OFFICIAL STATEMENT

RATINGS
Moody's: Aaa
S&P: AAA

New Issue, Book-Entry Only **(See "Other Bond Information—Ratings.")**

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

$154,560,000
KING COUNTY, WASHINGTON
LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS
(PAYABLE FROM SEWER REVENUES), 2017

DATED: Date of Initial Delivery **DUE: July 1, as shown on page i**

King County, Washington (the "County"), is issuing its Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2017 (the "Bonds"), as fully registered obligations. 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 the Bonds. Purchasers will not receive certificates representing their interest in the Bonds purchased. The Bonds will bear interest payable semiannually on January 1 and July 1, beginning January 1, 2018, 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 are registered in the name of DTC or its nominee, the Bond Registrar is required to make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to DTC participants for subsequent disbursement to Registered Owners of the Bonds as described in Appendix G—Book-Entry System.

The Bonds are being issued to refund the callable portion of the County's outstanding Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2008, and to pay the administrative costs of the refunding and the costs of issuing the Bonds.

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

The Bonds are Parity Lien Obligations, which are limited tax general obligation bonds of the County that are additionally secured by a lien and charge on Revenue of the System, subject to Operating and Maintenance Expenses and the payment of the Parity Bonds, as such terms are defined in the Bond Ordinance. ***The lien on Revenue of the System that secures the Parity Lien Obligations is junior, subordinate, and inferior to the lien and charge on Revenue of the System that secures the Parity Bonds, as defined in this Official Statement.*** The County has irrevocably covenanted and agreed that, for as long as any of the Bonds are outstanding and unpaid, each year it will include in its budget and levy an *ad valorem* tax upon all the property within the County subject to taxation in an amount that will be sufficient, together with all other revenues and money of the County legally available for such purposes, to pay the principal of and interest on the Bonds as the same become due. The County has irrevocably pledged that the annual tax to be levied for the payment of such principal and interest will be within and as a part of the tax levy permitted to counties without a vote of the people, and that a sufficient portion of the taxes to be levied and collected annually by the County prior to the full payment of the principal of and interest on the Bonds will be and is irrevocably set aside, pledged, and appropriated for the payment of the principal of and interest on the Bonds. The full faith, credit, and resources of the County have been irrevocably pledged for the annual levy and collection of those taxes and for the prompt payment of the principal of and interest on the Bonds as the same become due. The Bonds do not constitute a debt or indebtedness of the State or any political subdivision thereof, including the Participants (as defined herein), other than the County.

The Bonds are offered when, as, and if issued, subject to approval of legality by Foster Pepper PLLC, Seattle, Washington, Bond Counsel, and certain other conditions. The form of legal opinion of Bond Counsel is attached hereto as Appendix B. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the County by Pacifica Law Group LLP, Seattle, Washington, as Disclosure Counsel to the County. 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 25, 2017.

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: October 2, 2017

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 G—Book-Entry System, which has been furnished by DTC.

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

The public offering prices set forth on page i of this Official Statement may be changed from time to time by the initial purchaser of the Bonds (the "Purchaser"). The Purchaser of the Bonds 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 page i 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.

The website of the County or any County department or agency is not part of this Official Statement, and investors should not rely on information presented on the County's website, or any other website referenced herein, in determining whether to purchase the Bonds. Information appearing on any such website is not incorporated by reference in this Official Statement.

CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers herein are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. 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.

MATURITY SCHEDULE

$154,560,000
KING COUNTY, WASHINGTON
LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS
(PAYABLE FROM SEWER REVENUES), 2017

Due July 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2018	$ 7,200,000	5.00%	1.00%	102.715	49474F RW2
2019	7,520,000	5.00%	1.14%	106.415	49474F RX0
2020	7,870,000	5.00%	1.17%	110.086	49474F RY8
2023	9,255,000	5.00%	1.56%	118.637	49474F RZ5
2024	9,675,000	5.00%	1.69%	120.832	49474F SA9
2025	10,115,000	5.00%	1.86%	122.381	49474F SB7
2026	10,565,000	5.00%	1.99%	123.891	49474F SC5
2027	11,040,000	5.00%	2.07%	125.587	49474F SD3
2028	11,485,000	4.00%	2.28%	114.866 (1)	49474F SE1
2029	11,880,000	4.00%	2.31%	114.586 (1)	49474F SF8
2030	25,000,000	4.00%	2.54%	112.460 (1)	49474F SG6
2031	13,235,000	4.00%	2.61%	111.822 (1)	49474F SH4
2032	13,685,000	4.00%	2.73%	110.739 (1)	49474F SJ0
2033	6,035,000	4.00%	2.80%	110.113 (1)	49474F SK7

(1) Priced to the July 1, 2027, par call date.

KING COUNTY, WASHINGTON
500 FOURTH AVENUE
SEATTLE, WASHINGTON 98104

KING COUNTY EXECUTIVE

Dow Constantine

METROPOLITAN KING COUNTY COUNCIL

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

OTHER ELECTED OFFICIALS

Dan Satterberg	Prosecuting Attorney
John Wilson	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

Melani Pedroza

BOND COUNSEL

Foster Pepper PLLC

DISCLOSURE COUNSEL

Pacifica Law Group LLP

MUNICIPAL ADVISOR TO THE COUNTY

Piper Jaffray & Co.

BOND REGISTRAR

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

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OFFICIAL STATEMENT

$154,560,000
KING COUNTY, WASHINGTON
LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS
(PAYABLE FROM SEWER REVENUES), 2017

INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County, Washington (the "County"), of its Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2017 (the "Bonds"). The Bonds are issued under and in accordance with the provisions of chapters 35.58, 36.67, 39.46, and 39.53 of the Revised Code of Washington ("RCW") and the County Charter, and are authorized under the provisions of County Ordinance 18116, passed on September 21, 2015 (the "Bond Ordinance"), and Motion 14967 of the Metropolitan King County Council (the "County Council") passed on October 2, 2017 (the "Sale Motion").

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

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 the Bonds. The Bonds initially will be registered in the name of Cede & Co. as the nominee of The Depository Trust Company, New York, New York ("DTC"). See "Book-Entry System."

The Bonds will bear interest at the rates set forth on page i of this Official Statement, payable semiannually on each January 1 and July 1, beginning January 1, 2018, to their maturities or prior redemption. Interest will be computed on the basis of a 360-day year and of twelve 30-day months. The Bonds will mature on the dates and in the years and amounts set forth on page i of this Official Statement.

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. For so long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (the "State") (currently U.S. Bank National Association) (the "Bond Registrar"). For so long as any outstanding Bonds are registered in the name of Cede & Co., or its registered assigns, as nominee of DTC, payments of principal of and interest on such Bonds will be made in immediately available funds on the date such payment is due and payable at the place and in the manner provided in the operational arrangements of DTC referenced in the Letter of Representations. See "—Book-Entry System" and Appendix G—Book-Entry System.

Interest on each Bond not registered in the name of the Securities Depository is payable by electronic transfer on the interest payment date or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered Owner of the Bond at the address appearing on the Register on the Record Date. "Record Date," for this purpose, means the 16th day preceding any principal or interest payment date or redemption date. The County is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of that Registered Owner. Principal of and premium, if any, on each Bond not registered in the name of DTC are payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

Redemption of the Bonds

Optional Redemption. The County reserves the right to redeem outstanding Bonds maturing on or after July 1, 2028, in whole or in part, at any time on or after July 1, 2027, 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 of a single maturity are to be redeemed, DTC will select the Bonds registered in the name of DTC or its nominee to be redeemed in accordance with the Letter of Representations, and the Bond Registrar will select all other Bonds to be redeemed randomly, or in such other manner as the Bond Registrar determines. 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. Notice of redemption of each Bond registered in the name of DTC or its nominee will be given in accordance with the Letter of Representations. Notice of redemption of each other Bond, unless waived by the owner of the Bond, will 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 the registration books for the Bonds maintained by the Bond Registrar on the Record Date. "Record Date," for this purpose, means the day preceding the day on which notice of the call of the Bond for redemption is mailed. The notice requirements of the Bond Ordinance will be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by any Owner.

Conditional Redemption; Rescission 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 on or 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, unless either the notice of optional redemption is rescinded as described above or money sufficient to effect such redemption is not on deposit in the Parity Lien Obligation Bond Fund or in a trust account established to refund or defease the Bond.

Book-Entry System

Book-Entry Bonds. Each Bond registered in the name of DTC or its nominee will be held fully immobilized in book-entry only form by DTC in accordance with the Letter of Representations. Neither the County nor the Bond Registrar will have any obligation to DTC participants or the persons for whom they act as nominees regarding accuracy of any records maintained by DTC or any DTC participant. Neither the County nor the Bond Registrar will be responsible for any notice that is permitted or required under the Bond Ordinance to be given to the Registered Owners of Bonds registered in the name of DTC or its nominee except such notice as is required to be given by the Bond Registrar to DTC.

The Bonds will initially be issued in denominations equal to the aggregate principal amount of each maturity and will initially be registered in the name of Cede & Co., as the nominee of DTC. The Bonds so registered will be held in fully immobilized form by DTC as Securities Depository. For so long as the Bonds are registered in the name of DTC or its nominee, DTC or its nominee will be deemed to be the Registered Owner for all purposes under the Bond Ordinance, and all references to Registered Owners will mean DTC or its nominee and will not mean the Beneficial Owners of the Bonds.

Registered ownership of any Bond registered in the name of DTC or its nominee may not be transferred except to any successor Securities Depository, to any substitute Securities Depository appointed by the County, or to any person if the Bond is no longer to be held by a Securities Depository.

Substitute Securities Depository. Upon the resignation of DTC, or upon a termination of the services of DTC by the County, the County may appoint a substitute Securities Depository.

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

Purchase of Bonds

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

Refunding or Defeasance of Bonds

The County may issue refunding obligations pursuant to State law or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include (i) paying when due the principal of and interest on any or all of the Bonds (the "Defeased Bonds"), (ii) redeeming the Defeased Bonds prior to their maturity; and (iii) paying the costs of the refunding or defeasance.

If the County sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance (the "Trust Account"), money and/or Government Obligations maturing at a time or times and bearing interest in amounts sufficient to redeem, refund, or defease the Defeased Bonds in accordance with their terms, then all right and interest of the Owners of the Defeased Bonds in the covenants of the Bond Ordinance and in the funds and accounts obligated to the payment of the Defeased Bonds will cease and become void. Thereafter, the Registered Owners of Defeased Bonds will have the right to receive payment of the principal of and premium, if any, and interest on the Defeased Bonds solely from the Trust Account and the Defeased Bonds will be deemed no longer outstanding. In that event, the County may apply money remaining in any fund or account (other than the Trust Account) established for the payment or redemption of the Defeased Bonds to any lawful purpose. Unless otherwise specified by the County in a refunding or defeasance plan, notice of refunding or defeasance will be given, and selection of Bonds for any partial refunding or defeasance will be conducted, in the manner prescribed in the Bond Ordinance for the redemption of Bonds.

For purposes of the Bonds, Government Obligations will be defined in the Sale Motion to mean direct obligations of or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

USE OF PROCEEDS

Purpose

The Bonds are being issued to refund certain bonds of the County (described below under "Refunding Plan") and to pay the administrative costs of the refunding and the costs of issuing the Bonds.

Sources and Uses of Funds

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

SOURCES OF FUNDS		
Par Amount of Bonds	$	154,560,000
Reoffering Premium		23,024,504
Total Sources of Funds	$	177,584,504
USES OF FUNDS		
Deposit to Refunding Account	$	176,862,734
Costs of Issuance (1)		721,770
Total Uses of Funds	$	177,584,504

(1) Includes rating agency fees, municipal advisory fees, underwriter's discount, legal fees, printing costs, administrative costs of the refunding, other costs of issuing the Bonds, and approximately $3,803 of additional proceeds.

Refunding Plan

A portion of the proceeds from the sale of the Bonds, along with accrued interest in the amount of $2,712,891, will be used to refund the callable portion of the County's outstanding Limited

Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2008 (the "Refunded Bonds"), for the purposes of realizing debt service savings.

REFUNDED BONDS

Bond Component	Maturity Date	Interest Rate	Par Amount	Redemption Date	Redemption Price	CUSIP Number
Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2008						
Serial	1/1/2019	5.00 %	$ 8,985,000	1/1/2018	100 %	49474E L50
	1/1/2020	5.00	9,385,000	1/1/2018	100	49474E L68
	1/1/2021	5.00	9,820,000	1/1/2018	100	49474E L76
	1/1/2024	5.00	11,265,000	1/1/2018	100	49474E M26
	1/1/2025	5.00	11,775,000	1/1/2018	100	49474E M34
	1/1/2026	5.00	12,310,000	1/1/2018	100	49474E M42
	1/1/2027	5.00	12,860,000	1/1/2018	100	49474E M59
	1/1/2028	5.00	13,440,000	1/1/2018	100	49474E M67
Term	1/1/2034	4.75	85,790,000	1/1/2018	100	49474E M75
Total			$ 175,630,000			

Procedure. The County will enter into a Refunding Escrow Agreement with U.S. Bank National Association, as Escrow Agent, to provide for the refunding of the Refunded Bonds. The Refunding Escrow Agreement will create an irrevocable trust fund to be held by the Escrow Agent and to be applied solely to the payment of the Refunded Bonds. The net proceeds of the Bonds deposited with the Escrow Agent will be held in cash or invested in noncallable direct obligations of the United States of America or obligations the payment of which is unconditionally guaranteed by the United States of America (the "Escrow Securities") that will mature and bear interest at rates sufficient, together with cash held by the Escrow Agent, to pay the principal of and accrued interest coming due on the redemption dates of the Refunded Bonds.

Verification of Calculations. The mathematical accuracy of the computations of the adequacy of the maturing principal amounts of and interest on the Escrow Securities and cash on deposit to be held by the Escrow Agent to pay principal of and interest on the Refunded Bonds as described above will be verified by Causey Demgen & Moore P.C., independent certified public accountants (the "Verification Agent").

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds are Parity Lien Obligations, which are limited tax general obligation bonds of the County that are additionally secured by a pledge of and lien on Revenue of the System (defined below under "Lien and Charge on Revenue of the System"), subject to Operating and Maintenance Expenses (defined below under "Lien and Charge on Revenue of the System") and the payment of the Parity Bonds (defined below under "Outstanding Sewer System Obligations"). ***The lien on Revenue of the System that secures the Parity Lien Obligations is subordinate to the lien that secures the Parity Bonds***.

Pledge of Full Faith and Credit of the County

The Bonds are general obligations of the County. The County has irrevocably covenanted and agreed that, for as long as any of the Bonds are outstanding and unpaid, each year it will include in its budget and levy an *ad valorem* tax upon all the property within the County subject to taxation in an amount that will be sufficient, together with all other revenues and money of the County legally available for such purposes, to pay the principal of and interest on the Bonds as the same become due. The County has irrevocably pledged that the annual tax to be levied for the payment of such principal and interest will be within and as a part of the tax levy permitted to counties without a vote of the people, and that a sufficient portion of the taxes to be levied and collected annually by the County prior to the full payment of the principal of and interest on the Bonds will be and is irrevocably set aside, pledged, and appropriated for the payment of the principal of and interest on the Bonds. The full faith, credit, and resources of the County have been irrevocably pledged for the annual levy and collection of those taxes and for the prompt payment of the principal of and interest on the Bonds as the same become due. The Bonds do not constitute a debt or indebtedness of the State or any political subdivision thereof, including the Participants (as defined herein), 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."

Lien and Charge on Revenue of the System

The Bonds are Parity Lien Obligations secured by a lien and charge on Revenue of the System subject to Operating and Maintenance Expenses of the Sewer System, and junior, subordinate, and inferior to the lien and charge on Revenue of the System that secures the Parity Bonds, equal to the lien and charge on Revenue of the System that secures other Parity Lien Obligations, and superior to all other liens and charges on Revenue of the System, including the liens that secure the Junior Lien Obligations, the Multi-Modal LTGO/Sewer Revenue Bonds, the Subordinate Lien Obligations, and the State Revolving Fund ("SRF") Loans and Public Works Trust Fund ("PWTF") Loans, all of which are described below under "Outstanding Sewer System Obligations."

The "Sewer System" means the sewers and sewage disposal facilities now or hereafter acquired, constructed, used, or operated by the County for the purpose of carrying out the County's comprehensive water pollution abatement plan authorized by RCW 35.58.200 and defined in Section 28.82.150 of the King County Code as the Comprehensive Sewage Disposal Plan, adopted by Resolution No. 23 of the Metro Council on April 22, 1959, and all amendments thereto, together with any amendments hereafter approved by ordinance of the County. The Sewer System is defined in the Bond Ordinance as the "System."

"Revenue of the System" means all the earnings, revenues, and money received by the County from or on account of the operations of the Sewer System and the income from the investment of money in the Revenue Fund or any account within such fund, but does not include any money collected pursuant to sewage disposal agreements applicable to administrative costs of the County other than costs of administration of the Sewer System.

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

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

Flow of Funds

Revenue of the System is required to be deposited into the Revenue Fund and used for the following purposes and in the following order of priority (as more specifically described in the Bond Ordinance):

(i) to pay all Operating and Maintenance Expenses;

(ii) to make all required deposits into the Parity Bond Fund to provide for the payment of principal of and interest on Parity Bonds as the same become due and payable and to make any Payment Agreement Payments with respect to any Parity Payment Agreements;

(iii) to make all payments required to be made pursuant to a reimbursement agreement or agreements in connection with surety bonds or letters of credit for the Parity Bond Reserve Account;

(iv) to establish and maintain the Parity Bond Reserve Account;

(v) to make all required payments of principal of and interest on the Bonds and other Parity Lien Obligations and to make any Payment Agreement Payments under any Parity Lien Obligation Payment Agreements;

(vi) to make all required payments of principal of and interest on the Junior Lien Obligations, to make all Payment Agreement Payments under any Payment Agreements entered into with respect to any Junior Lien Obligations, and to make any payments required to be made to providers of any credit enhancements or liquidity facilities for Junior Lien Obligations;

(vii) to make all required payments of principal of and interest on the Multi-Modal LTGO/Sewer Revenue Bonds as the same become due and payable, to make all Payment Agreement Payments under any Payment Agreements entered into with respect to Multi-Modal LTGO/Sewer Revenue Bonds, and to make any payments required to be made to providers of credit enhancements or liquidity facilities for any Multi-Modal LTGO/Sewer Revenue Bonds;

(viii) to make all required payments of principal of and interest on the Subordinate Lien Obligations as the same become due and payable;

(ix) to make all required payments of principal of and interest on indebtedness secured by a lien on Revenue of the System that is junior and inferior to the Subordinate Lien Obligations as the same become due and payable; and

(x) to make all required payments of principal of and interest on the SRF Loans and PWTF Loans.

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

(i) to make necessary improvements, additions, and repairs to and extensions and replacements of the Sewer System;

(ii) to purchase or redeem and retire outstanding sewer revenue bonds of the County;

(iii) to make deposits into the Rate Stabilization Fund (see "Rate Covenants—Rate Stabilization Fund"); or

(iv) for any other lawful purposes of the County related to the Sewer System.

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

Outstanding Sewer System Obligations

The following table presents information on the outstanding obligations of the County's Sewer System ("Sewer System Obligations") as of September 1, 2017, adjusted to reflect the issuance of the Bonds and the refunding of the Refunded Bonds. See the table titled "Scheduled Debt Service on All Obligations of the Sewer System" under "The Sewer System—Debt Service Requirements Payable From Revenues of the Sewer System."

OUTSTANDING SEWER SYSTEM OBLIGATIONS

Sewer System Obligations	Principal Amount of Sewer System Obligations Outstanding	Final Maturity
Parity Bonds	$ 2,427,730,000	2052
Parity Lien Obligations (LTGO)(1)	610,690,000	2039
Junior Lien Obligations(2)	400,000,000	2043
Multi-Modal LTGO/Sewer Revenue Bonds	100,000,000	2040
SRF Loans and PWTF Loans(3)	221,251,848	2037
Total Sewer System Obligations Outstanding	$ 3,759,671,848	

(1) Includes the Bonds; excludes the Refunded Bonds. Excludes $3,010,000 of Limited Tax General Obligation Bonds (Federally Taxable Qualified Energy Conservation Bonds), Series 2012F (the "QECB Bonds"). Although debt service on the QECB Bonds is paid from Revenue of the System, the County has not pledged Revenue of the System to the payment of the QECB Bonds. Debt service payments on the QECB Bonds will be made from Revenue of the System remaining at the bottom of the flow of funds listed above under "Flow of Funds" as another lawful purpose of the County related to the Sewer System.

(2) Does not include $50 million in Junior Lien Obligations that are expected to be issued in late 2017 or early 2018 as a direct purchase pursuant to a continuing covenant agreement with State Street Public Lending Corporation.

(3) Does not include $30.0 million in undrawn loan commitments from the Washington State Department of Ecology ("Ecology"). See "The Sewer System—Future Sewer System Financing Plans."

Source: King County Finance, Business and Operations Division

PARITY BONDS. The County has outstanding 15 series of Parity Bonds, which are sewer revenue bonds that are secured by a lien and charge on Revenue of the System. The lien on Revenue of the System that secures the Parity Bonds is subordinate to the payment of Operating and Maintenance Expenses and senior to the liens that secure all other Sewer System Obligations.

PARITY LIEN OBLIGATIONS. With the issuance of the Bonds and the refunding of the Refunded Bonds, the County has outstanding seven series of Parity Lien Obligations, which are limited tax general obligation bonds of the County that are additionally secured by a lien and charge on Revenue of the System. The lien on Revenue of the System that secures the Parity Lien Obligations is subordinate to the lien that secures the Parity Bonds, but senior to the liens that secure the Junior Lien Obligations, the Multi-Modal LTGO/Sewer Revenue Bonds, the Subordinate Lien Obligations, and the SRF Loans and PWTF Loans.

JUNIOR LIEN OBLIGATIONS. The County has outstanding six series of Junior Lien Obligations, which are sewer revenue bonds that are secured by a lien and charge on Revenue of the System. The lien on Revenue of the System that secures the Junior Lien Obligations is subordinate to the liens that secure the Parity Bonds and the Parity Lien Obligations, but senior to the liens that secure the Multi-Modal LTGO/Sewer Revenue Bonds, the Subordinate Lien Obligations, and the SRF Loans and PWTF Loans.

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

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

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

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

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

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

Although all Variable Rate Bonds have bullet maturities, the financial plans supporting the adopted 2017 and 2018 Sewer Rates provide for the amortization of outstanding Variable Rate Bonds through optional redemptions beginning ten years prior to their final maturity dates. Such planned optional redemptions are excluded from the table titled "Scheduled Debt Service on All Outstanding Obligations of the Sewer System" under "The Sewer System."

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

If the County is unable to extend or replace any such agreement, or if certain Variable Rate Bonds cannot be remarketed, the County would be obligated to repay all principal of such bonds during a "term-out" period prior to the stated final maturity date. Similarly, if the pricing for extensions or replacements of any such agreement increase substantially or such extensions or replacements otherwise cease to benefit the County, the County may refund or retire the obligations or convert the obligations to fixed rate bonds. In any such circumstances, debt service associated with those obligations may exceed the amount that is currently projected by the County.

A summary of the relevant Sewer System Obligations and terms of each related bank agreement is shown in the following table. In addition, the County is currently negotiating with State Street Public Lending Corporation for the direct purchase of $50 million in Junior Lien Obligations that are expected to be issued in late 2017 or early 2018. The associated continuing covenant agreement will have a term of three years.

SUMMARY OF CREDIT FACILITIES

Series	Type of Sewer System Obligations	Amount Outstanding as of 8/1/2017	Type of Facility	Provider	Expiration	Term-Out Provision	Maturity
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001 A and B	Junior Lien Obligations	$100,000,000	Letter of Credit	Landesbank Hessen-Thuringen Girozentrale (Helaba)	9/30/2020	Three Years	1/1/2032
Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2010 A and B	Multi-Modal LTGO/Sewer Revenue Bonds	$100,000,000	Standby Bond Purchase Agreement	State Street Public Lending Corporation	11/3/2017[(1)]	Three Years	1/1/2040
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2011	Junior Lien Obligations	$100,000,000	Bondholder's Agreement	U.S. Bank National Association	5/1/2020	Three Years	1/1/2042
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2012	Junior Lien Obligations	$100,000,000	Continuing Covenant Agreement	Wells Fargo Municipal Capital Strategies, LLC	12/2/2019	Three Years	1/1/2043
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2015A and B	Junior Lien Obligations	$100,000,000	Continuing Covenant Agreement	State Street Public Lending Corporation	11/15/2019	Three Years	1/1/2046

(1) In the process of being replaced by a direct purchase obligation of State Street Public Lending Corporation. Expiration of the associated continuing covenant agreement will occur in April or May of 2021, depending on the closing date of the direct purchase.

Agreements With Participants

Service Agreements. The Service Agreements with the Municipal Participants (described below under "The Sewer System—The Participants") contain provisions that are uniform in effect with respect to the facilities to be provided, delivery and acceptance of sewage, and payment for sewage disposal. The Service Agreements with the non-Municipal Participants, which accounted for approximately 0.60% of sewage disposal revenues in the year ended December 31, 2016, do not differ substantially from the Service Agreements with the Municipal Participants. The rates set by Municipal Participants for sewer service to their customers are not subject to the jurisdiction of the Washington Utilities and Transportation Commission. Under Washington law, the Municipal Participants have various remedies for the enforcement of delinquent bills, including placing liens on the property of delinquent customers.

The Service Agreements uniformly provide that the County will receive all sewage collected by the Participants (described below under "The Sewer System—The Participants") in the service area of the Sewer System and will treat and dispose of such sewage. In return, the Participants will deliver their sewage to the Sewer System and pay the County for all costs incurred in providing sewage disposal services through the payment of Sewage Disposal Charges. Although the Participants' payment obligations are sized to reflect operations and maintenance, reserves, repair and replacement costs, and debt service on all obligations secured by Revenue of the System, the Participants are not directly obligated to pay the principal of or interest on the Bonds or other obligations payable from Revenue of the System.

All of the Service Agreements with the Municipal Participants extend to at least July 1, 2036. Since 2002, the County has been in the process of negotiating extensions of the Service Agreements with the Participants. These negotiations continue. Extensions through July 1, 2056, have been signed by the cities of Carnation, Issaquah, Kirkland, Pacific, Renton, and Tukwila, the Alderwood Water & Wastewater District, the Vashon Sewer District, and the Muckleshoot Indian Tribe, which collectively provided 16.13% of sewage disposal revenues in the year ended December 31, 2016. The requirement for Municipal Participants within the County to remain customers of the Sewer System beyond the expiration of existing Service Agreements is described below under "Agency Customer Continuation Requirement."

Validity and Enforceability. The common provisions of the Service Agreements (i) provide for the delivery of sewage to the Sewer System by each Participant and the acceptance of such sewage by the County for treatment and disposal, and (ii) establish the method for determining Sewage Disposal Charges (described below under "The Sewer System—Sewer Rates") and for making payment thereof. In 1960, the Service Agreement with the City of Seattle ("Seattle") (containing the essential common provisions of all the Service Agreements) was held valid by the Supreme Court of the State of Washington *(Municipality of Metropolitan Seattle v. City of Seattle*, 57 Wn.2d 446, 357 P.2d 863 (1960)).

Agency Customer Continuation Requirement. By Ordinance 15757, passed on May 7, 2007, the County Council invoked its authority under RCW 35.58.200(3) to require that each current Municipal Participant within the County continue as an "Agency Customer" (a wholesale customer of the Sewer System not subject to a Service Agreement) following expiration of its Service Agreement so long as bonds issued to finance the capital projects in the Regional Wastewater Services Plan ("RWSP"), which include the Bonds, remain outstanding. See "The Sewer System—The Participants." In accordance with RCW 35.58.200(4), Ordinance 15757 also established a monthly sewer rate for Agency Customers, including Municipal Participants within the County, which are required to connect to the Sewer System, and Municipal Participants outside the County and non-Municipal Participants, which are not required to connect to the Sewer System unless a Service Agreement is in effect. Municipal Participants outside the County and Non-Municipal Participants contributed 7.8% of sewage disposal revenues in the year ending December 31, 2016. The formula for the monthly rate charged Agency Customers under Ordinance 15757 is identical to the formula set forth in the Service Agreements.

Rate and Coverage Covenants

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

(i) the proper operation and maintenance of the Sewer System;

(ii) the punctual payment of the principal of and interest on all outstanding Parity Bonds for which payment has not otherwise been provided and all amounts that the County is obligated to set aside in the Parity Bond Fund securing the Parity Bonds;

(iii) the punctual payment of the principal of and interest on all outstanding Parity Lien Obligations and all amounts that the County is obligated to set aside in the Parity Lien Obligation Bond Fund; and

(iv) the payment of any and all other amounts that the County is now or may hereafter become obligated to pay from Revenue of the System.

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

Rate Stabilization Fund. The County established the Rate Stabilization Fund in 2005. In accordance with the order of priority described above in "Flow of Funds," the County may from time to time appropriate or budget amounts in the Revenue Fund for deposit in the Rate Stabilization Fund and may from time to time withdraw amounts therefrom for deposit in the Revenue Fund to prevent or mitigate sewer rate increases or for any other lawful purposes of the County related to the Sewer System.

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

The County made deposits into the Rate Stabilization Fund between 2005 and 2011. From 2012 to 2014, the County withdrew $42.25 million from the Rate Stabilization Fund to mitigate sewer rate increases. In 2015, the County contributed $12 million to the Rate Stabilization Fund as a result of favorable operating performance and savings achieved through debt refundings. As of July 31, 2017, the balance in the Rate Stabilization Fund was $46.25 million. The Wastewater Treatment Division ("WTD") will evaluate the use of these funds to mitigate future rate increases in connection with its proposal to the County in March 2018 for the 2019 monthly sewer rate. See the table titled "Summary of Projected Sewer System Customers, Revenues, and Expenses" under "The Sewer System—Projected Customers, Revenues, and Expenses."

Additional Obligations of the Sewer System

Additional Parity Bonds. The County has expressly reserved the right to issue additional Parity Bonds in accordance with the Bond Ordinance. See Appendix A—Copy of Bond Ordinance. In the Bond Ordinance, subject to that reservation of rights with respect to Parity Bonds, the County has covenanted that it will not issue or incur any other additional indebtedness secured in whole or in part by a lien on Revenue of the System superior to the lien of the Bonds. See Appendix A—Copy of Bond Ordinance, Section 25.

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

(i) there is no deficiency in the Parity Bond Fund, the Parity Lien Obligation Bond Fund, or any other bond fund or account securing Parity Lien Obligations; and

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

   (a) Revenue of the System is to be determined for a period of any 12 consecutive months out of the 18 months immediately preceding the delivery of the additional Parity Lien Obligations being issued;

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

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

   (d) there is to be deducted from such revenue the amount expended for Operating and Maintenance Expenses during such period;

(e) for each year following the proposed date of issuance of such Parity Lien Obligations, the Professional Utility Consultant may add to the annual revenue determined as described in the preceding four subparagraphs an estimate of the income to be received in each such year from the investment of money in the Parity Bond Fund, the Parity Lien Obligation Bond Fund, and the Construction Account, which is to be determined by and in the sole discretion of a firm of nationally recognized financial consultants selected by the County;

(f) beginning with the second year following the proposed date of issue of such Parity Lien Obligations and for each year thereafter, the Professional Utility Consultant may add to the annual revenue determined as described in the preceding five subparagraphs his or her estimate of any additional annual revenue to be received from anticipated growth in the number of Customers within the area served by the Sewer System on the date of such certificate, after deducting therefrom any increased Operating and Maintenance Expenses estimated to be incurred as a result of such growth; provided, that the Professional Utility Consultant's estimate of the number of customers served may not assume a growth of more than 0.25% over and above the number of customers served or estimated to be served during the preceding year; and

(g) if extensions of or additions to the Sewer System are in the process of construction at the time of such certificate, or if the proceeds of the Parity Lien Obligations being issued are to be used to acquire or construct extensions of or additions to the Sewer System, there may be added to the annual net revenue as above determined any revenue not included in the preceding subparagraphs that will be derived from such additions and extensions after deducting therefrom the estimated additional Operating and Maintenance Expenses to be incurred as a result of such additions and extensions; provided, that such estimated annual revenue must be based upon 75% of any estimated Customer growth in the four years following the first full year in which such additional revenue is to be collected and thereafter the estimated Customer growth may not exceed 0.25% per year over and above such reduced estimate; or

(iii) instead of the certificate described in paragraph (ii) above, the County may elect to have on file a certificate of the County's Finance Director demonstrating that during any 12 consecutive calendar months out of the immediately preceding 18 calendar months, Net Revenue was at least equal to 1.25 times the amount required to pay, in each year that such Parity Lien Obligations would be outstanding, the Annual Debt Service for such year. To satisfy the additional Parity Lien Obligations test applicable to the issuance of the Bonds, the County will provide a parity certificate of the type described in this paragraph.

The County may at any time, for the purpose of refunding at or prior to their maturity any outstanding Parity Lien Obligations, Parity Bonds, or any bonds or other obligations of the County payable from Revenue of the System, issue additional Parity Lien Obligations without complying with the provisions described in either paragraph (ii) or paragraph (iii) if there is filed with the clerk of the County Council a certificate of the County's Finance Director stating that, upon the issuance of such additional Parity Lien Obligations:

(a) total debt service on all Parity Bonds and Parity Lien Obligations (including the refunding bonds but not including the bonds to be refunded thereby) will decrease, and

(b) the Annual Debt Service for each year that any Parity Bonds and any Parity Lien Obligations (including the refunding bonds but not including the bonds to be refunded thereby) are then outstanding will not be increased by more than $5,000 by reason of the issuance of such additional Parity Lien Obligations.

The principal amount of such Parity Lien Obligations may include amounts necessary to pay the principal of the bonds or other obligations to be refunded, interest thereon to the date of payment or redemption thereof, and any premium payable thereon upon such payment or redemption and the costs of issuance of such Parity Lien Obligations and, if a Payment Agreement has been provided with respect to the obligations to be refunded, may include amounts necessary to make the payment of all amounts, if any, due and payable by the County under such Payment Agreement. The proceeds of such Parity Lien Obligations will be held and applied as is provided in the ordinance authorizing the issuance of such Parity Lien Obligations, so that upon the delivery of such Parity Lien Obligations, the bonds or other obligations to be refunded thereby will be deemed no longer outstanding in accordance with the ordinance authorizing their issuance.

At the election of the County, the provisions of the above two paragraphs need not apply to the refunding at one time of all the Parity Lien Obligations then outstanding.

The Bond Ordinance provides that nothing prohibits or prevents, or will be deemed or construed to prohibit or prevent, the County from issuing Parity Lien Obligations to refund maturing Parity Lien Obligations of the County for the payment of which money is not otherwise available.

Nothing in the Bond Ordinance prohibits, or will be deemed or construed to prohibit, the County from authorizing and issuing bonds, notes, or other evidences of indebtedness for any purpose of the County related to the Sewer System payable in whole or in part from Revenue of the System and secured by a lien on Revenue of the System that is junior, subordinate and inferior to the lien of the Bonds.

THE SEWER SYSTEM

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

WTD is one of four divisions in the DNRP. The four divisions in DNRP perform tasks ranging from improving water quality to enhancing parks and trails, protecting citizens from flooding, restoring crucial fish and wildlife habitat, and recycling and reusing wastewater and solid waste byproducts. The DNRP's overall mission is to safeguard the environment, ensure public safety, and preserve the region's quality of life. Brief biographies of key officials in DNRP and WTD are provided below.

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

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

Bruce Kessler, P.E., WTD Assistant Division Director. Mr. Kessler was appointed to this position in May 2017. He has been with WTD for more than 11 years in various capacities, including Assistant Manager at the Brightwater treatment plant and Engineering Unit Manager. He negotiated with Ecology revisions to the Brightwater discharge permit and with Seattle the 2016 Joint Project Agreement for the Ship Canal Water Quality Combined Sewer Overflow Project. He has been actively involved in the Division's asset management and resiliency and recovery programs. Mr. Kessler is a licensed Professional Engineer and has a B.S. in Civil Engineering from North Carolina State University.

Timothy Aratani, WTD Finance Manager. Mr. Aratani was appointed to this position in 2000. He has been with the County for more than 29 years. Prior to joining WTD, he served as Finance Manager for the Solid Waste Division in DNRP. Mr. Aratani has a B.A. in Accounting from the University of Washington and an M.B.A. from the University of Puget Sound.

The Facilities

The Sewer System has been designated by the County as its Water Quality Enterprise. Distributed over a 424-square-mile service area, the Sewer System collected and treated an average of 188 million gallons of sewage per day ("mgd") from approximately 1.7 million residents in 2016. The major wastewater facilities include three secondary treatment plants (West Point in Seattle, South in Renton, and Brightwater in south Snohomish County), 391 miles of conveyance lines, 47 pump stations, and 25 regulator stations. Other facilities include four combined sewer overflow ("CSO") treatment plants, two CSO storage facilities, 38 CSO control locations, and secondary treatment plants on Vashon Island and in Carnation.

The Participants

As the successor to Metro, the County has assumed by operation of law Metro's rights and obligations under its Service Agreements with 34 Municipal Participants and three non-Municipal Participants (each, a "Participant"). The Municipal Participants accounted for approximately 99.40% of sewage disposal revenues in the year ended December 31, 2016, and the non-Municipal Participants accounted for 0.60%.

Municipal Participants. The 34 Municipal Participants (33 cities and sewer districts in King County, south Snohomish County and northern Pierce County, and the Muckleshoot Indian Tribe) contract with the County for sewage treatment services. Pursuant to Ordinance 15757, the

Municipal Participants within King County are required to continue as Agency Customers in the absence of a Service Agreement. The division of responsibility between the County and the Municipal Participants and their respective obligations are set forth in the Service Agreements. See "Security and Sources of Payment for the Bonds—Agreements with Participants."

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

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

Customers and Residential Customer Equivalents. The number of Residential Customers and Residential Customer Equivalents ("RCEs") (together, the "Customers") reported by each Participant as of December 31, 2016, is presented in the following table.

SEWER SYSTEM PARTICIPANTS AS OF DECEMBER 31, 2016

Municipal Participants--Cities	Single Family Residential Customers	RCE[1]	Total Customers	Percentage of Total (%)
Algona	1,037	234	1,271	0.17
Auburn	12,888	18,637	31,525	4.23
Bellevue	33,500	27,517	61,017	8.19
Black Diamond	776	228	1,004	0.13
Bothell	4,846	4,505	9,351	1.26
Brier[2]	1,540	236	1,776	0.24
Carnation	720	215	935	0.13
Issaquah	5,506	4,808	10,314	1.38
Kent	12,578	22,662	35,240	4.73
Kirkland	9,473	7,036	16,509	2.22
Lake Forest Park	3,451	616	4,067	0.55
Mercer Island	7,088	1,194	8,282	1.11
Pacific	1,506	959	2,465	0.33
Redmond	14,683	15,495	30,178	4.05
Renton	15,489	14,054	29,543	3.97
Seattle[3]	144,847	148,556	293,403	39.39
Tukwila	985	6,580	7,565	1.02
Subtotal	270,913	273,532	544,445	73.09
Municipal Participants--Sewer Districts and Tribe				
Alderwood Water & Wastewater District[2]	30,498	15,472	45,970	6.17
Cedar River Water & Sewer District	4,020	1,395	5,415	0.73
Coal Creek Utility District	2,931	1,193	4,124	0.55
Cross Valley Water District[2]	-	441	441	0.06
Highlands Sewer District	104	1	105	0.01
Lakehaven Utility District	914	10	924	0.12
Muckleshoot Indian Tribe	282	90	372	0.05
NE Sammamish Sewer & Water District	4,664	140	4,804	0.64
Northshore Utility District	19,387	12,529	31,916	4.28
Olympic View Water & Sewer District[2]	202	-	202	0.03
Ronald Wastewater District	15,055	4,270	19,325	2.59
Sammamish Plateau Water & Sewer District	9,977	5,488	15,465	2.08
Skyway Water & Sewer District	3,874	864	4,738	0.64
Soos Creek Water & Sewer District	30,958	6,830	37,788	5.07
Valley View Sewer District	6,782	8,981	15,763	2.12
Vashon Sewer District	377	582	959	0.13
Woodinville Water District	2,431	3,627	6,058	0.81
Subtotal	132,456	61,913	194,369	26.09
Non-Municipal Participants and Other Customers	-	6,056	6,056	0.81
Total	**403,369**	**341,501**	**744,870**	**100.00**

NOTES TO TABLE:

(1) RCEs include multifamily, commercial, and industrial customers and are customer units based on water consumption.

(2) These Participants are outside the County and, unless a Service Agreement is in effect, are not required to connect to the Sewer System. See "Security and Sources of Payment for the Bonds—Agreements with Participants—Agency Customer Continuation Requirement."

(3) Financial and operating information about Seattle's drainage and wastewater system may be found in Seattle's most recent official statement and continuing disclosure filings for its drainage and wastewater revenue bonds, on file with the MSRB at *www.emma.msrb.org*. Seattle's comprehensive annual financial reports may also be obtained on its web site at *www.seattle.gov/cafrs*.

Source: King County Wastewater Treatment Division

Sewer Rates

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

The monthly Sewer Rate is applied to each single family residence ("Residential Customer") and to an RCE value of each 750 cubic feet of water consumption by all other customers such as multifamily, commercial, and industrial properties. Each Participant and Agency Customer is billed monthly an amount based upon the adopted Sewer Rate and the number of Residential Customers at the end of the second previous calendar quarter and the average number of RCEs for multifamily, commercial, and industrial accounts for the four calendar quarters beginning five quarters prior to the current quarter. Monthly billings in the first quarter of 2017, for example, were based on the number of Residential Customers as of September 30, 2016, and the average number of RCEs beginning with the fourth quarter of 2015 through the third quarter of 2016.

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

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

Adopted Sewer Rates. The adopted monthly Sewer Rates for each Residential Customer or RCE for the years 2012 through 2018 are set forth in the following table.

SEWER RATES FOR
RESIDENTIAL CUSTOMERS OR
RESIDENTIAL CUSTOMER EQUIVALENTS

Effective Date (January 1)	Rate ($/month)	Percentage Change
2012	$ 36.10	--
2013	39.79	10.2%
2014	39.79	--
2015	42.03	5.6
2016	42.03	--
2017	44.22	5.2
2018	44.22	--

Source: King County Wastewater Treatment Division

Projected Sewer Rates. The following table shows the County's current Sewer Rate projections for the years 2019 through 2023. The projections are for planning purposes only and are based on rate increases, subject to County Council approval, that would produce Revenue of the System sufficient, together with any planned withdrawals from the Rate Stabilization Fund, to meet the County's minimum debt service coverage level for all obligations payable from Revenue of the System. See "Financial Policies." Under the Service Agreements, the County Council must formally adopt the Sewer Rate each year. The Sewer Rates established by the County Council do not require the approval of the Washington Utilities and Transportation Commission or the Participants or Agency Customers.

PROJECTED SEWER RATES
FOR RESIDENTIAL CUSTOMERS
OR RESIDENTIAL CUSTOMER EQUIVALENTS

Effective Date (January 1)	Rate ($/month)	Percentage Change
2019	$ 45.85	3.7%
2020	45.85	0.0
2021	46.64	1.7
2022	47.74	2.5
2023	48.71	1.9

Source: King County Wastewater Treatment Division

Sewer System Operating Revenues

Sewage Disposal Charges, based on the Sewer Rates described above, contributed on average 83% of Sewer System operating revenues between 2012 and 2016.

The next largest single source of Sewer System operating revenues is the capacity charge, which has been imposed by County ordinance since 1990 on customers who establish new connections to the Sewer System. Annual capacity charge revenues have averaged 14% of total Sewer System operating revenues between 2012 and 2016. The table below shows the number of new capacity charge connections for the past five years.

HISTORICAL NEW CAPACITY CHARGE CONNECTIONS

Year	Connections
2012	7,915
2013	8,467
2014	10,767
2015	11,676
2016	10,743

Capacity charges are based upon the year that service commences and remain fixed for a term of 15 years. The capacity charge assessed for customers who establish new connections to the Sewer System in 2017 is $60.80 per month, compared to $58.70 for customers who established service in 2016. In June 2017, the County Council adopted a capacity charge of $62.60, a 3.0% increase, for 2018. State law imposes limitations on the calculation of capacity charges, but capacity charges do not require the approval of the Washington State Utilities and Transportation Commission or the Participants or Agency Customers.

The County allows the capacity charge to be prepaid on a discounted basis at the customer's option. From 2005 through 2013, the discount rate was 5.5%. To provide a more stable, long-term revenue stream, the County established new code provisions in 2013 in which an annual discount rate is set that reflects the 15-year mortgage and 10- and 20-year investment rates. These changes became effective on January 1, 2014. The discount rate is 2.9% in 2017 and was 2.8% in 2016.

A number of other charges, including fees paid by septage haulers for treatment, payments for the by-products of the sewage treatment process, and surcharges imposed for high strength and heavy metal discharges into the Sewer System, collectively have accounted for approximately 3% of operating revenue between 2012 and 2016.

Financial Policies

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

To further strengthen the financial position of the Sewer System, the County established in 2001 the policy of setting Sewer Rates and other charges at a level that would achieve an overall debt service coverage target of at least 1.15 times coverage on all Sewer System Obligations (see

"Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations"), in addition to continuing to satisfy the existing policy of providing at least 1.25 times coverage on Parity Bonds and Parity Lien Obligations.

In proceedings for the adoption of the 2018 Sewer Rate, the County Council was presented with projected Sewer Rates that, after payment of operating expenses and debt service, are projected to be sufficient to fund out of Net Revenue on average 40% of projected capital expenditures from 2018 through 2023, thereby increasing projected coverage ratios on all Sewer System Obligations to between 1.29 and 1.31 times. These Sewer Rates appear in the table of "Projected Sewer Rates for Residential Customers or Residential Customer Equivalents" (and are based on rate increases that are subject to County Council approval) and have been used to determine operating revenues from Sewage Disposal Charges in the "Summary of Projected Sewer System Customers, Revenues, and Expenses."

Reserve Policy. In 2001, the County Council established an operating liquidity reserve, equal to $5.0 million plus 10% of annual operating expenses, and an emergency capital reserve equal to $15 million. These policies were reviewed and affirmed by the County Council in 2012. As of July 31, 2017, these reserves were fully funded, with balances of $18.7 million and $15 million, respectively.

Sewer System Interfund Borrowing

The Sewer System periodically uses interfund borrowing from other County funds held in the King County Investment Pool (the "Investment Pool") to provide interim financing for its capital improvement program pending the issuance of long-term bonds or the receipt of SRF Loan funds. (See "King County–King County Investment Pool.") Such borrowings are to be fully repaid upon the receipt of the subsequent bond proceeds or SRF Loan funds. There are currently no such loans outstanding. In 2015, the Sewer System borrowed $40.1 million from the Investment Pool, fully repaying the principal with proceeds of the County's Sewer Improvement and Refunding Revenue Bonds, 2015, Series B.

In addition, in 2008, the Investment Pool provided a $100 million five-year term loan to the Sewer System for the retirement of two series of MBIA-insured variable rate demand bonds. The Sewer System made five $20 million annual principal payments, plus interest based on the monthly earning rates of the Investment Pool, from Revenue of the System that otherwise would have been used as a funding source for the Sewer System's capital program. The final payment was made in early 2013.

Historical Customers, Revenues, and Expenses

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

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

	2012	2013	2014	2015	2016
Residential Customer and Residential Customer Equivalents (RCEs) (annual average, rounded)	708,900	718,160	725,844	736,090	756,430
Percentage Annual Increase	0.23%	1.31%	1.07%	1.41%	2.76%
Operating Revenues					
Sewage Disposal Charges	$307,167	$342,850	$346,591	$371,253	$381,513
Capacity Charge Revenues	51,411	58,660	59,522	62,479	71,200
Other Operating Revenues	9,398	10,126	11,675	11,673	11,828
Total Operating Revenues	$367,976	$411,636	$417,788	$445,405	$464,541
Operating Expenses	(114,939)	(117,183)	(124,201)	(128,926)	(136,321)
Net Operating Revenue	$253,037	$294,453	$293,587	$316,479	$328,220
Interest Income	1,697	2,682	2,822	2,863	4,549
Rate Stabilization (1)	13,900	10,350	18,000	(12,000)	-
Net Revenue Available for Debt Service	$268,634	$307,485	$314,409	$307,342	$332,769
Debt Service					
Parity Bonds (2)	$157,117	$172,959	$175,463	$167,694	$160,957
Parity Lien Obligations (2)	38,626	43,064	42,876	40,348	53,164
Subordinate Debt Service (3)	14,329	15,039	17,477	18,318	21,316
Total Debt Service	$210,072	$231,062	$235,816	$226,360	$235,437
Debt Service Coverage					
On Parity Bonds	1.71	1.78	1.79	1.83	2.07
On Parity Bonds and Parity Lien Obligations	1.37	1.42	1.44	1.48	1.55
On All Sewer System Obligations	1.28	1.33	1.33	1.36	1.41

NOTES TO TABLE:

(1) Withdrawals from (deposits into) the Rate Stabilization Fund.

(2) The amounts shown in the table exclude payments from capitalized interest reserves of $7.3 million in 2012 for Parity Bonds and $6.1 million for Parity Lien Obligations.

(3) Subordinate Debt Service consists of debt service on the Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, and SRF Loans and PWTF Loans. The amount shown in the table for 2016 excludes $1.4 million in 2016 for Subordinate Debt Service, representing excess premium on the Junior Lien Sewer Revenue Bonds, Series 2015A and 2015B, that was deposited in the Bond Fund and excluded from interest expense.

Source: Audited Financial Statements and financial records of the Water Quality Enterprise Fund 2012-2016, Finance and Business Operations Division

Management Discussion of 2016 Sewer System Financial Results

The Sewer System's net operating revenue (excluding depreciation expense) in 2016 was $328.2 million, a 3.7%, or $11.8 million, increase from the $316.5 million of net operating revenue in 2015. Total operating revenues increased by 4.3% to $464.5 million from $445.4 million, while operating expenses (excluding depreciation) increased 5.7% to $136.3 million from $128.9 million in 2015.

Revenues. The $19.1 million, 4.3% increase in operating revenue in 2016 from 2015 was due to growth in the number of RCEs and an increase in capacity charge revenues. The monthly Sewer Rate in 2016 was unchanged from the 2015 rate of $42.03 per RCE. Total RCEs increased by 20,340, or 2.8%, in 2016 compared to a 1.4% increase in 2015, and resulted in $10.3 million of additional revenues. Approximately $1.9 million of the increase (0.5% of the increase in RCEs) was due to favorable revenue adjustments encompassing prior year RCE usage. Capacity charge revenues increased by 14.0%, or $8.7 million, to $71.2 million in 2016. Billings increased by $8.6 million from 2015; $5.5 million of this increase was due to 2015 capacity charge billings that were reduced by the write-off of a receivable arising from a billing dispute with a single customer over billings from 2009-2015. The increase in early payoff revenues of $0.5 million to $18.0 million in 2016 was offset by a $0.4 million decrease in other capacity charge revenues. Other operating revenues increased by 1.1%, or $0.1 million, to $11.8 million from 2015.

Expenses. Operating expenses of the Sewer System, excluding depreciation, increased $7.4 million to $136.3 million in 2016, a 5.7% increase. Utility and service expenses increased by 6.7%, or $2.0 million, to $31.9 million from $29.9 million in 2015. Intergovernmental expenses increased by 4.1%, or $1.4 million, due to increases in surface water management fees which include environmental lab testing and other overhead costs. Chemical expenses increased by 12.5%, or $0.9 million to $8.1 million in 2016.

Interest Income. Interest income increased by $1.7 million to $4.6 million in 2016 due to both higher average yields in the Investment Pool (0.79% in 2016 vs. 0.56% in 2015) and higher average balances ($559 million in 2016 vs. $503 million in 2015).

Debt Service Coverage. The Sewer System achieved a coverage ratio of 1.55x on the combined debt service of Parity Bonds and Parity Lien Obligations in 2016, exceeding the 1.25x minimum coverage target stipulated by the County's adopted financial policies. The debt service coverage ratio of 1.41x on all Sewer System Obligations in 2016 exceeded the 1.15x minimum coverage target stipulated by the County's adopted financial policies.

West Point Flooding Accident

On February 9, 2017, during heavy rainfall in the Seattle area, the West Point treatment plant was operating at peak hydraulic capacity when a partial interruption of power supply occurred. The ensuing cascade of events caused several elements of the treatment plant to fail, culminating in flooding of the plant and leading to the emergency bypass of an estimated 180 million gallons of stormwater mixed with untreated sewage into Puget Sound. Although there were no emergency bypasses after February 16, 2017, WTD was unable to meet the discharge limits required by West Point's NPDES permit until May 11, 2017, and has been fined $361,000 by Ecology. Evidence to date does not show harm to fish, wildlife, or people. WTD is continuing to work with Ecology to monitor Puget Sound water quality and additional environmental monitoring will continue through 2017.

WTD restored the plant's critical mechanical and electrical systems and returned the plant to its full hydraulic and treatment capacity by April 26, 2017. Work continues on long-term equipment repair and rehabilitation projects and is expected to be completed by the end of 2017. WTD and CH2M, an engineering consultant, estimate that total restoration costs will be between $30 million and $35 million, with $16.0 million in costs having been incurred as of September 18, 2017.

Costs incurred in remediating the damage at West Point come under the terms of the County's property insurance coverage, with a $250,000 deductible and a maximum loss recovery of $500 million per occurrence. WTD is working with its insurance carriers to document and recover costs related to the accident. As of the date of this Official Statement, WTD had received $12.5 million in advances from its primary insurance carriers. WTD has opened a claim with the Federal Emergency Management Agency ("FEMA") and expects that it will submit to FEMA remediation costs that will not be paid by its insurance carriers. WTD's insurance carriers are currently reviewing the claim and the amount that will be approved is not known at this time.

WTD will continue to submit claims to its insurers for West Point remediation costs as they are incurred and invoices are paid to contractors. While WTD expects that it will recover most of its West Point remediation costs from its insurance carriers and FEMA, it cannot estimate what its total recovery will be or when additional insurance advances or payments will be received. Regulatory fines from Ecology are not covered by WTD's insurance policies.

The County Council commissioned the consulting engineering firm AECOM to provide an independent review of the West Point accident, which was received on July 18, 2017. A major finding of the AECOM report is that West Point lacks sufficient redundancy in its systems, such that the failure of one or more system components can significantly reduce the plant's peak capacity (440 mgd) over a very brief period. Lack of redundancy combined with the complexity of the system gives plant operators very little time to react during peak-flow events. The complexity of West Point's systems means that the plant needs a higher level of operational integration to manage its interdependencies. AECOM noted that the strain on West Point is likely to worsen, as the plant lacks physical space for expansion and the magnitude and frequency of maximum flows to the plant may increase with continued population growth, urbanization, and climate change.

WTD worked closely with AECOM in its review of West Point and is committed to moving forward on its recommendations. WTD developed and shared with AECOM its own plan for remedial actions at West Point and has already carried out critical improvements in several areas, including increasing redundancy in electrical systems, installing new equipment with greater reliability, and formulating plans for better training of employees. By January 2018, WTD expects to complete training modules for emergency responses and assessments of equipment and processes for life safety, following which protocols will be implemented and simulation training conducted. At the request of the County Council, WTD has also engaged the engineering consulting firm Brown and Caldwell to review how well positioned West Point is to meet potential future growth, regulatory, and environmental challenges given its current and projected capacity, changes in treatment technology, and constraints acting upon the plant. A final report to the County Council is expected in January 2018.

By early 2018, WTD expects to integrate its own initiatives with those recommended by its consultants. The cost and timing of these initiatives, particularly those involving future capital improvements at West Point, are not known at this time but will be developed as part of the 2019 monthly sewer rate proposal and capital improvement program that will be submitted to the County Council in March 2018. See “Capital Improvement Plan.”

Projected Customers, Revenues, and Expenses

The following table sets forth a summary of the County’s projections of the Sewer System’s Customers, Revenue of the System, and Operating and Maintenance Expenses for the fiscal years ending December 31, 2017, through December 31, 2023. Notes for this table are provided on the page following the table.

The revenues that are projected in the following table reflect the assumed monthly Sewer Rates presented in the table titled “Projected Sewer Rates for Residential Customers or Residential Customer Equivalents.” These projected Sewer Rates are designed to produce Net Revenue sufficient to satisfy the debt service coverage targets stipulated by the County’s adopted financial policies and the 40% average cash-funding target for the capital improvement plan (“CIP”) presented to the County Council in proceedings for the adoption of the 2018 Sewer Rates.

Estimates for 2017 are based on year-to-date unaudited revenues and expenses through July and WTD’s projections for the remainder of the year. RCEs in 2017 and resulting Sewage Disposal Charges are based on actual and expected billings for Municipal Participants other than Seattle and an estimate of Seattle’s total RCEs for all of 2017. Due to its transition to a new billing system, Seattle has been unable to report its actual RCEs beginning with the third quarter of 2016, which, because of the lags in the billing cycle, began impacting WTD’s revenues from Seattle starting with the first quarter of 2017.

