</b>  | <b>172</b>  |

Note: Co-owned and pedestrian bridges are not included in the table.

It is the policy of the King County Road Services Division to maintain bridges in such a manner that no more than 12 will have a sufficiency rating of 20 or less. A rating of 20 or less is

usually indicative of a bridge with a structural deficiency. The most common remedy is full replacement, rehabilitation or closure of the bridge.

Amounts budgeted and spent to maintain and preserve bridges (in thousands):

|          | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|----------|-------------|-------------|-------------|-------------|-------------|
| Budgeted | \$4,727     | \$5,544     | \$9,337     | \$10,635    | \$19,866    |
| Expended | 3,345       | 5,411       | 6,375       | 5,499       | 9,760       |

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level. Backlogs in maintenance work orders greatly affect the trend in maintenance costs.

Factors contributing to these backlogs include increased bridge traffic, higher weight loads, labor shortages, stringent environmental restrictions, and an aging infrastructure system.

# CAFR

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**APPENDIX C**  
**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 (the "Finance Division") administers the County's investments. Under Section 4.10 of the County Code, the Executive Finance Committee (the "Committee") oversees the County's investment practices. The Committee consists of the Chair of the County Council or his or her designee, the County Executive or his or her designee, the Chief Budget Officer, and the County Director of the Finance Division.

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

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

The Investment Pool must maintain an effective duration of 1.5 years or less and 40% of its total value must be held in securities that mature in 12 months or less. As of June 30, 2015, the Investment Pool had a balance of \$5.6 billion and an effective duration of 1.06 years, and 52% of the portfolio had a maturity of 12 months or less.

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

- (i) up to 100% of the portfolio in U.S. Treasury or U.S. Agency securities;
- (ii) up to 25% of the portfolio in certificates of deposit ("CDs") with institutions that are public depositaries in the State of Washington with a maximum of 5% per issuer across investment types;
- (iii) up to 25% of the portfolio in bankers' acceptances with a maximum of 5% per issuer across investment types;
- (iv) up to 100% of the portfolio in repurchase agreements, with a maximum of 25% exposure to any one repo counterparty, provided that the underlying security must be a U.S. Treasury or U.S. Agency and all underlying securities are held by a third party;
- (v) up to 25% in commercial paper with a maximum of 5% per issuer across investment types;
- (vi) up to 20% in general obligation municipal bonds with a maximum of 5% per issuer;
- (vii) up to 25% in mortgage-backed securities issued by agencies of the U.S. Government which pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test that banks use to determine lowest risk securities;
- (viii) up to 20% in bank corporate notes with a maximum of 5% per issuer across investment types; and
- (ix) up to 25% in the State's Local Government Investment Pool.

The combined total of repurchase agreements greater than overnight, bankers' acceptances, CDs, commercial paper, and bank corporate notes must not exceed 50% of Investment Pool assets.

The County currently does not purchase structured notes or inverse floating rate notes, and has no intention of doing so in the near future.

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

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

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**APPENDIX D**  
**DEMOGRAPHIC AND ECONOMIC INFORMATION**



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## DEMOGRAPHIC AND ECONOMIC INFORMATION

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

### Population

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

| POPULATION          |            |                |         |          |                               |
|---------------------|------------|----------------|---------|----------|-------------------------------|
| Year                | Washington | King<br>County | Seattle | Bellevue | Unincorporated<br>King County |
| 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                       |
| 2007 <sup>(2)</sup> | 6,488,800  | 1,861,300      | 586,200 | 118,100  | 368,255                       |
| 2008 <sup>(2)</sup> | 6,587,600  | 1,884,200      | 592,800 | 119,200  | 341,150                       |
| 2009 <sup>(2)</sup> | 6,668,200  | 1,909,300      | 602,000 | 120,600  | 343,180                       |
| 2010 <sup>(1)</sup> | 6,724,540  | 1,931,249      | 608,660 | 122,363  | 325,000                       |
| 2011 <sup>(2)</sup> | 6,767,900  | 1,942,600      | 612,100 | 123,400  | 285,265                       |
| 2012 <sup>(2)</sup> | 6,817,770  | 1,957,000      | 616,500 | 124,600  | 255,720                       |
| 2013 <sup>(2)</sup> | 6,882,400  | 1,981,900      | 626,600 | 132,100  | 253,100                       |
| 2014 <sup>(2)</sup> | 6,968,170  | 2,017,250      | 640,500 | 134,400  | 252,050                       |
| 2015 <sup>(2)</sup> | 7,061,410  | 2,052,800      | 662,400 | 135,000  | 253,280                       |

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

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

### Per Capita Income

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

| PER CAPITA INCOME   |           |           |          |          |          |          |
|---------------------|-----------|-----------|----------|----------|----------|----------|
|                     | 2008      | 2009      | 2010     | 2011     | 2012     | 2013     |
| Seattle MD          | \$ 54,621 | \$ 50,644 | \$51,370 | \$53,391 | \$56,267 | \$58,483 |
| King County         | 58,628    | 53,933    | 54,927   | 57,837   | 60,090   | 62,770   |
| State of Washington | 44,106    | 41,504    | 42,024   | 43,878   | 46,045   | 47,717   |
| United States       | 40,947    | 38,637    | 39,791   | 41,560   | 43,735   | 44,765   |