In the absence of reported data, WTD has billed Seattle based on the RCEs it reported in the second quarter of 2016. These bills, when annualized, are approximately 3% less than the Seattle RCE estimate used in the projections. WTD expects that Seattle will be reporting its actual usage before the end of 2017 and that any difference between actual and estimated billings will be settled at that time. If actual billing data is unavailable, WTD will bill Seattle based on WTD’s 2017 estimate.

Operating revenues in 2017 exclude insurance payments that WTD expects to receive from its carriers for West Point remediation claims and operating expenses exclude West Point remediation costs. See "West Point Flooding Accident."

The Sewer System is expected to generate net operating revenue of $335.5 million in 2017, an increase of $7.3 million from $328.2 million in 2016. Total operating revenues are projected to increase by $22.9 million, or 4.9%, to $487.4 million in 2017 from $464.5 million in 2016, while operating expenses are projected to increase by $15.6 million, or 11.4%, to $151.9 million in 2017 from $136.3 million in 2016.

Revenues from Sewage Disposal Charges are projected to increase by $20.5 million, or 5.4%, from 2016. Most of the increase ($19.8 million) is due to the 5.2% increase in the monthly Sewer Rate that went into effect on January 1, 2017. The balance of the increase ($0.7 million) reflects the projected 0.7% increase in RCEs ($2.6 million) offset by $1.9 million of non-recurring favorable billing adjustments that occurred in 2016. A 3.0% increase in the 2017 capacity charge rate for new customers and continued growth in new connections are expected to increase Capacity Charge Revenues by 1.6%, or $1.2 million. The 10.1%, or $1.2 million, projected increase in Other Operating Revenues reflects expected higher revenues from industrial surcharges and septic haulers.

Operating expenses of the Sewer System, excluding depreciation, are projected to increase by $15.6 million to $151.9 million in 2017 from $136.3 million in 2016, an 11.4% increase. Approximately $3.4 million of the $15.6 million increase is attributed to the re-appropriation of previously committed but unexpended WaterWorks Grant funds. The remaining $12.2 million increase is primarily attributed to increased labor costs for new staffing, program support to provide for the sale of biomethane and environmental attributes at the South Treatment Plant, exterior painting at the South Treatment Plant, enhancements of systems that support operations, enhancements to advance WTD's strategic climate action plan, and projected general inflation.

Interest income is expected to be $5.4 million in 2017, an increase of $0.8 million from 2016 due to the higher expected average interest rate on WTD funds in the Investment Pool (1.10% in 2017, 0.79% in 2016).

WTD does not expect to make any additions to or withdrawals from the Rate Stabilization Fund in 2017 and does not project any additions or withdrawals through 2023.

PROJECTED FINANCIAL STATEMENTS
($ EXPRESSED IN THOUSANDS) (FISCAL YEAR ENDING DECEMBER 31)[1]

	2017[2]	2018	2019	2020	2021	2022	2023
Residential Customer and Residential							
Customer Equivalents (Average for Year, Rounded)	757,610	762,156	766,348	771,099	775,880	780,690	785,530
Percentage Annual Increase	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Operating Revenues							
Sewage Disposal Charges [3]	$ 402,018	$ 404,416	$ 421,642	$ 424,222	$ 434,271	$ 447,745	$ 459,160
Capacity Charge Revenues	72,366	75,623	81,204	87,187	93,513	100,266	104,868
Other Operating Revenues	13,027	13,357	13,758	14,170	14,595	15,033	15,484
Total Operating Revenues	$ 487,411	$ 493,396	$ 516,603	$ 525,578	$ 542,379	$ 563,044	$ 579,512
Operating Expenses [4]	151,897	155,249	161,459	167,917	174,634	181,619	188,884
Net Operating Revenue	$ 335,514	$ 338,147	$ 355,144	$ 357,661	$ 367,745	$ 381,424	$ 390,628
Interest Income [5]	$ 5,356	$ 6,251	$ 8,362	$ 10,589	$ 12,385	$ 14,140	$ 15,852
Rate Stabilization [6]	-	-	-	-	-	-	-
Net Revenue Available for Debt Service	$ 340,870	$ 344,398	$ 363,506	$ 368,250	$ 380,130	$ 395,564	$ 406,480
Debt Service							
Parity Bonds [7]	$ 156,776	$ 158,726	$ 166,983	$ 177,814	$ 187,993	$ 199,150	$ 212,219
Parity Lien Obligations [7]	54,236	54,188	54,124	53,554	53,488	53,436	53,366
Subordinate Debt Service [8]	29,865	53,217	53,250	52,975	52,074	53,502	49,564
Total Debt Service	$ 240,877	$ 266,131	$ 274,357	$ 284,343	$ 293,555	$ 306,088	$ 315,149
Debt Service Coverage [9]							
On Partiy Bonds	2.17	2.17	2.18	2.07	2.02	1.99	1.92
On Parity Bonds and Parity Lien Obligations	1.62	1.62	1.64	1.59	1.57	1.57	1.53
On All Sewer System Obligations	1.42	1.29	1.32	1.30	1.29	1.29	1.29

NOTES TO TABLE:

(1) Totals may not add due to rounding. Projections and debt service on Parity Lien Obligations have not been revised to reflect the savings generated by the Refunding Plan.

(2) Projections for 2017 are based on unaudited financial statements for the seven months ending July 31, 2017, and estimated results through December.

(3) Based on adopted and projected Sewer Rates and rates for capacity charges. See “Sewer Rates—Adopted Sewer Rates” and “—Projected Sewer Rates.”

(4) Operating expenses in 2018 are based on the Sewer System’s operating budget approved by the County Council in November 2016. Operating expenses after 2018 are assumed to increase at an annual rate of 4% through 2023.

(5) Based on the Investment Pool earning at projected annual rates of 1.10% in 2017, 1.40% in 2018, 1.80% in 2019, 2.16% in 2020, 2.47% in 2021, 2.70% in 2022 and 2.86% in 2023. Projected Investment Pool earnings rates are from the County’s Office of Economic and Financial Analysis.

(6) No withdrawals from or additions to the Rate Stabilization Fund are projected for the period.

(7) Projections assume the issuance of additional Parity Bonds with 30-year terms as follows: \$89 million in 2019, \$149 million in 2020, \$140 million in 2021, \$154 million in 2022 and \$180 million in 2023. Does not reflect the savings associated with the refunding of the Refunded Bonds. See “Future Sewer System Financing Plans.”

(8) Subordinate Debt Service consists of debt service on the Variable Rate Bonds and the SRF Loans and PWTF Loans. Subordinate Debt Service excludes, beginning in 2017, \$31.7 million of planned optional redemptions of outstanding and add. See “Financial Policies—Variable Rate Debt.”

Projections include the issuance of \$50 million of Variable Rate Bonds in 2018, \$11 million in 2022, and \$23 million in 2023. See “Future Sewer System Financing Plans.” The projections assume interest rates on Variable Rate Bonds of 1.75% in 2017 and 5.40% thereafter, which is equal to 90% of the assumed long-term rate for additional Parity Bonds. See “Scheduled Debt Service on All Obligations of the Sewer System,” footnote 3.

Projections include debt service on \$79.6 million of SRF Loan commitments from Ecology to the County, of which \$49.6 million has been drawn through the date of this Official Statement. This \$79.6 million total comprises executed agreements with Ecology for loan commitments with 20-year terms and rates of 2.7% (\$29.5 million), 2.4% (\$29.1 million) and 2.0% (\$21.0 million). See “Future Sewer System Financing Plans.”

(9) Operating revenues exclude insurance payments that WTD expects to receive from its carriers for West Point remediation, and claims and expenses exclude West Point remediation costs. If the \$12.5 million of insurance claims received the date of this Official Statement, and \$32.5 million of remediation costs (the midpoint of the current estimate) were included in calculating Net Revenue Available for Debt Service in 2017, debt service coverage on Parity Bonds and Parity Lien Obligations would be reduced to 1.52x from 1.62x and debt service coverage on all Sewer System Obligations would be reduced to 1.33x from 1.42x. See “West Point Flooding Accident.”

Source: King County Wastewater Treatment Division

Debt Service Requirements Payable from Revenue of the System

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

SCHEDULED DEBT SERVICE ON ALL OBLIGATIONS OF THE SEWER SYSTEM(1)
(Fiscal Year Ending December 31)

Year Ending	Parity Lien Obligations									
			The Bonds			Junior Lien	Multi-Modal	SRF Loans and		
December 31(1)	Parity Bonds	Outstanding(2)	Principal	Interest	Total	Obligations(3)	LTGO/Sewer(3)	PWTF Loans(4)	QECB Bonds(5)	Total
2017	$ 156,776,262	$ 48,862,538	$ -	$ 1,267,713	$ 1,267,713	$ 7,000,000	$ 1,750,000	$ 18,777,658	$ 66,220	$ 234,500,391
2018	158,726,412	35,573,750	7,200,000	6,734,800	13,934,800	21,600,000	5,400,000	20,491,859	66,220	255,793,041
2019	160,476,987	35,588,000	7,520,000	6,366,800	13,886,800	21,600,000	5,400,000	20,624,975	66,220	257,642,982
2020	160,478,312	35,082,250	7,870,000	5,982,050	13,852,050	21,600,000	5,400,000	20,127,256	66,220	256,606,088
2021	160,479,063	45,359,675	-	5,785,300	5,785,300	21,600,000	5,400,000	19,715,604	66,220	258,405,862
2022	160,481,188	45,340,950	-	5,785,300	5,785,300	21,600,000	5,400,000	18,663,054	3,076,220	260,346,712
2023	160,479,713	34,040,100	9,255,000	5,553,925	14,808,925	21,600,000	5,400,000	17,667,988	-	253,996,726
2024	160,479,213	34,066,350	9,675,000	5,080,675	14,755,675	21,600,000	5,400,000	17,658,944	-	253,960,182
2025	160,480,463	34,159,100	10,115,000	4,585,925	14,700,925	21,600,000	5,400,000	16,287,540	-	252,628,028
2026	160,477,288	34,187,225	10,565,000	4,068,925	14,633,925	21,600,000	5,400,000	13,037,012	-	249,335,450
2027	160,479,600	34,217,725	11,040,000	3,528,800	14,568,800	21,600,000	5,400,000	12,611,879	-	248,878,004
2028	160,480,725	34,238,225	11,485,000	3,023,100	14,508,100	21,600,000	5,400,000	12,171,641	-	248,398,691
2029	160,480,787	34,346,100	11,880,000	2,555,800	14,435,800	21,600,000	5,400,000	11,209,050	-	247,471,737
2030	160,476,163	21,893,976	25,000,000	1,818,200	26,818,200	21,600,000	5,400,000	11,205,834	-	247,394,172
2031	160,480,688	35,066,851	13,235,000	1,053,500	14,288,500	121,600,000	5,400,000	10,062,165	-	346,898,203
2032	160,491,112	35,106,226	13,685,000	515,100	14,200,100	16,200,000	5,400,000	9,993,907	-	241,391,345
2033	160,478,863	35,139,350	6,035,000	120,700	6,155,700	16,200,000	5,400,000	9,990,990	-	233,364,903
2034	160,479,538	19,892,600	-	-	-	16,200,000	5,400,000	7,672,922	-	209,645,060
2035	135,749,856	19,916,225	-	-	-	16,200,000	5,400,000	6,592,671	-	183,858,752
2036	134,673,594	19,950,725	-	-	-	16,200,000	5,400,000	3,974,959	-	180,199,278
2037	134,752,069	19,970,400	-	-	-	16,200,000	5,400,000	683,822	-	177,006,291
2038	134,594,438	19,997,100	-	-	-	16,200,000	5,400,000	-	-	176,191,538
2039	134,599,526	-	-	-	-	16,200,000	105,400,000	-	-	256,199,526
2040	124,996,175	-	-	-	-	16,200,000	-	-	-	141,196,175
2041	109,356,500	-	-	-	-	116,200,000	-	-	-	225,556,500
2042	87,009,650	-	-	-	-	110,800,000	-	-	-	197,809,650
2043	86,851,800	-	-	-	-	5,400,000	-	-	-	92,251,800
2044	83,589,200	-	-	-	-	5,400,000	-	-	-	88,989,200
2045	83,533,850	-	-	-	-	105,400,000	-	-	-	188,933,850
2046	79,529,750	-	-	-	-	-	-	-	-	79,529,750
2047	56,268,875	-	-	-	-	-	-	-	-	56,268,875
2048	27,289,125	-	-	-	-	-	-	-	-	27,289,125
2049	27,287,375	-	-	-	-	-	-	-	-	27,287,375
2050	10,358,000	-	-	-	-	-	-	-	-	10,358,000
2051	10,358,250	-	-	-	-	-	-	-	-	10,358,250
Total	$ 4,343,980,410	$ 711,995,439	$ 154,560,000	$63,826,613	$ 218,386,613	$ 898,400,000	$ 220,550,000	$279,221,730	$ 3,407,320	$6,675,941,513

NOTES TO TABLE:

(1) January 1 payments shown in the prior year.

(2) Excludes the Refunded Bonds. See "Use of Proceeds—Refunding Plan."

(3) The projections assume interest rates on Variable Rate Bonds of 1.75% in 2017 and 5.40% thereafter, which is equal to 90% of the assumed long-term rate for additional Parity Bonds. The Junior Lien Obligations have bullet maturities in 2032, 2040, 2042, 2043, and 2046. The Multi-Modal LTGO/Sewer Bonds have a bullet maturity in 2042. Projections exclude planned optional redemptions of Variable Rate Bonds prior to their final maturity dates. See "Financial Policies—Variable Rate Debt" and "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations—Summary of Credit Facilities."

(4) Excludes debt service on $30.0 million of existing loan commitments from Ecology that are expected to be drawn upon through 2018. See "The Sewer System—Future Sewer System Financing Plans."

(5) Although debt service on the QECB Bonds is paid from Revenue of the System, the County has not pledged Revenue of the System to the payment of the QECB Bonds. See "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations." Annual interest expense excludes the federal subsidy that is expected to be received.

Regional Wastewater Services Plan

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

The 2013 RWSP Comprehensive Review evaluated the capacity of the three major treatment plants to treat the wastewater stream components of solids (organic and inorganic material) and flow (liquid stream). The comprehensive review found that the treatment plants have sufficient solid loadings capacity until the 2030s. The County is currently conducting studies to evaluate how to meet the expected solids treatment demand in the 2030s. Capacity to treat average wet weather flows at each of the three plants is not expected to be reached until around 2060.

The Conveyance System Improvement ("CSI") program focuses on guiding major upgrades and improvements to County-owned regional wastewater conveyance facilities. The facilities consist of the pumping stations and pipes that transport wastewater from the local systems to the regional treatment facilities. The current CIP comprises 19 CSI construction and design projects with estimated spending of $459 million through 2023. See "Capital Improvement Plan" herein.

WTD routinely updates the CSI program plan. In May 2017, WTD completed an assessment of the County's separated sewer system (located outside of Seattle) and identified components of the system that, through 2060, were projected to fall below the County's 20-year peak flow planning standard. Forty-one conveyance system improvements were identified and a final report, which will develop a preliminary schedule for the improvements through 2060, is expected later this year.

WTD prepared planning-level cost estimates for the improvements, specifying what is known and unknown about each improvement, estimates for allowances, risks and contingencies, and the basis for design, planning, and cost. Estimated total costs through 2060 for the 41 improvements in 2016 dollars are $1.74 billion. Decisions on when specific CSI improvements will be included in future CIPs will be made as part of WTD's capital budgeting process. The current CIP includes $46.8 million to pay for initial planning and design for those CSI projects on which WTD may decide to proceed through 2023.

Brightwater Project

Overview. The largest component of the RWSP is the Brightwater treatment and collection system, which is located in unincorporated Snohomish County east of State Highway SR-9, just north of the City of Woodinville. The treatment plant has a maximum monthly average flow capacity of 40.9 mgd and a firm instantaneous maximum flow capacity of 95 mgd.

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

The Brightwater treatment plant and conveyance system began full operation in October 2012. Total Brightwater project costs, including the treatment plant, conveyance system, and outfalls, were $1.86 billion.

Litigation Resolution. In 2010, the County initiated litigation against Vinci Construction Grands Projets/Parsons RCI/Frontier-Kemper ("VPFK") and the performance bond sureties, Travelers Casualty and Surety Co. and four other companies (the "Sureties"). The contractor VPFK was originally responsible for mining the two central tunnel conveyance segments and defaulted on mining one of the tunnels, requiring the County to hire another contractor to complete the tunneling. The County prevailed in its lawsuit against VPFK and was awarded $144.3 million ($129.6 million in damages and $14.7 million in attorneys' fees) in early 2013. VPFK and the Sureties appealed the trial court judgment to the Washington State Court of Appeals, which affirmed the $144.3 million award to the County in a ruling issued November 9, 2015, and awarded the County an additional $0.6 million in legal fees. On November 30, 2015, VPFK asked the Washington State Court of Appeals for reconsideration of its ruling. The motion for reconsideration was denied on December 29, 2015.

On January 28, 2016, VPFK and the Sureties separately petitioned the Washington State Supreme Court for review. On September 7, 2016, the Supreme Court issued an order denying VPFK's Petition for Review, upholding the 2013 judgment against the contractor in the amount of $129.6 million. The Supreme Court accepted the Sureties' Petition for Review, which put at issue the judgment against the Sureties for attorneys' fees. The total amount of $15.3 million in attorneys' fees was held by WTD until the Supreme Court's final decision on July 6, 2017. The Supreme Court affirmed the trial court judgment holding the Sureties liable for attorneys' fees. WTD plans to incorporate the entire $144.9 million award into the financial plan that it will submit to the County Council in March 2018 for the adoption of the 2019 monthly sewer rate.

Combined Sewer Overflow Projects

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

The County currently has 39 CSO outfall locations and four CSO treatment facilities which control overflows that still occur in some older parts of Seattle during heavy rains. Past investments have resulted in a reduction in untreated CSOs from a baseline of 2.3 billion gallons per year (based on data from 1980 to 1983) to 800 million gallons in a typical year of rainfall (based on long-term averages). Weather conditions resulted in 1.0 billion gallons of untreated CSO discharges in 2016 and 1.5 billion gallons in 2015. Both 2015 and 2016 were wetter than average, and rain events in 2015 placed it among the most extreme precipitation years since 1977.

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

All milestones required by the 2013 Consent Decree milestones have been met to date with the exception of the South Magnolia Wet Weather Storage project not achieving controlled status within one year of construction completion. Construction on South Magnolia was completed in December 2015 and the facility was operating correctly until an unexpected conveyance pipe break prevented storm flows in the fall of 2016 from reaching the storage tank. WTD submitted a Supplemental Compliance Plan to Ecology and EPA in January 2017 outlining plans to bring the facility back into compliance. WTD will submit an addendum to the plan once the pipeline break is more fully assessed and a repair method is determined. Once a repair method is determined, an estimated cost will be developed. It is anticipated the storage facility will be back online in the first half of 2018.

On July 27, 2016, the County and Seattle signed a joint agreement to implement a project to control County overflows at its 3rd Avenue West and 11th Avenue Northwest locations (see Figure 1) and four of the overflow locations designated in Seattle's consent decree. Seattle will serve as lead agency for design and construction of a 2.7-mile, approximately 18.8-foot-diameter storage tunnel (the "Joint Project") to capture and store a minimum of 15.25 million gallons of stormwater mixed with sewage from the six CSO sites during a storm event. The Joint Project is expected to reduce the total of uncontrolled CSO discharges by approximately 50 million gallons and 130 CSO events per year. The Joint Project is being pursued to reduce community and environmental impacts in the project area and provide operational efficiencies.

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

The County’s 35% financial share of agreed shared portions of the Joint Project’s total cost has an estimated capital cost of $133.7 million through 2024. These costs have been reflected in the table titled “Capital Improvement Plan—Projected Expenditures” in place of the costs for the 3rd Avenue West and 11th Avenue Northwest projects. The County’s estimated expenditures are $3.3 million in 2017 and $5.3 million in 2018.

The County is required to update its Long-Term Control Plan (“LTCP”) every five years; its 2018 update will be submitted to Ecology and the EPA with its NPDES permit renewal application for West Point that is due in January 2019. In the 2018 update, WTD will be conducting analyses and alternatives assessments for those CSOs where projects are not already being implemented (Hanford No. 2, Montlake, and University), incorporating new modeling and flow information that has been obtained since the last LTCP update. The 2018 LTCP will include refined cost estimates, schedule and project priorities, and sizing assumptions for recommended projects to address each of these projects.

Figure 1 below shows the approximate locations of the nine CSO control projects included in the Long-Term Control Plan as well as the four “Beach” CSO projects, consisting of North Beach, South Magnolia, Murray, and Barton, which were underway prior to the Long-Term Control Plan development. Except as noted for South Magnolia, the Beach projects have been completed and are operating. Hanford No. 1 is currently under construction and is expected to be completed and in operation in the first quarter of 2018. Construction on the Georgetown Wet Weather Treatment Station is expected to begin in November 2017.

FIGURE 1: CURRENT AND FUTURE PROJECTS OF THE CSO SYSTEM

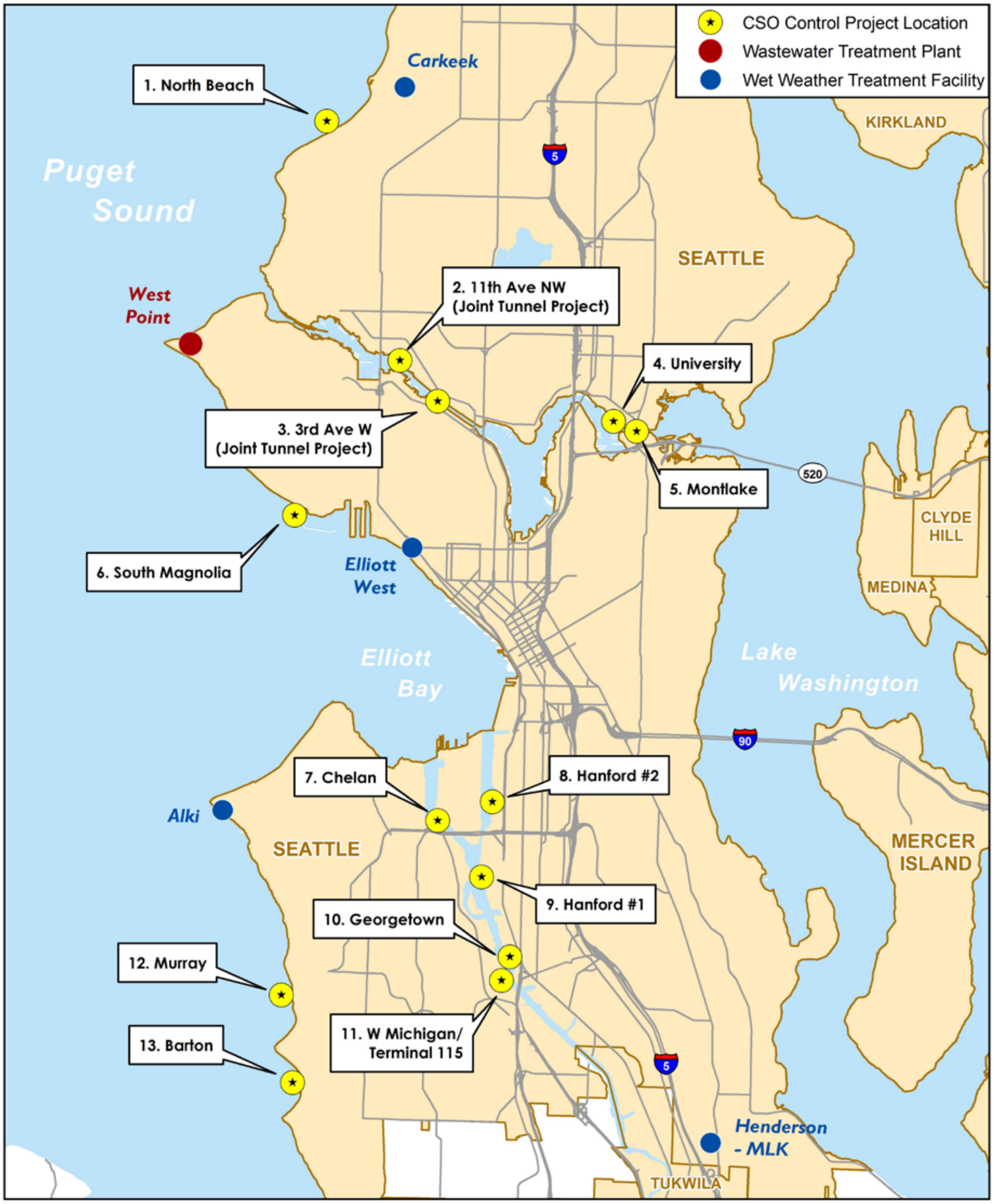

Diagram is not to scale.

Source: King County Wastewater Treatment Division

Capital Improvement Plan

As shown in the following table, the Sewer System's CIP for the period 2017-2023 comprises three distinct elements. In addition to CSO control and CSI projects, the Sewer System expects to spend significant amounts annually for other capital improvements and the replacement of existing assets pursuant to its capital asset management plans. In addition, as discussed under "West Point Flooding Accident," WTD will be evaluating its capital program based on what happened at West Point and recommendations made by its consultants. The cost and timing of these initiatives is not known at this time but will be developed as part of the 2019 monthly sewer rate proposal and capital improvement program that will be submitted to the County Council in March 2018.

CAPITAL IMPROVEMENT PLAN—PROJECTED EXPENDITURES[(1)]
($000)

	RWSP		Other Improvements	
Year	CSO	CSI	and Asset Management	Total
2017	$ 63,220	$ 53,913	$ 66,734	$ 183,866
2018	59,441	66,891	66,047	192,380
2019	93,231	48,066	79,505	220,803
2020	108,781	53,194	70,653	232,628
2021	107,569	51,295	67,057	225,921
2022	117,907	75,568	46,825	240,300
2023	92,332	110,690	62,526	265,549
Total	$ 642,482	$ 459,618	$ 459,347	$ 1,561,446

(1) Expenditures in 2017-2023 are in nominal dollars. The capital expenditures shown above were used to develop projected Sewer Rates and the projections shown in the table titled "Projected Financial Statements" and are based on an expected accomplishment rate of 85% of total budged expenditures for the period.

Note: totals may not add due to rounding.

Source: King County Wastewater Treatment Division

Future Sewer System Financing Plans

The current financial plan for the Sewer System projects that 40% of the CIP will be funded from Net Revenue from 2018 through 2023. It also anticipates the issuance of approximately $712 million of additional Parity Bonds and approximately $73 million of additional variable rate Junior Lien Obligations for new money purposes from 2017 through 2023 to provide continued funding for the CIP. Scheduled principal payments on Parity Bonds and Parity Lien Obligations for this period total $558 million. Another $57 million of the CIP is expected to be funded from executed loan commitments with Ecology, of which $26.7 million has been drawn upon in 2017.

In July 2017, the EPA invited WTD to submit a formal application for up to $128.6 million of assistance for the Georgetown CSO project from the EPA's newly launched Water Infrastructure Finance and Innovation Act ("WIFIA") loan program. WTD anticipates that it will complete and submit its application to the EPA by the end of 2017; however, EPA's terms and conditions for its WIFIA loan are not known at this time. Should WTD and the EPA complete and close the transaction, proceeds from the WIFIA loan could be available to pay Georgetown CSO project costs beginning the second half of 2018 or early 2019. The County expects to issue the WIFIA loan as Parity Bonds, subject to County Council approval.

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.

Environmental Regulation

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

Ecology renewed the West Point treatment plant NPDES permit in 2014 and the South treatment plant NPDES and reclaimed water permits in 2015. The permit for the Vashon treatment plant was renewed in January 2017. These permits cover the treatment plants and their conveyance systems for a period of five years and expire in January 2020 for West Point, July 2020 for the South Treatment Plant, and February 2022 for the Vashon treatment plant. All secondary treatment effluent limits and general requirements remained the same as in the previous permits. Some additional data requirements were added for the CSO Treatment facilities, and two studies requirements were added for the Elliott West CSO Treatment facility. All such sampling and reporting continue to be performed on time and in full.

The NPDES and reclaimed water permits for Brightwater expired in July 2016 and have been administratively extended. Application for the renewal of the Brightwater NPDES permit was made in 2015 and the renewal process is underway. Under Ecology's administrative rules, current permits are extended until such time as the renewal process is completed. The NPDES and reclaimed water permits for the Carnation treatment plant were combined and renewed in 2013 and will expire in December 2018.

Except as described under "West Point Flooding Accident," all five of the wastewater treatment plants have met their permit effluent limits in 2017. Brightwater, which began discharging into Puget Sound in November 2012, was in compliance with its permit levels in 2012, 2013, and 2015, but had one permit exception lasting several hours in 2014 pertaining to the minimum pH level in its effluent and one exception in 2016 when effluent chlorine levels exceeded the permitted maximum for the week of October 9.

Nutrient Removal Standards. The reduction of nutrient discharges from point and non-point sources has been identified as a major policy initiative by Ecology, EPA, and the Puget Sound Partnership's Action Agenda for Puget Sound (a National Estuary Program). A significant number of water bodies nationwide, including some Puget Sound locations, experience low dissolved oxygen that at times fails to meet water quality standards. In early 2017, Ecology launched the Puget Sound Nutrient Source Reduction Project (the "Reduction Project") aimed at reducing sources of nutrient loads that are contributing to decreased dissolved oxygen in Puget Sound. The Reduction Project is a multi-year undertaking and will involve collaboration between many stakeholders, including the County, to both understand the impacts of nutrients on Puget Sound and develop strategies to manage the problem.

If the result of the Reduction Project indicates that County treatment plants cause or contribute to water quality impairment, the County may be required to identify how nitrogen levels in treatment plant effluent can be reduced. It is anticipated that a significant period of time will be required before conclusions can be drawn from the Reduction Project, or regulations for nutrient controls would be promulgated.

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

In 2001, EPA listed the Lower Duwamish Waterway south of downtown Seattle as a Superfund site. EPA issued an administrative order that required the County, Seattle, the Boeing Company, and the Port of Seattle to conduct studies to determine the nature and extent of contamination in the Lower Duwamish Waterway. The County and the other three parties recently agreed with EPA to amend the administrative order and to conduct additional studies pursuant to the amendment. The Feasibility Study, which discusses the remediation alternatives, has been issued in final form by EPA. EPA issued a Record of Decision ("ROD") in the latter part of 2014. The ROD contains EPA's final plan for cleanup of the Lower Duwamish Waterway. In the ROD, EPA provided an order-of-magnitude engineering cost estimate of $395 million (in 2011 dollars) for the total clean-up costs (capital and operating) for the entire project with a range for actual costs of between 30% lower and 50% greater. EPA estimated that there would be seven years of active clean-up and ten or more years of monitoring.

The County and a number of other parties are participating in an alternative dispute resolution process, called an allocation, to determine shares of liability for the costs of the cleanup. If parties that participate in the allocation accept their allotted shares, they then expect to enter into a settlement agreement and to negotiate a consent decree with EPA to implement the cleanup. Due to the fact that the parties do yet know their respective shares of cleanup costs and no consent decree has been negotiated with EPA, the County is unable to determine the schedule or cost of any required remediation or the extent to which the County and WTD will be responsible for the cost of such remediation.

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

Further information regarding existing and potential environmental remediation liabilities is contained in Appendix D—King County Water Quality Enterprise Fund 2016 Audited Financial Statements—Notes 7 and 12.

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

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

Revisions to State Water Quality Standards. On November 15, 2016, EPA published in the Federal Register a final rule for human health water quality criteria applicable to the State that incorporates a combination of Ecology and EPA criteria. The rule sets applicable human health standards that will adequately protect State residents from exposure to toxic pollutants. The adopted water quality standards include substantial revisions to previous assumptions, including the fish consumption rate used in the criteria derivation process used to calculate the criterion for each regulated contaminant. These newly adopted criteria are more stringent than the previously version of the State's applicable human health water quality standards. The Sewer System's secondary and CSO treatment facilities must operate in compliance with all standards that apply to those discharges. The County continues to monitor Ecology's implementation of the new water quality standards and the potential effects of any proposed changes on effluent limitations of the Sewer System's discharges.

Earthquakes and Climate Change

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

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

Strategic Climate Action Plan

In 2015, the County updated its existing Strategic Climate Action Plan ("SCAP") and strengthened initiatives to reduce greenhouse gas ("GHG") emissions and prepare for the impacts of climate change in County operations and throughout the community. The goals of the SCAP are to increase the use and efficiency of transit, provide land use planning and community design supporting transportation choices, reduce non-renewable energy use and increase production of renewable energy, support healthy and productive farms and forests, minimize consumption and waste of materials, and safeguard facilities and infrastructure from anticipated environmental change. The SCAP requires County divisions to analyze capital improvement projects for opportunities to reduce energy use and GHG emissions and to incorporate building efficiency standards into capital improvement planning.

In furtherance of the SCAP, in February 2015, the County required WTD to achieve carbon neutrality in its operations by 2025. WTD has estimated that in 2012, 70% of its GHG emissions were already being offset through the application of biosolids as a soil amendment on farms and forests (which stores carbon in the soil, promotes plant growth that further removes carbon from the atmosphere, and replaces commercial fertilizer that is fossil-fuel intensive to produce) and through the capture of methane gas in anaerobic digesters that is produced at three of WTD's regional treatment plants for use or sale as renewable energy. The fuel mix of WTD's energy suppliers has a significant impact on the quantity of WTD's GHG emissions. Based on emissions data from its energy suppliers, WTD estimates that 92% of its GHG emissions were offset in 2014 and 95% in 2015.

The 2017/2018 budget includes $1.25 million for SCAP-related operating improvements that are expected to reduce the amount of materials entering the waste stream during project construction and demolition, achieve green building targets, and improve the fuel efficiency of the biosolids truck fleet. The 2017/2018 budget also includes $1.0 million of capital projects to reduce GHG emissions associated with transporting biosolids by optimizing plant equipment to produce a smaller volume of biosolids

Beginning in January 2019, electric energy requirements for the South Plant and other WTD facilities in the service territory of Puget Sound Energy will be provided under a ten-year contract for green energy from a wind facility in western Washington. The cost of these purchases has been included as Operating Expenses in the "Projected Financial Statements" herein.

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

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 or by intergovernmental contract.

Organization of the County

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

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

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

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

County's Budget Process

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

The County's Office of Performance, Strategy and Budget, under the direction of the County Executive, is responsible for (i) preparation and management of the operating and capital budgets, (ii) expenditure and revenue policy, and (iii) planning and growth management. 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. 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 comprises 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, 2016, and is incorporated into the County's Comprehensive Annual Financial Report ("CAFR") for 2016.

The County's 2016 CAFR in its entirety may be accessed on the internet at the following link:

www.kingcounty.gov/operations/Finance/FMServices/CAFR.aspx

or obtained from the Financial Management Section at the King County Finance and Business Operations Division, 500 Fourth Avenue, Room 600, Seattle, Washington 98104. See Appendix C—Excerpts from King County's 2016 Comprehensive Annual Financial Report.

The financial statements of the Water Quality Enterprise as of and for the fiscal year ended December 31, 2016, included herein as Appendix D, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing therein. The County has not requested that Moss Adams LLP provide permission for inclusion of its report on the audited financial statements included in this Official Statement, and Moss Adams LLP has not performed, since the date of its report included therein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.

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 paid from its governmental funds. The County's governmental funds include a General Fund and 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 95% of taxes and 96% of intergovernmental revenues in 2016. Taxes and intergovernmental revenues provided approximately 59% of the total revenue in the governmental funds of the County in 2016. 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.

TAXES COLLECTED
AS OF DECEMBER 31
($000)

Source	2012	2013	2014	2015	2016
Real and Personal Property Tax(1)	$ 555,994	$ 582,478	$ 679,300	$ 641,916	$ 752,462
Retail Sales and Use Tax(2)	137,176	147,129	160,635	175,419	191,716
Penalty and Interest on Property Taxes	21,476	20,867	20,993	20,036	17,563
Hotel/Motel Tax(3)	21,268	20,244	23,237	22,843	3,287
Real Estate Excise tax	8,004	11,059	10,924	14,602	14,863
E-911 Excise Tax	23,316	23,515	22,440	21,396	21,430
Other Taxes	14,677	15,003	16,115	20,000	20,559
Total	$ 781,911	$ 820,295	$ 933,644	$ 916,212	$ 1,021,880

(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) See "Hotel/Motel Tax" 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.

As of December 31, 2016, a sales and use tax of 9.5% was 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. Effective April 1, 2017, the rate collected within the boundaries of Sound Transit to fund Sound Transit was increased to 1.4%, bringing the total rate for gross retail sales in the County and within the boundaries of Sound Transit to 10.0%.

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 on 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.

The State currently provides payments to certain jurisdictions, including the County, to mitigate net losses in sales and use tax collections of local taxing jurisdictions resulting from the 2007 change to destination-based sourcing of sales taxes. Mitigation payments currently are distributed at the end of each quarter for the net loss experienced in the preceding quarter, taking into account both the jurisdiction's loss of local sales tax revenue and its “voluntary compliance revenue.” The County received approximately $500,000 in mitigation payments in 2016. In 2017, the State Legislature enacted legislation intended to increase compliance with payment of use taxes (Enrolled House Bill 2163, part II of chapter 28, Laws of 2017, 3rd special session) (“EHB 2163”), including from online purchases. Under EHB 2163, mitigation payments will be phased out in 2019. Both the State’s legal authority to enforce EHB 2163 on out-of-State persons and the ultimate effect of EHB 2163 on County sales and use tax revenues are uncertain.

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.

From January 1, 2013, through December 31, 2015, all such taxes collected were used to retire the debt on the County’s former multi-purpose sports stadium and subsequently distributed into an account dedicated to arts, culture, and heritage programs. From January 1, 2016, through December 31, 2020, all such taxes are retained by the State and used primarily to pay the debt service on bonds issued by the State to finance its football stadium and exhibition hall. On and after January 1, 2021, all such taxes are to be distributed to the County and used for arts, culture, and heritage programs, affordable workforce housing within one-half mile of a transit station, services for homeless youth, projects to promote sustainable workplace opportunities near a community impacted by the construction or operation of tourism-related facilities, and tourism promotion.

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.

OTHER TAXES. Other taxes include an automobile rental sales and use tax, business taxes, a leasehold excise tax, a timber harvest tax, gambling taxes, and, until 2014, certain public facilities district 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)

Source	2012	2013	2014	2015	2016
Grants	$ 205,690	$ 161,851	$ 146,453	$ 135,870	$ 146,873
Revenue Sharing	12,065	10,753	12,703	13,604	13,801
Gas Tax	13,098	12,989	12,838	12,792	13,542
Liquor Tax and Profits	1,664	1,088	1,169	1,261	1,466
Intergovernmental Payments(1)	360,674	369,344	463,739	233,702	182,883
Other Intergovernmental Revenues	10,737	10,363	10,580	11,213	10,270
Total	$ 603,928	$ 566,388	$ 647,482	$ 408,442	$ 368,835

(1) As of 2015, intergovernmental payments that are not grants are reported as charges for services. As of 2016, due to a change in State reporting requirements, specific amounts previously reported as intergovernmental payments are now reported as charges for services.

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

GRANTS. In 2016, 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 $94.5 million in federal grant revenue to the County. This comprised 64.4% of total 2016 grant revenue received by the County. See "Other Considerations—Sanctuary Jurisdiction Impact." The remaining 35.6% of estimated grant revenue was from the State.

The following table lists by source and function the various grants received by the County for the years ended December 31, 2015 and 2016.

2015 AND 2016 GRANT REVENUE
BY SOURCE AND FUNCTION

	2015		2016	
	Actual ($000)	Item as a Percent of Total Actual	Actual ($000)	Item as a Percent of Total Actual
Federal				
General Government Services	$ -	0.0 %	$ -	0.0 %
Law, Safety and Justice	13,156	9.7	13,978	9.5
Physical Environment	2,861	2.1	1,326	0.9
Transportation	2,556	1.9	4,446	3.0
Economic Environment	21,500	15.8	22,256	15.2
Mental and Physical Health	39,579	29.1	52,510	35.8
Culture and Recreation	-	-	-	0.0
Total Federal	$ 79,652	58.6 %	$ 94,516	64.4 %
State:				
General Government Services	$ -	0.0 %	$ 112	0.2 %
Law, Safety and Justice	7,165	5.3	6,235	8.5
Physical Environment	8,164	6.0	5,757	7.8
Transportation	5,049	3.7	3,329	4.5
Economic Environment	16,719	12.3	15,787	21.5
Mental and Physical Health	19,121	14.1	20,231	27.5
Culture and Recreation	-	0.0	906	1.2
Total State	$ 56,218	41.4 %	$ 52,357	35.6 %
Total Grants	$ 135,870	100.0 %	$ 146,873	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 2016, this legislative allocation generated $12.7 million in revenues for public health purposes in the County.

GAS TAX. Counties are entitled to 19.2287% of 44.5 cents (January 1 through June 30, 2016) or 49.4 cents (July 1 through December 31, 2016, and thereafter) 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 8.2808% of the tax distributed to counties in 2016.

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 44.5 cents (January 1 through June 30, 2016) or 49.4 cents (July 1 through December 31, 2016, and thereafter) of the State motor vehicle fuel tax (RCW 46.68.090(2)(i)). The County received 3.682% of these funds in 2016, based on the County's share of State-wide arterial preservation funds.

LIQUOR TAX AND PROFITS. Initiative 1183, passed by voters in November 2011, privatized liquor distribution and sales within the State effective June 1, 2012. Accordingly, the State now receives revenue from both excise taxes on liquor and license fees on distributors and retailers. Local governments receive a share as intergovernmental revenues in separate distributions reflecting each of these sources.

Thirty-five percent of State liquor excise tax revenues are deposited in the liquor excise tax account for distribution to cities and counties. From this amount, $2.5 million per quarter is remitted to the State general fund, with the remainder distributed 80% to cities and 20% to counties.

Distributions of liquor board profits come from the license fees on distributors and retailers. Initiative 1183 required that these distributions remain at least as large as liquor board profit distributions prior to privatization and that, beginning in September 2012, an additional $10 million annually be distributed on a quarterly basis to cities, counties, and border areas. After revenues are distributed to border cities (0.3% of the total), 80% of the remainder goes to cities and 20% to counties.

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 2016, approximately 75% of these payments were related to the County's provision of mental health, public health, law enforcement, jail, and flood control services.

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 (which are scheduled to be phased out in 2019), 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. 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)

	2012	2013	2014	2015	2016
ASSETS					
Cash and cash equivalents	$ 106,168	$ 87,093	$ 71,558	$ 59,475	$ 80,231
Taxes receivable - delinquent	7,264	7,652	7,716	7,686	7,879
Accounts receivable	80,328	81,750	85,476	68,647	50,372
Estimated uncollectible accounts receivable	(66,973)	(68,035)	(71,194)	(59,283)	(37,250)
Interest receivable	9,003	7,453	6,817	8,872	11,497
Due from other funds	2,610	8,232	92	790	1,896
Interfund short-term loans receivable	6,194	-	-	-	-
Due from other governments	44,677	45,341	34,828	49,562	57,469
Estimated uncollectible due from other governments	(285)	(187)	(297)	(10)	(10)
Advances to other funds	3,800	300	300	300	-
TOTAL ASSETS	$ 192,786	$ 169,599	$ 135,296	$ 136,039	$ 172,084
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities					
Accounts payable	$ 4,304	$ 3,377	$ 3,806	$ 6,967	$ 8,331
Due to other funds	9,300	6,629	2,407	1,554	4,339
Due to other governments	621	-	513	-	2,200
Wages payable	20,613	24,620	14,471	16,194	18,133
Taxes payable	204	189	179	108	180
Unearned revenues	6	3,411	1,724	970	-
Custodial accounts	2,934	1,886	1,021	51	78
Total liabilities	$ 37,982	$ 40,112	$ 24,121	$ 25,844	$ 33,261
Deferred inflows of resources [(1)]					
Unavailable revenue	$ 15,160	$ 15,117	$ 7,967	$ 7,566	$ 13,344
Fund balance					
Nonspendable	$ 3,800	$ 300	$ 300	$ 300	$ -
Restricted	2,702	2,506	2,803	1,781	1,659
Committed	21,761	24,982	20,212	20,310	20,497
Assigned	8,827	8,264	8,151	12,125	35,128
Unassigned	102,554	78,318	71,742	68,113	68,195
Total fund balance [(2)]	$ 139,644	$ 114,370	$ 103,208	$ 102,629	$ 125,479
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	$ 192,786	$ 169,599	$ 135,296	$ 136,039	$ 172,084

(1) As a result of the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 65 in 2013, certain liabilities were reclassified retroactively under Deferred Inflows of Resources.

(2) After the release of the County's 2012 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)

	2012	2013	2014	2015	2016
REVENUES					
Property taxes	$ 282,775	$ 311,500	$ 319,188	$ 326,774	$ 334,446
Penalties and interest - delinquent taxes	21,476	20,869	20,993	20,036	17,563
Sales, excise and other taxes	97,551	104,291	112,333	128,979	132,846
Licenses and permits	4,418	4,741	4,753	4,971	5,712
Federal grants	9,311	8,287	9,028	8,803	8,087
State grants	3,273	2,531	2,326	2,590	2,594
Entitlements and shared revenues	11,148	10,109	10,422	11,439	10,485
Intergovernmental revenues (1)	77,619	4,294	3,370	3,470	13,563
Charges for services (1)	114,226	192,632	206,899	225,752	242,055
Fines and forfeits	8,262	7,233	5,922	6,906	8,191
Interest earnings	3,612	1,458	1,632	1,696	3,881
Rents and royalties	15,103	3,045	7,490	8,252	8,285
Other miscellaneous revenues	2,443	13,668	4,653	3,049	2,459
TOTAL REVENUES	$ 651,217	$ 684,658	$ 709,009	$ 752,717	$ 790,167
EXPENDITURES					
Current					
Personal services	$ 429,240	$ 460,039	$ 491,145	$ 513,910	$ 539,041
Supplies	13,021	14,189	14,619	13,601	14,905
Contract services and other charges	68,605	53,504	40,186	41,640	42,727
Contributions	2,786	2,733	2,901	3,217	3,657
Interfund service support	82,217	89,794	99,114	106,630	107,950
Interest and related costs	-	-	-	-	-
Debt service	-	17	44	64	203
Capital outlay	1,149	1,452	1,895	1,792	1,861
TOTAL EXPENDITURES	$ 597,018	$ 621,728	$ 649,904	$ 680,854	$ 710,344
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	$ 54,199	$ 62,930	$ 59,105	$ 71,863	$ 79,823
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	$ 93	$ 62	$ 156	$ 81	$ 2
Transfers in	238	5,328	118	261	11,119
Transfers out	(49,654)	(93,594)	(71,991)	(72,784)	(68,094)
TOTAL OTHER FINANCING SOURCES (USES)	$ (49,323)	$ (88,204)	$ (71,717)	$ (72,442)	$ (56,973)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ 4,876	$ (25,274)	$ (12,612)	$ (579)	$ 22,850
FUND BALANCE - JANUARY 1 (Restated) (2)(3)	134,768	139,644	115,820	103,208	102,629
FUND BALANCE - DECEMBER 31 (3)	$ 139,644	$ 114,370	$ 103,208	$ 102,629	$ 125,479

NOTES TO TABLE:

(1) Amounts for the years 2013-2015 previously reported as intergovernmental revenues were restated as charges for services due to a change in State reporting requirements.

(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 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 [1]
(Years Ended December 31) ($000)

	2012	2013	2014	2015	2016
REVENUES					
Taxes	$ 801,565	$ 841,050	$ 867,250	$ 925,205	$ 1,016,654
Licenses and permits	21,652	22,155	23,633	24,564	28,697
Intergovernmental revenues [2][3]	558,623	548,620	627,173	388,549	216,260
Charges for services [2][3]	242,491	264,907	269,959	517,048	764,866
Fines and forfeits	8,499	7,376	6,357	7,334	8,989
Interest earnings	6,006	3,170	4,358	4,127	7,596
Miscellaneous revenues	86,084	77,618	67,924	73,912	67,321
TOTAL REVENUES	$1,724,920	$ 1,764,896	$ 1,866,654	$ 1,940,739	$ 2,110,383
EXPENDITURES					
Current					
General government services [4]	$ 182,699	$ 176,679	$ 180,300	$ 245,177	$ 262,528
Law, safety and justice [5]	570,772	590,415	618,175	641,962	592,710
Physical environment [6]	94,807	116,434	184,211	156,615	55,042
Transportation [7]	70,749	61,287	80,573	67,189	68,749
Economic environment [8]	103,475	97,806	101,865	102,918	116,746
Mental and physical health [9]	481,745	490,932	521,960	522,650	677,657
Culture and recreation [10]	50,165	42,418	42,774	46,255	79,950
Total current	$1,554,412	$ 1,575,971	$ 1,729,858	$ 1,782,766	$ 1,853,382
Debt service [11]					
Redemption of long-term debt	$ 56,913	$ 70,686	$ 71,998	$ 64,407	$ 57,641
Interest and other debt service costs	27,121	32,713	31,429	29,042	35,590
Payment to escrow agent	-	-	260	19,467	8,417
Total debt service	$ 84,034	$ 103,399	$ 103,687	$ 112,916	$ 101,648
Capital outlay [12]	27,638	40,046	12,857	17,514	20,577
TOTAL EXPENDITURES	1,666,084	1,719,416	1,846,402	1,913,196	1,975,607
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	$ 58,836	$ 45,480	$ 20,252	$ 27,543	$ 134,776
OTHER FINANCING SOURCES (USES)					
General obligation bonds issued	$ 3,010	$ (99,593)	$ 12,160	$ -	$ 25,025
Refunding bonds issued	256,615	92,940	34,815	198,290	-
Premium on bonds sold	41,294	7,261	5,971	29,888	3,764
Sale of capital assets	543	4,500	1,144	1,751	3,371
Transfers in	85,393	125,404	111,746	119,586	188,895
Transfers out	(119,620)	(171,135)	(142,594)	(173,270)	(270,268)
Payment to refunded bond escrow agent	(296,322)	-	(38,958)	(227,200)	-
TOTAL OTHER FINANCING SOURCES (USES)	$ (29,087)	$ (40,623)	$ (15,716)	$ (50,955)	$ (49,213)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ 29,749	$ 4,857	$ 4,536	$ (23,412)	$ 85,563
SPECIAL ITEM [13]	-	-	-	(12,756)	-
FUND BALANCE - JANUARY 1 - RESTATED [14]	$ 516,301	$ 546,046	$ 528,973	$ 540,915	$ 520,972
FUND BALANCE - DECEMBER 31	$ 546,050	$ 550,903	$ 533,509	$ 504,747	$ 606,535

NOTES TO TABLE:

(1) Includes General Fund, Special Revenue Funds, and Debt Service Funds, and excludes Capital Project, Enterprise, and Internal Service Funds.

(2) In 2015, intergovernmental revenues that are not grants are reported as charges for services resulting in a reclassification of $215 million for the Health special revenue fund. In 2016, because of a change in State reporting requirements, $97.2 million was reclassified from intergovernmental revenues in the General Fund to charges for services.

(3) 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.

(4) Law enforcement, jail operations, prosecution, superior, district, and juvenile courts, judicial administration, public defense, emergency services, and probation services.

(5) Surface water management, animal control, flood control, and resource planning.

(6) Road construction and maintenance and traffic planning.

(7) Youth work training, public employment, veterans services, aging, planning and community development, housing and community development, and handicapped services.

(8) Public health operations, medical examiner services, alcoholism and substance abuse services, and community mental health programs.

(9) Parks and recreation services, park development cooperative extension services, and arts programs.

(10) General long-term principal and interest and other debt service costs.

(11) Will be capitalized in the government-wide financial statements.

(12) In 2015, the County transferred $12.8 million of the remaining balance of the special taxes collected for debt service payments on the Public Facilities District Bonds ("PFD Bonds") to the Washington State Major League Baseball Stadium—Public Facilities District Operating Fund. The special item transfer was made due to higher than expected tax collections and the fact that all the PFD Bonds were paid off in 2012.

(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. For 2015, beginning fund balance was restated for the following: (i) Animal Services Fund and Community Block Grant Fund, nonmajor special revenue funds, posted adjustments of $347,000 and $280,000, respectively, for revenues not recorded previously; and (ii) Flood Control Zone District was increased $6.8 million for a prior-year adjustment in capital projects expenditures. For 2016, beginning fund balance was restated to correct receipts in prior years from Federal Housing and Community Development Fund and Housing Opportunity Loans home repair loan repayments, originally treated as revenue, as a reduction of liability, resulting in an increase of beginning fund balance of $16.2 million.

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 May 2017, the unemployment rate was 3.1% in the County, compared with 4.3% for the State and 4.3% 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. Cities that aid the efforts of certain counties, including the County, to move all urban unincorporated residents into cities by annexing areas with more than 10,000 residents are eligible for a sales tax credit (which would otherwise be payable to the State). This credit, which is equivalent to a sales tax rate of 0.1%, is 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 annexation proceedings must have commenced was January 1, 2015. Only the possible annexation of the North Highline area, comprised of approximately 19,000 residents, to the Seattle meets this requirement. 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 April 28, 2015, election, residents of the Klahanie neighborhood approved annexation to the City of Sammamish by an 85.02% "yes" vote. This annexation covers approximately 10,800 residents and became 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 targeted undesignated fund balance from 6% (as it had been for several years) to 6.5%. The 2017/2018 Adopted Budget further increases this target to 8%, which is the high end of the policy. This undesignated fund balance is available to mitigate future risks and stabilize the General Fund.

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. At the end of 2016, the Rainy Day Reserve Fund, which is now a sub-fund of the General Fund, held $20.4 million.

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.

2015/2016 Results

The financial performance of the General Fund for the 2015/2016 biennium did not vary significantly from the assumptions in the 2015/2016 Adopted Budget. For the 2015/2016 biennium, General Fund revenues ended higher than budgeted due to the strength of County sales tax collections and other revenues sensitive to the economy. However, some of the higher revenues were used to offset supplemental activity, which was in line with historical trends. No major unplanned expenditures emerged in the 2015/2016 budget that drew down fund balance.

The year-end 2016 total fund balance in the General Fund was $125.5 million. The year-end fund balance includes a one-time increase of more than $8 million as a result of a change in accounting practices. Within this total, the year-end 2016 undesignated fund balance is 8.0%, which exceeds the 6.5% target planned in the 2015/2016 Adopted Budget.

2017/2018 Adopted Budget

The County Executive submitted his 2017/2018 Proposed Budget to the County Council on September 26, 2016, and the budget was adopted by the County Council on November 14, 2016. This is the second County-wide biennial budget. The 2017/2018 Adopted Budget totals $11.4 billion, including $1.65 billion for the General Fund. The County Executive followed four principles in developing the 2017/2018 Proposed Budget: (i) invest for the long term, (ii) continue to strengthen financial management, (iii) improve County operations, and (iv) focus on employee engagement.

Within the area of long-term planning and investment, the 2017/2018 Adopted Budget includes the first full biennial budget for the Best Starts for Kids (“BSK”) levy. The Transit budget reflects the direction of the new long-range plan (METRO CONNECTS) with significant proposed investments to expand transit bases, implement new technology, and enhance current infrastructure. The 2017/2018 Adopted Budget also significantly increases the contribution to major maintenance of County buildings.

The 2017/2018 Adopted Budget builds on several years of work to improve County operations. The Office of Risk Management has worked to reduce risk and better manage claims and, as a result, risk management charges are $20 million lower in 2017/2018 than in the prior biennium. Similarly, the County has reduced workers compensation charges by $1 million through improved workplace safety and by getting employees to promptly return to work when able. Through the continued deployment of Lean Management techniques, significant process improvements have been made in many agencies, including faster license and permitting processing, savings in jail health services, reduced parts inventories, faster billing, and shorter procurement timelines.

The 2017/2018 Adopted Budget for the General Fund includes $1.65 billion in estimated expenditures and $1.65 billion in revenues and transfers. The forecasted 2017/2018 year-end fund balance in the General Fund is $117 million, including the Rainy Day Reserve Fund. The General Fund was balanced through a combination of enhanced and expanded revenue streams, operational efficiencies, lower internal service rates, cost shifts to other funding sources, and service reductions where necessary. The 2017/2018 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 2017/2018 biennium. The 2017/2018 Adopted Budget invests in the replacement of major technology systems in the Department of Adult and Juvenile Detention, Department of Elections, Metro Transit, and the Department of Assessments. The 2017/2018 Adopted Budget also includes funding to expand the 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, and for the Human Resources Division, to improve employee engagement.

2017/2018 Results to Date

The financial performance of the General Fund for the first six months of the 2017/2018 biennium is consistent with the expectations of the 2017/2018 Adopted Budget. The higher than anticipated year-end fund balance at the end of 2016 will be used to support ongoing capital projects that have already been approved, for reappropriations of operating funds that are under contract, and to increase the fund balance held by the Rainy Day Reserve Fund. Revenue collections continue to meet expectations and no major unplanned expenditures have yet emerged in the 2017/2018 biennium. A renewal of the Veterans and Family Human Services levy, which expires in tax year 2017, will be on the ballot of the November 7, 2017, election.

Future General Obligation Financing Plans

The County expects to issue up to $200 million of limited tax general obligation bonds during the remainder of the 2017/2018 biennium to support land acquisitions for the Transit Division, technology investments, energy efficiency projects, building rehabilitations, and youth and amateur sports facilities.

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. 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 other public entities such as fire, school, sewer, and water districts. It is one of the largest investment pools in the State, with an average asset balance of more than $5.7 billion during 2016. Assets of County agencies in 2016 comprised between 40% and 45% of the Investment Pool.

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

The County has commissioned an outside financial consultant, Public Financial Management ("PFM"), to conduct quarterly reviews of all assets in the Investment Pool. In its most recent assessment, as of June 30, 2017, 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:

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

Year	Full-time	Part-time
2012	13,293	828
2013	13,540	894
2014	13,319	866
2015	13,614	929
2016	13,821	883

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

The County's Office of Labor Relations negotiates, implements, and administers 79 collective bargaining agreements with 33 unions covering the terms of employment for the County's approximately 12,000 represented employees. A two-year coalition agreement with a coalition of County unions from January 1, 2015, through December 31, 2016, covered the majority of labor contracts and a total of 5,370 employees (approximately 45% of total employees). The agreement called 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 agreed to those same terms. Agreements reached that did not match the coalition terms included the Police Officer Guild, which called for a 2% increase in both 2015 and 2016; the King County Corrections Guild, which called 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 approximately 3,700 employees, which called for a 1.48% increase in 2015 and a 1.05% increase in 2016. All ratified agreements are submitted to the County Council for adoption.

In October 2016, the County signed a Memorandum of Agreement with the same coalition of County unions covering the period January 1, 2017, through December 31, 2018. This agreement calls for general wage increases of 2.25% and 1.75% for 2017 and 2018, respectively, together with an additional 1.00% wage increase in 2018 once the County and the coalition have agreed upon a Master Labor Agreement that will standardize contracts with all bargaining units within the coalition. Negotiations with other unions not part of the coalition are ongoing.

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

Retirement Programs

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

NUMBER OF EMPLOYEES AS OF DECEMBER 31, 2016	RETIREMENT SYSTEM
772	State of Washington—Law Enforcement Officers and Fire Fighters Retirement System ("LEOFF")
381	State of Washington—Public Safety Employees Retirement System ("PSERS")
12,285	State of Washington—Public Employees Retirement System ("PERS")

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

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

OVERVIEW OF RETIREMENT PLANS

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

Source: State Department of Retirement Systems

In addition to these programs, approximately 36 County employees who were employees of Seattle's Health Department and Seattle Transit, both of which were taken over by the County, participate in the Seattle City Employees Retirement System.

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

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

ACTUARIAL ASSUMPTIONS FOR FUNDING CALCULATIONS

Investment return	7.70%[(1)]
General salary increases	3.75
Consumer Price Index increase	3.00
Annual growth in membership	0.95[(2)]

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

(2) Assumed rate of 1.25% for LEOFF.

Source: 2016 Actuarial Valuation from the Office of the State Actuary

The County's employer and employee contribution rates and contribution amounts for all systems for the fiscal year ended December 31, 2016, and current contribution rates for 2017 are shown in the table below:

COUNTY CONTRIBUTION RATES AND AMOUNTS

	PERS Plan 1	PERS Plan 2	PERS Plan 3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2
2016						
Employer Contribution Rate (%)	11.18 (1)	11.18 (1)	11.18 (1)	0.18 (1)(2)	5.23 (1)(2)	11.54 (1)
Average Employee Contribution Rate (%)	6.00 (3)	6.12 (3)	Varies (3)(4)	0.00	8.41	6.59
Employer Contribution Amount ($000)	1,901	92,157	17,068	-	4,735	3,953
Employee Contribution Amount ($000)	1,030	50,707	10,710	-	7,613	2,257
Total Contribution Amount ($000)	2,931	142,864	27,778	-	12,348	6,210
2017 (Current)						
Employer Contribution Rate (%)	12.70 (1)(5)	12.70 (1)(5)	12.70 (1)(5)	0.18 (1)(2)	5.43 (1)(2)(5)	11.95 (1)(6)
Employee Contribution Rate (%)	6.00 (3)(5)	7.38 (3)(5)	Varies (3)(4)	0.00	8.75 (5)	6.74 (6)

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

(2) The State contributed an additional 3.36%.

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

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

(5) Change in rates effective July 1, 2017.

(6) Changes in rates effective September 1, 2017.

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

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

To calculate the funded status, the WSDRS-administered plans compare the Actuarial Value of Assets ("AVA") to the Entry Age Normal ("EAN") liabilities. The EAN cost method projects future benefits under the plans, using salary growth and other assumptions, and applies the service that has been earned as of the valuation date to determine accrued liabilities. The AVA is calculated using a methodology that smooths the effect of short-term volatility in the Market Value of Assets ("MVA") by deferring a portion of the annual investment gains or losses over a period of up to eight years. This helps limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in the MVA. Additional information on this measure is provided in the 2016 Actuarial Valuation Report (published August 2017), which can be found on the Office of the State Actuary's website at:

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

Retirement System Funded Status. Information regarding the funded status from the most recent actuarial report for each system (as of June 30, 2016) is shown in the following table:

RETIREMENT SYSTEM FUNDED STATUS(1)
($000,000)

	Plan Status	2016 Actuarial Accrued Liability(a)	2016 Actuarial Valuation of Assets(b)(2)	2016 UAAL(3) (a-b)	2016 Funded Ratio % (b/a)	2015 Funded Ratio % (b/a)	2014 Funded Ratio % (b/a)
PERS - Plan 1	Closed in 1977	$ 12,323	$ 6,958	5,365	56 %	58 %	61 %
PERS - Plan 2/3	Open	34,759	30,262	4,497	87	88	90
PSERS - Plan 2	Open	425	402	24	94	95	96
LEOFF - Plan 1	Closed in 1977	4,197	5,275	(1,078)	126	125	127
LEOFF - Plan 2	Open	9,571	10,021	(450)	105	105	107

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

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

(3) Unfunded actuarial accrued liability. Totals may not agree due to rounding.

Sources: 2016 Actuarial Valuation from the Office of the State Actuary

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.

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

HISTORICAL ONE-YEAR INVESTMENT RETURNS ON RETIREMENT FUNDS

Year	Investment Return[1]
2008	-1.2%
2009	-22.8
2010	13.2
2011	21.1
2012	1.4
2013	12.4
2014	17.1
2015	4.9
2016	2.7
2017	13.4%

(1) As of June 30.

Source: Washington State Investment Board

The County implemented GASB 68 for the year 2015. In accordance with GASB 68, the County elected to use June 30, 2016, as the measurement date for reporting net pension liability. The following table represents the aggregate pension amounts for all pension plans subject to the requirements of GASB 68.

AGGREGATE PENSION AMOUNTS—ALL PLANS, 2016
($000)

Pension liabilities	$1,013,713
Deferred outflows of resources	188,243
Deferred inflows of resources	23,554
Pension expense/expenditures	113,892

Source: 2016 CAFR

For more information on employee retirement plans, see Appendix C—Excerpts from King County's 2016 Comprehensive Annual Financial Report.

Other Post-Employment Benefits

The King County Health Plan (the "Health Plan") is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees and employees. LEOFF Plan 1 retirees are not required to contribute to the Health Plan. Entry into LEOFF Plan 1 is now closed. All other retirees are required to pay the COBRA rate associated with the elected plan. The County's liability for other post-employment benefits ("OPEB") is limited to the direct Health Plan subsidy associated with LEOFF Plan 1 retirees and the implicit rate subsidy for other Health Plan retiree participants, which is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. For the fiscal year ended December 31, 2016, the County contributed an actuarially estimated $5.9 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, 2016, the County’s annual OPEB cost (expense), which is calculated based on the annual required contribution of the County, was $11.5 million and the County’s net OPEB obligation was $70.9 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 C—Excerpts from King County’s 2016 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 Transit and $6.5 million per occurrence self-insured retention for the above exposures.

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

INSURANCE POLICIES

COVERAGE	LIMITS
Combined Property Damage and Extra Expense for covered County property (includes $100 million earthquake and $250 million flood; terrorism is included in overall limit)	$750 million [1]
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
Cyber Liability	$30 million

(1) As of July 1, 2017.

The cash balance in the Insurance Fund was $92.1 million as of December 31, 2016. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2016, was $75.6 million.

For additional information, see Appendix C—Excerpts from King County's 2016 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 limitations 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 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, 2016, 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.”

COMPUTATION OF STATUTORY DEBT CAPACITY

2016 Assessed Value (2017 Tax Year)	$	471,456,288,019
Limited Tax General Obligation Debt Capacity for County Purposes and Metropolitan Functions		
1 1/2 % of Assessed Value	$	7,071,844,320
County Purposes		
Outstanding Limited Tax General Obligation Bonds for County Purposes	$	978,487,000
General Obligation Lease Revenue Bonds for County Purposes		12,765,000
County Credit Enhancement Program for Housing[1]		132,379,476
Capital Leases/Installment Purchase Contracts for County Purposes		-
General Obligation Long-Term Liabilities for County Purposes		102,856,429
Less: Amount Legally Available for Payment of All Limited Tax General Obligation Indebtedness for County Purposes		(9,539,914)
Net Limited Tax General Obligation Debt for County Purposes	$	1,216,947,991
Metropolitan Functions		
Outsanding Limited Tax General Obligation Bonds for Metropolitan Functions	$	24,385,000
Outstanding Limited Sales Tax General Obligation Bonds		66,435,000
Outstanding Limited Tax General Obligation Bonds (Payable from Sewer Revenues)[2]		661,484,000
The Bonds		154,560,000
Credit Enhancement Program for Reimbursement Agreements[3]		100,000,000
General Obligation Long-Term Liabilities for Metropolitan Functions		68,257,653
Capital Leases/Installment Purchase Contracts for Metropolitan Functions		-
Less: Amount Legally Available for Payment of all Limited Tax General Obligation Indebtedness for Metropolitan Functions		(37,689,574)
Net Limited Tax General Obligation Debt for Metropolitan Functions	$	1,037,432,079
Total Net Limited Tax General Obligation Debt for County Purposes and Metropolitan Functions	$	2,254,380,070
Remaining Capacity: LTGO Debt for County Purposes and Metropolitan Functions	$	4,817,464,250
Total General Obligation Debt Capacity for County Purposes		
2 1/2 % of Assessed Value	$	11,786,407,200
Outstanding Unlimited Tax General Obligation Debt for County Purposes		90,135,000
Less: Amount Legally Available for Payment of all Unlimited Tax General Obligation Indebtedness for County Purposes		(2,042,972)
Net Unlimited Tax General Obligation Debt for County Purposes	$	88,092,028
Net Limited Tax General Obligation Debt for County Purposes (from above)		1,216,947,991
Total Net General Obligation Debt for County Purposes	$	1,305,040,019
Remaining Capacity: General Obligation Debt for County Purposes	$	10,481,367,181
Total General Obligation Debt Capacity for Metropolitan Functions		
2 1/2 % of Assessed Value	$	11,786,407,200
Outstanding Unlimited Tax General Obligation Debt for Metropolitan Functions		-
Less: Amount Legally Available for Payment of all Unlimited Tax General Obligation Indebtedness for Metropolitan Functions		-
Net Unlimited Tax General Obligation Debt for Metropolitan Functions	$	-
Net Limited Tax General Obligation Debt for Metropolitan Functions (from above)		1,037,432,079
Total Net General Obligation Debt for Metropolitan Functions	$	1,037,432,079
Remaining Capacity: General Obligation Debt for Metropolitan Functions	$	10,748,975,122

NOTES TO TABLE:

(1) Reflects the outstanding principal amount plus accrued interest as of December 31, 2016, under contingent loan agreements authorized by the County Credit Enhancement Program. See "General Obligation Debt Information—Contingent Loan Agreements."

(2) Excludes the Refunded Bonds. Due to accounting adjustments for premiums and discounts, does not match the combined amount shown for Parity Lien Obligations (LTGO) and Multi-Modal LTGO/Sewer Revenue Bonds in the table titled "Outstanding Sewer System Obligations" on page 9 of this Official Statement.

(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 Series 2001B. 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 General Obligation Bonds	Limited Tax General Obligation Bonds					
		County Purposes[1]	Lease Revenue Bonds	Sewer Bonds[2]	The Bonds[3]	Transit[4]	Total LTGO Debt Service[5]
2017	$ 16,708,975	$ 98,279,523	$ 4,488,913	$ 56,642,625	$ -	$ 16,682,528	$ 176,093,589
2018	17,128,925	102,157,773	763,712	48,031,700	11,925,113	16,675,701	179,553,999
2019	16,209,475	102,319,045	763,559	39,223,425	14,074,800	16,656,340	173,037,169
2020	15,080,700	98,526,008	767,580	47,029,575	14,048,800	5,420,967	165,792,930
2021	13,807,700	92,153,056	765,499	39,104,425	5,785,300	8,407,951	146,216,231
2022	14,126,950	98,661,758	767,592	49,120,975	5,785,300	5,185,455	159,521,080
2023	14,460,825	72,069,274	763,582	49,092,800	15,040,300	5,161,174	142,127,130
2024	-	68,216,323	763,746	38,079,225	14,997,550	5,147,214	127,204,058
2025	-	63,575,518	762,808	38,102,350	14,953,800	5,117,769	122,512,245
2026	-	55,933,074	765,768	38,197,350	14,898,050	5,093,289	114,887,531
2027	-	55,880,472	762,351	38,234,600	14,844,800	5,068,073	114,790,296
2028	-	51,306,764	762,831	38,257,850	14,737,800	5,034,286	110,099,531
2029	-	48,384,507	766,934	38,284,975	14,673,400	5,005,454	107,115,270
2030	-	41,839,889	764,384	38,400,850	27,318,200	4,974,116	113,297,439
2031	-	35,397,459	765,457	26,259,100	14,553,200	3,265,306	80,240,522
2032	-	31,105,139	764,876	39,125,725	14,473,800	3,261,806	88,731,346
2033	-	22,306,679	762,643	39,159,850	6,276,400	3,265,747	71,771,319
2034	-	22,306,004	763,756	39,201,100	-	3,266,616	65,537,476
2035	-	19,947,494	762,941	24,342,600	-	-	45,053,035
2036	-	19,934,874	770,198	24,399,850	-	-	45,104,922
2037	-	9,099,787	-	24,346,600	-	-	33,446,387
2038	-	8,648,357	-	24,389,200	-	-	33,037,557
2039	-	8,650,406	-	4,000,000	-	-	12,650,406
2040	-	8,645,163	-	100,000,000	-	-	108,645,163
Total	$ 107,523,550	$ 1,235,344,346	$ 19,019,130	$ 941,026,750	$ 218,386,613	$ 122,689,792	$ 2,536,466,631

(Notes to the table are on the following page.)

NOTES TO TABLE:

(1) Includes interest at an assumed rate of 4.00% on the Multi-Modal Limited Tax General Obligation Refunding Bonds, 2013, the principal of which amortizes annually through June 1, 2029, to produce approximately level estimated annual debt service payments. See “Credit Facilities.” 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.

(2) Additionally secured by a pledge of Revenue of the System. Includes interest at an assumed rate of 4.00% on the Multi-Modal Limited Tax General Obligation Bonds (Payable From Sewer Revenue), Series 2010A and Series 2010B, all of the principal of which is payable at maturity on January 1, 2040. See “Credit Facilities.” Excludes the Refunded Bonds.

(3) Additionally secured by a pledge of Revenue of the System.

(4) Most of these bonds are secured by an additional pledge of certain sales tax revenues of the County’s transit system.

(5) Excludes the Contingent Loan Agreements. See “Contingent Loan Agreements” below.

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

2016 Assessed Value (for 2017 Tax Year)	$471,456,288,019
Net Direct Debt[(1)]	$ 797,596,525
Estimated Overlapping Debt[(2)]	
School Districts	$ 3,773,587,000
City of Seattle	998,414,000
Other Cities and Towns	884,386,000
Port of Seattle	283,620,000
Hospital Districts	255,164,000
Fire Districts	96,099,000
Sewer Districts	-
Park Districts	6,120,000
King County Library System	95,864,000
Library Capital Facilities	1,921,000
Parks and Recreation Service District	753,000
Total Estimated Overlapping Debt	$ 6,395,928,000
Total Net Direct and Estimated Overlapping Debt	$ 7,193,524,525
County Debt Ratios	
Net Direct Debt to Assessed Value	0.17%
Net Direct and Overlapping Debt to Assessed Value	1.53%
2016 Population (estimated)	2,149,970
Per Capita Net Direct Debt	$371
Per Capita Net Direct and Overlapping Debt	$3,346
Per Capita Assessed Value	$219,285

NOTES TO TABLE:

(1) Total net general obligation debt per debt capacity schedules, as of December 31, 2016, adjusted for subsequent County debt-related transactions:

Total Net General Obligation Debt for County Purposes	$ 1,305,040,019
Total Net General Obligation Debt for Metropolitan Functions	1,037,432,079
Total Net General Obligation Debt	$ 2,342,472,098
General Obligation Debt Serviced by Proprietary-Type Funds*	(180,210,000)
General Obligation Debt Issued for Component Units*	(194,854,018)
General Obligation Debt Issued for Metropolitan Functions*	(1,037,432,079)
County Credit Enhancement Program**	(132,379,476)
Net Direct Debt	$ 797,596,525

* 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, 2016, under contingent loan agreements authorized by the County Credit Enhancement Program. See "General Obligation Debt Information-Contingent Loan Agreements."

(2) As of December 31, 2016.

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 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 $132,379,476 as of December 31, 2016.

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 Outstanding as of 6/1/2017	Type of Facility	Provider	Expiration	Term-Out Provision	Maturity
Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2010 A and B	$100,000,000	Standby Bond Purchase Agreement	State Street Public Lending Corporation	11/3/2017[1]	Three Years	01/01/2040
Multi-Modal Limited Tax General Obligation Bonds, Series 2013	$33,020,000	Continuing Covenant Agreement	Bank of America Preferred Funding Corporation	8/1/2019	Three Years	06/01/2029
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001 A and B[2]	$100,000,000	Letter of Credit	Landesbank Hessen-Thuringen Girozentrale (Helaba)	9/30/2020	Three Years	01/01/2032

(1) In the process of being replaced by a direct purchase obligation of State Street Public Lending Corporation. Expiration of the associated continuing covenant agreement will occur in April or May of 2021, depending on the closing date of the direct purchase.

(2) 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 Series 2001B. See the table titled "Summary of Credit Facilities" under "General Obligation Debt Information—Credit Facilities."

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 $1.25578 per $1,000 of assessed value for the 2017 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 a rate of $2.24557 per $1,000 of assessed value for the 2017 tax year. Additional statutory provisions limit the increase in the aggregate amount of taxes levied. See "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 most recently approved in November 2013 for an additional six years, at a rate not to exceed $0.335 per $1,000 of assessed value. The current fourth-year rate is $0.26305 per $1,000 of assessed value for 2017. The County's levy rate for conservation futures in 2017 is $0.04141 per $1,000 of assessed value, and its levy rate for transit-related purposes is $0.04966 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 2016 and 2017 Tax Levies" shows the allocation of the County's existing levies.

(i) 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 2017 the rate is \$0.04477 per \$1,000 of assessed value.

(ii) In August 2013, the Parks levy lid lift was renewed by voters for six years, for a rate of no more than \$0.1877 per \$1,000 of assessed value. The 2017 tax year rate for the Parks levy lid lift is \$0.15029 per \$1,000 of assessed value.

(iii) 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. Tax year 2017 is the last year for this lid lift, and the rate is \$0.03964 per \$1,000 of assessed value. A renewal of the levy, called the Veterans, Seniors, and Human Services Levy, will be on the ballot of the November 7, 2017, election. If approved by voters, it would set the levy rate at $0.10 per $1,000 of assessed value for six years.

(iv) 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 2017 is $0.05221 per $1,000 of assessed value for a total dollar amount of $24.5 million. The Children and Family Justice Center levy represents 4.2% of the County's overall 2017 operating levy of $589.7 million and 3.0% of the total 2017 County tax levy of $811.7 million.

On September 26, 2017, the Washington State Court of Appeals Division Two ruled in the case End Prison Industrial Complex ("EPIC") v. King County that the ballot title for the Children and Family Justice Center levy did not expressly authorize the County to levy property taxes in subsequent years based on the increased base tax amount in the first year (2013) of the levy. The Court remanded the case for further proceedings.

The Children and Family Justice Center levy is levied for a limited purpose that includes constructing a new Children and Family Justice Center to replace the County's existing juvenile-justice complex. Construction has begun on the $210 million facility.

The County plans to appeal the ruling to the Washington State Supreme Court.

(v) The Puget Sound Emergency Radio Network replacement levy lid lift was approved by voters in April 2015, at a rate of $0.07 per $1,000 of assessed value for nine years, beginning in 2016. The rate for 2017 is $0.06517 per $1,000 of assessed value.

(vi) The BSK levy was approved by voters at the November 2015 general election. This is a six-year levy at a rate of $0.14 per $1,000 of assessed value in the first year. The rate for 2017 is $0.13285 per $1,000 of assessed value.

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 $0.11740 and $0.01229 per $1,000 of assessed value, respectively, for the 2017 tax year. The boundaries of each district are coterminous with the boundaries of the County; 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. In 2015, the County assumed the ferry district and its taxing authority. The ferry district is now a County agency: the Department of Transportation—Marine Division.

Allocation of Tax Levies

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

ALLOCATION OF 2016 AND 2017 TAX LEVIES

County-Wide Levy Assessed Value[(1)] $471,456,288,019	2016 Original Taxes Levied ($000)	2016 Levy Rate ($ per $1,000)	2017 Original Taxes Levied ($000)	2017 Levy Rate ($ per $1,000)
Items Within Operating Levy[(2)]				
General Fund	$336,454	0.79209	$346,708	0.73827
Veterans' Relief	2,837	0.00668	2,921	0.00622
Human Services	6,367	0.01499	6,556	0.01396
Intercounty River Improvement	50	0.00012	52	0.00011
AFIS Levy	20,240	0.04765	21,024	0.04477
Parks Levy	67,940	0.15995	70,579	0.15029
Veterans and Family Human Services	17,924	0.04219	18,614	0.03964
Children and Family Justice Center	23,825	0.05609	24,518	0.05221
Radio Communications (Emergency Radio Network)	29,727	0.07000	30,602	0.06517
Best Start for Kids	59,456	0.14000	62,384	0.13285
Marine Operating (Ferry)	1,186	0.00279	5,770	0.01229
Total Operating Levy[(2)]	$566,006	1.33255	$589,728	1.25578
Transit Levy[(3)]	$ 26,956	0.06346	$ 23,322	0.04966
Conservation Futures Levy[(4)]				
Conservation Futures Levy	$ 10,140	0.02387	$ 10,445	0.02224
Farmland and Park Debt Service	8,741	0.02058	9,002	0.01917
Total Conservation Futures Levy	$ 18,881	0.04445	$ 19,447	0.04141
Unlimited Tax G.O. Bonds (Voter-Approved Excess Levy)	$ 16,818	0.03981	$ 16,878	0.03609
Total County-Wide Levy	$628,661	1.48027	$649,375	1.38294
EMS Assessed Value[(1)] $285,029,093,106				
EMS Levy[(5)]	$ 73,781	0.28235	$ 74,664	0.26305
Unincorporated County Assessed Value[(1)] $39,295,405,501				
Road District Levy[(6)]	$ 82,424	2.25000	$ 87,679	2.24557
Total County Tax Levies	$784,866		$811,718	

(1) Assessed value for taxes payable in 2017.

(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. The assessed value for the County's EMS levy does not include the cities of Seattle or Milton.

(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

Overlapping Taxing Districts

In addition to the $1.80 per $1,000 of assessed value in property taxes that the County is authorized to levy throughout the County and the $2.25 per $1,000 of assessed value that the County is authorized to levy in unincorporated areas for road district purposes, the overlapping taxing districts within the County have the statutory power to levy regular property taxes at the following rates and to levy excess voter-approved property taxes.

OVERLAPPING LEVY RATES

Taxing District	Statutory Levy Authority (Per $1,000 of Assessed Value)
State [1]	$3.60
City [2]	3.60
Port District	0.45
Fire Protection District	1.50
Hospital District	0.75
Metropolitan Park District	0.75
Library District	0.50
School District [3]	0.00

(1) The maximum levy rate for the State, to be used exclusively for the support of the common schools, is $3.60 per $1,000 of assessed value adjusted to the State equalized value in accordance with the indicated ratio fixed by the State Department of Revenue.

(2) The maximum levy rate for a city that is annexed into a library district or a fire protection district is reduced by the levy rates imposed by those districts.

(3) School districts do not have authority to levy regular property taxes but may levy excess property taxes with voter approval.

These rates are subject to certain of the limitations described above under “Authorized Property Taxes—Regular Property Taxes.”

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 five years.

KING COUNTY
ASSESSED VALUE

Tax Year	Amount	Percentage Change From Previous Year
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
2016	426,335,605,837	9.8
2017	471,456,288,019	10.6

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

Tax Year	Original Amount Levied[(1)] ($000)	Amount Collected Year of Levy ($000)	Percent Collected Year of Levy	Percent Collected as of 5/31/2017
2012	$ 583,597	$ 571,789	97.98 %	99.56 %
2013	608,445	597,455	98.19	99.68
2014	656,280	645,201	98.31	99.60
2015	674,231	663,663	98.43	99.50
2016	784,864	771,652	98.32	99.14
2017	811,718	418,739	51.59	51.59

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

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 2017 tax collection year.

LARGEST TAXPAYERS IN THE COUNTY
2017 TAX COLLECTION YEAR

Taxpayer	Assessed Value	AV as Percentage of County's Total AV
Microsoft	$ 3,682,343,860	0.78 %
Puget Sound Energy/Gas/Electric	2,426,875,733	0.51
Boeing	2,100,461,749	0.45
Acorn Development LLC	1,891,471,230	0.40
Essex Property Trust	1,665,284,049	0.35
Alaska Airlines	1,056,243,140	0.22
Altus Group US Inc.	970,873,500	0.21
Union Square LLC	840,558,301	0.18
BRE Properties	812,346,515	0.17
AvalonBay Communities	799,071,215	0.17
Total Assessed Value of Top Ten Taxpayers	$ 16,245,529,292	3.45 %
Total Assessed Value of All Other Taxpayers	455,210,758,727	96.55
2016 Assessed Value for Taxes Due in 2017	$ 471,456,288,019	100.00 %

Source: King County Department of Assessments

OTHER CONSIDERATIONS

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

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

Federal Budget and Sequestration

The County receives operating, health, public employment, and capital improvement grants from the federal government (either directly or indirectly through the State or local governmental agencies). In 2016, the County received an estimated $94.5 million in federal grant revenue (64.4% of total 2016 grant revenue received by the County). These federal grant funds may be adversely impacted by federal legislative and executive actions, including to cuts to federal spending. Federal funding is subject to federal legislative action, including through the federal budget process.

Budgetary acts, including the sequestration provisions of the Budget Control Act of 2011 ("Sequestration"), could continue to affect the availability of federal funds. 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 taxable bonds eligible for federal interest subsidies. Payments made by the federal government between October 1, 2016, and September 30, 2017, were reduced by 6.9%, totaling approximately $105,000. In August 2017, the Internal Revenue Service Office of Tax Exempt Bonds announced that the federal interest subsidy payments would be reduced by 6.6% for payments scheduled to be received between October 1, 2017, and September 30, 2018. The approximate amount of this reduction is $97,000. Sequestration of such interest payments has been extended by Congress and is scheduled to remain in effect through federal fiscal year 2024.

Sanctuary Jurisdiction Impact

On January 25, 2017, President Trump signed an executive order (the "Order") directing the United States Attorney General and the Secretary of Homeland Security to ensure that "sanctuary jurisdictions"—used therein to mean state and local jurisdictions that willfully refuse to comply with 8 U.S.C. Section 1373 by restricting government officials or entities from communicating immigration status to the Immigration and Naturalization Service—will not be eligible to receive federal grants except as deemed necessary for law enforcement purposes. Several jurisdictions, including the Seattle (located within the County) and the City of San Francisco, have filed lawsuits in federal court challenging the constitutionality of the Order. On April 25, 2017, the court in the San Francisco litigation granted a nationwide preliminary injunction that enjoins enforcement of the Order. On July 20, 2017, the court denied the U.S. government's motions for reconsideration and for dismissal. On September 15, 2017, the United States District Court for the Northern District of Illinois issued a nationwide preliminary injunction blocking implementation of U.S. Department of Justice grant conditions (announced in July 2017) focused on certain sanctuary city practices.

At this time, it is unclear how, whether, or when actions might be taken to reduce federal funding received by any state or local jurisdiction pursuant to the Order, and whether a particular jurisdiction such as the County would be considered a sanctuary jurisdiction for these purposes. In the San Francisco litigation, the Department of Justice ("DOJ") indicated that the Order applies to only those funds that are administered by DOJ or the Department of Homeland Security ("DHS") and are conditioned upon compliance with Section 1373. Federal grants received by the County that are administered by DOJ or DHS comprise a small percentage of the County's total federal grants. See "Major Governmental Fund Sources—Intergovernmental Revenue" above. In general, the County expects that it would have the flexibility to respond to any direct reductions or eliminations of federal funding pursuant to the Order. If such reductions were to be implemented, any projects or programs previously supported by federal funding could, if necessary, be resized and/or deferred. Alternatively, funding from other sources could be redirected to those projects or programs. Although the County cannot predict at this time whether reductions in federal funding may occur or what form such reductions may take, the County expects that it would be able to redirect funding or reduce expenditures in a manner that would not affect the County's ability to pay debt service on the Bonds.

INITIATIVES AND REFERENDA

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

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

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

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

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, like other large units of state and local government, is involved in litigation on matters relating principally to claims arising from contracts, personal injury, property damage, tax claims, and other matters. For a general description of the types of non-tort claims in which the County is involved, see Appendix C—Excerpts from King County's 2016 Comprehensive Annual Financial Report—Note 19. Based on its past experience and the information currently known, the County does not believe that any pending litigation would materially adversely affect the ability of the County to pay when due the principal of or interest on the Bonds.

Approval of Counsel

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

Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the County by Pacifica Law Group LLP, as Disclosure Counsel to the County.

Potential Conflicts of Interest

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

Limitations on Remedies and Municipal Bankruptcy

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

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

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

Under Chapter 9, creditors secured by a pledge of "special revenues" are granted special protection in cases brought by municipalities, including the right to continue to receive payments under legal documents such as the Bond Ordinance. The definition of "special revenues" includes "receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems." Under Chapter 9, the pledge and the right to continued receipt of payment of Revenue of the System is fully enforceable if a bankruptcy court determines that Revenue of the System is considered "special revenues" under Chapter 9 and that the pledge (in the form of a lien and charge) of Revenue of the System pursuant to the Bond Ordinance is valid and binding under Chapter 9.

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

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

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

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

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

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

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20% minimum tax.

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

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

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

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

Certain Other Federal Tax Consequences

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

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

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

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

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

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

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

CONTINUING DISCLOSURE UNDERTAKING

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 2018 for the fiscal year ending December 31, 2017:

(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 as Appendix C, 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;

(vi) a schedule of the aggregate annual debt service on tax-supported indebtedness of the County; and

(vii) information regarding Customers, Revenue of the System, Operating and Maintenance Expenses, and debt service coverage, generally as set forth in the table titled "Historical Financial Statements."

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

The Annual Financial Information will be provided on or before the end of seven months after the end of the County's fiscal year. The County's fiscal year currently ends on December 31. The County may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such Annual Financial Information, the County may make specific cross-reference to other documents available to the public on the MSRB's internet website or filed with the SEC.

If not provided as part of the Annual Financial Information discussed above, the County will provide to the MSRB the County's audited financial statements prepared in accordance with BARS when and if available.

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

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

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to the rights of Bondholders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership, or similar event of the County;

(xiii) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; 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) and (xiv) that no debt service reserves secure payment of the Bonds and there is no trustee for the Bonds.

EMMA; Format for Filings with the MSRB. Until otherwise designated by the MSRB or the SEC, any information or notices submitted to the MSRB in compliance with Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12") are to be submitted through the MSRB's Electronic Municipal Market Access system, currently located at *www.emma.msrb.org*. All notices, financial information, and operating data required by the undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to the undertaking must be accompanied by identifying information as prescribed by the MSRB.

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

The County may amend the undertaking, and any provision of the undertaking may be waived, in accordance with Rule 15c2-12, which, as currently interpreted by the SEC, requires that (i) the amendment or waiver be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the County, or type of business conducted; (ii) the undertaking, as amended or waived, would have complied with the requirements of Rule 15c2-12 at the time of the primary offering, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any change in circumstances; and (iii) the amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by parties unaffiliated with the County (such as Bond Counsel) or by the approving vote of holders of the Bonds pursuant to the terms of the Bond Ordinance.

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

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

Prior Compliance. The County has entered into written undertakings under Rule 15c2-12 with respect to all of its obligations subject thereto. In reviewing its continuing disclosure filings on EMMA, the County notes the following. The County has undertaken to provide information regarding customers, revenues, and expenses of the Sewer System, as set forth in the table now titled "Historical Financial Statements" in connection with outstanding sewer revenue bonds and certain LTGO bonds payable from sewer revenues. Although the County provided information on customers, revenues, and expenses of the System within its CAFR and Water Quality Financial Enterprise financial statements, it has not provided the table in full. The County filed hotel/motel tax information for 2004-2013 on November 20, 2014, in connection with its Limited Tax General Obligation Refunding Bonds, 2007 Series A (which were defeased in May 2015). The County timely filed notice of the Fitch rating upgrade of certain LTGO bonds in April 2016. This notice is not linked to the County's Limited Tax General Obligation Bonds, Series 2007D. Although the County annually timely filed its CAFRs for County-issued bonds, the 2013 CAFR is not linked and the 2012 CAFR was not timely linked to the CUSIPs for the Housing Authority of King County Revenue Bonds, 2008 (Greenbridge Redevelopment—Eastbridge Apartments Project). On September 20, 2017, the County filed notice on EMMA in connection with the foregoing items.

OTHER BOND INFORMATION

Ratings

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

Municipal Advisor

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

Purchaser of the Bonds

The Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Purchaser") at a price of $177,234,850.59, and will be reoffered at a price of $177,584,503.95. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices and yields set forth on page i of this Official Statement, and such initial offering prices and yields may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices and yields may be varied from time to time.

Official Statement

At closing, the County will furnish a certificate of an official or officials of the County stating that, to the knowledge and belief of such official(s), as of the date of the Official Statement and as of the Issue Date, the Official Statement (as it may have been amended or supplemented prior to the Issue Date) did not and does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that no representation or warranty will made with respect to information in the Official Statement relating to DTC, DTC's book-entry system, or the Purchaser).

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

KING COUNTY, WASHINGTON

By: /s/ Ken Guy

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

APPENDIX A

COPY OF BOND ORDINANCE

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King County

KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

September 22, 2015

Ordinance 18116

Proposed No. 2015-0166.2 **Sponsors** McDermott

AN ORDINANCE providing long-term financing for capital needs of the county's sewer system by authorizing the issuance of sewer revenue bonds and limited tax general obligation bonds (payable from sewer revenues) of the county for refunding outstanding obligations of the county payable from sewer revenues; providing for the form, terms and covenants of such bonds; providing for the sale of the bonds in one or more series and for a plan of refunding; establishing funds for the receipt and expenditure of bond proceeds and for the payment of the bonds; pledging sewer revenues to pay the principal of and interest on any sewer revenue bonds issued under this ordinance; and pledging the annual levy of taxes and an additional pledge of sewer revenues to pay the principal of and interest on any limited tax general obligation bonds (payable from sewer revenues) issued under this ordinance.

PREAMBLE:

The county owns and operates facilities for the conveyance and treatment of sewage and control of combined sewer overflows that include wastewater treatment plants, interceptor and trunk sewers, pumping stations, regulator stations, outfall sewers, storm sewers to divert stormwater from sanitary sewers, lands for application of biosolids, property rights, and buildings and other structures and equipment (collectively "the System"), all in accordance with a comprehensive plan for metropolitan water pollution abatement under the authority of chapters 36.56 and 35.58 of the Revised Code of Washington ("RCW").

Long term service agreements with participating municipalities and other entities ("the Participants") obligate the county to treat and dispose of sewage collected by the Participants. The Participants must pay the costs of these services including debt service on bonds payable from sewer revenues (including the bonds authorized by this ordinance) and other indebtedness payable from and secured by sewer revenues. Comparable rates and charges have been established for customers who deliver sewage to the System but are not subject to a contract with the county for this service.

In accordance with RCW 35.58.200(3), the county has declared that the health, safety and welfare of people within the metropolitan area require that certain Participants discharge sewage collected by those Participants into facilities of the System.

The county has issued the series of sewer revenue bonds with a senior lien on Revenue of the System set forth in Attachment A to this ordinance ("the Parity Bonds").

The county has issued the series of limited tax general obligation bonds additionally secured by a lien on Revenue of the System junior and subordinate to the lien thereon of the Parity Bonds set forth in Attachment B to this ordinance ("the Parity Lien Obligations").

The county has issued its sewer revenue bonds with a lien on Revenue of the System junior and subordinate to the lien thereon of the Parity Lien Obligations (as further defined herein, "the Junior Lien Obligations").

The county has issued its limited tax general obligation bonds additionally secured by a lien on Revenue of the System junior and subordinate to the lien thereon of the Junior Lien Obligations (as further defined herein, "the Multi-Modal LTGO/Sewer Revenue Bonds").

The county has issued its Commercial Paper Notes and Bank Note (each as further defined herein) with a lien on Revenue of the System junior and subordinate to the lien thereon of the Multi-Modal LTGO/Sewer Revenue Bonds (as further defined herein, "the Subordinate Lien Obligations").

The county may have opportunities to refund all or portions of its currently outstanding Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds and Subordinate Lien Obligations and any Future Parity Bonds, Future Parity Lien Obligations, Future Junior Lien Obligations, Future Multi-Modal LTGO/Sewer Revenue Bonds and Additional Subordinate Lien Obligations, in each case to effect a saving to the county and ratepayers of the Sewer System or when necessary or in the best interest of the county and ratepayers of the Sewer System to modify debt service or reserve requirements, sources of payment, covenants or other terms of the obligations to be refunded. It is deemed necessary and advisable that the county authorize the issuance and sale of its bonds payable from sewer revenues ("the Bonds") for such refunding opportunities, as provided in this ordinance.

Since market conditions can change quickly, it is in the best interest of the county to delegate to the county's Finance Director authority to sell the Bonds in one or more series, as either Parity Bonds or Parity Lien Obligations, or a combination thereof, by competitive bid or negotiated sale, as provided in this ordinance. The sale of any series of the Bonds shall be ratified and confirmed by motion of the council, as provided in this ordinance.

The ordinances authorizing the issuance of the outstanding Parity Bonds and Parity Lien Obligations all provide that the county may issue additional Parity Bonds and additional Parity Lien Obligations if certain conditions are met. By each Sale Motion the council must find that the applicable parity conditions have been or shall be met for each series of Bonds issued under this ordinance.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. **Definitions; Interpretation.**

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

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

"Additional Subordinate Lien Obligations" means those revenue bonds or other revenue obligations that may be issued by the county in the future with a lien on Revenue of the System equal to the lien thereon of the Commercial Paper Notes and the Bank Note.

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

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

1. The interest due for all outstanding Parity Bonds and Parity Lien Obligations (i) on all interest payment dates (other than January 1) in such calendar year, and (ii) on January 1 of the next succeeding year, and any Payment Agreement Payments due on such dates in respect of any Parity Payment Agreements and Parity Lien Obligation Payment Agreements, minus any Payment Agreement Receipts due in such period in respect of any Parity Payment Agreements and Parity Lien Obligation Payment Agreements.

a. For purposes of calculating the amounts required to pay interest on Parity Bonds or Parity Lien Obligations, capitalized interest and accrued interest paid to the county upon the issuance of Parity Bonds or Parity Lien Obligations shall be excluded.

b. The amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds or Variable Rate Parity Lien Obligations shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate ("the assumed RBI rate") that is 90% of the average Bond Buyer Revenue Bond Index or comparable index during the fiscal quarter preceding the quarter in which the calculation is made; provided, that for purposes of determining actual compliance in any past calendar year with the rate covenant made in Section 18 of this ordinance, the actual amount of interest paid on any issue of Variable Rate Parity Bonds or Parity Lien Obligations shall be taken into account.

2. The principal due (at maturity or upon the mandatory redemption of Term Bonds prior to their maturity) for all outstanding Parity Bonds and Parity Lien Obligations (i) on all principal payment dates (other than January 1) of such calendar year and (ii) on January 1 of the next succeeding year.

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

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

From and after the date when no Parity Lien Obligations designated as Series 2008 Bonds or Series 2009 Bonds remain outstanding, for purposes of satisfying the rate covenant in Section 18.B. of this ordinance and the tests for the issuance of additional Parity Lien Obligations in Section 25 of this ordinance, Annual Debt Service for any Fiscal Year or calendar year shall exclude any Debt Service Offsets.

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

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

a. For purposes of calculating the amounts required to pay interest on Parity Bonds, capitalized interest and accrued interest paid to the county upon the issuance of Parity Bonds shall be excluded.

b. The amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate ("the assumed RBI rate") that is 90% of the average Bond Buyer Revenue Bond Index or comparable index during the fiscal quarter preceding the quarter in which the calculation is made; provided, that for purposes of determining actual compliance in any past calendar year with the rate covenant made in Section 18 of this ordinance, the actual amount of interest paid on any issue of Variable Rate Parity Bonds shall be taken into account.

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

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

Notwithstanding the foregoing, debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be calculated by the county to reflect the net economic effect of the terms of the Parity Bonds and the applicable Payment Agreement, in accordance with the requirements set forth in Section 27 of this ordinance and any other applicable requirements from the ordinances authorizing issuance of such Parity Bonds.

From and after such time as no Parity Bonds designated as 2006 Bonds, 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, for purposes of calculating the Reserve Requirement and satisfying the rate covenant in Section 18.A. of this ordinance and the tests for the issuance of Future Parity Bonds in Section 24 of this ordinance, Annual Parity Debt Service for any Fiscal Year or calendar year shall exclude any Debt Service Offsets.

"Bank Note" means the bank note authorized to be issued by Ordinance 12057 of the county, as amended, to secure payment of the Commercial Paper Notes.

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

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

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

"Bonds" means the bonds of the county authorized to be issued under this ordinance to refund the Refunded Bonds. The Bonds may be issued in one or more series of Parity Bonds or Parity Lien Obligations, as provided in this ordinance.

"Capital Appreciation Bonds" means any Parity Bonds the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such Parity Bonds; provided, that Parity Bonds may be deemed to be Capital

Appreciation Bonds for only a portion of their term pursuant to the ordinance, resolution or motion authorizing their issuance. On the date on which Parity Bonds no longer are Capital Appreciation Bonds, they shall be deemed outstanding in a principal amount equal to their Accreted Value.

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

"Closing" means the delivery of a series of the Bonds to, and payment of the purchase price therefor by, the initial purchasers of that series of Bonds.

"Code" means the Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or the Internal Revenue Service, to the extent applicable to the Bonds.

"Commercial Paper Notes" means the King County, Washington, Sewer Revenue Bond Anticipation Notes, Commercial Paper Series A, authorized, issued, and outstanding from time to time pursuant to Ordinance 12057 of the county, as amended.

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

"Construction Account" means the "Second Water Quality Construction Account," as designated by Ordinance 12076, Section 30, of the county.

"Council" means the Metropolitan King County Council.

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

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

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

"DTC" means The Depository Trust Company, New York, New York.

"Escrow Agent" means each corporate trustee chosen pursuant to the provisions of Section 16 of this ordinance to serve as escrow agent or refunding trustee in connection with the refunding of Refunded Bonds upon the issuance of any series of Bonds.

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

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

"Future Junior Lien Obligations" means any sewer revenue bonds, warrants or other obligations that may be issued in the future with a lien on Revenue of the System equal to the lien thereon of the currently outstanding Junior Lien Obligations.

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

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

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

System on a parity with the lien thereon of the currently outstanding Parity Lien Obligations.

"Government Obligations" means "government obligations" as defined in chapter 39.53 RCW, as now in existence or hereafter amended.

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

"Letter of Representations" means the Blanket Issuer Letter of Representations dated May 1, 1995, by and between the county and DTC, as it may be amended from time to time, and any successor or substitute letter relating to the operational procedures of the Securities Depository.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if that corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "Moody's" will be deemed to refer to any other nationally recognized securities rating agency selected by the county.

"MSRB" means the Municipal Securities Rulemaking Board or any successor to its functions.

"Multi-Modal LTGO/Sewer Revenue Bonds" means the county's Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2010A and Series 2010B, and any Future Multi-Modal LTGO/Sewer Revenue Bonds.

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

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

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

"Parity Bond Fund" means the "Water Quality Revenue Bond Account" designated pursuant to Ordinance 12076, Section 30, of the county and continued pursuant to Section 9 of this ordinance for the purpose of paying and securing the payment of the Parity Bonds.

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

"Parity Bonds" means the bonds identified as such in the Preamble to this ordinance, together with (i) any Bonds issued under this ordinance with a lien on Revenue of the System equal to the lien thereon of those bonds and (ii) any Future Parity Bonds. "Parity Bonds" include any Parity Payment Agreements and parity reimbursement agreements entered into with the provider of a Credit Facility securing any Parity Bonds.

"Parity Lien Obligation Bond Fund" means the Water Quality Limited Tax General Obligation Bond Redemption Fund, established pursuant to Ordinance 11241, Section 8, of the county and continued pursuant to Section 10 of this ordinance, to provide for payment of Parity Lien Obligations.

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

"Parity Lien Obligation Term Bonds" means Parity Lien Obligations that are Term Bonds.

"Parity Lien Obligations" means bonds identified as such in the Preamble to this ordinance, together with (i) any Bonds issued under this ordinance with a lien on Revenue of the System equal to the lien thereon of those bonds and (ii) any Future Parity Lien Obligations. "Parity Lien Obligations" include any Parity Lien Obligation Payment Agreements and parity reimbursement agreements entered into with the provider of a Credit Facility securing any Parity Lien Obligations.

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

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

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

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

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

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

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

"Public Works Trust Fund Loans" means loans to the county by the State Department of Commerce under the Public Works Trust Fund loan program pursuant to loan agreements in effect as of the date of this ordinance and any loan agreements hereafter entered into by the county under the Public Works Trust Fund loan program, the repayment obligations of which are secured by a lien on Revenue of the System equal to the lien thereon established by such loan agreements.

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

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

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

"Rate Stabilization Fund" means the fund of that name created pursuant to Ordinance 12314, Section 13.D., of the county and continued pursuant to Section 13.B. of this ordinance.

"RCW" means the Revised Code of Washington.

"Rebate Amount" means the amount, if any, determined to be payable with respect to the Bonds by the county to the United States of America in accordance with Section 148(f) of the Code.

"Refunded Bonds" means for each series of Bonds the Refunding Candidates that will be refunded from proceeds of that series of Bonds, as determined by the Finance Manager pursuant to Sections 16 and 28 of this ordinance and set forth in a Sale Motion in accordance with Sections 16 and 28 of this ordinance.

"Refunding Account" means any account authorized to be created pursuant to Section 16 of this ordinance to provide for the refunding of any Refunded Bonds.

"Refunding Candidates" means the currently outstanding Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds and Subordinate Lien Obligations and any obligations issued after the effective date of this ordinance that are (i) designated as "Refunding Candidates" in the ordinance or sale motion pursuant to which they are issued and are (ii) Future Parity Bonds, Future Parity Lien Obligations, Future Junior Lien Obligations, Future Multi-Modal LTGO/Sewer Revenue Bonds or Additional Subordinate Lien Obligations.

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

"Reserve Requirement" means maximum Annual Parity Debt Service with respect to any calendar year.

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

"Revenue of the System" means all the earnings, revenues and money received by the county from or on account of the operations of the System and the income from the investment of money in the Revenue Fund or any account within such fund, but shall not include any money collected pursuant to the Service Agreements applicable to administrative costs of the county other than costs of administration of the System. For certain purposes described in Section 13.B. of this ordinance, deposits from the Rate Stabilization Fund into the Revenue Fund may be included in calculations of "Revenue of the System."

"Rule 15c2-12" means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

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

"Sale Motion" means, with respect to each series of the Bonds, the motion of the council approving a bond purchase contract (if the Bonds are sold by negotiated sale) or accepting a bid (if the Bonds are sold by competitive bid) for the purchase of the Bonds and ratifying the sale of the Bonds, all in accordance with Section 28 of this ordinance.

"SEC" means the United States Securities and Exchange Commission.

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

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

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

"State" means the State of Washington.

"Subordinate Lien Obligations" means the Commercial Paper Notes, the Bank Note and any Additional Subordinate Lien Obligations.

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

"Tax Certificate" means the Federal Tax Certificate regarding certain federal tax matters executed on behalf of the county upon the issuance of each series of the Bonds.

"Tax-Benefited Bonds" means Bonds other than Tax-Exempt Bonds that are structured so as to confer certain benefits under the Code to the county or to the Owners of such Bonds, as provided in Section 21 of this ordinance and so designated pursuant to Section 28.A. of this ordinance.

"Tax-Exempt Bonds" means Bonds the interest on which the county intends to be excludable from gross income for federal income tax purposes, as provided in Section 21 of this ordinance and so designated pursuant to Section 28.A. of this ordinance.

"Term Bonds" means those bonds identified as such in the proceedings authorizing their issuance, the principal of which is amortized by a schedule of mandatory redemptions, payable from a bond redemption fund, prior to their maturity.

"Trustee" means a trustee for the Parity Bonds authorized to be appointed by registered owners of Parity Bonds, as provided by this ordinance.

"Undertaking" means an undertaking for ongoing disclosure to be entered into by the county for each series of Bonds, if and to the extent required by Rule15c2-12, as authorized by a Sale Motion.

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

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

B. **Rules of Interpretation**. As used in this ordinance, unless the context otherwise requires:

1. The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms refer to this ordinance as a whole and not to any particular section, subsection, paragraph or clause of this ordinance.

2. Unless the context otherwise indicates, words expressed in the singular may include the plural and vice versa, and the use of the neuter, masculine, or feminine gender is for convenience only and is deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

3. Any headings preceding the text of the various sections and subsections of this ordinance, and any table of contents or marginal notes appended to

copies of this ordinance, are solely for convenience of reference and do not constitute a part of this ordinance, nor shall they affect its meaning, construction or effect.

4. All references in this ordinance to "sections," "subsections," "paragraphs" and "clauses" are to the corresponding sections, subsections, paragraphs or clauses of this ordinance as originally passed.

5. The term "including" means "including without limitation."

SECTION 2. **Findings**. Because conditions in the capital markets are volatile, the council finds that it is in the best interests of the county and ratepayers of the System that the county retain the flexibility to refund all or a portion of the Refunding Candidates by issuing the Bonds in one or more series, as Parity Bonds or Parity Lien Obligations, in order to effect a saving to the county and ratepayers of the Sewer System or when necessary or in the best interest of the county and ratepayers of the Sewer System to modify debt service or reserve requirements, sources of payment, covenants or other terms of the Refunded Bonds. To achieve this flexibility, the council further finds that it is in the best interests of the county and ratepayers of the System that a plan of refunding and the sale of Bonds in one or more series, as Parity Bonds or Parity Lien Obligations, as Tax-Exempt Bonds, Tax Benefited Bonds or otherwise, by competitive bid or negotiated sale, for current or future delivery, be determined by the Finance Director, in consultation with the county's financial advisors. Each sale of a series of Bonds shall be ratified and confirmed by the council in a Sale Motion.

SECTION 3. **Authorization of Bonds**. To provide funds to refund the Refunded Bonds, the county is authorized to issue one or more series of Bonds in principal amounts to be established as provided in Sections 16 and 28 of this ordinance.

The Bonds may be issued in one or more series of Parity Bonds or Parity Lien Obligations, as provided in Section 28 of this ordinance, each such series of Parity Bonds to be designated as "King County, Washington, Sewer [Improvement and] Refunding Revenue Bonds" with an applicable year and series designation, and each such series of Parity Lien Obligations to be designated as "King County Limited Tax General Obligation [Improvement and] Refunding Bonds (Payable from Sewer Revenues)" with an applicable year and series designation. The Bonds shall be fully registered as to both principal and interest; shall be in the denomination of $5,000 or any integral multiple thereof within a single series, maturity and interest rate; shall be numbered separately in such manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification; and shall be dated the date and mature on the dates, in the years and in the amounts established as provided in Section 28 of this ordinance.

The Bonds shall bear interest (computed, unless otherwise provided in the Sale Motion, on the basis of a 360-day year of twelve 30-day months) from their dated date or from the most recent interest payment date for which interest has been paid or duly provided for, whichever is later, payable on interest payment dates and at the rate or rates established as provided in Section 28 of this ordinance and ratified and confirmed by a Sale Motion. The Accreted Values of any Bonds that are Capital Appreciation Bonds shall be set forth in a Sale Motion.

SECTION 4. **Registration, Exchange and Payments**.

A. **Bond Registrar/Bond Register**. In accordance with KCC 4.84, the county adopts for the Bonds the system of registration specified and approved by the Washington State Finance Committee, which utilizes the fiscal agent of the State as registrar, authenticating agent, paying agent and transfer agent ("the Bond Registrar"). The Bond Registrar shall keep, or cause to be kept, at its designated corporate trust office, sufficient books for the registration and transfer of the Bonds ("the Bond Register"), which shall be open to inspection by the county at all times. The Bond Register shall contain the name and mailing address of the Registered Owner of each Bond and the principal amount and number of each of the Bonds held by each Registered Owner. The Bond Registrar is authorized, on behalf of the county, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the county's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance.

The Bond Registrar shall be responsible for the representations contained in its Certificate of Authentication on the Bonds. The Bond Registrar may become the Owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Owners.

B. **Registered Ownership**. The Bonds shall be issued only in registered form as to both principal and interest and shall be recorded on the Bond Register. The county and the Bond Registrar, each in its discretion, may deem and treat the Registered Owner of each Bond as the absolute owner thereof for all purposes, and neither the county nor the Bond Registrar shall be affected by any notice to the contrary. Payment of each Bond shall be made as described in Section 4.E. of this ordinance, but registration of ownership of each Bond may be transferred as provided herein. All payments made as described in Section 4.E. of this ordinance shall be valid and shall satisfy and discharge the liability of the county upon such Bond to the extent of the amount or amounts so paid.

C. **Use of Depository**. The Bonds initially shall be registered in the name of Cede & Co., as the nominee of DTC. Each Bond registered in the name of the Securities Depository shall be held fully immobilized in book-entry only form by the Securities Depository in accordance with the provisions of the Letter of Representations. Neither the county nor the Bond Registrar shall have any obligation to participants of any Securities Depository or the persons for whom they act as nominees regarding accuracy of any records maintained by the Securities Depository or its participants. Neither the county nor the Bond Registrar shall be responsible for any notice that is permitted or required to be given to a Registered Owner except such notice as is required to be given by the Bond Registrar to the Securities Depository.

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

Upon the resignation of the Securities Depository, or upon a termination of the services of the Securities Depository by the county, the county may appoint a substitute Securities Depository. If (i) the Securities Depository resigns and the county does not appoint a substitute Securities Depository, or (ii) the county terminates the services of the Securities Depository, the Bonds no longer shall be held in book-entry only form and the registered ownership of each Bond may be transferred to any person as provided in this ordinance.

D. **Registration Covenant**. The county covenants that, until all Bonds have been surrendered and canceled, it will maintain a system for recording the ownership of each Bond that complies with the provisions of Section 149 of the Code.

E. **Place and Medium of Payment**. Principal of and premium, if any, and interest on the Bonds are payable in lawful money of the United States of America. Principal of and premium, if any, and interest on each Bond registered in the name of the Securities Depository are payable in the manner set forth in the Letter of Representations. Interest on each Bond not registered in the name of the Securities Depository is payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. However, the county is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner. Principal of and premium, if any, on each Bond not registered in the name of the Securities Depository are payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

F. **Transfer or Exchange of Registered Ownership; Change in Denominations.** The registered ownership of any Bond may be transferred or exchanged, but no transfer of any Bond shall be valid unless it is surrendered to the Bond

Registrar with the assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Bond Registrar. Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bond, at the option of the new Registered Owner) of the same series, date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and cancelled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same series, date, maturity and interest rate, in any authorized denomination. The Bond Registrar shall not be obligated to exchange or transfer any Bond during the 15 days preceding any principal payment or redemption date, or, in the case of any proposed redemption of an Bond, after mailing of notice of the call of the Bond for redemption.