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

## Construction

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

### RESIDENTIAL BUILDING PERMIT VALUES

| Year                | New Single Family Units |                | New Multi-Family Units |                | Total Value    |
|---------------------|-------------------------|----------------|------------------------|----------------|----------------|
|                     | Number                  | Value          | Number                 | Value          |                |
| 2009                | 2,003                   | \$ 538,910,481 | 1,183                  | \$ 137,161,103 | \$ 676,071,584 |
| 2010                | 2,532                   | 694,969,240    | 3,425                  | 325,068,029    | 1,020,037,269  |
| 2011                | 2,765                   | 785,840,283    | 3,378                  | 431,699,572    | 1,217,539,855  |
| 2012                | 3,864                   | 1,133,343,731  | 7,750                  | 1,118,023,021  | 2,251,366,752  |
| 2013                | 4,419                   | 1,419,065,243  | 7,858                  | 1,053,237,846  | 2,472,303,089  |
| 2014 <sup>(1)</sup> | 2,589                   | 873,770,267    | 5,469                  | 710,454,836    | 1,584,225,103  |
| 2015 <sup>(1)</sup> | 2,374                   | 913,911,487    | 9,061                  | 1,317,288,406  | 2,231,199,893  |

(1) Estimated through July.

Source: U.S. Bureau of the Census

## Retail Activity

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

### THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES

| Year                | King County       | Seattle           |
|---------------------|-------------------|-------------------|
| 2008                | \$ 45,711,920,389 | \$ 17,096,581,492 |
| 2009                | 39,594,903,520    | 15,101,407,742    |
| 2010                | 39,275,353,182    | 14,783,168,934    |
| 2011                | 40,846,119,020    | 15,751,585,858    |
| 2012                | 43,506,804,227    | 17,162,539,275    |
| 2013                | 46,601,198,766    | 18,258,200,683    |
| 2014                | 49,638,174,066    | 19,995,171,842    |
| 2014 <sup>(1)</sup> | 10,943,895,794    | 4,375,037,017     |
| 2015 <sup>(1)</sup> | 12,088,335,636    | 5,009,892,962     |

(1) Through first quarter.

Source: State Department of Revenue

## Industry and Employment

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

### PUGET SOUND AREA MAJOR EMPLOYERS

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

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

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

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

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

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

|                                      | <b>Annual Average</b> |             |             |             |             |
|--------------------------------------|-----------------------|-------------|-------------|-------------|-------------|
|                                      | <b>2010</b>           | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> |
| Civilian Labor Force                 | 1,111,000             | 1,114,310   | 1,118,930   | 1,139,610   | 1,158,230   |
| Total Employment                     | 1,009,510             | 1,023,300   | 1,042,540   | 1,079,950   | 1,104,930   |
| Total Unemployment                   | 101,490               | 91,010      | 76,390      | 59,660      | 53,300      |
| Percent of Labor Force               | 9.1%                  | 8.2%        | 6.8%        | 5.2%        | 4.6%        |
| <b>NAICS INDUSTRY</b>                | <b>2010</b>           | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> |
| Total Nonfarm                        | 1,134,767             | 1,153,692   | 1,181,900   | 1,232,500   | 1,278,033   |
| Total Private                        | 967,808               | 988,767     | 1,016,467   | 1,065,150   | 1,108,425   |
| Goods Producing                      | 148,158               | 148,942     | 154,375     | 159,483     | 168,283     |
| Natural Resources and Mining         | 467                   | 525         | 425         | 450         | 425         |
| Construction                         | 49,675                | 48,258      | 50,625      | 53,217      | 60,792      |
| Manufacturing                        | 98,017                | 100,192     | 103,308     | 105,800     | 107,025     |
| Services Providing                   | 986,608               | 1,004,750   | 1,027,525   | 1,073,017   | 1,109,750   |
| Trade, Transportation, and Utilities | 206,350               | 211,158     | 216,975     | 225,133     | 235,758     |
| Information                          | 79,408                | 80,183      | 81,058      | 82,258      | 85,583      |
| Financial Activities                 | 69,233                | 68,717      | 68,458      | 70,683      | 72,000      |
| Professional and Business Services   | 176,675               | 184,567     | 192,408     | 200,217     | 207,933     |
| Educational and Health Services      | 138,142               | 141,750     | 144,867     | 163,283     | 167,983     |
| Leisure and Hospitality              | 108,700               | 111,075     | 114,933     | 119,858     | 124,883     |
| Other Services                       | 41,142                | 42,375      | 43,392      | 44,233      | 46,000      |
| Government                           | 166,958               | 164,925     | 165,433     | 167,350     | 169,608     |
| Workers in Labor/Management Disputes | -                     | -           | -           | -           | -           |
|                                      | <b>July 2015</b>      |             |             |             |             |
| Civilian Labor Force                 | 1,188,4870            |             |             |             |             |
| Total Employment                     | 1,141,071             |             |             |             |             |
| Total Unemployment                   | 47,416                |             |             |             |             |
| Percent of Labor Force               | 4.0%                  |             |             |             |             |

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

Source: State Employment Security Department

**APPENDIX E**  
**BOOK-ENTRY SYSTEM**

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## **BOOK-ENTRY SYSTEM**

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

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

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

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

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

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



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

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

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

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

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