SECTION 5. **Redemption Provisions; Purchase of Bonds.**

A. **Optional Redemption.** All or some of the Bonds may be subject to redemption prior to their stated maturity dates at the option of the county at the times and on the terms set forth in the Sale Motion.

B. **Mandatory Redemption.** The county shall redeem any Term Bonds, if not redeemed under the optional redemption provisions set forth in the Sale Motion or purchased under the provisions set forth herein, randomly (or in such other manner as set forth in the applicable Sale Motion or as the Bond Registrar shall determine) at par plus accrued interest on the dates and in the years and principal amounts as set forth in the Sale Motion.

If the county redeems Term Bonds under the optional redemption provisions set forth in the Sale Motion or purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased or defeased (irrespective of their redemption or purchase prices) shall, unless otherwise provided in the Sale Motion, be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. The county shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of its allocation at least 60 days prior to the earliest mandatory redemption date for the maturity of Term Bonds for which notice of redemption has not already been given.

C. **Partial Redemption.** Whenever less than all of the Bonds of a single maturity of a series are to be redeemed, the Securities Depository shall select the Bonds registered in the name of the Securities Depository to be redeemed in accordance with the Letter of Representations, and the Bond Registrar shall select all other Bonds to be redeemed randomly, or in such other manner set forth in the Sale Motion or as the Bond Registrar shall determine.

Portions of the principal amount of any Bond, in integral amounts of $5,000, may be redeemed, unless otherwise provided in the Sale Motion. If less than all of the principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there shall be issued to the Registered Owner, without charge therefor, a new Bond (or Bonds, at the option of the Registered Owner) of the same series, maturity and interest rate in any authorized denomination in the aggregate total principal amount remaining outstanding.

D. **Purchase.** The county reserves the right and option to purchase any or all of the Bonds in the open market or offered to the county at any time at any price acceptable to the county plus accrued interest to the date of purchase.

E. **Bonds to be Canceled.** All Bonds purchased or redeemed under this section shall be canceled.

SECTION 6. **Notice and Effect of Redemption**. Notice of redemption of each Bond registered in the name of the Securities Depository shall be given in accordance with the Letter of Representations. Notice of redemption of each other Bond, unless waived by the Registered Owner, shall 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 at the address appearing on the Bond Register on the Record Date. The requirements of the preceding sentences shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by any Owner. Notice of redemption shall also be mailed or sent electronically within the same period to the MSRB, to any nationally recognized rating agency then maintaining a rating on the Bonds at the request of the county, and to such other persons and with such additional information as the Finance Director shall determine, but such further notice shall not be a condition precedent to the redemption of any Bond.

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 on or prior to the date fixed for redemption. Any notice of optional redemption that is so rescinded shall be of no effect, and each Bond for which a notice of optional redemption has been rescinded shall remain outstanding.

Interest on each Bond called for redemption shall cease to accrue on the date fixed for redemption, unless either the notice of optional redemption is rescinded as set forth above, or money sufficient to effect such redemption is not on deposit in the Parity Bond Fund or the Parity Lien Obligation Bond Fund, as applicable, or in a trust account established to refund or defease the Bond.

SECTION 7. **Form and Execution of Bonds**. Bonds issued as Parity Bonds shall be in substantially the form set forth in Attachment C to this ordinance. Bonds issued as Parity Lien Obligations shall be in substantially the form set forth in Attachment D to this ordinance. The Bonds shall be signed by the county executive and the clerk of the council, either or both of whose signatures may be manual or in facsimile, and the seal of the county or a facsimile reproduction thereof shall be impressed or printed thereon.

Only a Bond bearing a Certificate of Authentication in the form set forth in Attachment C or Attachment D to this ordinance, as applicable, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

If any officer whose manual or facsimile signature appears on a Bond ceases to be an officer of the county authorized to sign bonds before the Bond bearing his or her manual or facsimile signature is authenticated by the Bond Registrar, or issued or delivered by the county, that Bond nevertheless may be authenticated, issued and delivered and, when authenticated, issued and delivered, shall be as binding on the county as though that person had continued to be an officer of the county authorized to sign bonds. Any Bond also may be signed on behalf of the county by any person who, on the actual date of signing of the Bond, is an officer of the county authorized to sign bonds, although he or she did not hold the required office on the dated date of the Bond.

SECTION 8. **Mutilated, Lost, Stolen or Destroyed Bonds**. If any Bond becomes mutilated, the Bond Registrar may authenticate and deliver a new Bond or Bonds of like amount, date, series, interest rate and tenor to the Registered Owner thereof upon the Registered Owner's paying the expenses and charges of the county and the Bond Registrar in connection therewith and upon surrender to the Bond Registrar of the Bond so mutilated. Every mutilated Bond so surrendered shall be canceled and destroyed by the Bond Registrar.

If any Bond is lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new Bond or Bonds of like amount, date, series, interest rate and tenor to the Registered Owner thereof upon the Registered Owner's paying the expenses and charges of the county and the Bond Registrar in connection therewith and upon filing with the Bond Registrar evidence satisfactory to the Bond Registrar that such Bond was actually lost, stolen or destroyed and of registered ownership thereof, and upon furnishing the county and the Bond Registrar with indemnity satisfactory to the Finance Director and the Bond Registrar.

<u>SECTION 9.</u> **Parity Bond Fund**. A special fund of the county known as the "Water Quality Revenue Bond Account" ("the Parity Bond Fund") has heretofore been created and is hereby continued, along with the accounts therein described in this section. The Parity Bond Fund is at all times completely segregated and set apart from all other funds and accounts of the county and is a trust fund for the security and payment of the principal of and interest and any redemption premium on any Parity Bonds. All money credited to the Parity Bond Fund is pledged and ordered to be used for the sole purpose of paying the principal of and interest and any redemption premium on the Parity Bonds.

A. **Debt Service Account**. A "Debt Service Account" has heretofore been established in the Parity Bond Fund. The county hereby obligates and binds itself to set aside and pay into that account out of Revenue of the System amounts sufficient, together with accrued interest, if any, received at the time of delivery of any series of Bonds that are Parity Bonds and deposited therein, income from the investment of money in the Debt Service Account and Parity Bond Reserve Account, and any other money on deposit in the Debt Service Account and legally available, to pay the principal of and interest on outstanding Parity Bonds as the same become due and payable.

For each series of the Bonds that are Parity Bonds there is hereby authorized to be created a special subaccount in the Debt Service Account. All money required by this subsection A. of this section to be deposited into the Debt Service Account for the payment of principal of and interest on that series of the Bonds shall be deposited into the the subaccount created for the series. Money in the subaccount will be treated in all respects as all other money in the Debt Service Account, but will be accounted for separately for the purpose of calculating any Rebate Amount payable with respect to that series of the Bonds.

Payments on account of each series of the Bonds that are Parity Bonds will be made out of Revenue of the System into the applicable debt service subaccount in the Parity Bond Fund on or before the day each payment of interest on or principal of those Bonds is due.

B. **Term Bond Provisions**. If any Bonds issued as Parity Bonds are designated as Term Bonds pursuant to Section 28 of this ordinance, the Sale Motion for that series of Bonds shall set forth a mandatory redemption schedule to amortize the principal of those Parity Term Bonds. Payments of principal of Parity Term Bonds under any such mandatory redemption schedule shall be made from the Debt Service Account, as provided in subsection A. of this section, to the extent not credited pursuant to Section 5.B. of this ordinance.

The county covenants that if it issues any Future Parity Bonds as Term Bonds, it will identify those Future Parity Bonds as Parity Term Bonds in the proceedings authorizing their issuance and establish a schedule of mandatory redemptions, payable from the Debt Service Account, to amortize the principal of the Parity Term Bonds prior to their maturity.

C. **Parity Bond Reserve Account**. A Parity Bond Reserve Account has heretofore been established in the Parity Bond Fund. The county hereby pledges that it will pay into and maintain in the Parity Bond Reserve Account an amount that together with other funds in the Parity Bond Reserve Account will be at least equal to the Reserve Requirement. The county may substitute Qualified Insurance or a Qualified Letter of

Credit for amounts required to be paid into or maintained in the Parity Bond Reserve Account. The Qualified Letter of Credit or Qualified Insurance must not be cancelable on less than five years' notice. In the event of any cancellation, the Parity Bond Reserve Account will be funded in accordance with the provisions of this section providing for payment in the event of a deficiency therein, as if the Parity Bonds that remain outstanding had been issued on the date of such notice of cancellation.

On the date of Closing of a series of Bonds that are Parity Bonds, an amount sufficient to satisfy the Reserve Requirement in the Parity Bond Reserve Account required by the issuance of that series of Bonds must be deposited therein from the proceeds of Parity Bonds or other funds available therefor or provided for by Qualified Insurance or a Qualified Letter of Credit, as herein permitted.

If there is a deficiency in the Debt Service Account to make any payment when due of either principal of or interest on any Parity Bonds, the deficiency will be made up from the Parity Bond Reserve Account by the withdrawal of money therefrom and by the sale or redemption of obligations held in the Parity Bond Reserve Account, if necessary, in such amounts as will provide cash in the Parity Bond Reserve Account sufficient to make up any such deficiency. If a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the county will then draw from any Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility in sufficient amount to make up the deficiency. The draw will be made at such times and under such conditions as the agreement for the Qualified Letter of Credit or Qualified Insurance provides. If more than one Qualified Letter of Credit or Qualified Insurance is available, draws will be made ratably thereon to make up the deficiency. Any deficiency created in the Parity Bond Reserve Account by reason of any such withdrawal must then be made up from Revenue of the System that is available after first making the payments required to be made under paragraph "First" through "Third" of Section 14 of this ordinance.

Income from the investment of money in the Parity Bond Reserve Account will be deposited in and become a part of the Parity Bond Fund.

SECTION 10. **Parity Lien Obligation Bond Fund**. A special fund of the county known as the "Water Quality Limited Tax General Obligation Bond Redemption Fund" ("the Parity Lien Obligation Bond Fund") has heretofore been created and is hereby continued, along with the accounts therein described in this section. The Parity Lien Obligation Bond Fund is at all times completely segregated and set apart from all other funds and accounts of the county and is a trust fund for the security and payment of the principal of and interest and any redemption premium on the Parity Lien Obligations. All money credited to the Parity Lien Obligation Bond Fund is pledged and ordered to be used for the sole purpose of paying the principal of and interest and any redemption premium on the Parity Lien Obligations.

A. **Debt Service Account**. A "Debt Service Account" has heretofore been established in the Parity Lien Obligation Bond Fund. The county hereby obligates and binds itself to set aside and pay into that account out of Revenue of the System amounts sufficient, together with accrued interest, if any, received at the time of delivery of any series of Bonds issued as Parity Lien Obligations and deposited therein, income from the investment of money in the Debt Service Account and any other money on deposit in the

Debt Service Account and legally available, to pay the principal of and interest on outstanding Parity Lien Obligations as the same become due and payable.

For each series of the Bonds issued as Parity Lien Obligations, there is hereby authorized to be created a special subaccount in the Debt Service Account. All money required by this subsection A. to be deposited into the Debt Service Account for the payment of principal of and interest on that series of the Bonds will be deposited into the subaccount created for the series. Money in that subaccount will be treated in all respects as all other money in the Debt Service Account, but will be accounted for separately for the purpose of calculating any Rebate Amount payable with respect to that series of the Bonds.

Payments on account of each series of the Bonds issued as Parity Lien Obligations will be made out of Revenue of the System into the applicable debt service subaccount in the Parity Lien Obligation Bond Fund on or before the day each payment of interest on or principal of those Bonds is due.

B. **Term Bond Provisions**. If any Bonds issued as Parity Lien Obligations are designated as Term Bonds pursuant to Section 28 of this ordinance, the Sale Motion for that series of Bonds shall set forth a mandatory redemption schedule to amortize the principal of those Parity Lien Obligation Term Bonds. Payments of principal of Parity Lien Obligation Term Bonds under any such mandatory redemption schedule will be made from the Debt Service Account, as provided in subsection A. of this section, to the extent not credited pursuant to Section 5.B. of this ordinance.

The county covenants that if it issues any additional Parity Lien Obligations as Term Bonds, it will identify those Parity Lien Obligations as Term Bonds in the proceedings authorizing their issuance and establish a schedule of mandatory redemptions, payable from the Debt Service Account, to amortize the principal of those Parity Lien Obligation Term Bonds prior to their maturity.

SECTION 11. **Pledge of Taxation and Credit**. The county hereby irrevocably covenants and agrees for as long as any Bonds issued as Parity Lien Obligations are outstanding and unpaid, that each year it will include in its budget and levy an *ad valorem* tax upon all the property within the county subject to taxation in an amount that will be sufficient, together with all other revenues and money of the county legally available for such purposes, to pay the principal of and interest on those Bonds issued as Parity Lien Obligations as the same become due. All of the taxes so collected will be paid into the Parity Lien Obligation Bond Fund no later than the date those funds are required for the payment of principal and interest on the Bonds issued as Parity Lien Obligations.

The county hereby irrevocably pledges that the annual tax herein authorized to be levied for the payment of such principal and interest shall be within and a part of the tax levy permitted to counties without a vote of the people, and that a sufficient portion of the taxes to be levied and collected annually by the county prior to the full payment of the principal of and interest on the Bonds issued as Parity Lien Obligations will be and is hereby irrevocably set aside, pledged and appropriated for the payment of the principal of and interest on those Bonds.

The full faith, credit and resources of the county are hereby irrevocably pledged for the annual levy and collection of those taxes and for the prompt payment of the principal of and interest on those Bonds issued as Parity Lien Obligations as the same become due.

Any Bonds issued hereunder as Parity Bonds are not general obligations of the county, and neither the full faith and credit nor the taxing power of the county are pledged to pay or secure the payment of Bonds issued as Parity Bonds hereunder.

SECTION 12. **Pledge of Sewer Revenues.**

A. **Parity Bonds**. The amounts covenanted to be paid out of Revenue of the System into the Parity Bond Fund and the accounts therein shall constitute a lien and charge on Revenue of the System superior to all other charges of any kind or nature except Operating and Maintenance Expenses, and of equal lien to any charges heretofore or hereafter made on Revenue of the System for the payment of the principal of and interest on any Parity Bonds.

If money and investments in the Debt Service Account of the Parity Bond Fund and the Parity Bond Reserve Account are reduced below the amounts required to pay the principal and/or interest then due and payable on any Parity Bonds, funds on deposit in any reserve created in the Revenue Fund not then required for the payment of necessary Operating and Maintenance Expenses will be transferred to the Debt Service Account of the Parity Bond Fund to the extent required to pay that principal and interest.

B. **Parity Lien Obligations**. The amounts covenanted to be paid out of Revenue of the System into the Parity Lien Obligation Bond Fund and the accounts therein shall constitute a lien and charge on Revenue of the System subject to Operating and Maintenance Expenses, and junior, subordinate and inferior to the lien and charge on Revenue of the System for the payments required by the ordinances authorizing the

Parity Bonds to be made into the Parity Bond Fund and the accounts therein, and equal to the lien and charge on Revenue of the System for the payments required to be made by the ordinances authorizing the issuance of the outstanding Parity Lien Obligations and any additional Parity Lien Obligations, and superior to all other liens and charges on Revenue of the System whatsoever.

SECTION 13. **Revenue Fund; Rate Stabilization Fund.**

A. **Revenue Fund.** A special fund of the county known as the "Water Quality Operating Account" ("the Revenue Fund") has heretofore been created and is hereby continued. All Revenue of the System will be deposited in the Revenue Fund. All Operating and Maintenance Expenses will be paid out of the Revenue Fund or appropriate reserves therein.

B. **Rate Stabilization Fund.** In anticipation of increases in revenue requirements of the System, a special fund of the county designated as the "Sewer Rate Stabilization Fund" ("the Rate Stabilization Fund") has heretofore been established and is hereby continued. The county may from time to time appropriate or budget amounts in the Revenue Fund for deposit in the Rate Stabilization Fund, as provided in Section 14 of this ordinance, and may from time to time withdraw amounts therefrom for deposit in the Revenue Fund to prevent or mitigate sewer rate increases or for other lawful purposes of the county related to the System, including calculations of "Net Revenue" and "Revenue of the System" for the purposes of satisfying requirements of Sections 18, 24 and 25 of this ordinance.

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

SECTION 14. **Sewer Revenue Priorities of Payment**. So long as any Bond is outstanding, all Revenue of the System will be deposited into the Revenue Fund and used and applied in the following order of priority:

First, to pay all Operating and Maintenance Expenses;

Second, to make all required deposits into the Debt Service Account in the Parity Bond Fund to provide for the payment of principal of and interest on Parity Bonds as the same become due and payable and to make any Payment Agreement Payments with respect to any Parity Payment Agreements;

Third, to make all payments required to be made pursuant to a reimbursement agreement or agreements (or other equivalent documents) in connection with Qualified Insurance or a Qualified Letter of Credit; provided, that if there is not sufficient money to make all payments under such reimbursement agreements, the payments will be made on a pro rata basis;

Fourth, to establish and maintain the Parity Bond Reserve Account (including making deposits into such account and paying the costs of obtaining Qualified Insurance or a Qualified Letter of Credit therefor);

Fifth, to make all required payments of principal and interest on the Parity Lien Obligations and to make any Payment Agreement Payments with respect to any Parity Lien Obligation Payment Agreements; and

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

Seventh, to make all required payments of principal of and interest on the Multi-Modal LTGO/Sewer Revenue Lien Obligations as the same become due and payable, to make all Payment Agreement Payments for any Payment Agreements entered into with respect to Multi-Modal LTGO/Sewer Revenue Bonds, and to make any payments required to be made to providers of credit enhancements or liquidity facilities for any Multi-Modal LTGO/Sewer Revenue Bonds;

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

Ninth, to make all required payments of principal of and interest on bonds, notes, warrants and other evidences of indebtedness, the lien and charge on Revenue of the System of which is junior and inferior to the Subordinate Lien Obligations, as the same become due and payable; and

Tenth, to make all required payments of principal of and interest due on the SRF Loans and the Public Works Trust Fund Loans.

Any surplus money that the county may have on hand in the Revenue Fund after making all required payments set forth above may be used by the county (i) to make necessary improvements, additions and repairs to and extensions and replacements of the System, (ii) to purchase or redeem and retire outstanding sewer revenue bonds of the county, (iii) to make deposits into the Rate Stabilization Fund, or (iv) for any other lawful purposes of the county related to the System.

SECTION 15. **Disposition of Bond Proceeds**. The proceeds of the Bonds will be deposited as follows:

A. The amount equal to the interest, if any, accruing on each series of the Bonds from their dated date to the date of their Closing will be deposited in the appropriate subaccount for the series created in the Debt Service Account in the Parity Bond Fund or Parity Lien Obligation Bond Fund, as applicable.

B. Proceeds of each series of the Bonds issued as Parity Bonds may be deposited into the Parity Bond Reserve Account, as will be provided for in each Sale Motion for any Bonds issued as Parity Bonds.

C. The balance of the proceeds of any Bonds will be deposited into the appropriate Refunding Account and applied as provided in Section 16 of this ordinance.

SECTION 16. **Refunding Account; Plan of Refunding**.

A. **Refunding Account; Guidelines for Refunding**. There is hereby authorized to be established one or more special accounts of the county to be maintained with the Escrow Agent, each to be known as a "King County [year and series designation] Sewer Revenue Bonds Refunding Account" (each, a "Refunding Account"). Each Refunding Account will be drawn upon for the sole purpose of paying the principal of and premium, if any, and interest on the applicable Refunded Bonds and of paying costs related to the issuance of that series of Bonds and to refunding the applicable Refunded Bonds. Proceeds of the sale of any Bonds, together with other county funds that may be designated for that purpose, will be deposited into each Refunding Account to provide for refunding the applicable Refunded Bonds in accordance with the ordinances authorizing the Refunded Bonds and to pay the costs of issuance of the Bonds.

The Finance Director is authorized to determine, in consultation with the county's financial advisors, which of the Refunding Candidates, if any, are to be refunded. In determining which of the Refunding Candidates, if any, should be advance refunded under this ordinance in order to effect a saving to the county and ratepayers of the Sewer System, the council intends that the Finance Director adhere to a refunding guideline that the present value of the savings achieved by such an advance refunding meet or exceed a minimum level of 5% of the principal amount of Refunded Bonds that are advance refunded. This requirement does not apply to the current refunding of any Refunded Bonds, i.e., the redemption of Refunded Bonds paid for with proceeds of Bonds issued no earlier than 90 days prior to the date fixed for redemption of the Refunded Bonds, or to the refunding of any Refunded Bonds when necessary or in the best interest of the county and ratepayers of the Sewer System to modify debt service or reserve requirements, sources of payment, covenants or other terms of the Refunded Bonds.

B. **Plan of Refunding**. Each plan of refunding and call for redemption of Refunded Bonds shall be set forth in and ratified and confirmed by a Sale Motion. Money in each Refunding Account shall be used immediately upon receipt thereof to defease the applicable Refunded Bonds and discharge the other obligations of the county relating thereto under the ordinances that authorized the Refunded Bonds, by providing for the payment of the principal of and premium, if any, and interest on the Refunded Bonds as set forth in a Sale Motion. The county will defease such bonds and discharge such obligations by the use of the money in each Refunding Account to purchase Government Obligations (such obligations so purchased, "Escrow Securities") bearing interest and maturing as to principal and interest in such amounts and at such times that, together with any necessary beginning cash balance, will provide for the payment of such Refunded Bonds, as set forth in the Sale Motion. Such Escrow Securities shall be purchased at a yield not greater than the yield permitted by the Code and regulations relating to obligations acquired in connection with refunding bond issues.

In connection with the issuance of each series of Bonds, to carry out the refunding and defeasance of Refunded Bonds, the Finance Director is hereby authorized to appoint an Escrow Agent qualified by law to perform the duties described herein. Any beginning cash balance and the Escrow Securities will be irrevocably deposited with the Escrow Agent in an amount sufficient to defease the Refunded Bonds in accordance with this section and the applicable Sale Motion.

The county will take such actions as are found necessary to see that all necessary and proper fees, compensation and expenses of the Escrow Agent are paid when due. The proper officers and agents of the county are directed to negotiate an agreement with each Escrow Agent setting forth the duties, obligations and responsibilities of the Escrow Agent in connection with the redemption and retirement of the Refunded Bonds as provided herein and setting forth provisions for the payment of the fees, compensation and expenses of the Escrow Agent as are satisfactory to it. To carry out the purposes of this section, the Finance Director is authorized and directed to execute and deliver to each Escrow Agent an escrow agreement and, if requested, a costs of issuance agreement, in forms approved by the county's bond counsel.

C. **Required Findings**. By a Sale Motion, the council shall set forth its finding of either:

1. savings and defeasance regarding the Refunded Bonds authorized to be refunded from the proceeds of each series of Bonds; or

2. the best interest of the county and ratepayers of the Sewer System from modifying debt service or reserve requirements, sources of payment, covenants or other terms of the Refunded Bonds authorized to be refunded from the proceeds of each series of Bonds.

SECTION 17. **Due Regard for Expenses**. The council hereby declares that, in fixing the amounts to be paid into the Parity Bond Fund and Parity Lien Obligation Bond Fund, as applicable, and the accounts therein, out of Revenue of the System, it has exercised due regard for the necessary Operating and Maintenance Expenses and has not obligated the county to set aside, pay into and maintain in such funds and accounts a greater amount of Revenue of the System than in its judgment will be available over and above the necessary Operating and Maintenance Expenses.

SECTION 18. **Rate Covenants**.

A. **Parity Bonds**. The county hereby covenants with the Registered Owner of each of the Bonds issued as Parity Bonds for so long as any of the same are outstanding that the county will at all times establish, maintain and collect rates and charges for sewage disposal service that will provide in each calendar year Net Revenue in an amount that, together with the interest earned during that calendar year on investments of money in the Parity Bond Fund, Parity Bond Reserve Account and

Construction Account, will equal or exceed 1.15 times the amount required to pay the Annual Parity Debt Service for such calendar year.

At all times and in any event, rates and charges for sewage disposal service will be sufficient to provide funds adequate to operate and maintain the System, to make all payments and to establish and maintain all reserves required by this or any other ordinance authorizing obligations of the county payable from Revenue of the System, to make up any deficit in such payments remaining from prior years and to pay all costs incurred in the construction or acquisition of any portion of the Comprehensive Plan that may be ordered by the county and for the payment of which sewer revenue bonds (or other obligations payable from Revenue of the System) are not issued.

B. **Parity Lien Obligations.** The county hereby covenants with the Registered Owner of each of the Bonds issued as Parity Lien Obligations for so long as any of the same are outstanding that the county will at all times establish, maintain and collect rates and charges for sewage disposal service that will be fair and nondiscriminatory and adequate to provide Revenue of the System sufficient for the proper operation and maintenance of the System; for the punctual payment of the principal of and interest on all outstanding Parity Bonds for which payment has not otherwise been provided and all amounts that the county is obligated to set aside in the Parity Bond Fund securing the Parity Bonds; for the punctual payment of the principal of and interest on all outstanding Parity Lien Obligations and for all amounts that the county is obligated to set aside in the Parity Lien Obligation Bond Fund; and for the payment of any and all other amounts that the county is now or may hereafter become obligated to pay from Revenue of the System.

The county hereby further covenants with the Registered Owner of each of the Bonds issued as Parity Lien Obligations for so long as any of the same are outstanding that the county will at all times establish, maintain and collect rates and charges for sewage disposal service that will provide in each calendar year Net Revenue in an amount that, together with the interest earned during that calendar year on investments made of money in the Parity Bond Fund, Parity Bond Reserve Account, Parity Lien Obligation Bond Fund and Construction Account, is equal to at least 1.15 times the amounts required to pay the Annual Debt Service for such calendar year.

C. **Rate Stabilization Fund**. In determining compliance with the requirements of this section, Revenue of the System and Net Revenue shall be calculated by taking into account deposits and withdrawals from the Rate Stabilization Fund as provided in Section 13.B. of this ordinance.

SECTION 19. **Certain Other Covenants of the County Regarding the Bonds**. The county hereby covenants with the Registered Owner of each of the Bonds for as long as any of the Bonds are outstanding, as follows:

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

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

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

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

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

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

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

G. **Legal Authority**. The county has full legal right, power and authority to adopt this ordinance, to sell, issue and deliver Bonds as provided herein, and to carry out and consummate all other transactions contemplated by this ordinance.

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

I. **Binding Obligation**. This ordinance constitutes a legal, valid and binding obligation of the county.

J. **No Conflict**. The county's adoption of this ordinance and its compliance with the provisions contained herein will not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, ordinance, motion, agreement or other instrument to which the county is a party or to which the county or any of its property or assets are otherwise subject, nor will any such adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the county or under the terms of any such law, regulation or instrument, except as permitted by this ordinance and the ordinances authorizing the issuance of other Parity Bonds and Parity Lien Obligations.

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

L. **Sale or Disposition**. The county will not sell or voluntarily dispose of all of the operating properties of the System unless provision is made for payment into the Parity Bond Fund and the Parity Lien Obligation Bond Fund of a sum sufficient to pay the principal of and interest on all outstanding Parity Bonds and Parity Lien Obligations in accordance with the terms thereof, nor will the county sell or voluntarily dispose of any part of the operating properties of the System unless provision is made (i) for payment into the Parity Bond Fund of an amount that will bear at least the same proportion to the amount of the outstanding Parity Bonds that the estimated amount of any resulting reduction in Revenue of the System for the twelve months following such sale or disposition bears to the Revenue of the System that would have been realized if such sale or disposition had not been made and (ii) for payment into the Parity Lien Obligation Bond Fund of an amount that will bear at least the same proportion to the amount of the outstanding Parity Lien Obligations that the estimated amount of any resulting reduction in Revenue of the System for the twelve months following such sale or disposition bears to the Revenue of the System that would have been realized if such sale or disposition had not been made. Those estimates must be made by a Professional Utility Consultant. Any money so paid into the Parity Bond Fund and the Parity Lien Obligation Bond Fund must be used to retire outstanding Parity Bonds and Parity Lien Obligations as provided herein at the earliest possible date; provided, however, that the county may sell or otherwise dispose of any of the works, plant, properties and facilities of the System or any real or personal property comprising a part of the System with a value of less than 5% of the net utility plant of the System or that have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation, without making any deposit into the Parity Bond Fund or Parity Lien Obligation Bond Fund.

SECTION 20. **Certain Other Covenants of the County Regarding the Bonds Issued as Parity Lien Obligations**. The county makes the following covenants and warranties to the Registered Owner of each of the Bonds issued as Parity Lien Obligations:

A. The Bonds issued as Parity Lien Obligations, when issued, sold, authenticated and delivered, will constitute the legal, valid and binding general obligations of the county.

B. The county covenants that the Bonds issued as Parity Lien Obligations will be issued within all statutory and constitutional debt limitations applicable to the county.

SECTION 21. **Tax Covenants**.

A. **General**. The county may elect to structure any series of Bonds so that interest on that series of Bonds would be taxable or excludable from gross income for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Code and the applicable regulations ("the Tax-Exempt Bonds") or to confer other benefits under the Code to the county or Owners of that series of Bonds ("Tax-Benefited Bonds"). The county covenants not to take any action, or knowingly omit to take any action within its control, that if taken or omitted would cause the interest on Tax-Exempt Bonds to be includable in gross income, as defined in Section 61 of the Code, for federal income tax purposes. Additional tax covenants as necessary or desirable for any series of Bonds may be set forth in the Sale Motion or Tax Certificate for that series of Bonds.

B. **Tax Certificate**. Upon the issuance of any series of Tax-Exempt Bonds or Tax-Benefited Bonds, the Finance Director is authorized to execute the Tax

Certificate, which will certify to various facts and representations concerning that series of Bonds, based on the facts and estimates known or reasonably expected on the date of their issuance, and make certain covenants with respect to that series of Bonds as may be necessary or desirable to obtain or maintain the benefits conferred under the Code relating to that series of Tax-Exempt Bonds or Tax-Benefited Bonds.

The county covenants that it will comply with the Tax Certificate unless it receives advice from nationally recognized bond counsel or the Internal Revenue Service that certain provisions have been amended or no longer apply to the Tax-Exempt Bonds or Tax-Benefited Bonds, as applicable.

C. **Arbitrage Rebate**. If the county does not quality for an exception to the requirements of Section 148(f) of the Code relating to the payment of arbitrage rebate to the United States with respect to a series of Bonds, the county will take all necessary steps to comply with the requirement that certain amounts earned by the county on the investment of the "gross proceeds" of that series of Bonds (within the meaning of the Code) be rebated.

SECTION 22. **Trustee for Registered Owners of Parity Bonds.**

A. **Appointment of Trustee**. Upon the occurrence of any "event of default" described in Section 23.A. of this ordinance, the registered owners of a majority in principal amount of the outstanding Parity Bonds may appoint a Trustee by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners or by their attorneys-in-fact duly authorized and delivered to the Trustee, notification thereof being given to the county. Any appointment of a Trustee under the provisions of this subsection A. must be a bank or trust company organized under the laws of the State or the State of New York or a national banking association. The fees and expenses of a Trustee must be borne by the owners of the Parity Bonds and not by the county. The bank or trust company acting as a Trustee may be removed at any time and a successor Trustee may be appointed by the registered owners of a majority in principal amount of the outstanding Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners or by their attorneys-in-fact duly authorized.

The Trustee appointed in the manner herein provided, and each successor thereto, is hereby declared to be a trustee for the registered owners of all the Parity Bonds and is empowered to exercise all rights and powers herein conferred on the Trustee.

B. **Certain Rights and Obligations of Trustee**. The Trustee will not be responsible for recitals in any ordinance or in the Parity Bonds, or for the validity of any Parity Bonds, nor will the Trustee be responsible for insuring the System or for collecting any insurance money or for the title to any property of the System.

The Trustee will be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter or other paper or document believed by it to be genuine and correct and to have been signed, sent or delivered by the person or persons by whom such paper or document is purported to have been signed, sent or delivered.

The Trustee will not be answerable for any neglect or default of any person, firm or corporation employed and selected by it with reasonable care.

The Trustee will permit the owner of any Parity Bonds to inspect any instrument, opinion or certificate filed with the Trustee by the county or by any person, firm or corporation acting for the county.

The Trustee will not be bound to recognize any person as an owner of any Parity Bond until his, her or its title thereto, if disputed, has been established to the Trustee's reasonable satisfaction.

The Trustee may consult with counsel, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel.

SECTION 23. **Events of Default for Parity Bonds; Powers and Duties of Trustee.**

A. **Events of Default**. The occurrence of one or more of the following is an "event of default" with respect to any Bonds issued as Parity Bonds under this ordinance:

1. default in the payment of principal of or interest on any Parity Bonds when the same becomes due; or

2. default in the observance or performance of any of the other covenants applicable to Parity Bonds herein contained, and the default continues for a period of six months after written notice to the county from the registered owner of a Parity Bond specifying the default and requiring that it be remedied.

B. **Powers of Trustee**. The Trustee in its own name and on behalf of and for the benefit and protection of the registered owners of all Parity Bonds may proceed, and upon the written request of the registered owners of not less than 25% in principal amount of the Parity Bonds then outstanding must proceed, to protect and enforce any rights of the Trustee and, to the full extent that registered owners of Parity Bonds themselves might do, the rights of such registered owners of Parity Bonds under the laws of the State or under the ordinances providing for the issuance of the Parity Bonds, by such suits, actions or proceedings in equity or at law, either for the specific performance of any covenant contained herein or in aid or execution of any power herein granted or for any proper legal or equitable remedy as the Trustee may deem most effectual to protect and enforce the rights of the Trustee and the registered owners of Parity Bonds. In the enforcement of any such rights under this or any other ordinance of the county, the Trustee is entitled to sue for, to enforce payment of and to receive any and all amounts due from the county for principal, interest or otherwise under any of the provisions of such ordinance, with interest on overdue payments at the rate or rates set forth in such Parity Bond or Parity Bonds, together with any and all costs and expenses of collection and of all proceedings taken by the Trustee without prejudice to any other right or remedy of the Trustee or of the owners of the Parity Bonds.

If default is made in the payment of principal of any Parity Bond and the default continues for a period of 30 days, the Trustee may not accelerate payment of any Parity Bonds but may proceed to enforce payment thereof as hereinabove provided. If, in the sole judgment of the Trustee, any default is cured and the Trustee furnishes the county a certificate so stating, that default is conclusively deemed to be cured, and the county, Trustee and owners of Parity Bonds will be restored to the same rights and position they would have held if no event of default had occurred.

C. **Actions in Name of Trustee**. All rights of action under this ordinance or upon any of the Parity Bonds enforceable by the Trustee may be enforced by the Trustee without the possession of any Parity Bonds or the production thereof in the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the

Trustee will be brought in its name for the ratable benefit of the registered owners of all Parity Bonds, subject to the provisions of this ordinance.

D. **Procedure by Bond Owners**. No owner of any one or more of the Parity Bonds has any right to institute any action, suit or proceedings at law or in equity for the enforcement of the same, unless an event of default occurs and unless no Trustee is appointed as herein provided, but any remedy herein authorized to be exercised by a Trustee may be exercised individually by any registered owner of a Parity Bond, in his, her or its own name and on his, her or its own behalf or for the benefit of all registered owners of Parity Bonds, if no Trustee is appointed, or with the consent of the Trustee if such Trustee has been appointed.

E. **Application of Money Collected by Trustee**. Any money collected by the Trustee at any time pursuant to this section will be applied, first, to the payment of its charges, expenses, advances and compensation and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys, and, second, toward payment of the amount then due and unpaid upon the Parity Bonds, ratably and without preference or priority of any kind not expressly provided in this ordinance, according to the amounts due and payable upon the Parity Bonds at the date fixed by the Trustee for the distribution of such money, upon presentation of the several Parity Bonds and upon causing such payment to be stamped thereon, if partly paid, and upon surrender thereof, if fully paid.

SECTION 24. **Future Parity Bonds**. The county further covenants and agrees with the Registered Owner of each of the Bonds issued as Parity Bonds for as long as the same are outstanding that it will not create any special fund for the payment of the principal of and interest on any revenue bonds that will rank on a parity with or have any priority over the payments out of Revenue of the System required to be made into the Parity Bond Fund and the accounts therein to pay or secure the payment of the outstanding Parity Bonds. The county reserves the right for: (i) the purpose of acquiring, constructing and installing any portion of the Comprehensive Plan; (ii) the purpose of acquiring, constructing and installing any necessary renewals or replacements of the System; or (iii) the purpose of refunding or purchasing and retiring at or prior to their maturity any outstanding obligations of the county payable from Revenue of the System, to issue additional or refunding Parity Bonds (including Variable Rate Parity Bonds) and to make payments into the Parity Bond Fund out of the Revenue Fund that will be sufficient to pay the principal of and interest on those additional or refunding Parity Bonds and to maintain required reserves, such payments out of the Revenue Fund to rank equally with the payments out of the Revenue Fund required to be made into the Parity Bond Fund and the accounts therein for the payment of the principal of and interest on outstanding Parity Bonds, but only upon compliance with the following conditions:

A. At the time of the issuance of any Future Parity Bonds there is no deficiency in the Parity Bond Fund or any account therein.

B. Each ordinance providing for the issuance of any Future Parity Bonds that are refunding bonds must require that all money held in any fund or account of the county created for the purpose of paying the principal of and interest on the bonds being refunded either be used to pay the principal of and interest on such bonds or be transferred or paid into the Parity Bond Fund.

C. Each ordinance providing for the issuance of Future Parity Bonds must provide for the payment of the principal thereof and interest thereon out of the Parity Bond Fund. The Future Parity Bonds may bear such date of issue, interest payment dates, and principal payment dates, and may mature in such year or years as the council provides. Each such ordinance will further provide that upon the issuance of any Future Parity Bonds, the county will pay into the Parity Bond Reserve Account an amount that will be sufficient to satisfy the Reserve Requirement then applicable or provide Qualified Insurance or a Qualified Letter of Credit to satisfy the Reserve Requirement.

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

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

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

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

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

5. For each year following the proposed date of issuance of such Future Parity Bonds the Professional Utility Consultant may add to the annual revenue determined in subsection D.1. through 4. of this section an estimate of the income to be received in each such year from the investment of money in the Parity Bond Fund and any account therein, and the Construction Account, which will be determined by and in the sole discretion of a firm of nationally recognized financial consultants selected by the county.

6. Beginning with the second year following the proposed date of issue of such Future Parity Bonds and for each year thereafter, the Professional Utility Consultant may add to the annual revenue determined in subsection D.1. through 5. of this section his or her estimate of any additional annual revenue to be received from anticipated growth in the number of Customers within the area served by the System on the date of such certificate, after deducting therefrom any increased Operating and Maintenance Expenses estimated to be incurred as a result of such growth; provided, that the Professional Utility Consultant's estimate of the number of Customers served may not assume growth of more than 1/4 of 1% over and above the number of Customers served or estimated to be served during the preceding year.

7. If extensions of or additions to the System are in the process of construction at the time of such certificate, or if the proceeds of the Future Parity Bonds being issued are to be used to acquire or construct extensions of or additions to the System, there may be added to the annual net revenue as above determined any revenue not included in subsection D.1. through 6. of this section that will be derived from such additions and extensions after deducting therefrom the estimated additional Operating and Maintenance Expenses to be incurred as a result of such additions and extensions; provided, that such estimated annual revenue will be based upon 75% of any estimated Customer growth in the four years following the first full year in which such additional revenue is to be collected and thereafter the estimated Customer growth may not exceed 1/4 of 1% per year over and above such reduced estimate.

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

F. For the purpose of refunding at or prior to their maturity any outstanding Parity Bonds or any bonds or other obligations of the county payable from Revenue of the System, the county may at any time issue Future Parity Bonds without complying with the provisions of subsection D. or E. of this section; provided, that the county may not issue Future Parity Bonds for such purpose under this subsection F. unless the Finance Director certifies that upon the issuance of such Future Parity Bonds: (i) total debt service required for all Parity Bonds (including the refunding bonds and not including the bonds to be refunded thereby) will decrease; and (ii) the Annual Parity Debt Service for each year that any Parity Bonds (including the refunding bonds and not including the bonds to be refunded thereby) are then outstanding will not be increased by more than $5,000 by reason of the issuance of such Future Parity Bonds.

The principal amount of Future Parity Bonds issued pursuant to this subsection F. may include amounts necessary to pay the principal of the Parity Bonds or other obligations to be refunded, interest thereon to the date of payment or redemption thereof, any premium payable thereon upon such payment or redemption and the costs of issuance of such Future Parity Bonds, and if a Payment Agreement has been provided with respect to the obligations to be refunded, may include amounts necessary to make the payment of all amounts, if any, due and payable by the county under such Payment Agreement. The proceeds of such Future Parity Bonds will be held and applied in such manner as is provided for in the ordinance authorizing the issuance of the Parity Bonds or other obligations to be refunded, so that upon the delivery of such Future Parity Bonds, the Parity Bonds or other obligations to be reminded thereby will be deemed no longer outstanding in accordance with the ordinance authorizing their issuance.

G. For so long as the county's Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, remains outstanding, at the time of issuing any Future Parity Bonds, the Finance Director shall provide to the registered owner of that bond a debt service coverage certificate as required by Ordinance 17495, Section 5.4.(a), of the county authorizing the issuance of that bond.

H. Nothing contained in this ordinance prevents the county from issuing revenue bonds that are a charge on Revenue of the System and money in the Revenue Fund junior or inferior to the payments required to be made therefrom into the Parity Bond Fund and any account therein, nor shall anything herein contained prevent the county from issuing Future Parity Bonds to refund maturing Parity Bonds for the payment of which money is not otherwise available.

SECTION 25. **Additional Parity Lien Obligations.** The county expressly reserves the right to issue additional Parity Bonds in accordance with the ordinances, including this ordinance, authorizing the Parity Bonds. Subject to this reservation of rights with respect to Parity Bonds, the county hereby covenants and agrees with the Registered Owner of each of the Bonds issued as Parity Lien Obligations, so long as such Bonds are outstanding, that it will not issue or incur any other additional indebtedness secured in whole or in part by a lien on Revenue of the System superior to the lien of such Bonds issued as Parity Lien Obligations.

A. **Parity Lien Obligations Other Than Refunding Bonds.** The county expressly reserves the right to issue or enter into additional Parity Lien Obligations (including Variable Rate Parity Lien Obligations as defined herein) for any lawful purpose of the county related to the System if at the time of issuing or entering into such Parity Lien Obligations:

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

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

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

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

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

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

e. For each year following the proposed date of issuance of such Parity Lien Obligations the Professional Utility Consultant may add to the annual revenue determined in clauses a through d of this paragraph 2 an estimate of the income to be received in each such year from the investment of money in the Parity Bond Fund, the Parity Lien Obligation Bond Fund and the Construction Account, which will be determined by and in the sole discretion of a firm of nationally recognized financial consultants selected by the county.

f. Beginning with the second year following the proposed date of issue of such Parity Lien Obligations and for each year thereafter the Professional Utility Consultant may add to the annual revenue determined in clauses a through e of this paragraph 2 his or her estimate of any additional annual revenue to be received from anticipated growth in the number of Customers within the area served by the System on the date of such certificate, after deducting therefrom any increased Operating and Maintenance Expenses estimated to be incurred as a result of such growth; provided, that the Professional Utility Consultant's estimate of the number of customers served may shall not assume a growth of more than 1/4 of 1% over and above the number of customers served or estimated to be served during the preceding year.

g. If extensions of or additions to the System are in the process of construction at the time of such certificate, or if the proceeds of the Parity Lien Obligations being issued are to be used to acquire or construct extensions of or additions to the System, there may be added to the annual net revenue as above determined any revenue not included in clauses a through f of this paragraph 2 that will be derived from such additions and extensions after deducting therefrom the estimated additional Operating and Maintenance Expenses to be incurred as a result of such additions and extensions; provided, that such estimated annual revenue must be based upon 75% of any estimated Customer growth in the four years following the first full year in which such additional revenue is to be collected and thereafter the estimated Customer growth may not exceed 1/4 of 1% per year over and above such reduced estimate.

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

B. **Parity Lien Obligations That Are Refunding Bonds.**

1. The county may at any time, for the purpose of refunding at or prior to their maturity any outstanding Parity Lien Obligations, Parity Bonds, or any bonds or other obligations of the county payable from Revenue of the System, issue additional Parity Lien Obligations without complying with the provisions of subsection A.2. and 3. of this section if there is filed with the clerk of the council a certificate of the Finance Director stating that upon the issuance of such additional Parity Lien Obligations: (i) total debt service on all Parity Bonds and Parity Lien Obligations (including the refunding bonds but not including the bonds to be refunded thereby) will decrease; and (ii) the Annual Debt Service for each year that any Parity Bonds and any Parity Lien Obligations (including the refunding bonds but not including the bonds to be refunded thereby) are then outstanding will not be increased by more than $5,000 by reason of the issuance of such additional Parity Lien Obligations.

2. The principal amount of such Parity Lien Obligations may include amounts necessary to pay the principal of the bonds or other obligations to be refunded,

interest thereon to the date of payment or redemption thereof and any premium payable thereon upon such payment or redemption and the costs of issuance of such Parity Lien Obligations and, if a Payment Agreement has been provided with respect to the obligations to be refunded, may include amounts necessary to make the payment of all amounts, if any, due and payable by the county under such Payment Agreement. The proceeds of such Parity Lien Obligations will be held and applied as is provided in the ordinance authorizing the issuance of such Parity Lien Obligations, so that upon the delivery of such Parity Lien Obligations, the bonds or other obligations to be refunded thereby will be deemed no longer outstanding in accordance with the ordinance authorizing their issuance.

3. At the election of the county, the provisions of this subsection B. need not apply to the refunding at one time of all the Parity Lien Obligations then outstanding.

4. Nothing contained in this ordinance prohibits or prevents, or will be deemed or construed to prohibit or prevent, the county from issuing Parity Lien Obligations to refund maturing Parity Lien Obligations of the county for the payment of which money is not otherwise available.

C. **Additional Debt Service Coverage Certificate**. For so long as the county's Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, remains outstanding, at the time of issuing any additional Parity Lien Obligations, the Finance Director shall provide to the registered owner of that bond a debt service coverage certificate as required by Ordinance 17495, Section 5.4.(a), of the county authorizing the issuance of that bond.

D. **Subordinate Obligations**. Nothing in this ordinance prohibits, or will be deemed or construed to prohibit, the county from authorizing and issuing bonds, notes or other evidences of indebtedness for any purpose of the county related to the System payable in whole or in part from Revenue of the System and secured by a lien on Revenue of the System that is junior, subordinate and inferior to the lien of any Bonds issued as Parity Lien Obligations.

SECTION 26. **Reimbursement Obligations**. If the county elects to secure any Bonds with a Credit Facility, the county may contract with the entity providing the Credit Facility that the reimbursement obligation, if any, to that entity will be a Parity Bond or Parity Lien Obligation, as applicable.

SECTION 27. **Payment Agreements.**

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

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

C. **Authorizing Ordinance**. Prior to entering into a Payment Agreement, the council must pass an ordinance authorizing such agreement and setting forth such provisions as the county deems necessary or desirable and are not inconsistent with the provisions of this ordinance.

D. **Calculation of Payment Agreement Payments and Debt Service on Bonds with Respect to which a Payment Agreement is in Force**. It is the intent of the county, for purposes of Section 18, 24 or 25 of this ordinance, that debt service on Parity Bonds with respect to which a Parity Payment Agreement is in force will be calculated to reflect the net economic effect on the county intended to be produced by the terms of such Parity Bonds and Parity Payment Agreement and that debt service on Parity Lien Obligation Bonds with respect to which a Parity Lien Obligation Payment Agreement is in force will be calculated to reflect the net economic effect on the county intended to be produced by the terms of such Parity Lien Obligation Bonds and Parity Lien Obligation Payment Agreement. In calculating such amounts, the county will be guided by the following requirements.

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

2. For any period during which Payment Agreement Payments are not taken into account in calculating interest on any outstanding Bonds because the Payment Agreement is not then related to any outstanding Bonds, Payment Agreement Payments on that Parity Payment Agreement will be calculated based upon the following assumptions:

a. **County Obligated to Make Payments Based on Fixed Rate**. If the county is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified Counterparty is obligated to make payments based on a variable rate index, payments by the county will be based on the assumed fixed payor rate, and payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable rate index specified by the Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made; and

b. **County Obligated to Make Payments Based on Variable Rate Index**. If the county is obligated to make Payment Agreement Payments based on a variable rate index and the Qualified Counterparty is obligated to make payments based on a fixed rate, payments by the county will be based on a rate equal to the average rate determined by the variable rate index specified by the Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made, and the Qualified Counterparty will make payments based on the fixed rate specified by the Payment Agreement.

E. **Prior Notice to Rating Agencies**. The county will give notice to Moody's and S&P 30 days prior to the date it intends to enter into a Parity Payment Agreement and will give notice to Fitch, Moody's and S&P 30 days prior to the date it intends to enter into a Parity Lien Obligation Payment Agreement.

SECTION 28. **Sale of Bonds**.

A. **Determination by Finance Director**. The Finance Director shall determine, in consultation with the county's financial advisors, the principal amount of each series of the Bonds, the Refunding Candidates to be refunded, whether each series of Bonds will be structured as Tax-Exempt Bonds, Tax-Benefited Bonds or otherwise, whether the Bonds will be sold separately or combined with one or more other series of the county's bonds and whether each series of Bonds will be sold by negotiated sale or competitive bid and by current or future delivery. The authority to sell any Refunding Bonds as defined in and pursuant to Ordinance 17599 of the county, as amended by Ordinance 17958 of the county, will terminate on the effective date of this ordinance.

B. **Satisfaction of Additional Bonds Tests.** The Finance Director will provide or cause to be provided by a Professional Utility Consultant any certifications required to comply with the tests established in prior ordinances of the county for the issuance of additional Parity Bonds and additional Parity Lien Obligations, as applicable. In each Sale Motion for a series of Bonds, the council shall make findings regarding the satisfaction of the additional bonds tests applicable to that series of Bonds.

For so long as the county's Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, remains outstanding, at the time of issuing any Bonds hereunder, the Finance Director shall provide to the registered owner of that bond a debt service coverage certificate as required by Ordinance 17495, Section 5.4.(a), of the county authorizing the issuance of that bond.

C. **Procedure for Negotiated Sale.** If the Finance Director determines that any series of the Bonds will be sold by negotiated sale, the Finance Director shall, in accordance with applicable county procurement procedures, solicit one or more underwriting firms with which to negotiate the sale of the Bonds. The purchase contract for each series of the Bonds shall establish the year and series designation, date, principal amount, interest payment dates, interest rates, maturity schedule, refunding plan and redemption and bond insurance provisions of the Bonds. The bond purchase contract shall not be executed and delivered unless and until the council by a Sale Motion approves the bond purchase contract and ratifies and confirms the terms for the series of Bonds established therein.

D. **Procedure for Sale by Competitive Bid**. If the Finance Director determines that any series of the Bonds will be sold by competitive bid, bids for the purchase of such Bonds will be received at such time or place and by such means as the Finance Director directs. The Finance Director is authorized to prepare an official notice of bond sale for such Bonds, establishing in such notice the year and series designation, date, principal amount, interest payment dates, maturity schedule and optional redemption and bond insurance provisions of the Bonds. The official notice of bond sale or an abridged form thereof may be published in such newspapers or financial journals as the county's financial advisors deem desirable or appropriate.

Upon the date and time established for the receipt of bids for a series of the Bonds, the Finance Director or his designee will review the bids, cause the bids to be mathematically verified and report to the council regarding the bids received. Such bids will then be considered and acted upon by the council in an open public meeting. The council reserves the right to reject any and all bids for such Bonds. The council by a Sale Motion will approve the sale of such Bonds and ratify and confirm the year and series designation, date, principal amount, interest payment dates, interest rates, maturity schedule, refunding plan, redemption and bond insurance provisions and any other terms of such Bonds.

SECTION 29. **Delivery of Bonds**. Following the sale of each series of the Bonds, the county will cause definitive Bonds to be prepared, executed and delivered in accordance with the provisions of this ordinance and in a form acceptable to DTC as initial depository for the Bonds, with the approving legal opinion of municipal bond counsel regarding the Bonds.

SECTION 30. **Preliminary Official Statement; Official Statement**. The county authorizes and directs the Finance Director: (i) to review and approve the information contained in one or more preliminary official statements (each, a "Preliminary Official Statement") prepared in connection with the sale of each series of the Bonds; and (ii) for the sole purpose of the Bond purchasers' compliance with paragraph (b)(1) of Rule 15c2-12, to deem final that Preliminary Official Statement as of its date, except for the omission of information permitted to be omitted by Rule 15c2-12. After each Preliminary Official Statement has been reviewed and approved in accordance with the provisions of this section, the county hereby authorizes distribution of such Preliminary Official Statement to prospective purchasers of such series of Bonds.

Following the sale of each series of the Bonds in accordance with Section 28 of this ordinance, the Finance Director is hereby authorized to review and approve on behalf of the county each final official statement with respect to such series of Bonds. The county shall cooperate with the purchaser of each series of Bonds to deliver or cause to be delivered, within seven business days after the date of the Sale Motion (or within such other period as may be required by applicable law) and in sufficient time to accompany any confirmation that requests payment from any customer of the purchaser, copies of the final official statement pertaining to such Bonds in sufficient quantity to comply with paragraph (b)(4) of Rule 15c2-12 and the rules of the MSRB.

SECTION 31. **Undertaking to Provide Ongoing Disclosure**. If and to the extent required by paragraph (b)(5) of Rule15c2-12, each Sale Motion will authorize an Undertaking for each series of the Bonds.

SECTION 32. **General Authorization**. The appropriate county officials, agents and representatives are hereby authorized and directed to do everything necessary for the prompt sale, issuance, execution and delivery of the Bonds, and for the proper use and application of the proceeds of the sale thereof.

SECTION 33. **Investment of Funds and Accounts**. Money in the Parity Bond Fund, Parity Bond Reserve Account, Parity Lien Obligation Bond Fund, Revenue Fund and Construction Account may be invested in any investments permitted for funds of the county. Obligations purchased as an investment of money in the Revenue Fund, Parity Bond Fund, Parity Lien Obligation Bond Fund, and Construction Account and accounts or subaccounts therein will be deemed at all times to be a part of such respective fund, account or subaccount, and the income or interest earned, profits realized or losses suffered by a fund, account or subaccount due to the investment thereof will be retained in, credited or charged, as the case may be, to such fund or account.

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

SECTION 34. **Refunding or Defeasance of Bonds**. The county may issue refunding obligations pursuant to State law or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include: (i) paying when due the principal of and interest on any or all of the Bonds ("the defeased Bonds"); (ii) redeeming the defeased Bonds prior to their maturity; and (iii) paying the costs of the refunding or defeasance. If the county sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance ("the trust account"), money and/or Government Obligations maturing at a time or times and bearing interest in amounts sufficient to redeem, refund or defease the defeased Bonds in accordance with their terms, then all right and interest of the Owners of the defeased Bonds in the covenants of this ordinance and in the funds and accounts obligated to the payment of the defeased Bonds shall cease and become void. Thereafter, the Registered Owners of defeased Bonds shall have the right to receive payment of the principal of and premium, if any, and interest on the defeased Bonds solely from the trust account and the defeased Bonds shall be deemed no longer outstanding. In that event, the county may apply money remaining in any fund or account (other than the trust account) established for the payment or redemption of the defeased Bonds to any lawful purpose.

Unless otherwise specified by the county in a refunding or defeasance plan, notice of refunding or defeasance shall be given, and selection of Bonds for any partial refunding or defeasance shall be conducted, in the manner prescribed in this ordinance for the redemption of Bonds.

SECTION 35. **Supplemental Ordinances.**

A. **Without Bondowner Consent**. The council from time to time and at any time may adopt an ordinance or ordinances supplemental to this ordinance which supplemental ordinance or ordinances thereafter will become a part of this ordinance, without the consent of owners of any of the Bonds, for any one or more of the following purposes:

1. To add to the covenants and agreements of the county in this ordinance such other covenants and agreements thereafter to be observed that will not adversely affect the interests of the registered owners of any Parity Bonds or Parity Lien Obligations, as applicable, or to surrender any right or power herein reserved to or conferred upon the county.

2. To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in this ordinance or any ordinance authorizing Parity Bonds or Parity Lien Obligations in regard to matters or questions arising under such ordinances as the council may deem necessary or desirable and not inconsistent with such ordinances and that will not adversely affect the interest of the registered owners of Parity Bonds or Parity Lien Obligations, as applicable.

B. **With Bondowner Consent.**

1. From and after such time as no Parity Bonds designated as 2006 Bonds, 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, with the consent of the registered owners of not less than 51% in aggregate principal amount of all Parity Bonds at the time outstanding, the council may adopt an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this ordinance or of any supplemental ordinance applicable to Parity Bonds, except as described in subsection B.3. of this section.

2. From and after such time as no Parity Lien Obligations designated as Series 2008 Bonds or Series 2009 Bonds remain outstanding, with the consent of the

registered owners of not less than 51% in aggregate principal amount of all Parity Lien Obligations at the time outstanding, the council may adopt an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this ordinance or of any supplemental ordinance applicable to Parity Lien Obligations, except as described in subsection B.3. of this section.

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

a. Extend the fixed maturity of any Parity Bonds or Parity Lien Obligations, or reduce the rate of interest thereon, or extend the time of payments of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the registered owner of each bond so affected; or

b. Reduce the aforesaid percentage of registered owners of Parity Bonds or Parity Lien Obligations required to approve any such supplemental ordinance, without the consent of the registered owners of all of such bonds.

4. It is not necessary for the consent of registered owners of bonds under this subsection B. to approve the particular form of any proposed supplemental ordinance, but it is sufficient if such consent approves the substance thereof.

SECTION 36. **Ordinance a Contract; Severability**. The covenants contained in this ordinance constitute a contract between the county and (i) the Registered Owners of each Bond, (ii) the Qualified Counterparty to any Payment Agreement entered into with respect to any Bonds and (iii) the provider of any Credit Facility, Qualified insurance or

Qualified Letter of Credit with respect to any Bonds. If any court of competent jurisdiction determines that any covenant or agreement provided in this ordinance to be performed on the part of the county is contrary to law, then such covenant or agreement shall be null and void and shall be deemed separable from the remaining covenants and agreements of this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of the Bonds.

SECTION 37. **Effective Date**. This ordinance shall be effective 10 days after its enactment, in accordance with Article II of the county charter.

SECTION 38. The county's authority to issue refunding bonds under this ordinance expires December 31, 2017. All provisions of this ordinance shall continue to apply to bonds issued before that date.

Ordinance 18116 was introduced on 4/27/2015 and passed as amended by the Metropolitan King County Council on 9/21/2015, by the following vote:

Yes: 9 - Mr. Phillips, Mr. von Reichbauer, Mr. Gossett, Ms. Hague, Ms. Lambert, Mr. Dunn, Mr. McDermott, Mr. Dembowski and Mr. Upthegrove
No: 0
Excused: 0

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Larry Phillips, Chair

ATTEST:

Anne Noris, Clerk of the Council

APPROVED this 30 day of SEPTEMBER 2015.

Dow Constantine, County Executive

Attachments: A. Parity Bonds, B. Parity Lien Obligations, C. form of Parity Bond, D. Form of Parity Lien Obligation, E. Table of Contents

ATTACHMENT A

PARITY BONDS

Series	Ordinance	Date of Issue	Original Principal	Outstanding Principal (as of 2/18/2015)
2006 Bonds	15385	5/16/2006	$124,070,000	$ 24,070,000
2006 (2nd) Bonds	15385	11/30/2006	193,435,000	127,035,000
2007 Bonds	15758	6/26/2007	250,000,000	3,585,000
2008 Bonds	16133	8/14/2008	350,000,000	5,550,000
2009 Bonds	16133	8/12/2009	250,000,000	215,480,000
2010 Bonds	16868	7/29/2010	334,365,000	315,985,000
2011 Bonds	16868	1/25/2011	175,000,000	168,495,000
2011B Bonds	17111	10/5/2011	494,270,000	408,615,000
2011C Bonds	17111	11/1/2011	32,445,000	32,445,000
2012 Bonds	17111	4/18/2012	104,445,000	104,445,000
2012B Bonds	17111	8/2/2012	64,260,000	64,260,000
2012C Bonds	17111	9/19/2012	65,415,000	65,415,000
2013A Bonds	17111	4/9/2013	122,895,000	117,560,000
2013B Bonds	17599	10/29/2013	74,930,000	68,135,000
2014A Bond	17599	7/8/2014	75,000,000	75,000,000
2014B Bonds	17599	8/12/2014	192,460,000	190,790,000
2015A Bonds	17599	2/18/15	474,025,000	474,025,000

ATTACHMENT B

PARITY LIEN OBLIGATIONS

Series	Ordinance	Date of Issue	Original Principal	Outstanding Principal (as of 2/18/2015)
2008 Bonds	15779	2/12/2008	$236,950,000	$216,540,000
2009 Bonds	16133	4/8/2009	300,000,000	35,135,000
2012 Bonds	17111	4/18/2012	68,395,000	67,755,000
2012B Bonds	17111	8/2/2012	41,725,000	41,725,000
2012C Bonds	17111	9/19/2012	53,405,000	53,405,000
2015A Bonds	17599	2/18/2015	247,825,000	247,825,000

ATTACHMENT C
FORM OF PARITY BOND

No. R-_____ **$__________**

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the County or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), **ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL** inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

UNITED STATES OF AMERICA

STATE OF WASHINGTON

KING COUNTY

SEWER [IMPROVEMENT AND] REFUNDING REVENUE BOND, [YEAR], SERIES _____

Interest Rate:	**Maturity Date:**	**CUSIP No.:**
_____%	__________	__________

Registered Owner: **CEDE & CO.**

Principal Amount: **__________ AND NO/100 DOLLARS**

KING COUNTY, WASHINGTON (the "County"), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date specified above, the Principal Amount specified above and to pay interest thereon (computed on the basis of a 360-day year of twelve 30-day months) from the date of this bond, or the most recent date to which interest has been paid or duly provided for, until payment of this bond, at the Interest Rate specified, payable on __________, and semiannually thereafter on each succeeding __________ and __________.

Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as this bond is registered in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"), principal of and premium, if any, and interest on this bond are payable in the manner set forth in the Blanket Issuer Letter of Representations by and between the County and DTC. When this bond is not registered in the name of the Securities Depository, interest on this bond is payable by electronic transfer on the interest payment date, or by check or draft of the fiscal agent of the State of Washington (as the same may be designated by the State of Washington from time to time, the "Bond Registrar") mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. However, the County is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner. When this bond is not registered in the name of the Securities

Depository, principal of and premium, if any, on this bond are payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

This bond is one of an authorized issue of bonds of like series, date and tenor, except as to number, amount, rate of interest, options of redemption and date of maturity, in the aggregate principal amount of $__________ (the "Bonds"), and is issued to provide funds necessary to pay costs of acquiring, constructing and equipping improvements, additions or betterments to the County's sewer system (the "System").

The Bonds are issued under and in accordance with the provisions of the Constitution and applicable statutes of the State, the County Charter and applicable ordinances duly adopted by the County, including Ordinance _____ and Motion _____ of the County Council (together, the "Bond Legislation"). Capitalized terms used in this bond and not defined herein have the meanings given such terms in the Bond Legislation.

The Bonds are subject to redemption as provided in the Bond Legislation.

The Bonds are special limited obligations of the County, payable solely from the special fund of the County known as the Water Quality Revenue Bond Account (the "Parity Bond Fund"), and are not obligations of the State or any political subdivision thereof other than the County, and neither the full faith and credit nor the taxing power of the County or the State or any political subdivision thereof is pledged to the payment of this bond or the Bonds.

The County hereby covenants and agrees with the Registered Owner of this bond that it will keep and perform all the covenants of this bond and of the Bond Legislation to be by it kept and performed. The County has obligated and bound itself to set aside and pay into the Parity Bond Fund out of Revenue of the System the various amounts required by the Bond Legislation to be paid into and maintained in the Parity Bond Fund, all within the times provided by the Bond Legislation.

The amounts so pledged to be paid out of Revenue of the System are hereby declared to be a prior lien and charge thereon superior to all other liens and charges of any kind or nature except Operating and Maintenance Expenses. The amounts so pledged out of Revenue of the System are further declared to be of equal lien to charges that have been or may be made thereon to pay the principal of and interest on outstanding Parity Bonds and any Future Parity Bonds.

The County has pledged that it will cause the System to be maintained in good condition and repair and to be operated in an efficient manner and at a reasonable cost. The County has further pledged that it will at all times establish, maintain and collect adequate rates and charges for sewage disposal service as provided in the Bond Legislation. Reference to the Bond Legislation is made for a description of the nature and extent of the security for the Bonds, the funds or revenues pledged, and the terms and conditions upon which the Bonds are issued.

The pledge of revenues and other obligations of the County under the Bond Legislation may be discharged prior to maturity of the Bonds by making provision for the payment thereof on the terms and conditions set forth in the Bond Legislation.

This bond will not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Legislation until the Certificate of Authentication hereon has been manually signed by the Bond Registrar.

It is hereby certified that all acts, conditions and things required by the Constitution and statutes of the State and the Charter and ordinances of the County to exist and to have happened, been done and performed precedent to and in the issuance of this bond do exist and have happened, been done and performed and that the issuance of this bond and the Bonds does not violate any constitutional, statutory or other limitation upon the amount of bonded indebtedness that the County may incur.

IN WITNESS WHEREOF, the County has caused this bond to be executed by the manual or facsimile signature of the County Executive, to be attested by the manual or facsimile signature of the Clerk of the County Council, and the seal of the County to be impressed or imprinted hereon, all as of __________.

KING COUNTY, WASHINGTON

By ____________________________________
King County Executive

ATTEST:

____
Clerk of the County Council

Date of Authentication: __________.

CERTIFICATE OF AUTHENTICATION

This is one of the fully registered Sewer [Improvement and] Refunding Revenue Bonds, [Year], Series _____, of King County, Washington, dated _________, described in the within mentioned Bond Legislation.

WASHINGTON STATE FISCAL AGENT
as Bond Registrar

By ____
Authorized Signer

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto PLEASE INSERT SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER OF TRANSFEREE

____

(Please print or typewrite name and address, including zip code of Transferee)

____

the within bond and does hereby irrevocably constitute and appoint ______________________ or its successor, as Bond Registrar to transfer this bond on the books kept for registration thereof with full power of substitution in the premises.

DATED: ________________, 20___.

____

NOTE: The signature on this Assignment must correspond with the name of the registered owner as it appears upon the face of the within bond in every particular, without alteration or enlargement or any change whatever.

SIGNATURE GUARANTEED:

____

NOTICE: Signatures must be guaranteed pursuant to law.

ATTACHMENT D
FORM OF PARITY LIEN OBLIGATION

No. R-_____ **$_________**

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the County or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), **ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL** inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

UNITED STATES OF AMERICA

STATE OF WASHINGTON

KING COUNTY

LIMITED TAX GENERAL OBLIGATION
[IMPROVEMENT AND] REFUNDING BOND
(PAYABLE FROM SEWER REVENUES), [YEAR], SERIES _____

Interest Rate:	**Maturity Date:**	**CUSIP No.:**
_____%	_________	_________

Registered Owner: **CEDE & CO.**

Principal Amount: _________ **AND NO/100 DOLLARS**

KING COUNTY, WASHINGTON (the "County"), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date specified above, the Principal Amount specified above and to pay interest thereon (computed on the basis of a 360-day year of twelve 30-day months) from the date of this bond, or the most recent date to which interest has been paid or duly provided for, until payment of this bond, at the Interest Rate specified, payable on _________, and semiannually thereafter on each succeeding _________ and _________.

Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as this bond is registered in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"), principal of and premium, if any, and interest on this bond are payable in the manner set forth in the Blanket Issuer Letter of Representations by and between the County and DTC. When this bond is not registered in the name of the Securities Depository, interest on this bond is payable by electronic transfer on the interest payment date, or by check or draft of the fiscal agent of the State of Washington (as the same may be designated by the State of Washington from time to time, the "Bond Registrar") mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. However, the County is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner. When this bond is not registered in the name of the Securities Depository, principal of and premium, if any, on this bond are payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

This bond is one of an authorized issue of bonds of like series, date and tenor, except as to number, amount, rate of interest, options of redemption and date of maturity, in the aggregate principal amount of $__________ (the "Bonds"), and is issued to provide funds necessary to pay costs of acquiring, constructing and equipping improvements, additions or betterments to the County's sewer system (the "System").

The Bonds are issued under and in accordance with the provisions of the Constitution and applicable statutes of the State, the County Charter and applicable ordinances duly adopted by the County, including Ordinance _____ and Motion _____ of the County Council (together, the "Bond Legislation"). Capitalized terms used in this bond and not defined herein have the meanings given such terms in the Bond Legislation.

The Bonds are subject to redemption as provided in the Bond Legislation.

The Bonds are general obligations of the County. The County has irrevocably covenanted and agreed for as long as any of the Bonds are outstanding and unpaid, that each year it will include in its budget and levy an *ad valorem* tax upon all property within the County subject to taxation in an amount that will be sufficient, together with all other revenues and money of the County legally available for such purposes, to pay the principal of and interest on the Bonds as the same become due. The County has pledged that the annual tax authorized to be levied for the payment of such principal and interest shall be within and a part of the tax levy permitted to counties without a vote of the people. The full faith, credit and resources of the County have been irrevocably pledged for the annual levy and collection of such taxes and for the prompt payment of the principal of and interest on the Bonds as the same become due.

The County has further obligated and bound itself to set aside and pay into the Parity Lien Obligation Bond Fund out of Revenue of the System amounts sufficient to pay when due the principal of and interest on the Bonds. The pledge of Revenue of the System constitutes a lien and charge on Revenue of the System subject to Operating and Maintenance Expenses and junior, subordinate and inferior to the lien and charge on Revenue of the System securing the Parity Bonds, equal to the lien and charge securing the outstanding Parity Lien Obligations and any additional Parity Lien Obligations hereafter issued, and superior to any other charges whatsoever. The County has reserved the right to issue additional Parity Lien Obligations on the terms and conditions set forth in the Bond Legislation.

The County has pledged that it will cause the System to be maintained in good condition and repair and to be operated in an efficient manner and at a reasonable cost. The County has further pledged that it will at all times establish, maintain and collect adequate rates and charges for sewage disposal service as provided in the Bond Legislation. Reference to the Bond Legislation is made for a description of the nature and extent of the security for the Bonds, the funds or revenues pledged, and the terms and conditions upon which the Bonds are issued.

The pledge of tax levies and revenues and other obligations of the County under the Bond Legislation may be discharged prior to maturity of the Bonds by making provision for the payment thereof on the terms and conditions set forth in the Bond Legislation.

The County has pledged that it will cause the System to be maintained in good condition and repair and to be operated in an efficient manner and at a reasonable cost. The County has further pledged that it will at all times establish, maintain and collect adequate rates and charges for sewage disposal service as

provided in the Bond Legislation. Reference to the Bond Legislation is made for a description of the nature and extent of the security for the Bonds, the funds or revenues pledged, and the terms and conditions upon which the Bonds are issued.

This bond will not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Legislation until the Certificate of Authentication hereon has been manually signed by the Bond Registrar.

It is hereby certified that all acts, conditions and things required by the Constitution and statutes of the State and the Charter and ordinances of the County to exist and to have happened, been done and performed precedent to and in the issuance of this bond do exist and have happened, been done and performed and that the issuance of this bond and the Bonds does not violate any constitutional, statutory or other limitation upon the amount of bonded indebtedness that the County may incur.

IN WITNESS WHEREOF, the County has caused this bond to be executed by the manual or facsimile signature of the County Executive, to be attested by the manual or facsimile signature of the Clerk of the County Council, and the seal of the County to be impressed or imprinted hereon, all as of __________.

KING COUNTY, WASHINGTON

By ______________________________________
King County Executive

ATTEST:

____
Clerk of the County Council

Date of Authentication: __________.

CERTIFICATE OF AUTHENTICATION

This is one of the fully registered Limited Tax General Obligation [Improvement and] Refunding Bonds (Payable from Sewer Revenues), [Year], Series _____, of King County, Washington, dated __________, described in the within mentioned Bond Legislation.

WASHINGTON STATE FISCAL AGENT
as Bond Registrar

By ______________________________________
Authorized Signer

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto PLEASE INSERT SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER OF TRANSFEREE

____

(Please print or typewrite name and address, including zip code of Transferee)

____

the within bond and does hereby irrevocably constitute and appoint ______________________ or its successor, as Bond Registrar to transfer this bond on the books kept for registration thereof with full power of substitution in the premises.

DATED: _______________, 20___.

____

NOTE: The signature on this Assignment must correspond with the name of the registered owner as it appears upon the face of the within bond in every particular, without alteration or enlargement or any change whatever.

SIGNATURE GUARANTEED:

____

NOTICE: Signatures must be guaranteed pursuant to law.

ATTACHMENT E

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APPENDIX B

FORM OF BOND COUNSEL OPINION

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FOSTER PEPPER PLLC

[FORM OF BOND COUNSEL OPINION]

[Closing Date]

King County, Washington

Re: King County, Washington
$154,560,000 Limited Tax General Obligation Refunding Bonds
(Payable from Sewer Revenues), 2017

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

The Bonds are issued by the County pursuant to Ordinance 18116 passed by the Metropolitan King County Council (the "County Council") on September 21, 2015 and Motion 14967 passed by the County Council on October 2, 2017 (collectively the "Bond Legislation"), to refund the callable portion of the County's outstanding Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), 2008, and to pay the administrative costs of the refunding and the costs of issuing the Bonds, all as set forth in the Bond Legislation.

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

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

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

1111 Third Avenue, Suite 3000, Seattle, Washington 98101-3299 tel: 206.447.4400 fax: 206.447.9700
foster.com

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

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

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

3. The Bonds constitute valid and binding general obligations of the County, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

4. The County has irrevocably covenanted and agreed that, for as long as any of the Bonds are outstanding and unpaid, each year it will include in its budget and levy an *ad valorem* tax upon all the property within the County subject to taxation in an amount that will be sufficient, together with all other revenues and money of the County legally available for such purposes, to pay the principal of and interest on the Bonds as the same become due. The County has irrevocably pledged that the annual tax to be levied for the payment of such principal and interest will be within and as a part of the tax levy permitted to counties without a vote of the people, and that a sufficient portion of the taxes to be levied and collected annually by the County prior to the full payment of the principal of and interest on the Bonds will be and is irrevocably set aside, pledged, and appropriated for the payment of the principal of and interest on the Bonds. The full faith, credit, and resources of the County have been irrevocably pledged for the annual levy and collection of those taxes and for the prompt payment of the principal of and interest on the Bonds as the same become due.

5. The County also has irrevocably bound itself to set aside and pay into a special fund of the County known as the "Water Quality Limited Tax General Obligation Bond Redemption Fund" (the "Parity Lien Obligation Bond Fund") and accounts therein out of Revenue of the System amounts sufficient to pay principal of and interest on the Bonds as the same become due. The amounts pledged to be paid out of the Revenue of the System into the Parity Lien Obligation Bond Fund and accounts therein constitute a lien and charge on Revenue of the System subject to Operating and Maintenance Expenses, junior, subordinate, and inferior to the lien and charge on Revenue of the System to pay the principal of and interest on Parity Bonds, equal in rank to the lien and charge on Revenue of the System to pay the principal of and interest on other Parity Lien Obligations, and superior to all other liens and charges on Revenue of the System whatsoever.

6. Assuming compliance by the County after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest

on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

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

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

Respectfully submitted,

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APPENDIX C

EXCERPTS FROM KING COUNTY'S
2016 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Financial Section

CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

June 27, 2017

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, 2016, 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 78 percent, 22 percent, and 34 percent, or the Public Transportation Fund, a major fund, which represents 20 percent, 66 percent and 57 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 reports thereon have 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 reports 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Note 1, during the year ended December 31, 2016, the County has implemented the Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application;;* Statement No. 77, *Tax Abatement Disclosures;* and Statement No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to this matter.

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 14, budgetary comparison information on pages 114 through 115, pension plan information on pages 116 through 120, information on postemployment benefits other than pensions on page 121, and infrastructure modified approach information on pages 121 through 123 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 125 through 188 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 procedure performed as described above, and the reports 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 are presented for purposes of additional analysis and are 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 27, 2017, 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. That report will be issued under separate cover in the County's Single Audit Report. 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,

Pat McCarthy

Pat McCarthy

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, 2016. 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

- At December 31, 2016, the assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources by $5,430.1 million (*net position*). Of this amount, $479.0 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.

- The County's total net position increased 13.0 percent or $624.0 million because of new bus purchases and property acquisitions and capital projects. The governmental net position increased by 10.5 percent or $245.6 million, and the business-type net position increased by 15.3 percent or $378.3 million.

- At December 31, 2016, the County's governmental funds reported combined fund balances of $846.7 million, an increase of $141.9 million in comparison with the prior year. Approximately 5.7 percent or $48.0 million of this amount is available for spending at the government's discretion (*unassigned fund balance*).

- At the end of 2016, unrestricted fund balance (the total of the *committed*, *assigned* and *unassigned* components of fund balance) for the General Fund was $123.8 million, or approximately 17.4 percent of total General Fund expenditures. Total fund balance for the General Fund increased 22.3 percent or $22.9 million from the prior year.

- King County's total outstanding debt decreased by 0.6 percent or $34.6 million in 2016. It issued new general obligation bonds totaling $25.0 million and revenue bonds totaling $881.2 million and reduced principal and refunded bonds in the amount of $932.3 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. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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.

The **statement of net position** presents all of the County's assets, deferred outflows of resources, 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*. Thus, revenues and expenses are reported 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 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 general government; public safety; 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 King County 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. The business-type activities include the County's public transportation system, wastewater treatment facilities, solid waste disposal facilities, airport, marine operations and other services.

Discretely presented component units

The County's government-wide financial statements include the financial data of other legally separate entities that are reported as discrete component units: Harborview Medical Center (HMC) and 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 Financial 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 near-term financing requirements.

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). The government reports two governmental funds, General Fund and Health Fund, 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 biennial budgets for the General Fund, appropriated at the department or division level. The budget for the Health Fund is adopted at the legal budget level, which includes the Mental Health, Public Health and Environmental Health Funds. A budgetary comparison schedule has been provided for each of the major governmental funds and may be found in the Required Supplementary Information section.

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 technology services, employee benefits, facilities management, risk management, building development and management and financial and various other administrative services. All 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 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 Financial 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) budget to actual comparisons for major governmental funds, 2) the current funding progress for pensions, 3) the current funding progress for other postemployment benefits, and 4) 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

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of King County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5,430.0 million, at the close of the most recent fiscal year, as shown below.

King County's Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	$ 1,346,736	$ 1,288,299	$ 2,032,013	$ 1,967,071	$ 3,378,749	$ 3,255,370
Capital assets	3,046,055	3,016,943	5,968,158	5,817,230	9,014,213	8,834,173
Total Assets	4,392,791	4,305,242	8,000,171	7,784,301	12,392,962	12,089,543
Deferred Outflows of Resources	136,468	90,967	319,215	225,970	455,683	316,937
Liabilities						
Long-term liabilities	1,751,792	1,733,335	5,172,486	4,936,721	6,924,278	6,670,056
Other liabilities	182,366	241,414	241,759	500,299	424,125	741,713
Total Liabilities	1,934,158	1,974,749	5,414,245	5,437,020	7,348,403	7,411,769
Deferred Inflows of Resources	15,300	87,306	54,848	101,275	70,148	188,581
Net Position						
Net investment in capital assets	2,217,067	2,130,800	1,788,355	1,649,976	4,005,422	3,780,776
Restricted	700,986	401,317	244,689	243,658	945,675	644,975
Unrestricted	(338,252)	(197,963)	817,249	578,342	478,997	380,379
Total Net Position	$ 2,579,801	$ 2,334,154	$ 2,850,293	$ 2,471,976	$ 5,430,094	$ 4,806,130

By far, the largest portion of King County's net position, 73.8 percent, reflects its net investment in capital assets. King County uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although King County's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the King County's net position, 17.4 percent or $945.7 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of $479.0 million is unrestricted. A negative unrestricted net position represents more liabilities and deferred inflows of resources than assets and deferred outflows of resources.

King County's overall net position increased 13.0 percent or $624.0 million from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities During the current fiscal year, net position for governmental activities increased $245.6 million, or 10.5 percent from the prior fiscal year for an ending balance of $2,579.8 million. Net position invested in capital assets comprises 86.0 percent of total net position, or $2,217.1 million, an increase from the prior year of $86.3 million. The increase is related to increases to capital assets and decreases to debt issued to acquire or construct capital assets during the year. Another portion of net position of $701.0 million is restricted for specific purposes, including $241.6 million for mental and physical health programs, $220.6 million for capital projects and $98.5 million for public safety services.

Governmental activities accounted for 39.4 percent of the total improvement in net position of the County. The total revenues for governmental activities were $2,122.8 million, an increase of 8.7 percent or $169.9 million from the prior year. Increases in property taxes contributed the largest portion, $106.8 million, followed by charges for services with $34.8 million. The uptick in property taxes was mainly due to new levies approved by voters, namely Best Starts for Kids and the Puget Sound Emergency Regional Network. Increases in charges for services were mostly attributed to increases in contracts with other local governments and increased grants and donations for mental and physical health services.

Expenses during the year lagged behind total revenues, only increasing by $63.8 million, or 3.5 percent, in governmental activities. The largest increases occurred in mental and physical health by $169.8 million. The increases in expenses in these areas correspond to the increases in revenues, as these increases represent the related expenses resulting from the increased service contracts with other local governments.

Changes in Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	$ 794,180	$ 759,342	$ 1,110,882	$ 889,476	$ 1,905,062	$ 1,648,818
Operating grants and contributions	218,760	189,325	58,374	30,643	277,134	219,968
Capital grants and contributions	29,709	18,113	89,336	92,242	119,045	110,355
General revenues						
Property taxes	809,365	702,563	28,118	27,511	837,483	730,074
Retail sales and use taxes	198,941	203,118	567,128	526,895	766,069	730,013
Other taxes	59,973	69,755	—	—	59,973	69,755
Unrestricted interest earnings	11,830	10,663	10,286	5,757	22,116	16,420
Total revenues	2,122,758	1,952,879	1,864,124	1,572,524	3,986,882	3,525,403
Expenses (a)						
General government	211,269	251,147	—	—	211,269	251,147
Public safety (c)	602,706	667,361	—	—	602,706	667,361
Physical environment	59,725	110,864	—	—	59,725	110,864
Transportation	89,345	84,139	—	—	89,345	84,139
Economic environment	116,757	101,942	—	—	116,757	101,942
Mental and physical health	678,492	508,706	—	—	678,492	508,706
Culture and recreation	84,838	50,699	—	—	84,838	50,699
Interest and other debt service costs	29,714	34,207	—	—	29,714	34,207
Airport	—	—	26,304	21,392	26,304	21,392
Public transportation	—	—	848,622	777,883	848,622	777,883
Solid waste	—	—	132,386	113,751	132,386	113,751
Water quality	—	—	467,987	448,832	467,987	448,832
Other enterprise activities	—	—	14,773	14,136	14,773	14,136
Total expenses	1,872,846	1,809,065	1,490,072	1,375,994	3,362,918	3,185,059
Increase in net position before transfers and special items	249,912	143,814	374,052	196,530	623,964	340,344
Transfers	(4,265)	305	4,265	(305)	—	—
Special items	—	(12,756)	—	—	—	(12,756)
Increase in net position	245,647	131,363	378,317	196,225	623,964	327,588
Net position, beginning of year (b)	2,334,154	2,202,791	2,471,976	2,275,751	4,806,130	4,478,542
Net position, end of year	$ 2,579,801	$ 2,334,154	$ 2,850,293	$ 2,471,976	$ 5,430,094	$ 4,806,130

a) Expenses for all 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 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 $211.3 million general government expense above consists of $247.8 million in direct program expenses reduced by indirect charges of $36.5 million allocated to other functions.

(b) Net position, beginning of year has been restated. See Note 18 Restrictions, Components of Fund Balance, Changes in Equity and Restatements.

(c) In previous years, public safety was called law, safety and justice and included the Government's legal- and judicial-related expenses.

Business-type Activities King County's business-type activities reported a net position of $2,850.3 million, increasing by 15.3 percent or $378.3 million from the prior year. Of the total net position for business-type activities, 62.7 percent or $1,788.4 million was invested in capital assets net of the related debt to acquire or construct the assets. 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 used in operations and therefore are not planned to be liquidated. Another 8.6 percent or $244.7 million of the total net position of business-type activities is restricted for capital projects, debt service, regulatory assets and environmental liabilities. The remaining 28.7 percent or $817.2 million is unrestricted net position. The remaining balance in the unrestricted net position for business-type activities may be used to meet ongoing obligations to its customers and creditors.

Business-type activities contributed to the County's net position by $2,850.3 million in 2016, accounting for 60.6 percent of the total increase in net position of the County. The increase in net position was due increases to capital assets, including the purchase of new buses.

The change in total revenues handily outpaced the change in total expenses for business-type activities, increasing by $291.6 million over an increase of $114.1 million in expenses from the prior year. The majority of the increases in revenues occurred in charges for services by $221.4 million, retail sales and use taxes by $40.2 million and operating grants and contributions by $27.7 million. Charges for services have increased from a combination of contracts related to Link light rail operations and transit services for the City of Seattle, in addition to ridership increases. The continuous improvement in the local economy and consumer confidence has contributed to the continuous increase in sales tax. Nearly all of the increase in operating grants and contributions is grants from the Federal Transit Administration.

The increase in expenses correspond to the increases in services provided, with the majority in Public Transportation, with a $70.7 million increase. Other notable increases in expenses occurred in Water Quality, with $19.2 million, mostly related to sewage disposal fees, and Solid Waste with $18.6 million, related to increases in landfill closure and post-closure care costs.

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 spendable resources. 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, the County itself or a group or individual that has been delegated authority to assign resources for use for particular purposes by the County Council.

At December 31, 2016, the County's governmental funds reported a combined fund balance of $846.7 million, an increase of 20.1 percent or $141.9 million in comparison with the prior year. Approximately 5.7 percent or $48.0 million constitutes *unassigned fund balance*, which is available for spending at the County's discretion. The remainder of fund balance is either *nonspendable, restricted, committed* or *assigned* to indicate that it is 1) not in spendable form or legally required to be maintained intact, $9.2 million, 2) restricted for particular purposes, $700.4 million, 3) committed for particular purposes, $20.5 million, or assigned for particular purposes, $68.6 million.

The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year, total fund balance for the General Fund was $125.5 million. Unassigned fund balance totaled $68.2 million, an increase of 0.1 percent or $82 thousand. 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 $710.3 million. Unassigned fund balance represents 17.4 percent of total General Fund expenditures, a large increase from the 10.0 percent in 2015.

Fund balance of the General Fund increased by 22.3 percent or $22.9 million during 2016. The increase in fund balance was attributed to an increase in transfers in and a decrease to transfers out. Transfers in increased by 4160.2 percent or $10.9 million and transfers out decreased by 6.4 percent or $4.7 million. The large changes to transfer levels are attributed to the Office of Performance, Strategy and Budget's new method of providing support to other funds on a cost reimbursement basis to improve timely resource usage.

The **Health Fund**, a major special revenue fund, collectively reports the Behavioral Health, Public Health and Environmental Health Funds for the operations of programs for behavioral health, disease prevention and personal health promotion and population and environmental safety. At the end of 2016, it had a total fund balance of $88.2 million, an increase of 25.4 percent or $17.9 million from the prior year.

The large increase in fund balance for the current year was caused mainly by resources outpacing program expenditures in the Public Health Fund by $16.6 million. Total revenues of the Public Health Fund increased by $17.6 million or 13.3 percent, the majority of which is attributed to a $16.9 million or 21.9 percent increase in intergovernmental revenues and a $5.1 million or 10.2 percent increase in charges for services. Intergovernmental revenues increased mainly as a result of the reinstatement of the Medicaid Administrative Match program, increasing by $15.1 million, increased program activity, namely homeless encounters, increasing by $1.6 million and a new contribution from Harborview Medical Center for $5.0 million. The bulk of the increase to charges for services occurred due to the increase in Federally Qualified Health Centers rates and visits, resulting in larger reimbursements, totaling $4.9 million. The Fund also received $2.6 million in proceeds from the sale of buildings not needed for operations. Overall expenditures increased slightly by $6.9 million in response to the additional service contracts, substantially lower than the increase in revenues.

Proprietary Funds The County's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail.

At December 31, 2016, the County's proprietary funds reported a combined net position of $2,765.5 million, an increase of 15.4 percent or $368.7 million in comparison with the prior year. The Public Transportation Enterprise net position increased 13.8 percent or $229.7 million while the net position of the Water Quality Enterprise improved by 27.1 percent or $136.2 million.

The **Public Transportation Enterprise** accounts for the operations, maintenance and capital improvements of the County's public transportation system. At the end of 2016, the Public Transportation Enterprise had total net position of $1,893.3 million of which 73.3 percent or $1,387.2 million was invested in capital assets net of associated debt; 2.2 percent or $42.3 million was restricted for capital projects and debt service; while 24.5 percent or $463.8 million was unrestricted. Unrestricted net position increased from the prior year by 20.6 percent or $79.4 million. The large increase is due to increases of $36.5 million in services contracts, including Link light rail operations and transit services for the City of Seattle; $27.5 million in intergovernmental revenues, mainly from grants from the Federal Transit Administration; and $40.2 million in sales taxes from increased consumer spending.

The **Water Quality Enterprise** accounts for the operations, maintenance, capital improvements and expansion of the County's water pollution control facilities. At the end of 2016, the Water Quality Enterprise reported total net position of $639.4 million of which 24.1 percent or $154.2 million was invested in capital assets net of the related debt; 31.7 percent or $202.4 million was restricted for debt service and regulatory assets and environmental liabilities; and the remaining 44.2 percent or $282.8 million was unrestricted. Unrestricted net position increased from the prior year by 155.9 percent or $172.3 million, mainly due to the increase of $132.9 million in nonoperating revenues from finalization of a legal judgment awarded. In addition, the increase of $22.3 million of sewage disposal fees was due to increased activity and capacity charges.

General Fund Budgetary Highlights

King County budgets on a biennial basis with each budget period beginning in an odd-numbered year. This is the second year of the 2015-2016 biennium for County operating funds. The biennial budget is a true 24-month budget, not two separate budgets enacted at the same time.

Original Budget Compared to Final Budget The General Fund's final budget differs from the original budget in that it reflects an increase of $9.3 million in unexpected revenues and $66.8 million in expenditures due to 2016 supplemental budget appropriations. The largest increases to estimated revenues occurred in intergovernmental revenues as a result of entering into additional contracts with other governments. Budget adjustments were made during the year to general government by $8.7 million; public safety by $48.8 million; mental and physical health by $3.0 million; capital outlay by $1.3 million; and transfers out by $5.0 million. The majority of the significant increases to public safety were a result of increases in full-time equivalents for the adult and juvenile detention program and public defense services, and increases due to the collective bargaining agreement between the King County Police Officers' Guild and King County Sheriff's Office to include cost of living adjustments and contract ratification bonuses. The increase to general government appropriations were due to supplemental spending for various agencies, including Elections, Records and Licensing Services and Office of Performance, Strategy and Budget.

Final Budget Compared to Actual Results Overall actual revenues in 2016 were higher than budgeted as expected, totaling $58.4 million over expectations. Property taxes are by far the largest source, accounting for 42.4 percent. Charges for services, retail sales and use taxes and intergovernmental revenues are the other significant sources of revenues for the General Fund, with 24.3 percent, 15.8 percent and 9.8 percent of total actual revenues, respectively. The amount received for charges for services and intergovernmental revenues are dependent on corresponding services provided, thus, would fluctuate with the applicable programs and services offered. Retail sales and use taxes provide the most opportunity for growth, as it is dependent on increased spending, which increases with consumer confidence.

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. The improved local economy and consumer confidence has the potential to boost General Fund revenues in future years, as these resources have fewer limitations on the amount that may be earned and on how they are spent.

The actual budgetary basis expenditures were $33.4 million less than the final appropriation. Public safety and general government appropriations comprise the majority of total actual expenditures at 64.5 percent and 22.2 percent respectively.

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, 2016, amounted to $3,046.1 million for governmental activities and $5,968.2 million for business-type activities totaling $9,014.3 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 in progress. The total increase in capital assets over the previous year was $180.0 million, net of depreciation.

Major capital asset events during 2016 included the following:

- Planning is underway on the voter-approved, $210.0 million Children and Family Justice Center, which will replace the existing Youth Services Center. Construction will begin in summer 2017, with the new center anticipated to open in 2020.

- Public Transportation purchased and placed into service 210 new buses during the year at a cost of $234.6 million. Water Quality brought new facilities into service during the year at a cost of $109.8 million. This includes buildings at a cost of $59.4 million and infrastructure at a cost of $22.7 million.

- Significant land acquisitions for Parks, Open Spaces and Flood Control were also made in 2016.

- Puget Sound Emergency Network (PSERN) was approved by King County voter's in April 2015 with a budget of approximately $273.0 million. This approval will replace the existing radio system that is over 20 years old. The new system as a whole will provide improved coverage, capacity, capability and connectivity of the Puget Sound Emergency Radio Network. Construction began in summer 2016 and is anticipated to be completed in 2020.

A summary of the 2016 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
(in millions)

	Governmental Activities		Business-type Activities			Total	
	2016	2015	2016	2015		2016	2015
Land and land rights	$ 1,016.9	$ 1,028.6	$ 485.8	$ 498.4		$ 1,502.7	$ 1,527.0
Buildings*	566.3	591.6	1,820.5	1,843.1	**	2,386.8	2,434.7
Leasehold Improvements*	13.4	14.5	3.9	3.8	**	17.3	18.3
Improvements other than buildings*	60.0	43.9	199.3	200.5	**	259.3	244.4
Infrastructure - roads and bridges	1,108.9	1,100.5	—	—		1,108.9	1,100.5
Infrastructure - other*	21.9	13.9	1,682.7	1,707.4		1,704.6	1,721.3
Equipment, software and art collection*	108.5	101.4	1,255.6	1,100.7		1,364.1	1,202.1
Construction in progress	150.2	122.6	520.4	463.4		670.6	586.0
Total	$ 3,046.1	$ 3,017.0	$ 5,968.2	$ 5,817.3		$ 9,014.3	$ 8,834.3

* 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 182 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 six bridges at or below this threshold.

Debt Administration

At the end of 2016, King County had a total of $5,321.2 million in debt outstanding. Of this amount, $1,944.8 million comprises debt backed by the full faith and credit of the County. The other $3,376.4 million represents bonds secured by revenues generated by the debt-financed capital assets and state revolving loans. Below is a summary of the County's debt by type and activity.

Outstanding Debt
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
General obligation bonds	$ 849.4	$ 905.1	$ 1,077.0	$ 1,113.8	$ 1,926.4	$ 2,018.9
Lease revenue bonds	18.4	27.0	—	—	18.4	27.0
Revenue bonds	—	—	3,170.4	3,130.5	3,170.4	3,130.5
State revolving loans	—	—	206.0	179.4	206.0	179.4
Total	$ 867.8	$ 932.1	$ 4,453.4	$ 4,423.7	$ 5,321.2	$ 5,355.8

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.

The 2015 balances have been adjusted as follows: $85.8 million increase in governmental activities and $295.1 million increase in business-type activities to include the unamortized premium and discount. In addition, business-type activities was increased by $179.4 to include the state revolving loans.

Total debt decreased over the previous year by 0.6 percent or $34.6 million (a 6.9 percent or $64.3 million decrease for governmental activities and a 0.7 percent or $29.7 million increase for business-type activities). Governmental activities' outstanding debt decreased primarily due to $71.8 million debt service payments and $7.7 million of early bond defeasance offset by an increase of $25.0 million in new limited general obligation bond issuances. Business-type activities' outstanding debt increased primarily due to the issuance of $881.2 million in new and refunding sewer revenue bonds, with related net premiums and discounts of $74.4 million, offset by $83.2 million debt service payments and $869.6 million in defeased and remarketed revenue bonds. State revolving loans increased by $26.6 million.

During 2016, the County refinanced some of its existing governmental activities debt taking advantage of favorable interest rates. The County refinanced business-type debt in the amount of $769.6 million of revenue bonds that is expected to decrease future aggregate debt service payments by $168.9 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 (Water Quality and Public Transportation funds). The current debt limitation of total general obligations for general county purposes is $11.8 billion, significantly higher than the County's outstanding net general obligation long-term liabilities of $764.1 million. For metropolitan functions the debt limitation is $11.8 billion and the County's outstanding net general obligation debt for metropolitan functions is $928.5 million.

Additional information on King County's long-term debt can be found in Note 15 - “Liabilities.”

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

A broad-based economic expansion continues in the U.S. Retail sales increased moderately throughout 2016. Stock market values, relatively flat in 2015 and most of 2016, soared following the November election due to the prospect of a friendlier corporate earnings environment. Personal income is growing steadily and corporate profits are strong. The housing market is growing briskly and real manufacturing output is at an all-time high. The Blue Chip consensus forecast is for 2.3 percent growth in real GDP in 2017.

The employment outlook for King County is encouraging. Amazon continues to hire thousands of new employees in King County each year and boasts the most job openings in the area. The rest of the private sector continues to hire in earnest, and the unemployment rate is well below the long-term average.

The negative fiscal impacts from the real estate recession have been mitigated with assessed valuation and residential new construction entering their fourth consecutive year of growth. Locally, foreclosures have declined since 2011 and “underwater” homeowners (those that owe more on their mortgage than they could sell their homes for) have seen relief due to strong house price increases over the last five years. Continued elevated levels of multi-family permits foretell on-going construction of new apartment buildings in 2017 as builders race to meet elevated local demand. Commercial construction in select downtown areas should continue to flourish in 2017 as several major projects either break ground or continue their construction phase.

It took years to make up the lost ground in employment, personal income and taxable consumer spending left in the wake of the Great Recession. King County will continue to face numerous challenges, including volatile energy prices, rising employee and programmatic health care costs and the need to raise sufficient revenues to support utilities, the transit system and general government operations.

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 Financial Statements

CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT

STATEMENT OF NET POSITION
DECEMBER 31, 2016
(IN THOUSANDS)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 1,141,072	$ 1,527,176	$ 2,668,248	$ 337,319
Investments	2,552	—	2,552	45,211
Receivables, net	215,995	290,735	506,730	175,593
Internal balances	(62,701)	62,701	—	—
Inventory	2,331	31,740	34,071	10,625
Prepayments	9,788	5,981	15,769	15,884
Net pension asset	23,723	—	23,723	—
Capital assets:				
Nondepreciable assets	2,286,471	1,003,406	3,289,877	15,016
Depreciable assets, net	759,584	4,964,752	5,724,336	285,348
Deposits with other governments	—	—	—	600
Regulatory and utility assets, net of amortization	—	109,550	109,550	—
Other assets	13,976	4,130	18,106	20,000
TOTAL ASSETS	4,392,791	8,000,171	12,392,962	905,596
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on refunding	25,191	242,249	267,440	—
Deferred outflows on pensions	111,277	76,966	188,243	326
TOTAL DEFERRED OUTFLOWS OF RESOURCES	136,468	319,215	455,683	326
LIABILITIES				
Accounts payable and other current liabilities	120,956	141,820	262,776	100,848
Accrued liabilities	40,060	90,142	130,202	47,163
Unearned revenues	21,350	9,797	31,147	16,346
Noncurrent liabilities:				
Due within one year	133,365	125,419	258,784	2,582
Due in more than one year	1,618,427	5,047,067	6,665,494	21,189
TOTAL LIABILITIES	1,934,158	5,414,245	7,348,403	188,128
DEFERRED INFLOWS OF RESOURCES				
Advanced grants	344	—	344	—
Deferred inflows on pensions	14,956	8,598	23,554	28
Deferred inflows for rate stabilization	—	46,250	46,250	—
TOTAL DEFERRED INFLOWS OF RESOURCES	15,300	54,848	70,148	28
NET POSITION				
Net investment in capital assets	2,217,067	1,788,355	4,005,422	299,586
Restricted for:				
Capital projects	220,627	30,310	250,937	—
Debt service	—	182,811	182,811	—
General government	3,773	—	3,773	—
Public safety	98,524	—	98,524	—
Physical environment	17,523	—	17,523	—
Transportation	19,661	—	19,661	—
Economic environment	73,953	—	73,953	—
Mental and physical health	241,578	—	241,578	—
Culture and recreation	22,727	—	22,727	—
Regulatory assets and environmental liabilities	—	31,568	31,568	—
Expendable	—	—	—	55,597
Nonexpendable	2,620	—	2,620	2,534
Unrestricted	(338,252)	817,249	478,997	360,049
TOTAL NET POSITION	$ 2,579,801	$ 2,850,293	$ 5,430,094	$ 717,766

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

			Program Revenues			Net (Expense) Revenue and Changes in Net Position			
						Primary Government			Component Units Total
Functions/Programs	Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government:									
Governmental activities:									
General government	$ 247,781	$ (36,512)	$ 193,326	$ 25,203	$ 11,235	$ 18,495	$ —	$ 18,495	$ —
Public safety	601,306	1,400	105,833	17,463	—	(479,410)	—	(479,410)	—
Physical environment	58,431	1,294	49,120	2,796	2,229	(5,580)	—	(5,580)	—
Transportation	87,477	1,868	8,946	15,311	14,911	(50,177)	—	(50,177)	—
Economic environment	115,857	900	34,628	6,269	—	(75,860)	—	(75,860)	—
Mental and physical health	672,626	5,866	393,430	151,667	—	(133,395)	—	(133,395)	—
Culture and recreation	83,851	987	8,897	51	1,334	(74,556)	—	(74,556)	—
Interest and other debt service costs	29,714	—	—	—	—	(29,714)	—	(29,714)	—
Total governmental activities	1,897,043	(24,197)	794,180	218,760	29,709	(830,197)	—	(830,197)	—
Business-type activities:									
Airport	25,943	361	20,289	1	4,803	—	(1,211)	(1,211)	—
Public Transportation	831,164	17,458	342,737	57,349	83,039	—	(365,497)	(365,497)	—
Solid Waste	129,960	2,426	131,234	465	73	—	(614)	(614)	—
Water Quality	464,345	3,642	605,887	—	53	—	137,953	137,953	—
Institutional Network	1,929	52	3,493	—	—	—	1,512	1,512	—
Marine	7,193	160	2,496	559	1,358	—	(2,940)	(2,940)	—
Radio Communications Services	5,341	98	4,746	—	10	—	(683)	(683)	—
Total business-type activities	1,465,875	24,197	1,110,882	58,374	89,336	—	(231,480)	(231,480)	—
Total primary government	$ 3,362,918	$ —	$ 1,905,062	$ 277,134	$ 119,045	$ (830,197)	$ (231,480)	$ (1,061,677)	$ —
Component Units	$ 979,857		$ 958,228	$ 25,091	$ 6,174				$ 9,636
General revenues:									
Property taxes						$ 809,365	$ 28,118	$ 837,483	$ —
Retail sales and use taxes						198,941	567,128	766,069	—
Business and other taxes						42,410	—	42,410	—
Penalties and interest - delinquent taxes						17,563	—	17,563	—
Interest earnings						11,830	10,286	22,116	308
Transfers						(4,265)	4,265	—	—
Total general revenues and transfers						1,075,844	609,797	1,685,641	308
Change in net position						245,647	378,317	623,964	9,944
Net position - January 1, 2016 (Restated)						2,334,154	2,471,976	4,806,130	707,822
Net position - December 31, 2016						$ 2,579,801	$ 2,850,293	$ 5,430,094	$ 717,766

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

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016
(IN THOUSANDS)

	GENERAL FUND	HEALTH FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	$ 80,231	$ 97,876	$ 661,949	$ 840,056
Investments	—	—	2,552	2,552
Taxes receivable-delinquent	7,879	57	8,709	16,645
Accounts receivable, net	13,122	5,633	10,717	29,472
Interest receivable	11,497	—	—	11,497
Due from other funds	1,896	248	6,993	9,137
Due from other governments, net	57,459	31,826	67,236	156,521
Inventory	—	564	142	706
Prepayments	—	30	5,855	5,885
Advances to other funds	—	—	4,475	4,475
Notes receivable	—	—	13,976	13,976
TOTAL ASSETS	$ 172,084	$ 136,234	$ 782,604	$ 1,090,922
LIABILITIES				
Accounts payable	$ 8,331	$ 20,916	$ 63,534	$ 92,781
Due to other funds	4,339	535	7,245	12,119
Interfund short-term loans payable	—	—	36,275	36,275
Due to other governments	2,200	3,412	3,671	9,283
Wages payable	18,133	4,162	6,688	28,983
Taxes payable	180	7	35	222
Unearned revenues	—	5,060	14,660	19,720
Custodial accounts	78	—	5,792	5,870
Advances from other funds	—	13,880	4,475	18,355
TOTAL LIABILITIES	33,261	47,972	142,375	223,608
DEFERRED INFLOWS OF RESOURCES				
Advanced grants	—	—	344	344
Unavailable revenue-property taxes	6,404	43	6,839	13,286
Unavailable revenue-other receivables	6,940	5	83	7,028
TOTAL DEFERRED INFLOWS OF RESOURCES	13,344	48	7,266	20,658
FUND BALANCES				
Nonspendable	—	594	8,617	9,211
Restricted	1,659	87,620	611,073	700,352
Committed	20,497	—	37	20,534
Assigned	35,128	—	33,468	68,596
Unassigned	68,195	—	(20,232)	47,963
TOTAL FUND BALANCES	125,479	88,214	632,963	846,656
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 172,084	$ 136,234	$ 782,604	$ 1,090,922

Amounts reported for governmental activities in the statement of net position are different because:	
Total fund balances - governmental funds	$ 846,656
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	2,799,258
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	355,872
Governmental activities internal service funds assets and liabilities are included in the governmental activities in the statement of net position.	44,169
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,466,154)
Net position of governmental activities	$ 2,579,801

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

	GENERAL FUND	HEALTH FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes:				
Property taxes	$ 334,446	$ 3,164	$ 469,650	$ 807,260
Retail sales and use taxes	128,582	—	70,359	198,941
Business and other taxes	4,264	17	38,128	42,409
Penalties and interest-delinquent taxes	17,563	—	—	17,563
Licenses and permits	5,712	14,546	3,267	23,525
Intergovernmental revenues	21,422	106,986	101,715	230,123
Charges for services	255,363	309,569	210,881	775,813
Fines and forfeits	8,191	196	602	8,989
Interest earnings	3,881	614	4,604	9,099
Miscellaneous revenues	10,743	4,107	53,279	68,129
TOTAL REVENUES	790,167	439,199	952,485	2,181,851
EXPENDITURES				
Current:				
General government	208,575	—	72,872	281,447
Public safety	467,661	—	125,118	592,779
Physical environment	—	—	59,074	59,074
Transportation	—	—	89,075	89,075
Economic environment	406	—	116,340	116,746
Mental and physical health	31,638	459,227	186,792	677,657
Culture and recreation	—	—	81,317	81,317
Debt service:				
Principal	—	—	57,641	57,641
Interest and other debt service costs	203	155	35,307	35,665
Payment to escrow agent	—	—	8,417	8,417
Capital outlay	1,861	771	78,049	80,681
TOTAL EXPENDITURES	710,344	460,153	910,002	2,080,499
Excess (deficiency) of revenues over (under) expenditures	79,823	(20,954)	42,483	101,352
OTHER FINANCING SOURCES (USES)				
Transfers in	11,119	40,672	249,498	301,289
Transfers out	(68,094)	(4,489)	(221,526)	(294,109)
General government debt issued	—	—	25,025	25,025
Premium on bonds sold	—	—	3,764	3,764
Sale of capital assets	2	2,648	1,977	4,627
TOTAL OTHER FINANCING SOURCES (USES)	(56,973)	38,831	58,738	40,596
Net change in fund balances	22,850	17,877	101,221	141,948
Fund balances - January 1, 2016 (Restated)	102,629	70,337	531,742	704,708
Fund balances - December 31, 2016	$ 125,479	$ 88,214	$ 632,963	$ 846,656

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, 2016

(IN THOUSANDS)

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	141,948
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.		43,454
The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net position.		(4,809)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		1,411
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.		36,552
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.		19,580
The net revenues and expenses of certain activities of internal service funds are reported with governmental activities.		7,511
Change in net position of governmental activities	$	245,647

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016
(IN THOUSANDS)
(PAGE 1 OF 2)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current assets					
Cash and cash equivalents	$ 683,808	$ 383,232	$ 109,571	$ 1,176,611	$ 309,105
Restricted cash and cash equivalents	8,009	19,748	6,494	34,251	294
Accounts receivable, net	29,342	44,755	11,959	86,056	1,578
Due from other funds	833	1,292	965	3,090	1,415
Interfund short-term loans receivable	—	—	—	—	38,567
Property tax receivable-delinquent	480	—	22	502	—
Due from other governments	201,759	—	2,392	204,151	282
Inventory of supplies	20,875	8,760	2,102	31,737	1,628
Prepayments and other assets	280	315	178	773	3,902
Total current assets	945,386	458,102	133,683	1,537,171	356,771
Noncurrent assets					
Restricted assets:					
Cash and cash equivalents	42,253	217,093	44,787	304,133	3,798
Due from other governments	26	—	—	26	—
Total restricted assets	42,279	217,093	44,787	304,159	3,798
Capital assets:					
Nondepreciable assets	233,297	587,996	182,113	1,003,406	25,490
Depreciable assets, net	1,244,697	3,493,548	216,286	4,954,531	231,529
Total capital assets	1,477,994	4,081,544	398,399	5,957,937	257,019
Other noncurrent assets:					
Prepayments	5,206	2	—	5,208	—
Notes receivable	405	—	—	405	—
Advances to other funds	—	—	—	—	13,880
Regulatory and other utility assets, net of amortization	—	109,550	—	109,550	—
Other assets	—	3,725	—	3,725	—
Total other noncurrent assets	5,611	113,277	—	118,888	13,880
Total noncurrent assets	1,525,884	4,411,914	443,186	6,380,984	274,697
TOTAL ASSETS	2,471,270	4,870,016	576,869	7,918,155	631,468
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows on refunding	3,067	237,604	1,578	242,249	—
Deferred outflows on pensions	60,224	9,849	6,893	76,966	15,068
TOTAL DEFERRED OUTFLOWS OF RESOURCES	63,291	247,453	8,471	319,215	15,068

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016
(IN THOUSANDS)
(PAGE 2 OF 2)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities					
Accounts payable	$ 78,117	$ 26,767	$ 9,208	$ 114,092	$ 11,308
Retainage payable	4,093	2,049	3,438	9,580	9
Estimated claim settlements	—	—	—	—	58,281
Due to other funds	—	16	488	504	1,018
Interest payable	317	68,116	522	68,955	147
Interfund short-term loans payable	—	—	2,292	2,292	—
Wages payable	15,999	2,983	2,199	21,181	4,612
Compensated absences payable	9,531	608	204	10,343	964
Taxes payable	4	14	420	438	4
Unearned revenues	7,093	2,594	110	9,797	192,064
Pollution remediation	—	6,928	—	6,928	—
General obligation bonds payable	11,730	21,105	5,785	38,620	6,605
Revenue bonds payable	—	52,015	—	52,015	3,895
Capital leases payable	126	—	—	126	—
State revolving loan payable	—	13,565	—	13,565	—
Landfill closure and post-closure care	—	—	3,031	3,031	—
Other liabilities	—	17,698	791	18,489	1,719
Total current liabilities	127,010	214,458	28,488	369,956	280,626
Noncurrent liabilities					
Compensated absences payable	41,421	10,865	5,634	57,920	15,706
Other postemployment benefits	10,903	1,583	1,318	13,804	2,560
Net pension liability	372,844	51,568	34,534	458,946	80,453
General obligation bonds payable	79,497	801,363	157,434	1,038,294	10,890
Revenue bonds payable	—	3,118,433	—	3,118,433	14,429
Capital leases payable	2,514	—	—	2,514	—
State revolving loans payable	—	192,424	—	192,424	—
Landfill closure and post-closure care	—	—	123,246	123,246	—
Estimated claim settlements	—	—	—	—	111,079
Pollution remediation	599	39,949	315	40,863	—
Other liabilities	—	—	623	623	—
Total noncurrent liabilities	507,778	4,216,185	323,104	5,047,067	235,117
TOTAL LIABILITIES	634,788	4,430,643	351,592	5,417,023	515,743
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows on rate stabilization	—	46,250	—	46,250	—
Deferred inflows on pensions	6,504	1,217	877	8,598	1,830
TOTAL DEFERRED INFLOWS OF RESOURCES	6,504	47,467	877	54,848	1,830
NET POSITION					
Net investment in capital assets	1,387,194	154,182	236,758	1,778,134	221,494
Restricted for:					
Capital projects	30,310	—	—	30,310	—
Debt service	11,968	170,843	—	182,811	—
Regulatory assets and environmental liabilities	—	31,568	—	31,568	—
Unrestricted	463,797	282,766	(3,887)	742,676	(92,531)
TOTAL NET POSITION	$ 1,893,269	$ 639,359	$ 232,871	2,765,499	$ 128,963
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				84,794	
Net position of business-type activities				$ 2,850,293	

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES					
I-Net fees	$ —	$ —	$ 2,771	$ 2,771	$ —
Airfield fees	—	—	3,604	3,604	—
Hangar, building and site rentals and leases	—	—	16,605	16,605	—
Radio services	—	—	4,451	4,451	—
Solid waste disposal charges	—	—	123,343	123,343	—
Passenger fares	176,856	—	2,478	179,334	—
Service contracts	139,496	—	—	139,496	—
Sewage disposal fees	—	381,513	—	381,513	—
Other operating revenues	24,573	83,028	451	108,052	529,248
TOTAL OPERATING REVENUES	340,925	464,541	153,703	959,169	529,248
OPERATING EXPENSES					
Personal services	480,939	54,401	62,430	597,770	130,193
Materials and supplies	61,918	16,595	7,897	86,410	13,714
Contract services and other charges	37,260	16,402	22,414	76,076	324,008
Utilities	5,148	15,452	4,322	24,922	—
Purchased transportation	58,747	—	—	58,747	—
Internal services	73,292	35,848	20,769	129,909	25,921
Environmental related amortization	—	3,707	—	3,707	—
Depreciation and amortization	132,726	172,598	16,729	322,053	15,716
TOTAL OPERATING EXPENSES	850,030	315,003	134,561	1,299,594	509,552
OPERATING INCOME (LOSS)	(509,105)	149,538	19,142	(340,425)	19,696
NONOPERATING REVENUES					
Sales tax	567,128	—	—	567,128	—
Property tax	26,936	—	1,182	28,118	—
Intergovernmental	57,349	—	—	57,349	—
Interest earnings	4,889	4,019	1,300	10,208	2,826
DNRP administration	—	—	6,280	6,280	—
Other nonoperating revenues	1,812	134,379	3,300	139,491	3,818
TOTAL NONOPERATING REVENUES	658,114	138,398	12,062	808,574	6,644
NONOPERATING EXPENSES					
Interest	1,535	131,042	2,504	135,081	1,941
DNRP administration	—	—	6,629	6,629	—
Loss (Gain) on disposal of capital assets	(1,383)	19,100	787	18,504	183
Landfill closure and post-closure care	—	—	28,583	28,583	—
Other nonoperating expenses	1,722	1,532	1,165	4,419	20
TOTAL NONOPERATING EXPENSES	1,874	151,674	39,668	193,216	2,144
Income (loss) before contributions and transfers	147,135	136,262	(8,464)	274,933	24,196
Capital grants and contributions	83,039	50	6,465	89,554	4,326
Transfers in	—	—	5,006	5,006	1,663
Transfers out	(469)	(150)	(223)	(842)	(13,008)
CHANGE IN NET POSITION	229,705	136,162	2,784	368,651	17,177
NET POSITION - JANUARY 1, 2016	1,663,564	503,197	230,087		111,786
NET POSITION - DECEMBER 31, 2016	$ 1,893,269	$ 639,359	$ 232,871		$ 128,963
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				9,666	
Change in net position of business-type activities				$ 378,317	

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

CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)
(PAGE 1 OF 2)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	$ 344,991	$ 462,654	$ 148,808	$ 956,453	$ 534,491
Cash payments to suppliers	(236,387)	(78,905)	(55,413)	(370,705)	(388,101)
Cash payments for employee services	(478,806)	(51,658)	(59,358)	(589,822)	(131,157)
Other receipts	—	—	7,446	7,446	2,349
Other payments	—	(8,995)	(7,794)	(16,789)	—
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(370,202)	323,096	33,689	(13,417)	17,582
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants and subsidies received	639,716	—	2,399	642,115	—
Interfund loan principal amounts loaned to other funds	—	—	—	—	(38,567)
Interfund loan principal repayments from other funds	—	—	608	608	929
Interfund advance principal loaned to other funds	—	—	—	—	(13,880)
Interfund advance principal repayments from other funds	—	—	—	—	27,969
Grants to others	(1,720)	(948)	—	(2,668)	—
Transfers in	—	—	5,006	5,006	1,663
Transfers out	(469)	(150)	(223)	(842)	(13,008)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	637,527	(1,098)	7,790	644,219	(34,894)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(276,678)	(171,138)	(49,194)	(497,010)	(4,519)
Proceeds from capital debt	—	89,151	—	89,151	—
Proceeds from short-term interfund loan	—	—	2,292	2,292	—
Principal paid on capital debt	(11,420)	(78,980)	(5,470)	(95,870)	(14,170)
Interest paid on capital debt	(3,955)	(170,028)	(6,816)	(180,799)	(2,010)
Capital grants and contributions	57,704	50	6,307	64,061	—
Other capitalized payments	—	—	(608)	(608)	—
Proceeds from disposal of capital assets	1,790	72	473	2,335	586
Landfill closure and post-closure care	—	—	(4,209)	(4,209)	—
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(232,559)	(330,873)	(57,225)	(620,657)	(20,113)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	4,889	4,019	1,300	10,208	2,824
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,889	4,019	1,300	10,208	2,824
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	39,655	(4,856)	(14,446)	20,353	(34,601)
CASH AND CASH EQUIVALENTS - JANUARY 1, 2016	694,415	624,929	175,298	1,494,642	347,798
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2016	$ 734,070	$ 620,073	$ 160,852	$ 1,514,995	$ 313,197

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)
(PAGE 2 OF 2)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	$ (509,105)	$ 149,538	$ 19,142	$ (340,425)	$ 19,696
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	132,726	172,598	16,729	322,053	15,716
Other nonoperating revenue (expense)	1,812	134,379	(348)	135,843	—
(Increases) decreases in assets:					
Accounts receivable, net	2,509	(7,738)	(1,664)	(6,893)	767
Due from other funds	(309)	(118)	(24)	(451)	(603)
Due from other governments, net	3,930	—	230	4,160	(196)
Inventory	(1,730)	(335)	(377)	(2,442)	42
Prepayments	280	59	(59)	280	(542)
Other assets	49	135	—	184	—
(Increases) decreases in deferred outflows of resources:					
Deferred outflows on pensions and refunding	(28,071)	(4,862)	(3,448)	(36,381)	(6,912)
Increases (decreases) in liabilities:					
Accounts payable	1,857	5,744	(709)	6,892	(1,683)
Retainage payable	(153)	18	1,073	938	4
Due to other funds	(44)	(95)	(52)	(191)	791
Wages payable	3,401	364	312	4,077	553
Taxes payable	(235)	2	(124)	(357)	(6)
Unearned revenues	(3,924)	527	(3,645)	(7,042)	(837)
Claims and judgments payable	—	—	—	—	(13,758)
Compensated absences	(4,387)	208	(431)	(4,610)	120
Other postemployment benefits	816	116	100	1,032	262
Net pension liability	66,987	12,683	10,584	90,254	14,397
Customer deposits and other liabilities	4	(134,360)	445	(133,911)	(845)
Increases (decreases) in deferred inflows of resources:					
Deferred inflows on pension	(36,615)	(5,767)	(4,045)	(46,427)	(9,384)
Total adjustments	138,903	173,558	14,547	327,008	(2,114)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (370,202)	$ 323,096	$ 33,689	$ (13,417)	$ 17,582

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Public Transportation capital grants on account increased by $25.3 million in 2016.

Water Quality issued bonds in 2016 to refund debt issued from 2006 to 2011. The $870.9 million bond proceeds were placed in escrow for the defeasance of $769.5 million of outstanding revenue and LTGO bond principal and $130.6 million of interest. The $100.0 million of fixed rate junior lien bonds issued in 2015 were remarketed in 2016 to junior lien variable rate demand sewer revenue bonds.

Nonmajor Enterprise Funds received $214 thousand of capital assets from other funds and transferred $181 thousand of capital assets to other funds.

Internal Service Funds received $3.0 million of capital assets from other funds and transferred $21 thousand of capital assets to other funds.

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

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

DECEMBER 31, 2016

(IN THOUSANDS)

	INVESTMENT TRUST FUNDS	AGENCY FUNDS
ASSETS		
Cash and cash equivalents	$ —	$ 176,180
Assets held in trust:		
External investment pool participants	—	3,047,667
External impaired investment pool participants	—	3,381
Investments	3,048,705	6,885
Taxes receivable - delinquent	—	66,684
Accounts receivable	—	12,997
Interest receivable	2,344	—
Assessments receivable	—	4,256
Notes and contracts receivable	—	51
TOTAL ASSETS	$ 3,051,049	$ 3,318,101
LIABILITIES		
Warrants payable	$ —	$ 101,471
Accounts payable	—	1,987
Wages payable	—	15,125
Custodial accounts - County agencies	—	93,960
Due to special districts/other governments	—	3,105,558
TOTAL LIABILITIES	—	$ 3,318,101
NET POSITION		
Held in trust for pool participants	$ 3,051,049	

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, 2016

(IN THOUSANDS)

	INVESTMENT TRUST FUNDS
ADDITIONS	
Contributions	$ 6,959,121
Net investment earnings:	
Interest	24,857
(Decrease) in the fair value of investments	(1,799)
TOTAL ADDITIONS	6,982,179
DEDUCTIONS	
Distributions	7,130,292
TOTAL DEDUCTIONS	7,130,292
Change in net position	(148,113)
Net position - January 1, 2016	3,199,162
Net position - December 31, 2016	$ 3,051,049

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

STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2016
(IN THOUSANDS)

	Harborview Medical Center	Cultural Development Authority	Total
ASSETS			
Cash and cash equivalents	$ 312,374	$ 24,945	$ 337,319
Investments	—	45,211	45,211
Receivables, net	174,711	882	175,593
Inventory	10,625	—	10,625
Prepayments	15,550	334	15,884
Nondepreciable assets	15,016	—	15,016
Depreciable assets, net	285,348	—	285,348
Deposits with other governments	600	—	600
Other assets	19,926	74	20,000
TOTAL ASSETS	834,150	71,446	905,596
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows on pensions	—	326	326
TOTAL DEFERRED OUTFLOWS OF RESOURCES	—	326	326
LIABILITIES			
Accounts payable and other current liabilities	100,376	472	100,848
Accrued liabilities	47,163	—	47,163
Unearned revenues	—	16,346	16,346
Noncurrent liabilities:			
Due within one year	1,341	1,241	2,582
Due in more than one year	12,951	8,238	21,189
TOTAL LIABILITIES	161,831	26,297	188,128
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows on pensions	—	28	28
TOTAL DEFERRED INFLOWS OF RESOURCES	—	28	28
NET POSITION			
Net investment in capital assets	299,586	—	299,586
Restricted for:			
Expendable	10,150	45,447	55,597
Nonexpendable	2,534	—	2,534
Unrestricted	360,049	—	360,049
TOTAL NET POSITION	$ 672,319	$ 45,447	$ 717,766

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

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Harborview Medical Center**	**Cultural Development Authority**	**Total**
Component Units:							
Harborview Medical Center	$ 949,084	$ 958,013	$ 6,300	$ 6,174	$ 21,403	$ —	$ 21,403
Cultural Development Authority	30,773	215	18,791	—	—	(11,767)	(11,767)
Total Component Units	$ 979,857	$ 958,228	$ 25,091	$ 6,174	$ 21,403	$ (11,767)	$ 9,636
	General revenues:						
	Interest earnings				$ —	$ 308	$ 308
	Total general revenues				—	308	308
	Change in net position				21,403	(11,459)	9,944
	Net position - January 1, 2016				650,916	56,906	707,822
	Net position - December 31, 2016				$ 672,319	$ 45,447	$ 717,766

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

CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1
Summary of Significant Accounting Policies

Description of Government-wide 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. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Reporting Entity

King County was founded in 1852 and operates under a Home Rule Charter that was adopted by a vote of County citizens in 1968 and which established an executive-council form of government. Citizens elect the County Executive to a four-year, full-time term and the nine-member council by district to staggered four-year terms. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended Component Units

King County Flood Control Zone District (FCZD)

King County 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 FCZD.

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 FCZD board because the County Council members are the ex officio supervisors of the district; and (3) the County can impose its will on FCZD. FCZD financial presentation is as a blended component unit because the two governing boards are substantively the same and there is a financial benefit relationship between the County and FCZD. FCZD contracts with King County Department of Natural Resources and Parks for flood control projects and programs. During 2016, FCZD reimbursed the County $43.6 million for such projects and programs.

FCZD issues its own financial statements, which are audited by the State Auditor's Office. Financial statements of 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. In 2016, King County made lease payments of $6.4 million for the King Street Center building and $6.9 million for the Ninth and Jefferson building.

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 and Jefferson Building. 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.

Component Units – Discretely Presented

Harborview Medical Center (HMC)

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

The HMC Board of Trustees is appointed by the County Executive. The County's director of Finance and Business Operations Division 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 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.

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 - "Liabilities" reports on all the general obligation bonds issued by the County as of December 31, 2016, including bonds reported by HMC as of June 30, 2016.

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), doing business as 4Culture

Cultural Development Authority of King County (CDA) is a public authority organized pursuant to Revised Code of Washington (RCW) 35.21.730 through 35.21.759 and King County Ordinance 14482. CDA commenced operations on January 1, 2003 and began doing business as 4Culture on April 4, 2004. CDA operates as a corporation for public purposes and was created to support, advocate for, and preserve the cultural resources of the region in a manner that fosters excellence, vitality, and diversity.

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. CDA receives funds from King County through the Public Art Program where one percent of certain County construction project budgets are allocated to CDA to be used in providing artwork in 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.

CDA is a component unit of the County for the following reasons: (1) it is a separate legal entity; (2) 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 CDA, for example, the County has the power to remove a director from the CDA board and the power to dissolve CDA. CDA's financial presentation is as a discrete component unit because the County and CDA's governing bodies are not substantively the same and CDA does not provide services solely to King County government.

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's Office. These statements may be obtained from CDA at 4Culture, 101 Prefontaine Place South, Seattle, Washington 98104.

Joint Venture

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 are disallowed by a grantor agency, 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 City of Seattle, each responsible for one-half of the disallowed amount. As of December 31, 2016, there are no outstanding program eligibility issues that might lead to a liability on the part of King County.

WDC contracts with King County to provide programs related to dislocated workers and workforce centers. For 2016, the WDC reimbursed King County approximately $2.4 million for the Employment and Education Resource Program in eligible program costs. King County has a $230 thousand equity interest in the WDC.

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 Public Facilities District (WSCC) 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 District's 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 the participant governments do not retain any ongoing financial interest nor any ongoing financial responsibility, the WSCC is a jointly governed organization.

Related Organizations

There are four separate entities for which the County is accountable, but is not financially accountable. These related organizations are King County Library System (KCLS), Library Capital Facility District (LCFD), King County Housing Authority (KCHA) and Washington State Major League Baseball Public Facilities District (PFD). The County Council appoints a majority of the board of KCLS, KCHA and PFD; and, selected Councilmembers make up the three-member board of LCFD. There is no evidence that the County Council can influence the programs and activities of these four organizations or that they create a significant financial benefit or burden to the County.

The County serves as the treasurer for KCLS, LCFD and PFD 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.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds that benefit the governmental activities, while business-type activities incorporate data from the government's enterprise funds and internal service fund that benefit the business-type activities. 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.

As discussed earlier, the government has two discretely presented component units. While neither HMC nor CDA are considered to be a major component unit, they are nevertheless shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include payments for services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would misstate the direct costs of the purchasing function and the program revenues of the selling function.

HMC has a June 30 fiscal year end, differing from the County's December 31 fiscal year end. The County reports HMC's financial results as of June 30 in the financial statements. There is no material effect on the balances, transactions and interfund activity reported for the period, as a result of the disparity in reporting period.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate financial statements are provided for each fund category – governmental funds, proprietary funds and fiduciary funds. Governmental funds are reported by mission, which corresponds to the County's strategic plan. Proprietary funds are reported by individual funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Major Governmental Funds

The County reports the following 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 another fund.

The Health Fund is the government's summary fund that accounts for health-related activities for residents and the general public. It consists of three funds: Behavioral Health Fund, Public Health Fund and Environmental Health Fund. The Behavioral Health Fund is part of the King County Mental Health Regional Support Network and 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. Its main sources of funding are federal and state grants, charges for services and property taxes. The Public Health Fund accounts for public health programs. It supports clinical health services/primary care assurance, management and business practice and targeted community health services. Its main sources of funding are federal and state grants, charges for services and private grant sources. The Environmental Health Fund accounts for activities related to population and environmental safety such as food and disease outbreak prevention. Its main sources of funding are license and permit fees and charges for services.

Major Enterprise Funds

The County reports the following major enterprise 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 Plan 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 and Fiduciary Funds

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.

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 reports 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.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/due to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds that benefit the governmental activities) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and 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. For this purpose, the government considers revenues from property taxes to be available if they are collected within 60 days of the end of the current fiscal period. All other accrued revenue sources are determined to be available if collected within 12 months of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales and use taxes, business and occupation taxes, federal grants-in-aid, and charges for services are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collected 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.

The proprietary and investment trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting assets and liabilities.

New Accounting Standards

GASB Statement No. 72 - *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This was implemented by the County in 2016.

GASB Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify--in the context of the current governmental financial reporting environment--the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This was implemented by the County in 2016.

GASB Statement No. 77 - *Tax Abatement Disclosures.* For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This was implemented by the County in 2016.

GASB Statement No. 79 - *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The County implemented this Statement in 2016.

Terminology

Expenditure Functions

General Government - Provided by the legislative, judicial 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, Prosecuting Attorney's Office, Superior Court, District Court, Public Defense, Judicial Administration, Adult and Juvenile Detention, Performance Strategy and Budget, Information and Technology, Records and Licensing Services, Elections and Assessments.

Public Safety - Essential to the safety of the public, including expenditures for law enforcement, detention and/or correction, protective inspections and emergency services. This function includes the Sheriff's Office and Emergency Medical Services.

Physical Environment - Provided to achieve a satisfactory living environment for the community and the individual. This function includes Natural Resources and Surface Water Management.

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, Planning and Community Development, River Improvement, Animal Control and River and Flood Control Construction.

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, Historical Preservation, Arts and Cultural Development and Law Library.

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; Interest receivable; Notes receivable; and Due from other governments, net.

- The liability account *Accounts payable and other current liabilities* combines Accounts payable, Retainage payable, Due to other governments, Contracts payable, Custodial accounts and Other liabilities.

- The liability account *Accrued liabilities* combines Wages payable, Taxes payable and Interest payable.

- The liability account *Noncurrent liabilities* includes Claims and judgments payable, Estimated claim settlements, General obligation bonds, Revenue bonds payable, Capital leases, State revolving loans payable, Compensated absences, Pollution remediation, Other postemployment benefits, Net pension liability, Landfill closures and post-closure care and Other liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and pooled equity invested in the King County Investment Pool.

All County funds and most component units and special districts participate in the King County Investment Pool ("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.

Receivables (See Note 5 - "Receivables")

Receivables include charges for services rendered by the County or intergovernmental grants that have not been received by the end of the fiscal year. 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 collectability.

Taxes receivable - delinquent - This account includes receivables for property taxes levied for the current year and the allowance for uncollectible amounts. Revenue is recognized when payment is received within 60 days of the end of the fiscal period.

Accounts receivable, net - This account includes receivables for customer accounts, employee travel advances, abatement revenues from the Department of Permitting and Environmental Review, civil penalties, district court revenues, assessments on local improvement districts and abatement revenues and an allowance for uncollectible amounts from violations reported by the Code Enforcement Section on property within the County. 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.

Interfund Activity

Due to/from other funds - These accounts include any outstanding balances between funds on the governmental funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal balances."

Interfund short-term loan receivables/payables - These accounts include the short-term portion of lending or borrowing arrangements between funds that are outstanding at the end of the fiscal year.

Advances to/from other funds - Noncurrent portions of long-term interfund loans are reported as advances. In the governmental funds, Advances to other funds are included in nonspendable fund balance as they are long-term receivables and are not available for appropriation.

Inventory

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. Facilities Management Department (FMD) and Public Health funds use the first-in, first-out (FIFO) valuation method. Radio Communications uses last-in, first-out (LIFO). The Motor Pool Equipment Rental, Public Works Equipment Rental, King County International Airport, Marine, Solid Waste Construction, Public Transportation and Water Quality Funds use the weighted average valuation method.

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 in both the government-wide and fund financial statements. 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 and development 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 funds 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.

The County elects to use the modified approach for reporting infrastructure assets in lieu of the depreciation method because it is committed to maintaining the roads and bridges infrastructure indefinitely. 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.

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 and capitalized were $154.4 million and $14.4 million, respectively.

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 acquisition price. 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.

Capital assets and their components useful lives are as follows:

Description	Estimated Life (Years)
Buildings and other improvements	10-50
Buses and trolleys	12-18
Cars, vans and trucks	3-10
Downtown transit tunnel	50
Equipment - other	3-25
Software	3-10
Sewer plant	20-50

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 by the Water Quality Enterprise 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.

Accrued Liabilities

Accrued liabilities refer to Accounts payable, Due to other governments, Interest payable, Wages payable and Taxes payable. Expenditures incurred during the year but paid in the subsequent year are recorded based on the following materiality thresholds according to when invoices were received:

February 3 - 15	$5,000
February 16 - March 10	$50,000
March 11 - 20	$100,000
March 21 - April 10	$1,000,000

Individual assessments for specific funds would be made for amounts not meeting the stated materiality thresholds. Grant-related items to be reported on the Schedule of Expenditures of Federal Awards will be assessed without considering the materiality thresholds.

Unearned Revenues

Unearned revenues are obligations of the County to perform services or provide goods. This account offsets reported assets for revenues that have not met recognition requirements. Reported assets include grants received in advance, mitigation fees received in lieu of developers performing mitigation projects, prepayment for parks programs and rental facilities and rent prepaid by tenants in internal service funds.

Long-term Obligations (See Note 15 - “Liabilities”)

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.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and bond issuance costs in 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 costs.

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 - "Liabilities." 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 2016, interest earned on bond proceeds was insignificant.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans, fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditures) until then. The government only has two items that qualifies for reporting in this category. They are the deferred charge on refunding and deferred outflow of resources for pensions reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources for pensions results from contributions subsequent to the measurement date, difference between projected and actual investment earnings, difference between expected and actual experience, changes in actuarial assumptions and changes in proportions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has three types of items that qualify for reporting in this category. The *deferred inflows of resources* reported in the business-type activities and proprietary funds represent sewer revenues that are reserved annually to normalize future sewer rates (see Rate Stabilization, p. 41). The deferred inflows of resources on pensions are reported in the government-wide Statement of Net Position.

The deferred inflows of resources on pensions results from contributions subsequent to the measurement date, difference between projected and actual investment earnings, difference between expected and actual experience, changes in actuarial assumptions and changes in proportions. The *deferred inflows of resources*-advanced grants is reported on the government-wide Statement of Net Position and the governmental funds Balance Sheet, representing grants received before meeting time requirements, but after all other eligibility requirements have been met. The *deferred inflows of resources*-unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from three sources: property taxes, district court receivables and abatement receivables. These amounts are deferred and recognized as an inflow of resources in the period that amounts become available.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The County Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance or motion prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Council has by ordinance authorized the executive to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Allocating Indirect Expense to Functions

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

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.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

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.

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.”

Long-term liabilities reported for governmental activities:	
Bonds payable	$ (761,517)
Unamortized premiums on bonds sold	(70,381)
Accrued interest payable	(6,126)
Compensated absences	(86,161)
Net pension liability	(474,313)
Deferred inflows on pensions	(13,126)
Other postemployment benefits	(54,530)
Total adjustments related to long-term liabilities	$ (1,466,154)

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	$ 2,286,471
Depreciable	759,584
Less: Capital assets in governmental internal service funds (all internal service funds except Wastewater Equipment Replacement)	(246,797)
Total adjustments related to capital assets	$ 2,799,258

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.”

Long-term assets reported for governmental activities:	
Earned but unavailable taxes and assessments	$ 14,694
Net pension asset	23,723
Bond refunding - component unit	189,115
Deferred outflows on refunding (to be amortized as interest expense)	25,190
Deferred outflows on pensions	96,210
Earned but unavailable court fines and penalties	6,940
Total adjustments related to long-term assets	$ 355,872

Another element of that reconciliation states, "Governmental activities internal service funds assets and liabilities are included in the governmental activities in the statement of net position."

Internal service funds reported for governmental activities:	
Net position of the governmental activities internal service funds	$ 106,566
Internal payable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds - prior years	(57,372)
Internal payable representing the amount overcharged to the enterprise funds by the governmental activities internal service funds - current year	(5,025)
Total adjustments related to internal service funds	$ 44,169

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 reported for governmental activities:	
Capital outlay	$ 80,681
Depreciation expense	(37,227)
Total adjustments related to capital outlay	$ 43,454

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

Miscellaneous capital asset transactions reported for governmental activities:	
The statement of activities report the gain or loss on the sale of capital assets , while gross proceeds increase financial resources in the governmental funds. The difference is the net book value of capital assets sold.	$ (14,311)
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds	9,502
Total adjustments related to miscellaneous capital asset transactions	$ (4,809)

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.”

Revenues reported for governmental activities:	
Unavailable revenue-property taxes	$ 2,107
Payment of receivable from component unit	(2,199)
Unavailable revenue-charges for services	(6,505)
Unavailable revenue-fines and forfeits	10,570
Transfers out	(2,562)
Total adjustments related to revenues	$ 1,411

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 premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

Debt issuance or refundings reported for governmental activities:	
Issuance of general government debt	$ (25,025)
Premium on bonds sold	(3,764)
Principal repayments	65,341
Total adjustments related to debt issuance or refundings	$ 36,552

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."

Expenses reported for governmental activities:	
Compensated absences	$ (131)
Other postemployment benefits	(4,344)
Interest on long-term debt	8,593
Pension expense	12,453
LEOFF special funding	3,009
Total adjustments related to expenses	$ 19,580

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

Internal service funds reported for governmental activities:	
Investment interest earnings	$ 2,732
Revenues related to services provided to outside parties	2,700
Expenses related to services provided to outside parties	(2,600)
Loss on disposal of capital assets	(334)
Interest on long-term debt	(1,925)
Capital contributions	4,238
Transfers in	1,662
Transfers out	(13,008)
Internal service fund gains allocated to governmental activities	14,046
Total adjustments related to internal service funds	$ 7,511

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.

Consolidation of internal service fund activities related to enterprise funds:	
Net position of the business-type activities internal service fund	$ 22,397
Internal receivable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds - prior years	57,372
Internal receivable representing the amount overcharged to the enterprise funds by the governmental activities internal service funds - current year	5,025
Total adjustments related to consolidation of internal service funds for enterprise funds	$ 84,794

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.”

Consolidation of internal service fund activities related to enterprise funds:		
Investment interest earnings	$	78
Revenues related to services provided to outside parties		51
Expenses related to services provided to outside parties		(49)
Gain on disposal of capital assets		151
Capital contributions		3,886
Transfers in		1
Internal service fund gains allocated to business-type activities		5,548
Total adjustments related to consolidation of internal service funds for enterprise funds	$	9,666

Note 3
Stewardship, Compliance and Accountability

Budgetary Basis of Accounting

Biennial budgets are adopted on the modified accrual basis of accounting for the General Fund, Health Fund, nonmajor special revenue funds and debt service funds. The capital projects funds, except the Roads Improvement Districts Construction Fund, are controlled by multi-year budgets. Budgets for the blended component units are approved under the authority of their respective governing bodies.

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 paid in the given budget period for the acquisition of goods and services.

The King County Council enacts appropriations by ordinance, generally at the appropriation unit level. The Grants Fund is appropriated at the fund level. These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered operating appropriations lapse at the end of the biennium. The budgetary comparison schedules (budgetary basis) include variances at the appropriation level of expenditure level.

Excess of Expenditures over Appropriations

Human Potential - Special Revenue

The expenditures in the Byrne 2013 JAG Grant appropriation unit exceeded appropriations by $79 thousand. In the 2015-2016 biennium, the Byrne JAG funds were budgeted for the most recent awards, which were awarded for fiscal years 2014 and 2015. Awards from prior years are covered under the contingency in the Grants Fund. Beginning in the 2017-2018 biennium, all Byrne JAG grants will be explicitly budgeted and accounted for the in the Grants Fund.

Economic Growth - Special Revenue

The Economic Growth - Special Revenue Fund had two occurrences of expenditures exceeding appropriations - CDBG Greenbridge Loan and Revolving Loans. When the Section 108 loan was approved a decade ago, the loan repayment was allocated among many County agencies and funds. Agencies transferred money into this fund to pay their share of the loan. The CDBG Greenbridge Loan fund would make the debt service payment for all funds from the accumulated transfers. Since the other funds have appropriations for the debt payments, payments from the CDBG Greenbridge Loan fund were not appropriated. Treatment of this fund will be considered for the 2017-2018 biennium.

The Housing Opportunity Loans fund was originally set up to collect repayments of non-federal funds in the Housing Repair program, which could not be co-mingled with the federal funds for housing repair. There were no expenditures planned and thus, no appropriation authority set up. The Fund was later used to pay for emergency and immediate health and safety home repairs in the housing repair program, not covered by federal funds. New rules allow for the co-mingling of funds, thus, plans to close this fund are set for 2017.

Built Environment - Special Revenue

The Roads Construction Transfer appropriation unit expenditures exceeded appropriations by $1.3 million. Funding from the fund was appropriated via a revenue account transfer, rather than an operating transfer out. Actual spending was made through an operating transfer out.

Limited GO Bond Redemption

Payments made in 2015-2016 to the fiscal agent from debt service funds were authorized by the County ordinance no. 14480 for 2015E bonds. Although the payments were authorized by an ordinance and the revenue to cover the payments was available, $7.5 million was not appropriated as required. As a result, expenditures exceeded appropriations in the Limited General Obligation Bond Redemption fund by $1.2 million.

Deficit Fund Equity

Nonmajor Governmental Funds

Financial Stewardship - Special Revenue

The Financial Stewardship - Special Revenue fund has two funds that report deficit fund balances. The Risk Abatement fund reports a total fund balance deficit of nearly $10.5 million. In December 2016 a judgment directed King County to pay Washington State Department of Retirement Systems (DRS) $10.5 million in interest payments. The Risk Abatement fund made the payment to DRS in 2016 while the bonds to support the transaction will not be available to replenish the fund until June 2017.

The Long-Term Lease fund reports a total fund balance deficit of $1.2 million. This is due to revenue assumptions made during 2015-2016 budget development. Plans ended up being revised during the biennium so projected revenues did not materialize. The deficit will be resolved through collection of funds from tenants in County buildings during the 2019-2020 biennium.

Built Environment - Special Revenue

The Department of Permitting and Environmental Review fund reports fund balance deficit of $463 thousand. This is the result of a permitting revenue shortfall. Some of the shortfall was intentional: the King County Council decided to draw down fund balance in the 2015-2016 biennium rather than increase permit fees to match the budgeted expenditures of the fund in the 2015-2016 biennium. County Council increased permitting fees for the 2017-2018 biennium in order to ensure cost recovery of operations and rebuild fund balance. Attaining the target fund balance level in conformity with the King County financial policies will require at least four years or longer, depending upon the actual level of permitting activity.

Financial Stewardship - Capital Projects

The Building Repair and Replacement fund reports a total fund balance deficit of $5.1 million. The fund reflects an interfund borrowing to finance the King Street Consolidation Project expenditures, which will be supported by a five-year payback coming from tenant charges.

Environmental Sustainability Fund - Capital Projects

The FMD Parks and Parks Facility Rehabilitation funds report a total fund balance deficit of $749 thousand. The REET (Real Estate Excise Tax) Fund is the funding source of the two funds. Upon expenditure, the Performance Strategy and Budget Office reimburses dollar amount for the actual expenditures. Expenditures were made towards the end of the reporting period. Transfers from the REET Fund are scheduled to be made in 2017.

Internal Service Funds

The County implemented GASB Statement Nos. 68 and 71 in 2015, which requires reporting its share of net pension liabilities. As a result, the following funds have deficit net positions at December 31, 2016 (in thousands):

Fund:	Total Net Position
Business Resource Center	$ (1,726)
Construction and Facilities Management	(18,389)
Financial Management Services	(12,382)
King County Geographic Information Systems	(2,817)
King County Information Technology Services	(20,239)

Building Development and Management Corporations Fund

The net position deficit of $7.5 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.

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 depositaries, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter." It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositaries within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance.

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 depositaries in Washington and total deposits cannot exceed the net worth of the financial institution. Those institutions not meeting 100% collateralization or the minimum credit rating requirements may receive deposits up to the FDIC or federally guaranteed amounts. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 25 percent of the total amount of the portfolio and five percent from a single issuer.

As of December 31, 2016, the County's total deposits, excluding the equity in the component units, were $155.1 million in carrying amount and $152.9 million in bank balance, of which $3.8 million was exposed to custodial credit risk as uninsured and uncollateralized as shown in the following schedule (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Demand deposits	$ 151,276	$ 149,047	$ —
Money Market accounts	3,828	3,828	3,828
Total deposits	$ 155,104	$ 152,875	$ 3,828

The money market accounts in the schedule above are comprised of cash held with trustees for two Washington 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 (the Trustee) is invested in United States Government Money Market accounts. All of the $3.8 million cash balance held with the Trustee is exposed to custodial credit risk as uninsured and uncollateralized.

Investments

King County Investment Pool - The King County Investment Pool (main Pool) consists of 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 Pool operates in accordance with the King County Investment Policy which has been prepared in accordance with state law. This policy is reviewed annually and any modifications shall be approved 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. Non-pooled King County investments, which do not meet the criteria of this policy, require approval by the EFC.

The King County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the 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 has not been vested with decision-making authority for the Pool; it makes recommendations to the EFC on agenda items related to the Pool.

The King County Investment Policy is 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 portfolio should be managed in a manner that is responsive to the public trust and consistent with state law. The Pool is guided by the following principles:

1. The primary objective of King County's investment of public funds is to safeguard investment principal.

2. The secondary objective is to maintain sufficient liquidity to ensure that funds are available to meet daily cash flow requirements.

3. The third consideration is to achieve a reasonable yield consistent with these objectives.

Investment Instruments - 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 United States 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 and corporate notes (within the policies established by the State Investment Board).

- Debt instruments of local and state general obligations.

- General obligation 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.

LGIP participants may withdraw funds from the LGIP on any business day and must notify the LGIP of any withdrawal over $1.0 million no later than 9 A.M. on the same day the withdrawal is made. The State Treasurer also may suspend redemptions if the New York Stock Exchange suspends trading or closes, if U.S. bond markets are closed, if the SEC declares and emergency or if it has determined irrevocably to liquidate the LGIP and suspend withdrawals and payments of withdrawal proceeds in order to facilitate the permanent termination of the LGIP in an orderly manner.

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 some of these provisions.

Although the County is authorized to enter into reverse repurchase agreements, the County chose not to enter into this type of transaction since 2008. 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.

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. 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 - The main Pool's total investment including purchase interest was $6,051.2 million. Excluding $339.7 million of equity in the component unit, the net total investment was $5,711.5 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 $12.8 million. 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, 2016 (dollars in thousands):

KING COUNTY INVESTMENT POOL

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
Repurchase Agreements	$ 100,000	$ 100,000	0.46%	0.011
Commercial Paper	249,505	249,850	0.82%	0.176
U.S. Agency Discount Notes	440,879	441,500	0.61%	0.266
Corporate Notes	959,115	960,465	1.46%	1.437
U.S. Treasury Notes	2,456,511	2,454,000	0.96%	1.472
U.S. Agency Notes	1,203,362	1,207,559	0.47%	1.339
U.S. Agency Collateralized Mortgage Obligations	6,070	5,683	4.12%	2.717
State Treasurer's Investment Pool	634,558	634,558	0.50%	0.005
Total investments in Pool	$ 6,050,000	$ 6,053,615	0.96%	1.122

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 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, 5.7 percent, Federal National Mortgage Association, 7.5 percent, Federal Home Loan Bank, 5.2 percent, and Federal Farm Credit Bank, 8.9 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 or less, 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, 2016, the effective duration of the main Pool was 1.122 years.

Credit risk - 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 and corporate notes (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements and the LGIP.

The credit quality distribution below is categorized to display the greatest degree of credit risk as rated by Standard and Poor's and Moody's. 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

Investment Type	AAA or A-1	AA	A	Not Rated	Total
Repurchase Agreements	$ 100,000	$ —	$ —	$ —	$ 100,000
Commercial Paper	249,505	—	—	—	249,505
U.S. Agency Discount Notes	440,879	—	—	—	440,879
Corporate Notes	—	415,003	544,112	—	959,115
U.S. Agency Notes	—	1,203,362	—	—	1,203,362
U.S. Agency Collateralized Mortgage Obligations	—	6,070	—	—	6,070
State Treasurer's Investment Pool	—	—	—	634,558	634,558
Total investments	$ 790,384	$ 1,624,435	$ 544,112	$ 634,558	$ 3,593,489

The main Pool's policies limit the maximum amount that can be invested in various securities. The following table summarizes the Pool's diversification policy:

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

Investment Type	Maximum Maturity	Security Type Limit	Single Issuer Limit	Minimum Credit Rating
U.S. Treasury	5 Years	100%	None	N/A
U.S. Federal Agency(1)	5 Years	100%	35%	N/A
U.S. Federal Agency MBS(2)	5 Year WAL	25%	25%	N/A
Certificates of Deposit(3)	1 Year	25%	5%	A-1 or P-1
Municipal Securities(4)	5 Years	20%	5%	A
Corporate Securities	5 Years	25%	5%	A(5)
Commercial Paper	270 Days	25%	5%	A-1/P-1(6)
Repurchase Agreements(7)	60 Days	100%	25%	A-1 or P-1
Bankers' Acceptances	180 Days	25%	5%	A-1/P-1(8)
State LGIP	N/A	25%	25%	N/A

N/A = Not applicable

(1) Senior debt only

(2) MBS counts towards the total that can be invested in any one U.S. federal agency.

(3) Institution must be a Washington state depository and participate in the PDPC 100 percent collateralization program.

(4) County policy limits purchases to general obligation bonds rated A or better by Standard & Poor's or Moody's.

(5) Must be rated A or better by both Standard and Poor's and Moody's.

(6) Must be rated in top credit category by Standard & Poor's and Moody's. Maturities > 100 days must have a long-term rating of A or higher.

(7) Tri-party repurchase agreements collateralized at 102 percent and for purposes of aggregating across sectors, overnight repos shall not be included.

(8) Bankers' acceptances must be rated in top credit category by Standard & Poor's and Moody's.

At year-end the Pool was in compliance. The Pool's actual composition consisted of Repurchase Agreements, 1.6 percent, Commercial Paper, 4.1 percent, U.S. Agency Discount Notes, 7.3 percent, Corporate Notes, 15.9 percent, U.S. Treasury Notes, 40.6 percent, U.S. Agency Notes, 19.9 percent, U.S. Agency Collateralized Mortgage Obligations, 0.1 percent, and the State Treasurer's Investment Pool, 10.5 percent.

Fair Value Hierarchy

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of inputs in valuing the County's investments as of December 31, 2016 (in thousands):

		Fair Value Measurements Using		
Investments by fair value level	**Fair Value 12/31/2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservabl e Inputs (Level 3)**
Commercial Paper	$ 249,505	$ —	$ 249,505	$ —
U.S. Agency Discount Notes	440,879	—	440,879	—
Corporate Notes	959,115	—	959,115	—
U.S. Treasury Notes	2,456,511	2,456,511	—	—
U.S. Agency Notes	1,203,362	—	1,203,362	—
U.S. Agency Collateralized Mortgage Obligations	6,070	—	6,070	—
Subtotals	5,315,442	$ 2,456,511	$ 2,858,931	$ —
Investments measured at amortized cost (not subject to fair value hierarchy)				
Repurchase Agreements	100,000			
State Treasurer's Investment Pool	634,558			
Subtotal investments measured at cost	734,558			
Total investments in Investment Pool	$ 6,050,000			

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

Commercial Paper, U.S. Agency Discount Notes, Corporate Notes, U.S. Agency Notes and U.S. Agency Collateralized Mortgage Obligations are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

State Treasurer's Investment Pool and Repurchase Agreement are overnight securities and are not subject to GASB Statement No. 72.

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.

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. During 2016, the County received a "tail" payment of $1.8 million for Rhinebridge. At year-end, the amount reserved for the County totaled $592 thousand for the Cheyne and Rhinebridge restructurings.The "estimated fair value" of $592 thousand was based on the value of the cash retained by the receivers as of December 31, 2016.

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, 2016, was $5.8 million and the book value was $9.4 million. 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 2016, VFNC Trust distributed a total of $1.5 million to the County. Including all the receipts to date brings the cash recovery rate on the original Victoria investment to 84 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.

The impaired investments in commercial paper recorded at fair value total $5.8 million, are based on market price of the underlying securities that are held by VFNC Trust and the cash value retained by the receivers as of December 31, 2016 and are classified in Level 3 inputs. These prices are provided by the collateral agent.

King County Investment Pool and Impaired Investment Pool Condensed Statements

The King County Investment Pool (the main Pool) and the Impaired Investment Pool's Condensed Statements of Net Position and Changes in Net Position as of December 31, 2016 (in thousands) are as follows:

Condensed Statement of Net Position

	Total	Main Pool	Impaired Pool
Net position held in trust for pool participants	$ 6,059,385	$ 6,053,547	$ 5,838
Equity of internal pool participants	$ 3,008,336	$ 3,005,880	$ 2,456
Equity of external pool participants	3,051,049	3,047,667	3,382
Total equity	$ 6,059,385	$ 6,053,547	$ 5,838

Condensed Statement of Changes in Net Position

	Total	Main Pool	Impaired Pool
Net Position - January 1, 2016	$ 6,184,195	$ 6,176,204	$ 7,991
Net change in investments by pool participants	(124,810)	(122,657)	(2,153)
Net Position - December 31, 2016	$ 6,059,385	$ 6,053,547	$ 5,838

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, HMC's deposits may not be recovered. As of June 30, 2016, all of the deposits were covered entirely by the FDIC or fully collateralized under the PDPC collateral pool. Accordingly, the HMC has no custodial credit risk for its deposits shown in the following table (in thousands):

Harborview Medical Center
As of June 30, 2016

	Carrying Amount	Bank Balance
Cash in other banks	$ 3,016	$ 2,938
Equity in Investment Pool	309,358	311,659
Total	$ 312,374	$ 314,597

Cultural Development Authority of King County (CDA)

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

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

State laws authorize 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 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.

CDA is also authorized to invest in the 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.

Fair Value Hierarchy - CDA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The following is a summary of inputs in valuing CDA's investments as of December 31, 2016 (in thousands):

		Fair Value Measurements Using		
Investments by fair value level	**Fair Value 12/31/2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservabl e Inputs (Level 3)**
U.S. Treasury Notes	$ 4,355	$ 4,355	$ —	$ —
Federal Home Loan Mortgage Corp Debentures	5,432	—	5,432	—
Federal National Mortgage Association Notes	11,392	—	11,392	—
Federal Home Loan Bank Bonds	17,591	—	17,591	—
Federal Farm Credit Bank Bonds	3,736	—	3,736	—
Subtotal investments at fair value	42,506	$ 4,355	$ 38,151	$ —
Investments measured at amortized cost (not subject to fair value hierarchy)				
State Treasurer's Investment Pool	23,664			
Other/Money Market Fund	2,705			
Subtotal investments measured at cost	26,369			
Total CDA investments	$ 68,875			

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

U.S. Agency bonds are valued using issuer spreads scales by Interactive Data based on the new issue market, secondary trading, and dealer quotes and are classified in Level 2 of the fair value hierarchy.

State Treasurer's Investment Pool and money market funds investments are recorded at amortized cost.

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, 2016 (in thousands):

Cultural Development Authority

Investments By Type

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)	Concentration
U.S. Treasury Notes	$ 4,355	$ 4,236	3.49%	1.506	6%
Federal Home Loan Mortgage Corp Debentures	5,432	5,420	1.71%	1.246	8%
Federal National Mortgage Association Notes	11,392	11,493	1.61%	2.528	17%
Federal Home Loan Bank Bonds	17,591	17,564	2.32%	2.552	26%
Federal Farm Credit Bank Bonds	3,736	3,733	1.71%	1.246	5%
State Treasurer's Investment Pool	23,664	23,664	0.5%	0.003	34%
Other/Money Market Fund	2,705	2,705	0.01%	0.003	4%
Subtotal investments	68,875	$ 68,815	1.48%	1.332	100%
Less: State Treasurer's Investment Pool (Cash Equivalent)	(23,664)				
Total Investments per Statement of Net Position	$ 45,211				

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, CDA manages its exposure to interest rate risk by setting maturity and effective duration limits for its portfolio. As of December 31, 2016, the combined weighted average effective duration of the CDA's portfolio was 1.332 years.

Credit risk - Credit risk is the risk that an issuer will not fulfill its obligations. As of December 31, 2016, all issuers of investments in CDA's 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, 2016, CDA had concentrations greater than 5 percent of its total portfolio, excluding U.S. Treasury obligations, in the following issuers: Federal Home Loan Banks, 25.5 percent, Federal National Mortgage Association, 16.5 percent, Federal Home Loan Mortgage Corp, 7.9 percent, and Federal Farm Credit Bank, 5.4 percent.

Nonfinancial Assets

Pursuant to GASB Statement No. *72, Fair Value Measurement and Application*, King County evaluated its capital assets and determined that certain capital assets should be reclassified as nonfinancial assets. The evaluation of the capital assets is based on the facts and circumstances at the initial implementation of Statement No. 72, rather than based on the intention of the initial acquisition of the capital assets. King County used a $1.0 million fair value threshold to reclassify capital assets originally acquired for operations and subsequently changed to investment purposes. The fair value is determined based on comparable sales in the area or average per acre value of similar size and layout in the vicinity during 2016. At December 31, 2016, the total fair value of capital assets reclassified to nonfinancial assets was $2.6 million.

Note 5
Receivables

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):

Governmental	**General Fund**	**Health Fund**	**Nonmajor Governmental Funds**	**Total Governmental Funds**
Accounts receivable:				
Accounts receivable	$ 50,372	$ 8,817	$ 12,954	$ 72,143
Estimated uncollectible	(37,250)	(3,184)	(2,237)	(42,671)
Accounts receivable, net	$ 13,122	$ 5,633	$ 10,717	$ 29,472
Due from other governments:				
Due from other governments	$ 57,469	$ 32,463	$ 67,243	$ 157,175
Estimated uncollectible	(10)	(637)	(7)	(654)
Due from other governments, net	$ 57,459	$ 31,826	$ 67,236	$ 156,521

Proprietary	**Public Transportation**	**Water Quality**	**Nonmajor Enterprise Funds**	**Total Enterprise Funds**	**Internal Service Funds**
Current assets:					
Accounts receivable:					
Accounts receivable	$ 29,444	$ 45,570	$ 12,284	$ 87,298	$ 1,625
Estimated uncollectible	(102)	(815)	(325)	(1,242)	(47)
Accounts receivable, net	$ 29,342	$ 44,755	$ 11,959	$ 86,056	$ 1,578

Note 6
Tax Revenues

Taxing Powers

King 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 taxing district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

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 $1,000 of assessed value, and the County levied $1.32976 per $1,000 of assessed value for the 2016 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, for which the County currently is at its maximum rate of $2.25 per $1,000 of assessed value for the 2016 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 $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 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 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 $1,000 of assessed value (RCW 84.52.069),

(2) A voted levy to finance affordable housing for very low income households, limited to $0.50 per $1,000 of assessed value (RCW 84.52.105), although, the County has not sought approval from voters for this levy,

(3) A non-voted levy for conservation futures, limited to $0.0625 per $1,000 of assessed value (RCW 84.34.230), and

(4) A non-voted levy for transit-related purposes, limited to $0.075 per $1,000 of assessed value (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 1% of the true and fair value of property (or $10.00 per $1,000 assessed value) 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 1 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 $1,000 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 acquiring conservation futures, for emergency medical services, affordable housing for very low income households, for ferry districts, for transit-related purposes, for regional transit authorities, for criminal justice purposes, a portion 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.

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 1 percent, the limit factor can 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 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 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 limitations (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.

Excess Property Taxes. The County also may impose "excess" property taxes, which are not subject to limitation, when authorized by a 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 2016, the county-wide flood control zone district levy rate was $0.12980 and the county-wide ferry district levy rate was $0.00279 per $1,000 of assessed value. 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 table on the following page compares the allocation of the 2016 and 2015 Countywide, Conservation Futures, Unlimited Tax GO Bonds, 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 2016 countywide assessed valuation was $426.3 billion, a $38.1 billion increase from 2015; the assessed valuation for the unincorporated area levy was $36.8 billion, an increase of $554.0 million from 2015.

ALLOCATION OF 2016 AND 2015 TAX LEVIES

	2016 Original Taxes Levied (in thousands)	2016 Levy Rate (per thousand)	2015 Original Taxes Levied (in thousands)	2015 Levy Rate (per thousand)
Countywide Levy				
Assessed Value:				
$426,335,605,837[a]				
Items Within Operating Levy:[b]				
General Fund	$ 336,454	$ 0.79209	$ 327,699	$ 0.84772
Veterans' Relief	2,837	0.00668	2,759	0.00714
Human Services	6,367	0.01499	6,196	0.01603
Intercounty River Improvement	50	0.00012	50	0.00013
Limited GO Bonds Debt Service	—	—	6	—
Automated Fingerprint Identification System	20,240	0.04765	19,594	0.05069
Parks Levy	67,940	0.15995	65,765	0.17014
Veterans and Human Services	17,924	0.04219	17,350	0.04488
Children and Family Justice Center	23,825	0.05609	23,081	0.05971
Best Start for Kids	29,727	0.14000	—	—
Radio Communications	59,456	0.07000	—	—
Marine Operating (Ferry)	1,186	0.00279	1,182	0.00306
Total Operating Levy	566,006	1.33255	463,682	1.19950
Public Transportation[c]	26,956	0.06346	26,255	0.06792
Conservation Futures Levy				
Conservation Futures Levy[d]	10,140	0.02058	10,104	0.02614
Farmland and Park Debt Service	8,741	0.02387	8,284	0.02143
Total Conservation Futures Levy	18,881	0.04445	18,388	0.04757
Unlimited Tax GO Bonds				
(Voter-approved Excess Levy)	16,818	0.03981	11,618	0.03023
Total Countywide Levy	628,661	1.48027	519,943	1.34522
EMS Levy				
Assessed Value:				
$242,938,385,808[a]				
EMS Levy	73,781	0.28235	73,111	0.30217
Unincorporated County Levy				
Assessed Value:				
$36,841,203,784[a]				
County Road Fund[e]	82,424	2.25000	81,183	2.25000
Total County Tax Levies[f]	$ 784,866		$ 674,237	

(a) Assessed value for taxes payable in 2016.

(b) The operating levy tax rate is statutorily limited to $1.80 per $1,000 of assessed value.

(c) The Public Transportation Levy is limited statutorily to $0.075 per $1,000 of assessed value.

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

(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 $1,000 of assessed value.

(f) 2016 and 2015 original tax levies exclude $55.1 million and $53.6 million, respectively, of the Flood Control Zone District, a blended component unit.

The Automatic Fingerprint Identification system (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 no more than $0.0592 per $1,000 assessed value. In 2015 and 2016, the tax rate was $0.05069 and $0.04765 per $1,000 of assessed value, respectively.

In August 2013, the Park lid lift levy was renewed by voters for six years, for a rate of $0.1877 per $1,000 of assessed value. The 2015 and 2016 tax year rate for the Parks levy lid lift is $0.17014 and $0.15995 per $1,000 of assessed value, respectively.

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 $0.05 or less per $1,000 of assessed value. The 2015 and 2016 tax rate is $0.04488 and $0.04219 per $1,000 of assessed value, respectively.

The Children and Family Justice Center is a nine-year temporary levy lid lift approved by voters on August 7, 2012 at a rate of $.070000 per $1,000 of assessed value for the first year (2013). The rate for 2015 and 2016 is $0.05971 and $0.05609 per $1,000 assessed value.

A new regular property tax levy for the Puget Sound Emergency Radio Network (PSERN) replacement was approved by voters in April 2015, at a rate of $0.07 per $1,000 assessed value for nine years, beginning in 2016.

The Best Starts for Kids levy was approved by voters at the November 3, 2015, general election. This is a six-year levy at a rate of $0.14 per $1,000 of assessed value that will be used to invest in prevention and early intervention strategies for children and families.

The County's levy rate for transit-related purposes is $0.06792 per $1,000 of assessed value, and its levy rate for conservation futures is $0.04445 per $1,000 of assessed value in 2016.

The County's EMS levy was approved at a special election on November 5, 2013, for an additional six years, at a rate of $0.335 or less per $1,000 of assessed value, with collections beginning in 2014. The 2016 rate is 0.28235 per $1,000 of assessed value.

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% 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 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, calculated and fixed by the County Assessor (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 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 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 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 $125,000 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% 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. Property taxes are recognized as revenue when collected in cash at which time the accounts taxes receivable and unavailable revenues - property taxes on the balance sheet are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as taxes receivable-delinquent and deferred inflow of resources. 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.

Tax Abatements

As of December 31, 2016, the County provides tax abatements through three programs - the Current Use Programs, Historic Preservation Program and the Single-family Dwelling Improvement Program. All of these programs are property tax abatements. The property tax system in the state of Washington is budget-based, which means the taxing authority determines a budget or dollar amount and adjusts the rates for the taxpayers based on the assessed valuation of their property. As a result, tax abatement programs related to property taxes shift the tax burden to individual taxpayers rather than to the municipality.

Current Use Programs

The Current Use Programs provide property tax abatements to landowners to voluntarily preserve open space, farmland or forestland via four programs on their property pursuant to RCW 84.33.130 and RCW 84.34.010.

Public Benefit Rating System (PBRS) enrollment and associated tax savings are based on a point system. Points are awarded for each PBRS resource category a property qualifies for such as protecting buffers to streams and wetlands, ground water protection, preserving significant wildlife habitat, conserving farmland and native forestland and preserving historic landmarks.

Timber Land enrollment requires a property to have between five and 20 acres of manageable forestland, and be zoned RA, F or A. Land participating in this program must be devoted primarily to the growth, harvest and management of forest crops for commercial purposes and must be managed according to an approved forest stewardship plan.

Farm and Agricultural Land enrollment requires land to be used for the production of livestock or agricultural commodities for commercial purposes.

Forestland enrollment requires a property to have more than 20 acres of eligible forestland primarily devoted to the growth and harvest of timber.

An owner of land desiring current use classification must submit an application to the County Assessor. Once enrolled, a participating property is assessed at a "current use" value, which is lower than the "highest and best use" assessment value that would otherwise apply to the property.

When land no longer meets the requirements for the respective classifications, abated taxes and applicable penalties and interest are collected. Regarding the PBRS and Farm and Agricultural Land programs, when land no longer qualifies for current use, both the assessed valuation before and after the removal of classification is listed on tax rolls and taxes are allocated according to that part of the year to which each assessed valuation applies. Except as provided in the statute, an additional tax, applicable interest and penalty must be imposed which are due and payable 30 days after the owner is notified of the additional tax. The amount of additional tax, applicable interest and penalty is determined as follows: (a) the amount of additional tax is equal to the difference between the property tax paid as "open space land," "farm and agricultural land" or "timberland" and the amount of tax otherwise due and payable for the seven years last past had the land not been so classified; (b) the amount of applicable interest is equal to the interest upon the amounts of the additional tax paid at the same statutory rate charged on delinquent property taxes from the dates on which the additional tax could have been paid without penalty if the land had been assessed at a value; (c) the amount of the penalty is equal to 20 percent of the amount of the additional tax and applicable interest due. The penalty may not be imposed if the removal satisfies the conditions allowed in the chapter.

When land is removed from the special classification in the Timber Land and Forestland programs, a compensating tax is due equal to (a) the difference, if any, between the amount of tax last levied on the land as designated forestland and an amount equal to the new assessed valuation of the land when removed from classification multiplied by the dollar rate of the last levy extended against the land, multiplied by (b) a number equal to: (i) the number of years the land was designated under RCW 84.34, if the total number of years the land was designated under RCW 84.33 and classified under RCW 84.34 is less than 10; or (ii) 10 minus the number of years the land was classified under RCW 84.34, if the total number of years the land was designated under RCW 84.33 and classified under RCW 84.34 is at least 10.

Historic Preservation Program

The Historic Preservation Program provides property tax abatements through the legislature's encouragement to maintain, improve and preserve privately owned historic landmarks pursuant to Chapter 84.26 RCW. The property must meet four criteria to qualify for special valuation to receive a reduction in property taxes. The property must: (1) be a historic property; (2) fall within a class of historic property determined eligible for special valuation by the local legislative authority; (3) be rehabilitated at a cost which meets the definition set forth in RCW 84.26.020(2) within 24 months prior to the application for special valuation; and (4) be protected by an agreement between the owner and the local review board as described in RCW 84.26.050(2).

An owner of property desiring special valuation shall apply to the assessor of the County in which the property is located upon forms prescribed by the Department of Revenue and supplied by the County Assessor. The application form shall include a statement that the applicant is aware of the potential tax liability involved when the property ceases to be eligible for special valuation. Applications shall be made no later than October 1 of the calendar year preceding the first assessment year for which classification is requested.

The County Assessor shall, for 10 consecutive assessment years following the calendar year in which application is made, place a special valuation on property classified as eligible historic property. The entitlement of property to the special valuation provisions of this section shall be determined as of January 1. If property becomes disqualified for the special valuation for any reason, the property shall receive the special valuation for that part of any year during which it remained qualified or the owner was acting in good faith belief that the property was qualified. At the conclusion of special valuation, the cost shall be considered new construction.

Whenever property classified and valued as eligible historic property under RCW 84.26.070 becomes disqualified for the valuation, there shall be added to the tax an additional tax equal to (a) the cost multiplied by the levy rate in each year the property was subject to special valuation; plus (b) interest on the amounts of the additional tax at the statutory rate charged on delinquent property taxes from the dates on which the additional tax could have been paid without penalty if the property had not been valued as historic property under this chapter; plus (c) a penalty equal to 12 percent of the amount determined in (a) and (b).

Single-family Dwelling Improvement Program

The Single-family Dwelling Improvement Program provides property tax abatements to encourage home improvements to single-family dwellings under RCW 84.36.400. Any physical improvement to single-family dwellings upon real property shall be exempt from taxation for the three assessment years subsequent to the completion of the improvement. Abatements are obtained through application by the property owner, including proof that the improvements have been made and equal 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements, not to exceed 30 percent of the pre-improvement value of the structure.

Below summarizes the tax abatement programs and the total amount of taxes abated.

Tax Abatement Program	Total Amount of Taxes Abated (in thousands)
Current Use	$ 7,782
Single-family Dwelling Improvement	121
Historic Preservation	1

State of Washington Tax Abatements

County tax revenues were reduced under agreements entered into by the state of Washington. The State has not determined the County's share of abatements at this time.

Note 7
Capital Assets

Primary Government

A summary of changes in capital assets for the King County Primary Government (in thousands):

	Balance 1/1/2016	Additions	Retirements	Transfers / Reclassifications	Balance 12/31/2016
Governmental Activities:					
Capital assets not being depreciated:					
Land	$ 590,009	$ 8,965	$ (3,363)	$ (25,272)	$ 570,339
Rights-of-way and easements	438,643	4,074	(4)	3,863	446,576
Infrastructure - road and bridges	1,100,462	8,531	(98)	—	1,108,895
Art collections	11,116	14	—	(662)	10,468
Work in progress	122,593	37,998	—	(10,398)	150,193
Total capital assets not being depreciated	2,262,823	59,582	(3,465)	(32,469)	2,286,471
Capital assets being depreciated:					
Buildings	1,041,189	21	(3,738)	947	1,038,419
Leasehold improvements	19,076	—	—	—	19,076
Improvements other than buildings	63,280	40	(3,818)	21,860	81,362
Infrastructure – levees	15,456	—	(1)	8,475	23,930
Furniture, machinery and equipment	150,031	15,899	(5,438)	927	161,419
Software	104,750	8,554	(28)	—	113,276
Total capital assets being depreciated	1,393,782	24,514	(13,023)	32,209	1,437,482
Less accumulated depreciation for:					
Buildings	(449,611)	(27,036)	4,517	—	(472,130)
Leasehold improvements	(4,618)	(1,106)	1	—	(5,723)
Improvements other than buildings	(19,382)	(2,445)	524	(39)	(21,342)
Infrastructure – levees	(1,585)	(426)	—	—	(2,011)
Furniture, machinery and equipment	(111,703)	(10,922)	7,629	13	(114,983)
Software	(52,763)	(8,975)	29	—	(61,709)
Total accumulated depreciation	(639,662)	(50,910)	12,700	(26)	(677,898)
Total capital assets being depreciated, net	754,120	(26,396)	(323)	32,183	759,584
Governmental activities capital assets, net	$ 3,016,943	$ 33,186	$ (3,788)	$ (286)	$ 3,046,055
Business-type Activities:					
Capital assets not being depreciated:					
Land	$ 460,794	$ —	$ (14,951)	$ 2,175	$ 448,018
Rights-of-way and easements	30,852	—	—	426	31,278
Art collections	3,701	(175)	—	221	3,747
Work in progress	463,357	459,266	—	(402,260)	520,363
Total capital assets not being depreciated	958,704	459,091	(14,951)	(399,438)	1,003,406
Capital assets being depreciated:					
Buildings	3,293,463	7,747	(920)	61,588	3,361,878
Leasehold improvements	6,766	—	—	541	7,307
Improvements other than buildings	345,635	7,126	(2,569)	5,828	356,020
Rights-of-way - temporary easement	7,635	—	—	—	7,635
Infrastructure – water quality	2,238,131	1	—	22,655	2,260,787
Furniture, machinery and equipment	2,435,001	11,999	(96,395)	307,763	2,658,368
Software	152,032	1	(3,083)	1,323	150,273
Total capital assets being depreciated	8,478,663	26,874	(102,967)	399,698	8,802,268
Less accumulated depreciation for:					
Buildings	(1,450,397)	(91,743)	747	—	(1,541,393)
Leasehold improvements	(3,046)	(360)	—	—	(3,406)
Improvements other than buildings	(145,099)	(12,280)	673	—	(156,706)
Rights-of-way - temporary easement	(927)	(218)	—	—	(1,145)
Infrastructure – water quality	(530,650)	(47,484)	—	—	(578,134)
Furniture, machinery and equipment	(1,402,987)	(150,765)	95,073	26	(1,458,653)
Software	(87,031)	(14,069)	3,021	—	(98,079)
Total accumulated depreciation	(3,620,137)	(316,919)	99,514	26	(3,837,516)
Total capital assets being depreciated, net	4,858,526	(290,045)	(3,453)	399,724	4,964,752
Business-type activities capital assets, net	$ 5,817,230	$ 169,046	$ (18,404)	$ 286	$ 5,968,158

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):

	2016
Governmental Activities	
General government	$ 22,013
Public safety	9,927
Physical environment	651
Transportation	269
Economic environment	11
Mental and physical health	836
Culture and recreation	3,520
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	13,683
Total depreciation - governmental activities	$ 50,910
Business-type Activities	
Water Quality	$ 172,598
Public Transportation	132,726
Solid Waste	9,209
King County International Airport	5,511
Institutional Network	251
Radio Communications	720
Marine Fund	1,038
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on its usage of the assets	2,033
Total depreciation and amortization expense - business-type activities	324,086
Less amortization - Water Quality other assets	(7,167)
Total depreciation - business-type activities	$ 316,919

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 indices 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 - $74.7 million is committed to the maintenance of existing infrastructure, service delivery and partnership efforts.

Water Quality Enterprise - $54.4 million is committed to ensuring the continued operation, reliability and compliance with regulatory standards of existing wastewater treatment facilities.

Other Enterprises - $8.5 million is committed to improving the County's solid waste regional landfill and transfer stations and $2.0 million for Airport facility improvements within the County.

Capital Projects Funds

$201.0 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) technology initiatives to improve business efficiency, emergency preparedness and network security; (4) flood control projects to protect the ecosystem and public property; (5) preservation of roads construction of bridges; and (6) improvements and major repairs to office buildings and other facilities.

Discretely Presented Component Units

Harborview Medical Center (HMC)

Capital assets activity for HMC during the fiscal year ended June 30, 2016 (in thousands):

	Balance 7/1/2015	Additions	Retirement	Transfers	Balance 6/30/2016
Capital assets not being depreciated:					
Land	$ 1,586	$ 846	$ —	$ —	$ 2,432
Work in progress	12,653	17,189	—	(17,258)	12,584
Total capital assets not being depreciated	14,239	18,035	—	(17,258)	15,016
Capital assets being depreciated:					
Buildings	413,590	6,110	—	—	419,700
Improvements other than buildings	15,139	959	—	—	16,098
Equipment	428,175	19,121	(9,030)	—	438,266
Total capital assets being depreciated	856,904	26,190	(9,030)	—	874,064
Less accumulated depreciation for:					
Buildings	(188,400)	(13,577)	—	—	(201,977)
Improvements other than buildings	(6,794)	(907)	—	—	(7,701)
Equipment	(368,690)	(19,037)	8,689	—	(379,038)
Total accumulated depreciation	(563,884)	(33,521)	8,689	—	(588,716)
HMC capital assets, net	$ 307,259	$ 10,704	$ (341)	$ (17,258)	$ 300,364

HMC owns other properties (net book value of $19.9 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 summarized below (in thousands):

Proprietary Funds		
Public Transportation - restricted for future construction projects, debt service and obligations.	$	50,288
Water Quality - restricted for future construction projects, debt service, and reserves and obligations.		236,841
King County International Airport - restricted for construction projects and obligations.		695
Radio Communications Services - restricted for construction projects and obligations.		6
Solid Waste - restricted for construction projects, landfill closure and post-closure care costs.		50,580
Building Development & Management Corporations - restricted for construction projects and debt service.		3,828
Construction & Facilities Management - restricted for construction projects and obligations.		9
King County Information Technology Services - restricted for construction projects.		255
Total Proprietary Funds restricted assets	$	342,502

Component Unit - Harborview Medical Center (HMC)		
HMC Construction Fund - restricted for construction projects, seismic, public safety and other improvements and furnishings of HMC buildings.	$	4,737
HMC Special Purpose Fund - restricted donations, gifts, and bequests from various sources for specific uses.		7,857
Total HMC restricted assets	$	12,594

Component Unit - Cultural Development Authority of King County (CDA)		
Public Arts Projects Fund - restricted for the one percent for public art programs operated for the benefit of King County.	$	16,346
Cultural Grant Awards Fund - restricted for arts and heritage cultural programs.		55,100
Total CDA restricted assets	$	71,446

Note 9

Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts - All Plans (in thousands)	
Pension liabilities	$ 1,013,713
Pension assets	23,723
Deferred outflows of resources	188,243
Deferred inflows of resources	23,554
Pension expense/expenditures	113,892

Substantially all of the County's full-time and qualifying part-time employees participate in one of the following retirement plans: Public Employees' Retirement System (PERS) Plan 1, 2 and 3; Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 and 2; Public Safety Employees' Retirement System (PSERS) Plan 2; and Seattle City Employees' Retirement System (SCERS).

PERS, LEOFF and PSERS are administered by the Washington State Department of Retirement Systems under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes and amends laws pertaining to the creation and administration of all statewide public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

SCERS is administered by the City of Seattle's Employees' Retirement System, under cost-sharing, multiple-employer public employee defined benefit retirement plans. The seven-member Board of Administration establishes and amends laws pertaining to the administration of SCERS.

The Employees' Retirement System issues an independent financial report. A copy of the report is available from the Seattle City Employees' Retirement System at 720 Third Avenue, Suite 900, Seattle, WA 98104; by telephone at 206-386-1293; or by accessing the website http://www.seattle.gov/retirement.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS Plan 1 and Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1

Benefits Provided: PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits.

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions: The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary (OSA) and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January through December 2016	11.18%	6.00%

* For employees participating in the Judicial Benefit Multiplier Program (JBM), the contribution rate was 12.26%.

The County's actual contributions to the plan were $1.9 million for the year ended December 31, 2016.

PERS Plans 2 and 3

Benefits Provided: PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS Plan 2 members are vested after completing five years of eligible service. PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, PERS Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions: PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. PERS Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January through December 2016	11.18%	6.12%
Employee PERS Plan 3	N/A	varies

* For employees participating in JBM, the contribution rate was 15.30%.

The County's actual contributions to the plan were $109.2 million for the year ended December 31, 2016.

Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, 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 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.

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor and Cannabis Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

Benefits Provided: PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (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. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. 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 three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions: PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2016 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	**Employer**	**Employee**
January through December 2016	11.54%	6.59%

The County's actual contributions to the plan were $4.0 million for the year ended December 31, 2016.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1

Benefits Provided: LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of Final Average Salary (FAS) as follows:

- 20+ years of service 2.0% of FAS
- 10 - 19 years of service 1.5% of FAS
- 5 - 9 years of service 1.0% of FAS

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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF Plan 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions: Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2

Benefits Provided: LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. 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 three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF Plan 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Contributions: LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

LEOFF 2		
Actual Contribution Rates:	**Employer**	**Employee**
January through December 2016	5.23%	8.41%

The County's actual contributions to the plan were $4.7 million for the year ended December 31, 2016.

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 the state fiscal year ending June 30, 2016, the State contributed $60.4 million to LEOFF Plan 2.

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.

Benefits Provided: SCERS provides retirement, disability, and death 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.

Contributions: The SCERS member contribution rate is 10.03 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 15.23 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. The SCERS Plan required contribution rates (expressed as a percentage of payroll) for 2016 were as follows:

SCERS		
Actual Contribution Rates:	**Employer**	**Employee**
January through December 2016	15.23%	10.03%

The County's actual contributions to the plan were $0.5 million for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA lowered the assumed valuation interest rate from 7.8% to 7.7% for all systems except LEOFF Plan 2 and updated the assumed administrative factors.
- The OSA corrected how valuation software calculates nonduty disability benefits for LEOFF Plan 2 active members.
- The OSA added new LEOFF Plan 2 benefit definition within its valuation software to model legislation signed into law during the 2015 legislative session. The law now pays the Labor & Industries (L&I) duty-related death survivor benefit from each system's respective trust fund upon remarriage of the survivor. Before this legislation, the L&I survivor benefit ended when the survivor of a duty-related death remarried.
- The OSA changed the way it values the basic minimum COLA in PERS Plan 1. Calculation of this COLA is now included in its valuation software instead of using an external model.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF Plan 2, which has assumed 7.5 percent.) Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3, PSERS Plan 2, SERS Plans 2 and 3, and TRS Plans 2 and 3 employers, whose rates include a component for the PERS Plan 1 or TRS Plan 1 liability). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS and SCERS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the DRS pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return
Fixed Income	20%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
	100%	

Best estimates of geometric real rates of return for each major asset class included in the SCERS pension plan's target asset allocation as of December 31, 2015 are summarized in the chart that follows:

Asset Class	% Long-term Expected Real Rate of Return Arithmetic
Equity: Public	4.6%
Equity: Private	6.3%
Fixed Income: Broad	0.8%
Fixed Income: Credit	3.6%
Real Assets: Real Estate	3.3%
Real Assets: Infrastructure	3.3%
Diversifying Strategies	3.3%

Sensitivity of Net Pension Liability (Asset)

The table below presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

Sensitivity of Net Pension Liability (Asset) (in thousands)			
Plans	**1% Decrease (6.5%)**	**Current Discount Rate**	**1% Increase (8.5%)**
PERS 1	$ 576,265	$ 477,872	$ 393,198
PERS 2/3	975,558	529,855	(275,820)
PSERS 2	20,917	4,817	(6,651)
LEOFF 1	(3,671)	(6,180)	(8,324)
LEOFF 2	49,195	(17,543)	(67,845)
SCERS	1,566	1,169	835

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the County reported a total pension liability of $1,013.7 million and total pension asset of $23.7 million for its proportionate share of the net pension liabilities as follows:

Total Pension Liability (Asset) (in thousands)	
PERS 1	$ 477,872
PERS 2/3	529,855
PSERS 2	4,817
LEOFF 1	(6,180)
LEOFF 2	(17,543)
SCERS	1,169

The amount of the asset reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the County. The amount recognized by the County as its proportionate share of the net pension asset, the related State support and the total portion of the net pension asset that was associated with the County were as follows:

Net Pension Liability/(Asset) (in thousands)	
LEOFF 2 - County's proportionate share	$ (17,543)
LEOFF 2 - State's proportionate share of the net pension liability/(asset) associated with King County	(11,437)
TOTAL	$ (28,980)

At June 30, the County proportionate share of the collective net pension liabilities was as follows:

Collective Net Pension Liabilities			
	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	8.76%	8.9%	0.13%
PERS 2/3	10.36%	10.52%	0.16%
PSERS 2	9.88%	11.33%	1.45%
LEOFF 1	0.6%	0.6%	0%
LEOFF 2	2.9%	3.02%	0.11%
SCERS	0.12%	0.09%	-0.03%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary. In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the County recognized pension expense as follows:

Pension Expense (in thousands)	
PERS 1	$ (16,886)
PERS 2/3	120,394
PSERS 2	5,127
LEOFF 1	(761)
LEOFF 2	5,776
SCERS	242
TOTAL	$ 113,892

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ —	$ —
Net difference between projected and actual investment earnings on pension plan investments	12,032	—
Changes of assumptions	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	—	—
Contributions subsequent to the measurement date	25,117	—
TOTAL	$ 37,149	$ —

PERS 2/3	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ 28,214	$ 17,491
Net difference between projected and actual investment earnings on pension plan investments	64,839	—
Changes of assumptions	5,477	—
Changes in proportion and differences between contributions and proportionate share of contributions	5,052	5,096
Contributions subsequent to the measurement date	30,574	—
TOTAL	$ 134,156	$ 22,587

PSERS 2	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ 1,641	$ —
Net difference between projected and actual investment earnings on pension plan investments	994	—
Changes of assumptions	19	—
Changes in proportion and differences between contributions and proportionate share of contributions	125	15
Contributions subsequent to the measurement date	1,139	—
TOTAL	$ 3,918	$ 15

LEOFF 1	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ —	$ —
Net difference between projected and actual investment earnings on pension plan investments	628	—
Changes of assumptions	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	—	—
Contributions subsequent to the measurement date	—	—
TOTAL	$ 628	$ —

LEOFF 2	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ 2,404	$ —
Net difference between projected and actual investment earnings on pension plan investments	6,304	—
Changes of assumptions	66	—
Changes in proportion and differences between contributions and proportionate share of contributions	193	775
Contributions subsequent to the measurement date	2,114	—
TOTAL	$ 11,081	$ 775

SCERS	Deferred Outflows of Resources	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ 1	$ —
Net difference between projected and actual investment earnings on pension plan investments	143	—
Changes of assumptions	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	705	176
Contributions subsequent to the measurement date	461	—
TOTAL	$ 1,310	$ 176

Deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1 (in thousands)
2017	$ (2,963)
2018	(2,962)
2019	11,050
2020	6,907
2021	—
2022	—

Year ended December 31:	PERS 2/3 (in thousands)
2017	$ (179)
2018	(179)
2019	50,307
2020	31,046
2021	—
2022	—

Year ended December 31:	PSERS 2 (in thousands)
2017	$ 342
2018	342
2019	955
2020	752
2021	350
2022	23

Year ended December 31:	LEOFF 1 (in thousands)
2017	$ (130)
2018	(130)
2019	544
2020	344
2021	—
2022	—

Year ended December 31:	LEOFF 2 (in thousands)
2017	$ (194)
2018	(194)
2019	5,100
2020	3,477
2021	3
2022	—

Year ended December 31:	SCERS (in thousands)
2017	$ 156
2018	156
2019	156
2020	148
2021	57
2022	—

In accordance with Statement No. 68, the County has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities.

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 retirement systems.

Component Unit - Cultural Development Authority of King County (CDA)

All eligible CDA personnel participate in PERS, a statewide local government retirement system administered by the DRS under cost-sharing, multiple-employer defined benefit plans. CDA's net pension liability and deferred outflows of resources related to pensions at December 31, 2016 were $1.7 million and $0.3 million, respectively.

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 $70.9 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, 2016 by approximately $5.6 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, 2016, the County contributed an estimated $5.9 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, 2016 (in thousands):

	2016
Normal cost - Unit Credit Method	$ 3,707
Amortization of unfunded actuarial accrued liability (UAAL)	9,902
Annual Required Contribution (ARC)	13,609
Interest on net OPEB obligation	1,489
Adjustment to annual required contribution	(3,556)
Annual OPEB cost (expense)	11,542
Contributions made	(5,899)
Increase in net OPEB obligation	5,643
Net OPEB obligation - beginning of year	65,251
Net OPEB obligation - end of year	$ 70,894

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	$ 11,838	43.5%	$ 59,607
12/31/2015	11,543	51.1%	65,251
12/31/2016	11,542	51.1%	70,894

Funded Status and Funding Progress

The funded status of the Health Plan as of December 31, 2016 (in thousands) is as follows:

Actuarial accrued liability (AAL) – Unit Credit	$	167,417
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	167,417
Funded ratio (actuarial value of plan assets ÷ AAL)		0.00%
Covered payroll	$	1,121,962
UAAL as a percentage of covered payroll		14.9%

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 No. 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, 2016 valuation used the projected unit credit actuarial cost method. The actuarial assumptions included a 2.50 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 7.0 percent for KingCare medical, 9.0 percent for KingCare pharmacy, and 7.0 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 3.8 percent after 59 years and 7 years for medical and pharmacy, respectively. The Medicare Premium trend rate is 6.0 percent, for all years. All trend rates include a 3.0 percent inflation assumption. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 22 years.

Component Unit - Harborview Medical Center (HMC)

All University employees, including medical center employees, are eligible for participation in healthcare and life insurance programs administered by the WSHCA (Washington State Health Care Authority). HMC 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.

The Office of the State Actuary determines total OPEB obligations at the State level using individual state employee data, including age, retirement eligibility, and length of service. Information to support actuarial calculation at the division, department, or component unit level is not available. The State is ultimately responsible for the obligation; therefore, the annual required contribution (ARC) is not recorded at the University or its departments, divisions, agencies or component units.

Note 11
Risk Management

The County uses three internal service funds to account for and finance property/casualty, workers' compensation and employee medical, pharmacy, dental, and vision benefits self-insurance programs. The County contracts with a plan administrator to process medical, pharmacy, vision 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, 2016, is $75.6 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 Transit and $6.5 million SIR for all other County agencies.

Effective July 1, 2016, the County renewed the property insurance policy. This policy has a blanket limit of $500.0 million above a $250 thousand per occurrence deductible and provides an overall earthquake sublimit of $100.0 million and a flood sublimit of $250.0 million.

In 2016, the County purchased a cyber liability policy with a $30.0 million coverage limit.

In addition to its excess liability policy and property insurance policies, the County has specific insurance policies to cover some of its other exposures. These are listed in the table which follows.

COVERAGE	COVERAGE AMOUNT	DEDUCTIBLE
Aircraft Liability & Physical Damage	$50 million per occurrence & scheduled value	None for Liability, $1 to $85 thousand for Property Damage
Crime and Fidelity for Public Employee Dishonesty	$2.5 million	$50 thousand
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
King County International Airport General Liability	$300 million per occurrence	$50 thousand aggregate
King County International Airport Property Damage	$160 million with sub-limits of $100 million for Flood and $50 million for Earthquake	$100 thousand
Marine Policies (includes King County Ferry District)	$150 million	$2.5 thousand
Cyber Liability	$30 million	$1 million per claim
Parks Swimming Pools General Liability	$7.5 million	None

In 2016, there were two settlements that exceeded the SIR. In 2014 and 2015, there were no settlements that exceeded insurance coverage.

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques.

Changes in the Insurance Fund's estimated claims liability in 2015 and 2016 (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2015	$ 72,773	$ 27,430	$ (11,638)	$ 88,565
2016	88,565	20,731	(33,741)	75,555

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 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, 2016, the total claim liability is $70.2 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 April 1, 2016, 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.

Changes in the Safety and Workers' Compensation Fund's claims liability in 2015 and 2016 (in thousands) are shown below:

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2015	$ 75,699	$ 12,605	$ (15,194)	$ 73,110
2016	73,110	13,463	(16,389)	70,184

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. Two medical plans, and the pharmacy, dental and vision plans are self-insured. The life, AD&D, and LTD benefit programs are fully insured. Interfund premiums are determined on a per employee, per month basis.

The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2016, is $23.6 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2015 and 2016 (in thousands) are shown below:

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2015	$ 18,541	$ 162,218	$ (159,316)	$ 21,443
2016	21,443	171,225	(169,047)	23,621

Component Unit - Harborview Medical Center (HMC)

Harborview Medical Center (HMC) is exposed to risk of loss related to professional and general liability, property loss and injuries to employees. HMC participates in risk pools managed by the University to mitigate risk of loss related to these exposures.

Professional and General Liability:
The University's professional liability program currently includes self-insured and commercial reinsurance coverage components. HMC's annual funding to the professional liability program is determined by the University administration using information from an annual actuary study. Various participants in the program contribute to the self-insurance fund and share in the expenses of the program. HMC's contribution to the professional liability program was $3.4 million in 2016 and 2015, recorded in supplies and other expense on the Statements of Revenues, Expenses and Changes in Net Position.

Professional and General Liability:
HMC personnel are employees of the University. Benefit costs are pooled centrally for all University employees. Annually the University reviews total employee benefit costs and prepares standard benefit load rates by employment classification. These benefit costs cover employee healthcare costs, workers' compensation, employment taxes and retirement plans.

Component Unit - Cultural Development Authority of King County

Insurance Fund

Cultural Development Authority of King County (CDA) carries comprehensive general liability, auto liability and employee benefit liability coverage with a limit of $20.0 million per occurrence and no aggregate limit. Commercial property losses are covered up to the replacement cost on file with Enduris Washington. CDA also carries Public Official Errors and Omissions Liability coverage with a limit of $20.0 million per occurrence and an aggregate limit of $20.0 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. CDA also offers insurance with American Family Life Assurance Company (AFLAC) and MetLife. With the AFLAC and MetLife coverage, 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 under Business-type Activities.

Capital assets and outstanding liabilities relating to capital lease agreement contracts as of December 31, 2016 (in thousands) is as follows:

	Business-type Activities	
	Capital Assets	Capital Leases Payable
Leasehold improvements	$ 4,881	$ 2,640
Less: Depreciation	(2,411)	—
Totals	$ 2,470	$ 2,640

Future minimum lease payments under capital lease agreements and the present value of the net minimum lease payments are shown below as of December 31, 2016 (in thousands):

	Minimum Lease Payments
2017	$ 255
2018	255
2019	255
2020	255
2021	255
2022-2026	1,275
2027-2031	1,169
Total minimum lease payments	3,719
Less: Amount representing interest	(1,079)
Present value of net minimum lease payments	$ 2,640

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, 2016 for long-term operating expenses for office space, equipment and other operating leases amount to $19.3 million. The patterns of future lease payment requirements are systematic and rational. Future minimum lease payments for these leases are shown in the table below (in thousands):

Year	Office Space	Other	Total
2017	$ 13,873	$ 4,399	$ 18,272
2018	12,741	4,227	16,968
2019	12,299	3,881	16,180
2020	11,610	3,295	14,905
2021	11,005	2,189	13,194
2022-2026	38,396	6,057	44,453
2027-2031	2,943	2,837	5,780
2032-2036	—	2,037	2,037
2037-2041	—	1,582	1,582
2042-2046	—	1,582	1,582

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 International 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, 2016 (in thousands):

	Governmental Activities	Business-type Activities Airport	Business-type Activities Other
Land	$ 621	$ 150	$ —
Buildings	394	246	424
Less: Depreciation	(394)	(136)	(114)
Total cost of property under lease	$ 621	$ 260	$ 310

Minimum future lease receipts on noncancelable operating leases based on contract amounts and terms as of December 31, 2016 (in thousands):

Year	Governmental Activities	Business-type Activities Airport	Business-type Activities Other	Total
2017	$ 2,899	$ 12,240	$ 143	$ 15,282
2018	2,590	11,988	114	14,692
2019	2,222	11,725	83	14,030
2020	1,935	11,070	51	13,056
2021	1,409	10,741	51	12,201
2022-2026	6,160	52,102	59	58,321
2027-2031	5,399	43,480	59	48,938
2032-2036	2,388	16,971	59	19,418
2037-2041	2,253	16,111	58	18,422
2042-2046	2,253	15,580	35	17,868

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 complete closure activities at 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, Vashon and Cedar Falls landfills have been closed. Duvall, Puyallup, Houghton, Bow Lake and First Northeast are custodial landfills which were closed 30 or more years ago and are subject to less prescriptive 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 $126.3 million reported as landfill closure and post-closure care liability as of December 31, 2016, 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	80.1%	$ 101,465	$ 73,691	2027
Closed	100%	15,475	—	Closed
Custodial	100%	9,337	—	Closed

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, 2016, cash and cash equivalents of $42.0 million were held in the Landfill Reserve Fund and $5.2 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.

Note 14
Pollution Remediation

Pollution remediation liabilities reported at the end of 2016 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 (PRP), 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 identitied 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 in principle to pay one-fourth of the cleanup costs.

Both projects can result in additional cleanup efforts if future regulatory orders are declared. These potential cleanup liabilities, however, cannot be reasonably estimated at this time. 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. The total pollution remediation liability at December 31, 2016 stands at $46.9 million although the actual amount will vary due 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 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 under the Water Quality enterprise 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 $599 thousand at December 31, 2016. 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 Public Transportation 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, 2016.

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 DOE. An Agreed Order between DOE and King County was finalized in January 2013 requiring the County to conduct a remediation investigation, a feasibility study and a cleanup action plan. 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. The remediation will be completed in phases over a period of about five to 10 years. As of December 31, 2016, the County completed the first phase of Interim Action Cleanup Plan with approval from the DOE, costing approximately $600 thousand. The cleanup included removing invasive vegetation and surface soil on 3 acres immediately south of SW 260th St, adding a compost cap, and replanting the area with native trees and shrubs. The cleanup costs that incurred in 2016 were capitalized. The remaining remediation requirements are being evaluated in coordination with DOE.

Washington Air National Guard Site Investigation - The Washington Air National Guard (WANG) site is located at 6736 Ellis Avenue South in Seattle, Washington. The WANG site occupies approximately 7.5 acres, adjacent to the northwest boundary of the North Boeing Field Georgetown Steam Plant (NBF/GTSP). The WANG site was developed during World War II by the War Department, and served as an aircraft factory school between 1943 and 1948. During environmental investigations at the site, a dissolved Trichloroethene (TCE) plume was identified in shallow groundwater in the southern portion of the site. In May 2016, the Washington State Department of Ecology (DOE) recommended that King County conduct an investigation to determine if the source of recent increases in TCE concentrations in groundwater monitoring wells at the NBF/GTSP site is from the WANG site. The site investigation work will be conducted in three phases: soil and groundwater data collection, soil and groundwater sampling, and quarterly groundwater monitoring. The Airport reported a pollution remediation liability of $315 thousand at December 31, 2016.

Note 15
Liabilities

Short-term Debt Instruments and Liquidity

At December 31, 2016, King County has no short-term debt outstanding.

CHANGES IN SHORT-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

	Balance 01/01/16	Additions	Reductions	Balance 12/31/16
Business-type activities:				
Junior lien sewer revenue bonds	$ 100,000	$ —	$ (100,000)	$ —
Business-type activities short-term debt	$ 100,000	$ —	$ (100,000)	$ —

Long-term Debt

King County has long-term debt reported for both governmental activities and business-type activities.

For governmental activities, long-term debt consists of general obligation bonds and lease revenue bonds. The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. These bonds consist of limited and unlimited general obligation bonds and lease revenue bonds. The general obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as serial bonds with principal maturing each year and maturities that ranges from 5 to 30 years.

For business-type activities, long-term debt consists of limited tax general obligation bonds accounted for in the King County International Airport, Solid Waste, Public Transportation and Water Quality Enterprise Funds. Capital leases are accounted for in the Public Transportation Enterprise Fund. Sewer Revenue Bonds and state of Washington revolving loans are accounted for in the Water Quality Enterprise Fund.

Sewer revenue bonds are accounted for in the Water Quality Enterprise Fund. These bonds are secured by the pledge of and lien on revenues of the sewer system subject to the payment of all operating and maintenance expenses of the sewer system. Payments from revenues of Water Quality are required to be made to the sewer revenue bond fund in the annual amounts sufficient to retire serial or term bonds on or before maturity. The amount required in the cash reserved and surety policies are based on the highest year of debt services over the life of all outstanding revenue bonds. The sewer revenue bonds are special limited obligations of the County, and neither its full faith and credit nor any taxing power is pledged to the payment of the sewer revenue bonds. These sewer revenue bonds have maturities that range from 20 to 35 years.

The following tables summarize long-term debt issuances and amounts outstanding:

SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 1 OF 2)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/16
I. GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT					
IA. Limited Tax General Obligation Bonds (LTGO)					
2006 LTGO Refunding 1996B, 1997G and 1999A Bonds (Partial)	12/14/2006	1/1/2019	4.00-5.00%	$ 38,330	$ 7,195
2006 LTGO HUD Section 108 Bonds – Greenbridge Project	9/14/2006	8/1/2024	4.96-5.70%	6,783	1,822
2007C LTGO (Payoff BAN2006A) Bonds	11/1/2007	1/1/2028	4.00-4.50%	10,695	1,515
2007D LTGO (Payoff BAN2006B) Bonds	11/1/2007	1/1/2028	4.00-5.00%	34,630	3,185
2007E LTGO Peoplesoft/Oracle Upgrade Bonds (Partial)	11/27/2007	12/1/2017	4.00-5.00%	3,070	375
2009B2 LTGO Capital Facilities Project Bonds	5/12/2009	6/1/2029	2.00-5.13%	34,810	24,670
2009C LTGO Refunding1993B Bonds	12/10/2009	1/1/2024	4.50%	17,150	16,975
2010A LTGO Refunding 2001 and 2002 Bonds (Partial)	10/28/2010	6/1/2021	2.00-5.00%	21,445	4,370
2010B LTGO (BABs) (Taxable) Bonds	12/1/2010	12/1/2030	2.85-6.05%	17,355	11,765
2010C LTGO (RZEDBs) (Taxable) Bonds	12/1/2010	12/1/2030	4.58-6.05%	23,165	23,165
2010D LTGO (QECBs) (Taxable) Bonds	12/1/2010	12/1/2025	5.43%	2,825	2,825
2011 LTGO Refunding 2002, 2003A, and 2003B Bonds	8/1/2011	6/1/2023	2.00-5.00%	25,700	16,495
2011B LTGO Flood Planning/Payoff BAN2010B Bonds	12/1/2011	12/1/2019	2.00-4.00%	5,725	5,725
2011C LTGO Flood Planning/Payoff BAN2010C (Taxable) Bonds	12/1/2011	12/1/2017	0.03-1.85%	15,530	2,000
2011D LTGO (Maury Island/Open Space Acquisition) Bonds	12/21/2011	12/1/2031	2.00-3.50%	21,895	14,710
2012A LTGO (ABT Project) Bonds	3/29/2012	7/1/2022	3.00-5.00%	65,935	48,700
2012B LTGO (S. Park Bridge) Bonds	5/8/2012	9/1/2032	3.00-5.00%	28,065	24,320
2012C LTGO Refunding 2004B and 2005 Bonds	8/28/2012	1/1/2025	5.00%	54,260	50,540
2012D LTGO Refunding 2002BOP Lease (HMC) Bonds	11/29/2012	12/1/2031	2.00-5.00%	41,810	35,600
2012E LTGO SE District Court Relocation Bonds (Partial)	12/19/2012	12/1/2027	2.00-5.00%	3,000	2,345
2012F LTGO (QECBS) (Taxable) KCCF HVAC Project (Partial)	12/19/2012	12/1/2022	2.20%	3,010	3,010
2013 Multi-Modal LTGO Variable Rate Refunding 2009A Bonds	8/6/2013	6/1/2029	Variable [b]	41,460	35,180
2013B LTGO Refunding 2005 GHP Lease Bonds	12/19/2013	12/1/2026	3.00-5.00%	42,820	37,170
2014A LTGO Refunding 2005 GHP Lease Bonds	2/26/2014	12/1/2032	5.00%	34,815	34,420
2014B LTGO (Tall Chief Acquisition/SWM) Bonds	6/24/2014	6/1/2034	2.00-5.00%	15,395	15,180
2015B LTGO (FED TAX-EXEMPT) Bonds	10/13/2015	12/1/2030	2.50-5.00%	27,355	25,345
2015C LTGO Refunding 2007C and 2007D Bonds	10/13/2015	1/1/2028	3.00-5.00%	25,970	25,695
2015E LTGO Refunding 2006A NJB and 2007 KSC Lease Bonds	12/17/2015	12/1/2036	4.00-5.00%	172,320	172,320
2016A LTGO Bond 4Culture Building	3/10/2016	12/1/2030	1.50-5.00%	22,450	22,450
2016B LTGO Bond (Taxable) 4Culture Building	3/10/2016	12/1/2019	0.50-1.30%	2,575	2,315
Total Payable From Limited Tax GO Redemption Fund				860,348	671,382
Payable From Internal Service Funds					
2010B LTGO (BABs) (Taxable) Bonds	12/1/2010	12/1/2030	4.58-6.05%	7,125	4,450
2012E LTGO (IT Business Empowerment) Bonds (Partial)	12/19/2012	12/1/2027	2.00-5.00%	22,405	13,045
Total Payable From Internal Service Funds				29,530	17,495
Total Limited Tax General Obligation Debt				889,878	688,877
IB. Unlimited Tax General Obligation Bonds (UTGO)					
Payable From Unlimited Tax GO Redemption Fund					
2009A UTGO Refunding 2001(HMC) Bonds	12/10/2009	12/1/2020	4.30-5.00%	19,570	7,855
2012 UTGO Refunding 2004 (HMC) and 2004B (HMC) Bonds	8/14/2012	12/1/2023	2.00-5.00%	94,610	78,115
2013 UTGO Refunding 2003 Bonds	7/2/2013	6/1/2019	3.00-5.00%	8,660	4,165
Total Payable From Unlimited Tax GO Bond Redemption Fund				122,840	90,135
IC. Lease Revenue Bonds [a]					
Payable From Internal Service Funds					
2006A NJB Properties – HMC	12/5/2006	12/1/2036	5.00%	179,285	5
2006B NJB Properties – HMC (Taxable)	12/5/2006	12/1/2036	5.51%	10,435	9,125
2007 King Street Center Project Refunding 1997	3/8/2007	6/1/2025	4.00-5.00%	62,400	3,635
Total Lease Revenue Bonds Payable from Internal Service Funds				252,120	12,765
TOTAL GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT				1,264,838	791,777

SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 2 OF 2)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/16
II. BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT					
IIA. Limited Tax General Obligation Bonds (LTGO)					
Payable From Enterprise Funds					
2007E LTGO (Solid Waste) Bonds (Partial)	11/27/2007	12/1/2017	4.00-5.00%	$ 40,635	$ 1,900
2008 LTGO (WQ) Refunding 1998B Bonds	2/12/2008	1/1/2034	3.25-5.25%	236,950	213,460
2009 LTGO (Transit) Refunding 1998A Bonds	2/18/2009	12/1/2019	2.00-4.00%	48,535	14,850
2009B LTGO (WQ) Capital Improvement Projects Bonds	4/8/2009	7/1/2039	5.00-5.25%	300,000	28,795
2010A LTGO Refunding 2001 (Airport) Bonds (Partial)	10/28/2010	6/1/2021	2.00-5.00%	5,110	2,700
2010B LTGO (BABs) (Transit) Taxable Bonds	12/1/2010	12/1/2030	2.85-6.05%	20,555	18,375
2010D LTGO (QECBs) (Transit) Taxable Bonds	12/1/2010	12/1/2020	4.33%	3,000	3,000
2010A Multi-Modal LTGO (WQ) Bonds	1/12/2010	1/1/2040	Variable (b)	50,000	50,000
2010B Multi-Modal LTGO (WQ) Bonds	1/12/2010	1/1/2040	Variable (b)	50,000	50,000
2012A LTGO (WQ) Refunding 2005A Bonds	4/18/2012	1/1/2025	2.00-5.00%	68,395	67,755
2012B LTGO (WQ) Refunding 2005A Bonds	8/2/2012	1/1/2029	5.00%	41,725	41,725
2012C LTGO (WQ) Refunding 2005A Bonds	9/19/2012	1/1/2034	5.00%	53,405	53,405
2012D LTGO (Transit) Refunding 2002 and 2004 Bonds	10/16/2012	6/1/2034	2.00-5.00%	71,670	51,585
2012F LTGO (WQ) (South Plant Pump) Bonds	12/19/2012	12/1/2022	2.20%	3,010	3,010
2013 LTGO (Solid Waste) Bonds	2/27/2013	12/1/2040	3.10-5.00%	77,100	70,370
2014C LTGO & Refunding 2007E (Solid Waste) Bonds	7/30/2014	12/1/2034	2.00-5.00%	25,515	24,070
2015A LTGO (WQ) Refunding 2009B2 Bonds	2/18/2015	7/1/2038	2.00-5.00%	247,825	247,725
2015B LTGO (FED Tax-Exempt) (Solid Waste) Bonds	10/13/2015	12/1/2025	5.00%	60	55
2015D LTGO & Ref2007E (Solid Waste) Bonds	11/5/2015	12/1/2040	3.00-5.00%	50,595	49,885
Total Limited Tax GO Bonds Payable From Enterprise Funds				1,394,085	992,665
IIB. Revenue Bonds, Capital Leases and Loans					
Payable From Enterprise Funds					
2001A WQ Revenue Junior Lien Variable Rate Demand Bonds	8/6/2001	1/1/2032	Variable (c)	50,000	50,000
2001B WQ Revenue Junior Lien Variable Rate Demand Bonds	8/6/2001	1/1/2032	Variable (c)	50,000	50,000
2006B2 WQ Revenue and Refg 1999-1, 02A & 96C WQ-LTGO Bonds	11/30/2006	1/1/2036	3.50-5.00%	193,435	4,330
2007 WQ Revenue (Capital Improvement Projects) Bonds	6/26/2007	1/1/2047	5.00%	250,000	1,750
2008 WQ Revenue (Capital Improvement Projects) Bonds	8/14/2008	1/1/2048	5.00-5.75%	350,000	3,605
2009 WQ Revenue (Capital Improvement Projects) Bonds	8/12/2009	1/1/2042	4.00-5.25%	250,000	4,850
2010 WQ Revenue & Refunding 2001 Bonds	7/19/2010	1/1/2050	2.00-5.00%	334,365	108,625
2011 WQ Revenue (Capital Improvement Projects) Bonds	1/25/2011	1/1/2041	5.00-5.125	175,000	66,925
2011B WQ Revenue Refunding 2001, 2002A, 2002B, and 04A Bonds	10/5/2011	1/1/2041	1.00-5.00%	494,270	254,620
2011C WQ Revenue Refunding 2001, 2002A, and 2004A Bonds	11/1/2011	1/1/2035	3.00-5.00%	32,445	16,485
2011 WQ Revenue Junior Lien Variable Rate Demand Bonds	10/26/2011	1/1/2042	Variable (c)	100,000	100,000
2012 WQ Revenue and Refunding 2004A Bonds	4/18/2012	1/1/2052	5.00%	104,445	104,445
2012B WQ Revenue and Refunding 2004A Bonds	8/2/2012	1/1/2035	4.00-5.00%	64,260	64,260
2012C WQ Revenue and Refunding 2004A and 2006 Bonds	9/19/2012	1/1/2033	2.50-5.00%	65,415	65,415
2012 WQ Revenue Junior Lien Variable Rate Demand Bonds	12/27/2012	1/1/2043	Variable (c)	100,000	100,000
2013A WQ Revenue Refg 2003, 2006, and 2005 WQ-LTGO Bonds	4/9/2013	1/1/2035	2.00-5.00%	122,895	117,000
2013B WQ Revenue and Refunding 2004B Bonds	10/29/2013	1/1/2044	2.00-5.00%	74,930	63,030
2014A WQ Revenue Refunding 2007 Bonds	7/8/2014	1/1/2047	5.00%	75,000	75,000
2014B WQ Revenue Refg 2004B, 2006, 2006B, 2007 and 2008 Bonds	8/12/2014	7/1/2035	1.00-5.00%	192,460	190,790
2015A WQ Revenue Refunding 2007, 2008, and 2009 Bonds	2/18/2015	7/1/2047	3.00-5.00%	474,025	473,190
2015B WQ Revenue & Refunding 2006 Bonds	11/17/2015	1/1/2046	4.00-5.00%	93,345	89,380
2015AB WQ Revenue Junior Lien Variable Rate Demand Bonds	11/24/15	01/01/46	Variable (c)	100,000	100,000
2016A WQ Revenue & Refunding 2007, 2008, 2009, 2010 Bonds	2/17/2016	7/1/2041	4.00-5.00%	281,535	281,535
2016B WQ Revenue & Refunding 2006-2, 2010, 2011A, 2011B, 2011C Bonds	10/12/2016	7/1/2049	4.00-5.00%	499,655	499,655
2000-2016 State of Washington Revolving Loans	Various	Various	0.50-3.10%	195,906	205,989
2000 Public Transp. Park and Ride Capital Leases	03/30/00	12/31/2031	5.00%	4,722	2,640
Total Revenue Bonds, Capital Leases and Loans Payable From Enterprise Funds				4,728,108	3,093,519
TOTAL BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT				6,122,193	4,086,184
TOTAL LONG-TERM DEBT				$ 7,387,031	$ 4,877,961

(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 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.

(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.

The following tables display the scheduled debt service payments for the next five years and in five-year increments thereafter:

DEBT SERVICE REQUIREMENTS TO MATURITY
(IN THOUSANDS)

GOVERNMENTAL ACTIVITIES

	General Obligation Bonds		Lease Revenue Bonds		Total	
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2017	$ 66,617	$ 33,343	$ 3,895	$ 594	$ 70,512	$ 33,937
2018	68,048	30,508	275	489	68,323	30,997
2019	70,060	27,561	290	474	70,350	28,035
2020	62,422	24,542	310	458	62,732	25,000
2021	63,806	21,680	325	440	64,131	22,120
2022-2026	240,814	68,160	1,910	1,913	242,724	70,073
2027-2031	147,105	29,115	2,495	1,327	149,600	30,442
2032-2036	60,140	6,541	3,265	559	63,405	7,100
TOTAL	$ 779,012	$ 241,450	$ 12,765	$ 6,254	$ 791,777	$ 247,704

	BUSINESS-TYPE ACTIVITIES						DEBT SERVICE REQUIREMENTS TO MATURITY	
	General Obligation Bonds		Revenue Bonds, Capital Leases and Loans		Total		Total	
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2017	$ 38,620	$ 45,946	$ 65,706	$ 124,394	$ 104,326	$ 170,340	$ 174,838	$ 204,277
2018	40,280	44,084	64,905	128,466	105,185	172,550	173,508	203,547
2019	42,175	42,129	67,369	125,848	109,544	167,977	179,894	196,012
2020	44,460	40,222	72,109	123,094	116,569	163,316	179,301	188,316
2021	35,400	38,245	69,502	120,169	104,902	158,414	169,033	180,534
2022-2026	203,635	163,373	397,879	551,395	601,514	714,768	844,238	784,841
2027-2031	224,550	109,819	463,343	455,204	687,893	565,023	837,493	595,465
2032-2036	201,330	56,024	636,957	322,662	838,287	378,686	901,692	385,786
2037-2041	162,215	22,245	481,119	206,392	643,334	228,637	643,334	228,637
2042-2046	—	—	626,705	93,301	626,705	93,301	626,705	93,301
2047-2051	—	—	138,060	15,003	138,060	15,003	138,060	15,003
2052-2056	—	—	9,865	247	9,865	247	9,865	247
TOTAL	$ 992,665	$ 562,087	$ 3,093,519	$ 2,266,175	$ 4,086,184	$ 2,828,262	$ 4,877,961	$ 3,075,966

Long-term liability activity is reported by King County within governmental activities and business-type activities. The summary of changes in long-term liabilities for the year ended December 31, 2016 is as follows (in thousands):

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/2016	Due Within One Year
Governmental activities:					
General obligation bonds payable:					
General obligation (GO) bonds	$ 825,298	$ 25,025	$ (71,311)	$ 779,012	$ 66,617
Lease revenue bonds[a]	20,965	—	(8,200)	12,765	3,895
Unamortized bonds premium and discount	85,768	3,764	(13,592)	75,940	—
Total bonds payable	932,031	28,789	(93,103)	867,717	70,512
Other liabilities:					
Compensated absences liability	102,600	119,930	(119,672)	102,858	4,572
Net pension liability	463,102	257,312	(165,647)	554,767	—
Other postemployment benefits	52,479	5,122	(511)	57,090	—
Estimated claims settlements and other liabilities	183,118	215,301	(229,059)	169,360	58,281
Total other liabilities	801,299	597,665	(514,889)	884,075	62,853
Total Governmental activities long-term liabilities	$ 1,733,330	$ 626,454	$ (607,992)	$ 1,751,792	$ 133,365
Business-type activities:					
Bonds payable:					
GO bonds	$ 1,018,955	$ —	$ (26,290)	$ 992,665	$ 38,620
Revenue bonds	2,830,165	881,190	(826,465)	2,884,890	52,015
Unamortized bonds premium and discount	295,087	102,618	(27,898)	369,807	—
Total bonds payable	4,144,207	983,808	(880,653)	4,247,362	90,635
Other liabilities:					
Capital leases	2,760	—	(120)	2,640	126
State revolving loans	179,388	39,151	(12,550)	205,989	13,565
Compensated absences liability	72,873	85,018	(89,628)	68,263	10,343
Net pension liability	368,692	197,732	(107,478)	458,946	—
Other postemployment benefits	12,772	1,696	(664)	13,804	—
Landfill closure and post-closure care liability	101,903	28,583	(4,209)	126,277	3,031
Pollution remediation	52,920	3,307	(8,436)	47,791	6,928
Customer deposits	1,206	1,530	(1,322)	1,414	791
Total other liabilities	792,514	357,017	(224,407)	925,124	34,784
Total Business-type activities long-term liabilities	$ 4,936,721	$ 1,340,825	$ (1,105,060)	$ 5,172,486	$ 125,419

[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.

Governmental activities estimated claims settlements of $169.4 million are liquidated by internal service funds. Governmental activities compensated absences, net pension liability and other postemployment benefits are liquidated by the governmental fund in which an employee receiving the payment is budgeted, including most notably, General Fund, Public Health Fund and County Road Fund.

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 (Wastewater Treatment and Public Transportation), 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, 2016 (in thousands):

2016 ASSESSED VALUE (2017 TAX YEAR)	$ 471,456,288	
Debt limit of limited tax general obligations for metropolitan functions		
0.75 % of assessed value		$ 3,535,922
Less: Net limited tax general obligation indebtedness for metropolitan functions		(928,514)
LIMITED TAX GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS		$ 2,607,408
Debt limit of limited tax general obligations for general county purposes and metropolitan functions		
1.5 % of assessed value		$ 7,071,844
Less: Net limited tax general obligation indebtedness for general county purposes	$ (676,045)	
Net limited tax general obligation indebtedness for metropolitan functions	(928,514)	
Total net limited tax general obligation indebtedness for general county purposes and metropolitan functions		(1,604,559)
LIMITED TAX GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS		$ 5,467,285
Debt limit of total general obligations for metropolitan functions		
2.5% of assessed value		$ 11,786,407
Less: Net total general obligation indebtedness for metropolitan functions		(928,514)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS		$ 10,857,893
Debt limit of total general obligations for general county purposes		
2.5 % of assessed value		$ 11,786,407
Less: Net unlimited tax general obligation indebtedness for general county purposes	$ (88,092)	
Net limited tax general obligation indebtedness for general county purposes	(676,045)	
Total net general obligation indebtedness for general county purposes		(764,137)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES		$ 11,022,270

Refunding and Defeasing General Obligation Bond Issues - 2016

Defeasance of Limited Tax General Obligation Bonds, 2016 - On December 15, 2016, the County defeased $7.7 million of limited tax general obligation 2010E (federal tax-exempt) bonds using funding source from King County ITS.

Refunding Sewer Revenue Bond Issues - 2016

Sewer Revenue Refunding Bonds, 2016A - On February 17, 2016, the County issued $281.5 million in sewer revenue bonds, 2016A with an effective interest cost of 3.3 percent to advance refund $278.8 million of outstanding sewer revenue bonds, 2007, 2008, 2009 and 2010 bonds, with an effective interest rate of 5.1 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 2007, 2008, 2009 and 2010 sewer revenue 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 $35.4 million. This amount, reported in the statement of net position, is being charged to operations through fiscal year 2042, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $65.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $39.6 million.

Sewer Revenue Refunding Bonds, 2016B - On October 12, 2016, the County issued $499.7 million in sewer revenue and refunding bonds, 2016B of which $457.1 million with an effective interest cost of 3.1 percent was to currently refund $120.9 million of outstanding 2006 (Second Series) sewer revenue bonds and to advance refund $369.8 million of outstanding 2010, 2011A, 2011B and 2011C, sewer revenue bonds. The average coupon interest rate of all the refunded bonds was 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 2006-2, 2010, 2011A, 2011B and 2011C sewer revenue 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 $50.3 million. This amount, reported in the statement of net position, is being charged to operations through fiscal year 2050, using the outstanding principal balance method. This refunding was undertaken to reduce total debt service payments by $103.9 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 $73.9 million.

Prior Year Refunded and Defeasance of Debt

As of December 31, 2016, King County has 16 refunded and defeased bond issues outstanding, consisting of eight limited tax general obligation bonds total $347.0 million and eight sewer revenue bonds total $1,361.6 million. In prior years, the County defeased these bonds by placing the proceeds of the new bonds in an irrevocable trust accounts to provide for all future debt service payments on the old bonds. Accordingly, the payments of principal and interest on these old bond issues are the responsibility of the escrow agent, U.S. Bank National Association, and the liability for the defeased bonds has been removed from the County’s financial statement.

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."

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 1,425
	All Others	471
Health Fund	All Others	248
Nonmajor Governmental Funds	General Fund	2,781
	Nonmajor Governmental Funds	3,558
	All Others	654
Public Transportation Enterprise	General Fund	565
	All Others	268
Water Quality Enterprise	Nonmajor Governmental Funds	805
	General Fund	487
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	665
	All Others	300
Internal Service Funds	Nonmajor Governmental Funds	36,924
	Nonmajor Enterprise Funds	2,646
	All Others	412
Total interfund balances		$ 52,209

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.

Advances from/to other funds (in thousands)

Receivable Fund	Payable Fund	Amount
Nonmajor Governmental Funds	Nonmajor Governmental Funds	$ 4,475
Internal Service Funds	Health Fund	13,880
Total advances from/to other funds		$ 18,355

All of these advances consisted of loans made for the purpose of cash flow. None of the advances are scheduled to be repaid in 2017.

Interfund Transfers (in thousands)

Fund types with account balances of less than $500 thousand are aggregated into “All Others.”

Transfers Out	Transfers In	Amount
General Fund	Health Fund	$ 28,378
	Nonmajor Governmental Funds	39,289
	All Others	427
Health Fund	Nonmajor Governmental Funds	4,489
Nonmajor Governmental Funds	General Fund	11,119
	Health Fund	12,294
	Nonmajor Governmental Funds	191,870
	Nonmajor Enterprise Funds	5,006
	Internal Service Funds	1,236
Public Transportation Enterprise	All Others	469
Water Quality Enterprise	All Others	150
Nonmajor Enterprise Funds	All Others	223
Internal Service Funds	Nonmajor Governmental Funds	13,008
Total interfund transfers		$ 307,958

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 and Jefferson Building (NJB). 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 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 its operating budget for as long as it uses the buildings. In 2016, the primary government received $13.0 million in building lease and occupancy revenues from HMC. In addition, HMC made $5.6 million in payments to King County Department of Health for mission-related purposes.

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 2016, the King County primary government transferred $358 thousand to the CDA. CDA spent $1.1 million on art projects for which the County recorded a corresponding decrease in receivables from 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. Transit reported lease revenue of $44 thousand in 2016.

Note 18

Components of Fund Balance, Changes in Equity and Restrictions

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, 2016, it had a committed fund balance of $20.4 million.

A summary of governmental fund balances at December 31, 2016, is as follows (in thousands):

	General Fund	Health Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Inventory	$ —	$ 564	$ 142	$ 706
Prepayments	—	30	5,855	5,885
Youth Sports Facilities Grant Endowment	—	—	2,620	2,620
Total Nonspendable Fund Balance	—	594	8,617	9,211
Restricted for:				
Crime Victim Compensation Program	83	—	—	83
Dispute Resolution	41	—	—	41
Drug Enforcement	1,510	—	—	1,510
Real Property Title Assurance	25	—	—	25
Building Repair and Replacement	—	—	279	279
Health	—	87,620	—	87,620
Emergency Medical Services	—	—	42,922	42,922
Conservation Futures	—	—	30,052	30,052
Farmland and Open Space Acquisitions	—	—	2,024	2,024
Flood Control Zone District	—	—	62,325	62,325
Open Space King County Bond	—	—	498	498
Enhanced 911 Emergency Telephone System	—	—	27,935	27,935
Puget Sound Emergency Radio Network	—	—	13,038	13,038
Youth Service Facility Construction	—	—	61,732	61,732
Law Library	—	—	278	278
Alcoholism and Substance Abuse Services	—	—	3	3
Best Starts for Kids	—	—	49,183	49,183
Children and Families Services	—	—	1,170	1,170
Parks Capital Funding	—	—	45,556	45,556
Real Estate Excise Tax Capital	—	—	24,977	24,977
Road Construction and Improvement	—	—	29,713	29,713
Surface Water Management	—	—	8,307	8,307
SWM CIP Non-bond Subfund	—	—	9,216	9,216
Developmental Disabilities	—	—	8,521	8,521
Miscellaneous Grants	—	—	1,668	1,668
Veterans and Human Services	—	—	3,130	3,130
Veterans' Relief	—	—	258	258
Mental Illness and Drug Dependency	—	—	15,674	15,674
Employment and Education Resources	—	—	1,633	1,633
Community Development Block Grant	—	—	59,123	59,123
Parks and Recreation	—	—	16,079	16,079
Parks Trust and Contributions	—	—	5	5
Road Improvement Districts Construction	—	—	7	7
Arts and Culture	—	—	1,151	1,151
County Roads Operating	—	—	17,867	17,867
Permit and Environmental Review	—	—	690	690
Historical Preservation and Programs	—	—	66	66
Green River Flood Mitigation	—	—	930	930
Intercounty River Improvement	—	—	10	10
King County Flood Control Operating	—	—	31	31
Local Hazardous Waste	—	—	15,416	15,416
Noxious Weed Control	—	—	1,233	1,233
Transfer of Development Credit Program	—	—	4,226	4,226
Recorder's Operations and Management	—	—	1,840	1,840
Treasurer's Operations and Management	—	—	196	196
Animal Services	—	—	1,495	1,495
Urban Restoration and Habitat	—	—	350	350

A summary of governmental fund balances at December 31, 2016, continues (in thousands) (page 2 of 2):

	General Fund	Health Fund	Nonmajor Governmental Funds	Total
Restricted for - continued:				
Information and Telecommunication Capital	—	—	13,236	13,236
Renton Maintenance Facility	—	—	14,043	14,043
Automated Fingerprint ID System	—	—	22,987	22,987
Total Restricted Fund Balance	1,659	87,620	611,073	700,352
Committed for:				
Antiprofiteering Program	69	—	—	69
Rainy Day Reserve	20,428	—	—	20,428
Urban Restoration and Habitat	—	—	37	37
Total Committed Fund Balance	20,497	—	37	20,534
Assigned for:				
Capital Projects	11,894	—	—	11,894
Inmate Welfare	3,806	—	—	3,806
Information and Telecommunication Capital	—	—	12,233	12,233
Debt Services	—	—	13,227	13,227
Long Term Leases	—	—	60	60
Major Maintenance Reserve	—	—	5,479	5,479
Regional Justice Projects	—	—	357	357
Urban Restore Habitat Restoration	—	—	300	300
Youth Sports Facility Grant	—	—	1,812	1,812
General Government	16,500	—	—	16,500
Public Safety	2,928	—	—	2,928
Total Assigned Fund Balance	35,128	—	33,468	68,596
Unassigned for:				
General Fund	68,195	—	—	68,195
Long Term Leases	—	—	(2,793)	(2,793)
Building Repair and Replacement	—	—	(5,076)	(5,076)
Parks Facility Rehabilitation	—	—	(749)	(749)
Permit and Environmental Review	—	—	(1,152)	(1,152)
Renton Maintenance Facility	—	—	(10,462)	(10,462)
Total Unassigned Fund Balance	68,195	—	(20,232)	47,963
Total Fund Balance	$ 125,479	$ 88,214	$ 632,963	$ 846,656

Restatements of Beginning Balances

Detailed information regarding restatements of beginning balances (in thousands):

GOVERNMENTAL ACTIVITIES **Changes in Net Position or Fund Balance**	Governmental Activities	Total Governmental Funds	Nonmajor Governmental Funds
Net position/fund balance - January 1, 2016	$ 2,315,680	$ 685,968	$ 513,002
GASB Statement No. 72 implementation	2,249	2,515	2,515
Home Repair Loans - accounting correction	16,225	16,225	16,225
Net position/fund balance - January 1, 2016 (Restated)	$ 2,334,154	$ 704,708	$ 531,742

Governmental activities - Pursuant to GASB Statement No. 72 *Fair Value Measurement and Application*, the County assessed capital assets originally purchased for operations at its current usage or purpose. Two parcels meeting the $1.0 million fair value threshold were identified as investments held for sale. The assets were retired from operations and reported in the original funds as investments. Historical costs of the properties total $226 thousand and fair value at the beginning of the period total $2.2 million. The change in accounting method results in an adjustment of $2.2 million to beginning net position in the Governmental Activities and $2.5 million to beginning fund balance, $1.0 million to Farmland and Open Space Acquisition Fund reported under Environmental Sustainability - Capital Projects and $1.5 million to County Roads Construction Fund reported under Economic Growth - Capital Projects.

Nonmajor Governmental Funds - In prior years, Miscellaneous Grants Fund had recorded home repair loans as unearned loans repayment. These loans repayments were previously treated as program income. In 2016, the overstated liability was corrected resulting in an increase to the beginning fund balance by $16.2 million reported under Economic Growth - Special Revenue.

Restricted Net Position

Component Unit - Harborview Medical Center (HMC)

Restricted expendable net position - $10.0 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 $2.5 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 expendable net position - $45.4 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 $1.0 million.

The following litigation or potential litigation may involve claims for material damages that may be asserted against King County. However, the County can provide no opinion as to the ultimate outcome, or estimate the amount of damages that may be found, except as described below:

Brightwater Central Conveyance Contract - The County sued the prime contractor of the Brightwater Central Tunnel, including the contractor's sureties, and sought damages for his 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, he continued to appeal the judgment to the Court of Appeals which affirmed the superior court decision. On January 28, 2016, the contractor petitioned the Washington Supreme Court for review of the defective specification ruling, and the surety defendants petitioned for review of the attorney fees award. The Surety and Fidelity Association of America and four construction industry trade groups submitted amici briefs on behalf of the contractor. The Supreme Court denied the contractor's Petition for Review, finalizing the status of the $129.0 million paid to Wastewater Treatment Division (WTD). The Supreme Court accepted review of the Surety's petition on the attorneys' fees and costs awards of approximately $15.0 million. King County responded and the Washington State Association of Municipal Attorneys, the Washington State Association of Counties and the Washington State Association for Justice submitted briefs as amici. The Washington Supreme Court heard oral argument on January 10, 2017. King County is awaiting a decision.

Denny Way CSO Model Toxic Control Act Cleanup - A potential requirement for additional cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. The King County WTD has already performed interim cleanup costing $3.6 million to comply with an agreed order issued by the Washington State Department of Ecology (DOE). There are no current plans underway for additional cleanup; however, under WAC 173-204, monitoring will be implemented at the site. DOE 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.

East Waterway Operable Unit of the Harbor Island Superfund Site - 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 Environmental Protection Agency (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 parties or with other Potentially Responsible Parties ("PRP") who may agree to participate in the study. The parties may also seek contribution from other PRP's for the cost of the study. The EPA will not determine if, or the nature of, any additional remediation until the study is completed by the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the study has been completed.

Meal Periods for Transit Operators - A class action lawsuit alleging violations of state law regarding meal periods for transit operators was filed. 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.The Court of Appeals affirmed the order denying the County's motion for summary judgment. The case has been returned to the Superior Court and has been bifurcated into two phases regarding liability and damages. The class has been certified and notices have been sent to class members. King County is vigorously defending the litigation.

Fremont Siphon Replacement and Odor Control Project - WTD has undertaken a capital project to replace a major sewer pipe running under the Ship Canal between Fremont and Queen Anne. The contractor has submitted a claim to perform the south shaft excavation for the exit shaft for the tunnel boring machine that will bore under the Ship Canal from Fremont across the canal to Queen Anne, in the vicinity of Seattle Pacific University and the King County Laboratory. The amount the contractor claims for repairs for himself and the subcontractor is $1.4 million. The builders risk insurer is adjusting a claim for those repair costs.

Defective Centrifuges - WTD engaged in an energy services contract involving the Washington State Department of Enterprise Services. The contractor's installation of four new centrifuges was significantly defective in terms of dewatering capability despite being more energy efficient. Contractual penalties were imposed on the contractor for failure to achieve compliance with the contract. Liquidated damages for the delay in contract completion were imposed. These amounts totaling approximately $736 thousand were withheld from payment to the contractor. The contractor filed suit against King County in December 2016 to comply with a contract limitation. The claim seeks $1.9 million. There is no contractual requirement to participate in alternative dispute resolution and WTD does not think the case is appropriate for mediation. WTD will file an answer and counterclaim for damages, in addition to the withheld liquidated damages for delay and the penalties for non-compliant centrifuge performance.

Lower Duwamish Waterway - EPA issued an administrative order that required King County, City of Seattle, Boeing and Port of Seattle to conduct studies to determine the nature and extent of contamination in the Lower Duwamish Waterway. The County and the other three parties recently agreed with EPA to amend the administrative order and to conduct additional studies pursuant to the amendment. The Feasibility Study, which discusses the remediation alternatives, has been issued in final form by EPA. EPA issued a Record of Decision (ROD) in the latter part of 2014. The ROD contains EPA's final plan for cleanup of the Lower Duwamish Waterway. King County and a number of other parties are participating in an alternative dispute resolution process, called an allocation, to determine shares of liability for the costs of the cleanup. If parties that participate in the allocation accept their allotted shares, they expect to enter into a settlement agreement and to negotiate a consent decree with EPA to implement the cleanup. Due to the fact that the parties do not know their respective shares of cleanup costs and no consent decree has been negotiated, we are unable to determine the schedule or cost of any required remediation. In addition, we are unable to determine the extent to which King County and Wastewater Treatment Division will be responsible for the cost of such remediation.

South Park Landfill Model Toxics Control Act Cleanup - In the 1920s, King County acquired title to property in the South Park area through tax-lien foreclosure and subsequently leased it to the City of Seattle, which used it and other adjoining property as a landfill, which was closed in the 1960s. In 2006, the County sold its portion of the landfill property to a developer. The terms of the transaction required the developer to insulate the County from most but not all cleanup costs associated with the landfill site. In 2007, the landfill site was identified by the Washington State Department of Ecology as a potential source of environmental contamination under the Model Toxics Control Act. Over a period of years, the developer and the City of Seattle entered into multiple Agreed Orders with DOE for interim cleanup actions and subsequently performed those actions. The City, the developer, and King County are presently negotiating with DOE and other parties regarding a final cleanup action plan and Consent Decree that would establish the final cleanup and monitoring obligations related to the site. Negotiations are ongoing and DOE typically reserves the right to require additional or different remedial actions at the site if new or different information comes to light. Therefore, we are presently unable to determine an amount, if any, for which King County and the Facilities Management Division may be responsible.

North Creek Interceptor Sewer Improvement Project - A claim submitted by a contractor against WTD over the project to repair and replace two miles of pipeline serving the rapidly developing area in the vicinity of Canyon Park and address untreated overflows into buildings and a wetland. Pursuant to an agreement with DOE that mandates WTD install a bypass system because this capital project is not completed by the onset of the 2016 wet season. The contractor has submitted a request for change order for approximately $1.5 million asserting that the contract dewatering and open-faced shield tunneling specifications are defective. The contractor also asserted that he was constructively suspended and stopped tunneling. King County found the contractor in default, terminated the contract and made demand upon the performance bond surety. King County Executive declared an emergency and WTD procured a $20.0 million completion contract pursuant to the waiver of statutory procurement requirements. In December 2016 King County initiated suit in King County Superior Court against the contractor to recover the additional costs to complete the project. The contractor filed a second lawsuit in Snohomish County Superior Court to enjoin the default termination. King County obtained a dismissal of this lawsuit and the contractor is appealing that decision to Division One of the Court of Appeals. The contractor moved to change venue in the King County action, was denied and appealed that decision. Discretionary review was granted and both appeals are now consolidated. WTD responded to an appellate motion to allow trial court jurisdiction to impose an observer for the contractor at the site. WTD is responding to its sixth Public Records Act request on this project.

Murray CSO Control Project - This a project to construct a one million-gallon below grade combined sewage storage tank and connection of the tank to the existing Murray Avenue Pump Station and influent sewers. The contractor has submitted a total of three claims to the County on this project. On Claim 7, the contractor alleges that it encountered a differing site condition during work associated with manhole 1 and asserts it is entitled to $2.0 million and 47 calendar days. On Claim 6, the contractor asserts it is entitled to $52 thousand and 30 calendar days related to changes to certain Motor Control Centers (MCCs) despite the fact that a bilateral change order regarding the MCCs was executed by the contractor and the County. On Claim 4, the contractor asserts it is entitled to $154 thousand and four calendar days due to issues associated with 4Culture artwork installation. The parties have agreed to mediate all three claims and the mediation has been scheduled for October 18, 2017.

Audit of Public Health - A federal audit of Public Health-Seattle and King County questioned $5.7 million in costs under the Ryan White federal grant program for 2012-2013 due to alleged shortcomings in recordkeeping and monitoring of grant subrecipients. $2.0 million was accrued in 2016.

Minimum Wage for Jurors - Class action complaint was filed in Pierce County Superior Court alleging that King County is required to pay minimum wage for jurors. The 42-page complaint includes nine causes of action and seeks to certify four distinct classes. King County is responding to plaintiffs' discovery requests and is vigorously defending this matter. No trial date has been set.

Former King County Maple Valley Maintenance Shop Site Cleanup - The County owned and/or operated a road maintenance facility on the Maple Valley property from approximately the 1940s to the 1980s. The current property owner has investigated the nature and extent of the environmental contamination and plans to move forward with site remediation. Estimated costs for site investigation and cleanup range from $581 thousand to $1.4 million, and the property owner has indicated it will look to the County to share in the costs based on the County's status as a potentially liable party.

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 $200.0 million in total commitment. At the end of 2016, there are 13 contingent loan agreements outstanding totaling $132.4 million. These agreements have maturity dates ranging from 10 to 30 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, 2016 and the standards prescribed under GASB Statement No. 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

Other Commitments

The Solid Waste Enterprise paid the County General Fund $2.9 million for rent on the Cedar Hills landfill site in 2016. 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 and hold 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

In February 2017, the County deposited cash in an irrevocable escrow to defease $5.1 million of outstanding 2008 and 2009 sewer revenue bonds. With the defeasance of these bonds, revised covenants in the bond ordinance that establish the minimum ratings for surety bonds that the County may use as qualified investments in lieu of cash in the Bond Reserve have become effective.

King County Wastewater Treatment Division (WTD) experienced a major equipment failure at its West Point Treatment Plant (WPTP) on February 9, 2017. This incident resulted in significant flooding and severe damage to the treatment plant and the discharge of untreated stormwater and wastewater into Puget Sound. The plant resumed the ability to treat its wastewater to the secondary level in late April 2017, which required beneficial bacteria to break down organic solids and remove pollutants from water that is disinfected, dechlorinated and returned to Puget Sound. The WPTP resumed compliance with its state and federal environmental permits the week of May 8, 2017, with effluent discharges to Puget Sound meeting or surpassing strict standards for pollutant removal. Plans are underway to replace temporary equipment and complete long-term repairs by the end of 2017. With the secondary process now fully functional, water from the treatment process now complies with permits administered by Washington State Department of Ecology because more than 90 percent of its typical pollutants are removed before discharge to Puget Sound. Most of the restoration costs for the WPTP are expected to be covered by insurance, with full restoration work scheduled for completion by the end of 2017. A local engineering firm estimates total restoration costs at $40.0 to $57.0 million, which includes risk allowances related to unknown equipment replacement costs and other factors.

In June 2017, the County issued $31.2 million of limited tax general obligation bonds to provide financing for the capital improvement program of the Solid Waste Division.

On June 1, 2017, the final outstanding maturity of the lease revenue bonds for the King Street Center building was paid off. Per the terms of the lease supporting such bonds, upon this final retirement, the County exercised its option to purchase the building.

Required Supplementary Information

CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT

I. Budget to Actual - Major Fund

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

2015-2016 BUDGETED AMOUNTS (BIENNIAL)

	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES				
Taxes:				
Property taxes	$ 651,383	$ 651,383	$ 659,745	$ 8,362
Retail sales and use taxes	226,867	226,867	245,198	18,331
Business and other taxes	18,991	18,991	16,627	(2,364)
Penalties and interest - delinquent taxes	42,200	42,200	37,599	(4,601)
Licenses and permits	9,256	9,727	10,683	956
Intergovernmental revenues	166,728	168,448	152,875	(15,573)
Charges for services	327,974	335,096	377,119	42,023
Fines and forfeits	15,699	15,699	15,097	(602)
Interest earnings	—	—	6,057	6,057
Miscellaneous revenues	27,321	27,321	22,042	(5,279)
Sale of capital assets	60	60	83	23
Transfers in	337	337	11,378	11,041
TOTAL REVENUES	1,486,816	1,496,129	1,554,503	58,374
EXPENDITURES				
Current:				
General government	331,794	340,473	339,861	612
Public safety	966,386	1,015,203	988,541	26,662
Economic environment	1,103	1,103	859	244
Mental and physical health	56,909	59,941	59,033	908
Debt service:				
Principal	68	68	—	68
Interest and other debt service costs	7	7	266	(259)
Capital outlay	1,676	2,948	3,653	(705)
Transfers out	141,801	146,773	140,878	5,895
TOTAL EXPENDITURES	1,499,744	1,566,516	1,533,091	33,425
Excess (deficiency) of revenues over (under) expenditures (budgetary basis)	$ (12,928)	$ (70,387)	21,412	$ 91,799
Adjustment from budgetary basis to GAAP basis[(a)]			859	
Net change in fund balance			22,271	
Fund balance - January 1, 2015			103,208	
Fund balance - December 31, 2016			$ 125,479	

(a) Elements of adjustment from budgetary basis to GAAP basis:	
Adjustments to revenues:	
Recognition of unrealized loss on investments	$ (480)
Adjustments to expenditures:	
Non-budgeted revenues	1,339
Adjustment from budgetary basis to GAAP basis	$ 859

HEALTH FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

2015-2016 BUDGETED AMOUNTS (BIENNIAL)

	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES				
Taxes:				
Property taxes	$ 6,278	$ 6,278	$ 6,239	$ (39)
Business and other taxes	—	—	37	37
Licenses and permits	32,264	32,032	30,963	(1,069)
Intergovernmental revenues	182,918	185,069	189,138	4,069
Charges for services	508,431	573,387	577,110	3,723
Fines and forfeits	75	225	475	250
Interest earnings	938	938	1,119	181
Miscellaneous revenues	13,258	13,611	9,667	(3,944)
Transfers in	71,189	75,610	73,059	(2,551)
TOTAL REVENUES	815,351	887,150	887,807	657
EXPENDITURES				
Current:				
Mental and physical health	811,002	882,223	847,370	34,853
Debt service:				
Interest and other debt service costs	—	80	222	(142)
Capital outlay	—	1,406	862	544
Transfers out	—	449	5,525	(5,076)
TOTAL EXPENDITURES	811,002	884,158	853,979	30,179
Excess of revenues over expenditures (budgetary basis)	$ 4,349	$ 2,992	33,828	$ 30,836
Adjustment from budgetary basis to GAAP basis[(a)]			1,695	
Net change in fund balance			35,523	
Fund balance - January 1, 2015			52,691	
Fund balance - December 31, 2016			$ 88,214	

(a) Elements of adjustment from budgetary basis to GAAP basis:	
Adjustments to revenues:	
Recognition of unrealized loss on investments on a GAAP basis	$ (133)
Adjustments to expenditures:	
Non-budgeted transfers out	(264)
Non-budgeted revenues	2,092
Adjustment from budgetary basis to GAAP basis	$ 1,695

II. Pension Funding

Schedule of the County's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30*
(dollars in thousands)

	2016	2015
County's proportion of the net pension liability	8.90%	8.76%
County's proportionate share of the net pension liability	$ 477,872	$ 458,477
County's covered-employee payroll	$ 18,793	$ 20,440
County's proportionate share of the net pension liability as a percentage of covered-employee payroll	2542.82%	2243.04%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%

Schedule of the County's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30*
(dollars in thousands)

	2016	2015
County's proportion of the net pension liability	10.52%	10.36%
County's proportionate share of the net pension liability	$ 529,855	$ 370,294
County's covered-employee payroll	$ 953,254	$ 933,304
County's proportionate share of the net pension liability as a percentage of covered-employee payroll	55.58%	39.68%
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%

*These schedules will be built prospectively until they contain ten years of data.

Schedule of the County's Proportionate Share of the Net Pension Liability
Public Safety Employees' Retirement System (PSERS) Plan 2
Measurement Date of June 30*
(dollars in thousands)

	2016	2015
County's proportion of the net pension liability	11.33%	9.88%
County's proportionate share of the net pension liability	$ 4,817	$ 1,803
County's covered-employee payroll	$ 35,577	$ 33,102
County's proportionate share of the net pension liability as a percentage of covered-employee payroll	13.54%	5.45%
Plan fiduciary net position as a percentage of the total pension liability	90.41%	95.08%

Schedule of the County's Proportionate Share of the Net Pension Liability
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1
Measurement Date of June 30*
(dollars in thousands)

	2016	2015
County's proportion of the net pension (asset)	0.60%	0.60%
County's proportionate share of the net pension (asset)	$ (6,180)	$ (7,275)
County's covered-employee payroll	$ 213	$ 260
County's proportionate share of the net pension (asset) as a percentage of covered-employee payroll	-2,901.36%	-2,798.11%
Plan fiduciary net position as a percentage of the total pension liability	123.74%	127.36%

*These schedules will be built prospectively until they contain ten years of data.

Schedule of the County's Proportionate Share of the Net Pension Liability
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
Measurement Date of June 30*
(dollars in thousands)

	2016	2015
County's proportion of the net pension (asset)	3.02%	2.90%
County's proportionate share of the net pension (asset)	$ (17,543)	$ (29,819)
State's proportionate share of the net pension (asset) associated with King County	(11,437)	(19,716)
Total net pension (asset)	$ (28,980)	$ (49,535)
County's covered-employee payroll	$ 87,895	$ 86,131
County's proportionate share of the net pension (asset) as a percentage of covered-employee payroll	-19.96%	-34.62%
Plan fiduciary net position as a percentage of the total pension liability	106.04%	111.67 %

Schedule of the County's Proportionate Share of the Net Pension Liability
Seattle City Employees' Retirement System (SCERS)
Measurement Date of December 31*
(dollars in thousands)

	2016	2015
County's proportion of the net pension liability	0.09%	0.11%
County's proportionate share of the net pension liability	$ 1,169	$ 1,219
County's covered-employee payroll	$ 3,010	$ 3,305
County's proportionate share of the net pension liability as a percentage of covered-employee payroll	38.84%	36.88%
Plan fiduciary net position as a percentage of the total pension liability	64.00%	67.70%

*These schedules will be built prospectively until they contain ten years of data.

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended December 31, 2016
(dollars in thousands)

	2016	2015
Contractually required contribution	$ 1,901	$ 2,076
Contributions in relation to the contractually required contribution	1,901	2,076
Contribution deficiency (excess)	$ —	$ —
Covered-employee payroll	$ 17,003	$ 20,440
Contributions as a percentage of covered-employee payroll	11.18%	10.16%

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Year Ended December 31, 2016
(dollars in thousands)

	2016	2015
Contractually required contribution	$ 109,269	$ 95,176
Contributions in relation to the contractually required contribution	109,269	95,176
Contribution deficiency (excess)	$ —	$ —
Covered-employee payroll	$ 977,342	$ 933,304
Contributions as a percentage of covered-employee payroll	11.18%	10.20%

Schedule of Contributions
Public Safety Employees' Retirement System (PSERS) Plan 2
Fiscal Year Ended December 31, 2016
(dollars in thousands)

	2016	2015
Contractually required contribution	$ 3,953	$ 3,677
Contributions in relation to the contractually required contribution	3,953	3,677
Contribution deficiency (excess)	$ —	—
Covered-employee payroll	$ 34,253	$ 33,102
Contributions as a percentage of covered-employee payroll	11.54%	11.11%

Schedule of Contributions
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
Fiscal Year Ended December 31, 2016
(dollars in thousands)

	2016	2015
Contractually required contribution	$ 4,735	$ 4,505
Contributions in relation to the contractually required contribution	4,735	4,505
Contribution deficiency (excess)	$ —	—
Covered-employee payroll	$ 90,526	$ 86,131
Contributions as a percentage of covered-employee payroll	5.23%	5.23%

Schedule of Contributions
Seattle City Employees' Retirement System (SCERS)
Fiscal Year Ended December 31, 2016
(dollars in thousands)

	2016	2015
Contractually required contribution	$ 458	$ 520
Contributions in relation to the contractually required contribution	458	520
Contribution deficiency (excess)	$ —	$ —
Covered-employee payroll	$ 3,010	$ 3,305
Contributions as a percentage of covered-employee payroll	15.22%	15.73%

Notes:

These schedules will be built prospectively until they contain ten years of data.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 currently has no active members; therefore, no contributions are required or paid.

III. 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)
2014	12/31/2014	—	$ 167,420	$ 167,420	—%	$ 1,073,511	15.6%
2015	12/31/2015	—	167,417	167,417	—%	1,076,068	15.6%
2016	12/31/2016	—	167,417	167,417	—%	1,121,962	14.9%

IV. 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 for local streets and every two years for arterials.

The condition assessments of the County's roads are shown below for the last three completed cycles.

	2016-2014		2013-2011		2010-2008	
Condition ratings	**(miles)**	**%**	**(miles)**	**%**	**(miles)**	**%**
Arterial roads						
Excellent to good	295.6	65.1	297.7	64.9	348.2	71.8
Fair	72.9	16.1	32.0	7.0	20.3	4.2
Poor to substandard	85.3	18.8	129.0	28.1	116.7	24.0
Total	453.8	100.0	458.7	100.0	485.2	100.0
Local access roads						
Excellent to good	699.1	69.1	742.0	70.7	867.0	75.6
Fair	136.6	13.5	91.4	8.7	74.2	6.5
Poor to substandard	176.4	17.4	216.5	20.6	205.8	17.9
Total	1,012.1	100.0	1,049.9	100.0	1,147.0	100.0

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.

	2016-2014		2013-2011		2010-2008	
PCI score interval	**(miles)**	**%**	**(miles)**	**%**	**(miles)**	**%**
Arterial roads						
PCI 40 - 100	327.3	72.1	315.7	68.8	360.0	74.2
PCI 0 - 39	126.5	27.9	143.0	31.2	125.2	25.8
Total	453.8	100.0	458.7	100.0	485.2	100.0
Local access roads						
PCI 40 - 100	776.1	76.7	786.5	74.9	900.0	78.5
PCI 0 - 39	236.0	23.3	263.4	25.1	247.0	21.5
Total	1,012.1	100.0	1,049.9	100.0	1,147.0	100.0

In the most recent condition assessments, 72.1 percent of the arterial roads in the County and 76.7 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. The roads condition assessments have increased slightly over the last maintenance cycle. The accelerated condition deterioration observed in the 2010-2008 cycle and continuing in the 2013-2011 cycle, was primarily the result of weather and system age. Many of the arterial roadways are beyond their cost-effective life cycles, resulting in roadway deterioration. 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 2016 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 2012 to 2016. 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).

	2016	2015	2014	2013	2012
Budgeted	$ 70,969	$ 56,599	$ 50,453	$ 59,110	$ 52,658
Expended	43,820	37,003	36,269	46,782	45,082

The amount budgeted in 2016 for road preservation and maintenance was $71.0 million. The amount actually expended was $43.8 million. The increased gap between budget and spending relative to historical levels is due to supplemental budget added later in the year, timing of grant funding release and a single large procurement delay. The impact of these three elements increases the gap by $14.6 million. Adjusting for these items, the remaining gap is consistent with historical experience.

Bridges

King County currently maintains 182 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 and one wildlife bridge 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 178 vehicular bridges.

Each year the County conducts 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, essentially 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 are as follows:

Bridge	Number of Bridges		
Sufficiency Rating	2016	2015	2014
0 - 20	6	5	5
21 - 30	—	2	2
31 - 49	24	20	17
50 - 100	148	150	150
Totals	178	177	174

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 over the past five years are below (in thousands):

	2016	2015	2014	2013	2012
Budgeted	$ 4,343	$ 5,607	$ 4,727	$ 5,544	$ 9,337
Expended	3,448	3,184	3,345	5,411	6,375

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level.

APPENDIX D

KING COUNTY WATER QUALITY ENTERPRISE
2016 AUDITED FINANCIAL STATEMENTS

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

King County Water Quality Enterprise Fund

(An Enterprise Fund of King County, Washington)

December 31, 2016 and 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Metropolitan King County Council
Seattle, Washington

Report on Financial Statements

We have audited the accompanying financial statements of the King County Water Quality Enterprise Fund (Water Quality), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the King County Water Quality Enterprise Fund as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the County's Proportionate Share of the Net Pension Liability, Schedule of Contributions, and Schedule of Funding Progress for the Plan be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on Water Quality's financial statements. The Supplemental Schedule of Net Revenues Available for Debt Service is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental schedule has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Moss Adams LLP

Seattle, Washington
April 28, 2017

The management of King County Water Quality Enterprise Fund (Water Quality) presents to readers of its financial statements this narrative overview and analysis of its activities and financial performance for the fiscal years ended December 31, 2016 and 2015.

THE SEWER SYSTEM

Water Quality provides regional wastewater treatment services to Western Washington in King County, part of Snohomish County, and part of Pierce County with a service area encompassing over 424 square miles. The major wastewater treatment facilities include three secondary treatment plants at West Point in Seattle, South Plant in Renton and the Brightwater Treatment Plant located near Woodinville and two smaller secondary treatment plants at Vashon Island and Carnation, 391 miles of interceptors, 47 pump stations, and 25 regulator stations. Other facilities include four combined sewer overflow (CSO) treatment plants and 39 CSO control locations. The sewer system collected and treated an average of 188 million gallons per day (MGD) in 2016 from approximately 1.7 million residents.

FINANCIAL HIGHLIGHTS

During 2016, Water Quality provided sewage treatment services to 756,430 (based on sewer revenues that include sewer agency prior year adjustments) residential customer equivalents (RCE) compared to 736,090 in 2015 and 725,844 in 2014. An RCE is one single-family residence or an equivalent unit of 750 cubic feet of monthly water consumption for all other customers such as multifamily residential, commercial, and industrial properties. The capacity charge program added 10,743 new connections to its customer billing base in 2016. The program added 11,676 and 10,767 new connections in 2015 and 2014, respectively. In 2016, the average flow of the five treatment plants was 188 MGD with a peak daily flow of 505 MGD. Maximum system capacity was 862 MGD in 2016 and 895 MGD in 2015. The average daily flow fluctuated between a peak of 188 MGD in 2016 and a low of 178 MGD in 2015. The annual fluctuation in flows largely depends on the amount of annual precipitation.

In 2016, Resource Recovery delivered 122,194 tons compared to 114,957 tons in 2015 of Loop® biosolids to customers for use in forest management, agriculture, and composting. Approximately 83 million gallons compared to 86 million gallons in 2015 of Class A reclaimed water was distributed for irrigation, urinals/toilets, municipal purposes, and wetland enhancement and about 711 million gallons of filtered, treated wastewater compared to 762 million gallons in 2015 were used for internal treatment plant processes. The permitted capacity for the South Plant reclaimed water facility is a filter feed loading of 1.3 MGD and the Brightwater permitted reclaimed water treatment capacity is 21 MGD. Water Quality sold 211 thousand therms of natural gas to Puget Sound Energy from the South Treatment Plant in 2016 and 1.8 million therms in 2015. The reduction in sales of natural gas in 2016 was the result of using gas internally to generate electricity for South Plant operations. West Point Treatment Plant sold Seattle City Light 18 million kilowatt hours of electricity generated from digester gas in 2016 and 2015.

FINANCIAL HIGHLIGHTS (CONTINUED)

The Industrial Pretreatment Program conducted 309 inspections and took 1,500 compliance samples in 2016 compared to 356 inspections and 1,570 compliance samples taken in 2015. The program currently tracks 552 facilities with discharge authorization permits and 114 significant industrial users compared to 483 facilities with discharge authorization permits and 116 significant industrial users in 2015.

Water Quality currently has 39 combined sewer overflow (CSO) locations plus four CSO treatment facilities. Past investments conducted in concert with the City of Seattle have resulted in a significant reduction in combined sewer overflows from a baseline of 2.3 billion gallons per year in years 1980-1983 to an average of 1 billion gallons per year at present.

In 2012, the Environmental Protection Agency (EPA) entered into a consent decree with Water Quality to reduce CSO overflows to meet regulator's standards for discharges or treatment by 2030. The consent decree is based on Water Quality's 2012 Amended Long-term CSO Control Plan. The Plan identified nine CSO projects to control 14 CSO locations, six of which are currently underway. A joint project with the City of Seattle is being developed that will address two of the nine projects.

The consent decree includes an option to develop an integrated plan which may result in lower costs to complete the Plan. The EPA and Washington State Department of Ecology (DOE) will monitor Water Quality's progress with CSO control and work closely with the enterprise going forward to meet CSO control requirements. In accordance with the county's National Pollutant Discharge Elimination System permit for the West Point Treatment Plant and the consent decree, an update to the Plan is underway and will be completed by 2018.

On February 9, 2017, the West Point Treatment Plant received catastrophic damage from a massive inflow of combined stormwater and sewage when a power surge disabled pumps and a critical overflow valve malfunctioned resulting in flooding the plant. It also resulted in engagement of the emergency bypass function routing untreated flow volumes past the treatment processes of the plant and directly into Puget Sound. Water Quality management reported the incident to the DOE immediately and continue to update the agency on operational conditions and permit compliance. The loss comes under the terms of insurance coverage with a $250 thousand deductible and a maximum loss recovery of $250 million per occurrence. Water Quality management is working with insurance carriers to document and recover costs related to the incident. Restoration of primary and secondary treatment back to normal operation is Water Quality's top priority and is anticipated by April 30, 2017.

In 1999, the Metropolitan King County Council adopted the Regional Wastewater Services Plan (RWSP) to construct additional capacity, protect public health and provide for future projected population growth in its service area through 2030. Major RWSP projects include the building of the Brightwater Treatment Plant, improvements to the regional Conveyance system, and construction of 21 CSO control projects. The RWSP also includes projects to control infiltration and inflow into the Conveyance system, process additional biosolids, and produce additional reclaimed water. Total capital program expenditures were $167.5 million in 2016 and $154.6 million in 2015.

FINANCIAL HIGHLIGHTS (CONTINUED)

Water Quality operating revenues increased by 7.2 percent to $464.5 million in 2016 from $433.4 million in 2015 while operating expenses before depreciation and amortization increased by 9.0 percent to $138.7 million in 2016 from $127.2 million in 2015.

The monthly sewer rate stayed the same at $42.03 per RCE in 2016. In 2015, it increased to $42.03 from $39.79 in 2014. The capacity charge rate increased to $58.70 per RCE in 2016 from $57.00 in 2015. Capacity charge revenues increased 13.9 percent to $71.2 million in 2016 from $62.5 million in 2015. The RCE's billed for sewer treatment services increased to 756,430 (based on sewer revenues that include sewer agency prior year adjustments) in 2016 from 736,090 in 2015. The rate stabilization reserve was unchanged at $46.3 million in 2016 and increased to $46.3 million in 2015 due to a deposit of $12.0 million made during the year. Future deposits to the rate stabilization reserve will decrease operating revenues and debt service coverage in the year of the deposit. Withdrawals will have the opposite effect of increasing operating revenues and debt service coverage in the year the rate stabilization reserve is reduced.

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

Water Quality issued $781.2 million in Sewer Revenue and Refunding Bonds in 2016, which provided $50.0 million for new construction. This resulted in $168.9 million in savings over the lives of the refunded issues or $113.5 million in present value of debt service savings. In November 2016 Water Quality remarketed $100 million in 2015 Junior Lien Sewer Revenue Bonds, and changed the interest rate mode to a one-month variable rate from a one-year fixed rate. Water Quality received $39.1 million in low interest state loans in 2016 at rates between 0.5 and 2.72 percent. In 2015 Water Quality issued $567.3 million of Sewer Revenue and Refunding Bonds, including $80.0 million for new construction, and $247.8 million in LTGO refunding bonds which resulted in $163.4 million in savings over the lives of the refunded issues or $90.5 million in present value of debt service savings. Water Quality received $31.6 million in low interest state loans in 2015.

The results of operations for 2016 and 2015 produced a debt service coverage ratio on senior lien debt of 1.55 and 1.48, respectively, exceeding the coverage covenant requirement of 1.15 in both years. The total debt coverage ratio of 1.41 in 2016 and 1.36 in 2015 exceeded the 1.15 policy minimum in both years.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

The two most recent years' operating and non-operating revenues and expenses of Water Quality are accounted for in the statements of revenues, expenses and changes in net position. The statements illustrate the current and prior period results of operations and recovery of costs by receipt of fees, and are instrumental in demonstrating Water Quality's continued creditworthiness. All changes in net position are reported as soon as the underlying event occurs, irrespective of the timing of related cash flows. The receipt of monthly sewage treatment charges provides the principal support for Water Quality's activities. Sewage treatment charges of $381.5 million provided 82.1 percent of operating revenues in 2016 and $359.3 million (net of the rate stabilization transfer) provided 82.9 percent of operating revenues in 2015. Water Quality is a wholesale provider of sewage treatment services to 34 municipal and 3 non-municipal participants in King, Pierce, and Snohomish counties. The receipt of the monthly payments is governed by service agreements, the majority of which expire in July 2036.

The statements of cash flows report cash receipts, cash payments, and net changes in cash derived from operations, financing, and investment activities. From the statements, the reader can discern Water Quality's sources and applications of cash during 2016 and 2015, reasons for differences between operating cash flows and operating income, and the effect on the statements of net position from investing, capital, and financing activities.

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

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

FINANCIAL ANALYSIS OF THE STATEMENT OF NET POSITION

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2016	2015	2014
Current assets	$ 458.1	$ 431.8	$ 407.5
Noncurrent assets	217.1	245.2	216.8
Capital assets	4,081.5	4,106.5	4,122.9
Other	113.3	110.4	97.8
Total assets	4,870.0	4,893.9	4,845.0
Deferred outflows of resources	247.5	184.9	104.0
Total assets and deferred outflows of resources	5,117.5	5,078.8	4,949.0
Current liabilities	214.5	456.5	434.9
Noncurrent liabilities	4,216.1	4,065.9	3,951.9
Total liabilities	4,430.6	4,522.4	4,386.8
Deferred inflows of resources	47.5	53.2	49.6
Total liabilities and deferred inflows of resources	4,478.1	4,575.6	4,436.4
Net position-net investment in capital assets	154.2	191.1	210.4
Net position-restricted	202.4	201.6	205.3
Net positon-unrestricted	282.8	110.5	96.9
Total net position	$ 639.4	$ 503.2	$ 512.6

Net position serves as a useful indicator of Water Quality's financial position. As of December 31, 2016 and 2015, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $639.4 million and $503.2 million, respectively.

Of the total Water Quality assets and deferred outflows of resources, 79.8 percent or $4,081.5 million were invested in capital assets such as treatment plants, pumping and regulator stations, interceptors, and other equipment at year-end 2016. For the year-end 2015, 80.9 percent or $4,106.5 million were invested in capital assets. Water Quality uses its capital assets to provide wholesale wastewater collection and treatment services in King, Pierce, and Snohomish counties. Current operating and debt service requirements are met by operating and non-operating revenues composed of monthly sewage treatment charges, a capacity charge for new customers, other special-handling charges, miscellaneous operating revenues, and investment earnings.

FINANCIAL ANALYSIS OF THE STATEMENT OF NET POSITION (CONTINUED)

The net position increased by 27.1 percent or $136.2 million in 2016 to $639.4 million from $503.2 million in 2015. This change is primarily due to the release of restricted funds held in reserve and the recognition of the settlement income from the 2013 litigation settlement between Vinci, Parsons, Frontier-Kemper (VPFK) and King County. On September 7, 2016, the Supreme Court issued an order denying VPFK's Petition for Review and thus, released $129.6 million of the disputed $144.3 million. Restricted net position increased by 0.4 percent or $799 thousand in 2016 to $202.4 million from $201.6 million in 2015. The unrestricted net position increased by $172.3 million in 2016 to $282.8 million from $110.5 million in 2015.

The net position decreased by 1.8 percent or $9.4 million in 2015 to $503.2 million from $512.6 million in 2014. This change includes a $42.5 million restatement to the net position at 2014 year-end in accordance with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Restricted net position decreased by 1.8 percent or $3.7 million in 2015 to $201.6 million from $205.3 million in 2014. The unrestricted net position increased by $13.6 million in 2015 to $110.5 from $96.9 million in 2014.

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

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2016	2015	2014
Sewage treatment fees	$ 381.5	$ 371.3	$ 346.6
Rate stabilization	-	(12.0)	18.0
Capacity charge revenue	71.2	62.5	59.5
Other revenue	11.8	11.6	11.7
Operating revenues	464.5	433.4	435.8
Operating expenses	315.0	301.0	288.6
Operating income	149.5	132.4	147.2
Non operating (expenses)	(13.4)	(142.6)	(149.8)
Grant revenues	0.1	0.8	-
Change in net position	136.2	(9.4)	(2.6)
Net position beginning of year (restated)	503.2	512.6	515.2
Net positon end of year	$ 639.4	$ 503.2	$ 512.6

FINANCIAL ANALYSIS OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)

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

During 2016, operating revenues increased by 7.2 percent or $31.1 million to $464.5 million from $433.4 million in 2015. Operating expenses increased by 4.7 percent or $14.0 million to $315.0 million in 2016 from $301.0 million in 2015.

In 2015, operating revenues decreased by 0.6 percent or $2.4 million to $433.4 million from $435.8 million in 2014. Operating expenses increased by 4.3 percent or $12.4 million to $301.0 million from $288.6 million in 2014.

The operating revenues and expenses were driven by:

- Water Quality collected a monthly sewage treatment charge of $42.03 per RCE in 2016, $42.03 in 2015 and $39.79 in 2014. Sewer disposal revenues increased by 2.7 percent or $10.2 million in 2016 to $381.5 million from $371.3 million in 2015. Growth in RCE's contributed to this increase. In 2015, sewer disposal revenues before rate stabilization increased by 7.1 percent or $24.7 million to $371.3 million from $346.6 million in 2014.

- Other operating revenues, including capacity charges for new customers and other treatment charges, increased by 12.0 percent or $8.9 million in 2016 to $83.0 million from $74.1 million in 2015. These revenues increased by 4.1 percent or $2.9 million in 2015 to $74.1 million from $71.2 million in 2014. Capacity charge early payoff revenues were 25.4 percent or $18.1 million of total capacity charge revenues in 2016, while in 2015, capacity charge early payoff revenues were 28.6 percent or $17.9 million of the annual total. Actual new capacity charge connections were 10,743 in 2016 and 11,676 in 2015. The increase in capacity charge revenue resulted from concerted efforts in collection of past due accounts and a prior year billing adjustment.

- Chemical expenses increased by 12.5 percent or about $903 thousand in 2016 to $8.1 million. Price surges as well as increased demand for various chemicals were the main reasons for this jump. Chemical expenses increased by 2.9 percent or about $236 thousand in 2015 to $7.2 million.

- Utility and Service expenses increased by 6.7 percent or $2.0 million to $31.9 million for 2016 from $29.9 million in 2015. Utility and Service expenses increased by 4.6 percent or $1.3 million to $29.9 million for 2015 from $28.6 million in 2014. Electricity expense increased by 1.0 percent or $129 thousand to $14.0 million in 2016 after increasing by 3.0 percent or $445 thousand to $13.9 million in 2015. In 2016 Water Quality used methane gas to produce electricity for its Cogen system at South Treatment Plant generating about 29% of all the electricity used at South Plant.

FINANCIAL ANALYSIS OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)

- Intergovernmental expenses increased by 4.1 percent or $1.4 million in 2016 to $35.8 million from $34.4 million in 2015. Contributors to increases here are reflected in increased surface water management fees which includes environmental lab testing and other costs associated with increased overhead. Intergovernmental expenses rose by 8.9 percent or $2.8 million in 2015 to $34.4 million from $31.6 million in 2014.

Net non-operating revenues and expenses decreased by 90.6 percent or $129.2 million to $13.4 million in 2016 from $142.6 million in 2015. The main contributor to the non-operating revenue increase was the release of $129.6 million in restricted funds held pending final decision on the VPFK legal action. Interest earnings were up slightly as well. Contributors to non-operating expenses were capital asset retirements and debt amortization. Net non-operating revenues and expenses decreased by 4.8 percent or $7.2 million to $142.6 million in 2015 from $149.8 million in 2014.

CAPITAL ASSETS

At December 31, 2016, Water Quality's investment in capital assets, net of accumulated depreciation, was $4,081.5 million, reflecting a decrease of $25.0 million or 0.6 percent less than the balance of $4,106.5 at December 31, 2015. This decrease represents plant in service retirements and added depreciation from completed project capitalizations. Capital assets net decrease from December 31, 2014 to December 31, 2015 was $16.4 million or 0.4 percent.

Large 2016 construction project expenditures include:

- $16.7 million for Georgetown Wet Weather Treatment Station
- $16.3 million for North Creek Interceptor
- $13.7 million for Fremont Siphon Replacement
- $10.9 million for Joint Ship Canal CSO
- $8.9 million for Hanford Conveyance & Storage Tank

Large 2015 construction project expenditures include:

- $16.5 million for North Creek Interceptor
- $12.4 million for Fremont Siphon Replacement
- $11.9 million for Magnolia CSO Control & Improvements
- $9.7 million for Murray CSO Control & Improvements
- $8.1 million for Georgetown Wet Weather Treatment Station

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

DEBT ADMINISTRATION

Water Quality issued $281.5 million of sewer revenue refunding bonds in February 2016 with an average life of 18.4 years at an average rate of 4.1 percent and an effective rate of 3.3 percent, and $499.7 million of sewer improvement and refunding revenue bonds in October 2016 with an average life of 17.6 years at an average rate of 4.7 percent and effective rate of 3.2 percent. In November 2016, Water Quality remarketed $100.0 million in Junior Lien Sewer Revenue Bonds changing their interest rate mode to a monthly variable rate from a one-year fixed rate.

Water Quality issued $474.0 million of sewer revenue refunding bonds and $247.8 million of LTGO refunding bonds in February 2015 with an average life of 21.6 years at an average rate of 4.5 percent and an effective rate of 3.6 percent, and $93.3 million of sewer improvement and refunding revenue bonds in November 2015 with an average life of 14.6 years at an average rate of 4.1 percent and effective rate of 3.4 percent. In November 2015, Water Quality issued $100.0 million in Junior Lien Sewer Revenue Bonds at a fixed rate of 2.0 percent and an effective rate of 0.5 percent for 1 year. This issue redeemed Water Quality's Commercial Paper debt and was remarketed on the Long-Term Rate Purchase Date of November 16, 2016.

Water Quality received $39.1 million in low-interest loans from the State of Washington in 2016 and $31.6 million in 2015. The new loans carry below-market rates between 0.5 percent and 2.72 percent with repayment terms up to 20 years.

Water Quality has $2.9 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2016 and had $2.9 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2015. Revenue bonds are repaid from and secured by a pledge of earnings, revenues and money received by Water Quality from or on account of operation of the sewer system, including receipts from sewage treatment fees, and other income of Water Quality. Revenue bonds are not guaranteed by the full faith and credit of King County.

At the end of 2016, Water Quality has $755.9 million of general obligation bonds and variable rate general obligation bonds outstanding and had $765.4 million of general obligation bonds and variable rate general obligation bonds outstanding at the end of 2015. While the full faith and credit of King County guarantees repayment of principal and interest on general obligation bonds, they are paid from sewage treatment fees and other income.

King County received ratings of AAA from Standard and Poor's and Aa1 from Moody's Investors Service for the limited tax general obligation bond issued in February 2015. On February 15, 2017, Moody's Investors Service raised its rating of King County limited tax general obligation bonds to Aaa. At the time of the issuance of the sewer revenue bonds in 2016 and 2015, Water Quality's bond ratings were:

Moody's Investor's Service	Standard & Poor's
Aa2	AA+

DEBT ADMINISTRATION (CONTINUED)

As required by bond covenant, Water Quality maintains a bond reserve account, which is funded by cash balances. At December 31, 2016, the cash balance in the reserve account was $160.5 million and $166.1 million at the end of 2015 including $1.4 million of Junior Lien bonds maturing in November, 2016. In addition to bond covenant reserves, Water Quality also maintains financial policy reserves. At December 31, 2016 and 2015, respectively, the rate stabilization, liquidity, and asset management financial policy reserves totaled $79.9 million and $79.1 million.

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

Debt Service Coverage Ratios

	Year Ended December 31,	
	2016	2015
Parity Debt	1.55	1.48
Total Debt	1.41	1.36

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

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of Water Quality's financial condition as of the years ended December 31, 2016 and 2015. Questions concerning this report or requests for additional information should be addressed to Cheryl Lee, Chief Accountant for King County, 500 Fourth Avenue, Room 653, Seattle, WA 98104.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF NET POSITION
(In Thousands)

	December 31, 2016	December 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 383,232	$ 230,349
Restricted cash and cash equivalents	19,748	149,403
Accounts receivable, net	44,755	37,018
Due from other funds	1,292	1,224
Due from other governments, net	-	5,014
Inventory of supplies	8,760	8,425
Prepayments	315	385
	458,102	431,818
NONCURRENT ASSETS		
Cash and cash equivalents	217,093	245,177
Capital assets		
Building and land improvements	2,082,829	2,009,486
Artwork	5,700	5,645
Infrastructure and right of way	2,268,422	2,245,766
Plant in service and other equipment	1,146,609	1,107,256
Less accumulated depreciation	(2,010,012)	(1,849,992)
	3,493,548	3,518,161
Land and easements	256,048	268,398
Construction work in progress	331,948	319,960
	4,081,544	4,106,519
Other noncurrent		
Prepayments	2	81
Regulatory and other utility assets, net of amortization	109,550	106,432
Other assets	3,725	3,963
	113,277	110,476
Total assets	4,870,016	4,893,990
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows on refunding	237,604	179,878
Deferred outflows on pension	9,849	4,987
Total deferred outflows of resources	247,453	184,865
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 5,117,469	$ 5,078,855

See accompanying notes.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF NET POSITION (CONTINUED)
(In Thousands)

	December 31, 2016	December 31, 2015
CURRENT LIABILITIES		
Accounts payable	$ 26,767	$ 37,599
Retainage payable	2,049	2,766
Due to other funds	16	111
Interest payable	68,116	76,438
Wages and benefits payable	2,983	3,222
Compensated absences	608	642
Taxes payable	14	12
Unearned revenue	2,594	2,067
State loans payable	13,565	12,121
General obligation bonds payable	21,105	9,520
Revenue bonds payable	52,015	156,910
Environmental remediation costs	6,928	8,477
Deposits and other liabilities	17,698	146,637
	214,458	456,522
NONCURRENT LIABILITIES		
Compensated absences	10,865	10,623
Other post-employment benefits	1,583	1,467
Net pension liability	51,568	38,885
State loans payable, net	192,424	167,267
General obligation bonds payable, net	801,363	828,715
Revenue bonds payable, net	3,118,433	2,975,124
Environmental remediation costs	39,949	43,821
	4,216,185	4,065,902
Total liabilities	4,430,643	4,522,424
DEFERRED INFLOWS OF RESOURCES		
Regulatory credits - rate stabilization	46,250	46,250
Deferred inflows on pension	1,217	6,984
Total deferred inflows of resources	47,467	53,234
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,478,110	4,575,658
NET POSITION		
Net investments in capital assets	154,183	191,080
Restricted for:		
Debt service	170,843	175,332
Regulatory assets and environmental liabilities	31,568	26,281
Unrestricted	282,765	110,504
Total net position	$ 639,359	$ 503,197

See accompanying notes.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(In Thousands)

	Years Ended December 31, 2016	2015
OPERATING REVENUES		
Sewage disposal fees	$ 381,513	$ 359,253
Other operating revenues	83,028	74,153
Total operating revenues	464,541	433,406
OPERATING EXPENSES		
Sewage treatment, disposal, and transmission	95,429	89,715
General and administrative	43,269	37,496
Environmental related amortization	3,707	2,954
Depreciation and amortization	172,598	170,787
Total operating expenses	315,003	300,952
OPERATING INCOME	149,538	132,454
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	4,019	2,231
Interest expense	(131,042)	(139,980)
Loss on disposal and impairment of capital assets	(19,100)	(5,280)
Other	132,697	376
Total nonoperating expenses	(13,426)	(142,653)
GAIN (LOSS) BEFORE GRANTS	136,112	(10,199)
CAPITAL GRANT REVENUES	50	766
CHANGE IN NET POSITION	136,162	(9,433)
NET POSITION		
Beginning of year	503,197	512,630
End of year	$ 639,359	$ 503,197

See accompanying notes.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 462,654	$ 454,391
Cash payments to suppliers for goods and services	(78,905)	(83,417)
Cash payments for employee services	(51,658)	(49,017)
Settlement receipts	-	2,338
Other payments	(8,995)	(6,531)
Net cash provided by operating activities	323,096	317,764
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(150)	(115)
Assistance to other agencies	(948)	(710)
Net cash used in noncapital financing activities	(1,098)	(825)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital and other utility assets	(171,138)	(137,674)
Proceeds from disposal of capital assets	72	24
Principal paid on capital debt	(78,980)	(71,843)
Interest paid on capital debt	(170,028)	(161,183)
Proceeds of new bond issuance	50,000	76,523
Proceeds of state loans	39,151	31,563
Capital grants received	50	766
Net cash used in capital and related financing activities	(330,873)	(261,824)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	4,019	2,231
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,856)	57,346
CASH AND CASH EQUIVALENTS		
Beginning of year	624,929	567,583
End of year	$ 620,073	$ 624,929

 See accompanying notes.

(In Thousands)

	Years Ended December 31, 2016	Years Ended December 31, 2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 149,538	$ 132,454
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	172,598	170,787
Other nonoperating revenue and expense	134,379	1,458
Changes in assets		
Accounts receivable	(7,738)	7,063
Due from other funds	(118)	25
Inventory of supplies	(335)	(753)
Prepayments	59	(316)
Other assets	135	(5,113)
Changes in deferred outflows of resources		
Deferred outflows on pension	(4,862)	(2,900)
Changes in liabilities		
Accounts payable	5,744	(2,820)
Retainage payable	18	12
Due to other funds	(95)	111
Taxes payable	2	(5)
Unearned revenue	527	440
Wages and benefits payable	364	244
Compensated absences	208	(220)
Other post-employment benefits	116	116
Net pension liability	12,683	9,691
Other liabilities	(134,360)	3,874
Changes in deferred inflows of resources		
Rate stabilization	-	12,000
Deferred inflows on pension	(5,767)	(8,384)
Total adjustments	173,558	185,310
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 323,096	$ 317,764

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Water Quality issued bonds in 2016 to refund debt issued from 2006 to 2011. The $870.9 million of bond proceeds were placed in escrow for the defeasance of $769.5 million of outstanding revenue bond principal and $130.6 million of interest. The $100.0 million of fixed rate junior lien bonds issued in 2015 were remarketed in 2016 to junior lien variable rate demand sewer revenue bonds.

Water Quality issued bonds in 2015 to refund debt issued from 1995 to 2010. The $851.1 million bond proceeds were placed in escrow for the defeasance of $752.3 million of outstanding revenue and LTGO bond principal and $124.3 million of interest. There were $100.0 million of junior lien bonds issued to redeem the 1995 commercial paper program.

Note 1 – Operations and Accounting Policies

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

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

Water Quality has long-term sewage disposal agreements with the cities and sewer districts that operate sewage collection systems within its service area. The monthly sewage disposal charge to the contracting cities and districts is based on Water Quality's estimated annual monetary requirements, including operating costs and debt service. Revenues from Water Quality's largest customer, the City of Seattle (Seattle Public Utilities), represent approximately 40 percent of total sewage disposal fees in 2016 and in 2015.

Water Quality purchases goods and services from other County agencies, including reimbursement of the County's general fund for a share of general government. Expenses incurred in doing business with other County agencies amounted to $35.8 million and $34.4 million in 2016 and 2015, respectively.

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

a. **Cash and cash equivalents** – Water Quality considers as cash and cash equivalents all balances held with the King County Treasurer in the King County Investment Pool (the Pool), cash with escrow agents or held in trust, and petty cash. Unrealized gain or loss on Water Quality's proportionate share of the Pool is reported as a component of investment earnings.

b. **Receivables and allowance for doubtful accounts** – Receivables include charges for services rendered by Water Quality or intergovernmental grants. All unbilled service receivables are recorded at year-end. The provisions for estimated uncollectible receivables are reviewed and updated at year-end. These provisions are estimated based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2016 and 2015, Water Quality's allowance for doubtful accounts was $815 thousand and $6.4 million, respectively.

Note 1 – Operations and Accounting Policies (continued)

c. **Due From and To Other Funds, Interfund Loans and Advances** – Due from and to other funds consists of current receivables and payables from or to other funds within the County. They typically arise from interfund goods and service transactions and reimbursements.

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

d. **Inventory of Supplies** – Inventory is recorded at the lower of cost or market using the weighted-average cost method. Materials and supplies are expensed as consumed. Inventory is written off in the year that it is determined obsolete.

e. **Restricted Assets** – In accordance with Water Quality's bond resolutions, state law, King County codes, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes, including bond and state loan reserves.

f. **Capital Assets** – Capital assets are stated at cost, less accumulated depreciation and amortization. Water Quality's capitalization threshold is: equipment at $5 thousand; software and intangible assets at $500 thousand, and buildings and improvements at $100 thousand. Provision for depreciation and amortization are made on a straight-line basis over the estimated useful lives of Water Quality's capital assets as follows:

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

Water Quality capitalizes certain interest income and expense related to borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax free borrowings. Total interest expense incurred was $150.2 million and $154.0 million during the years ended December 31, 2016 and 2015, of which $12.1 million and $11.3 million, respectively, was capitalized.

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

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

Note 1 – Operations and Accounting Policies (continued)

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

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

h. **Rebatable Arbitrage** – Water Quality's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exceptions rules are met. The liability is recognized during the period the excess interest is earned. Water Quality has no liability as of December 31, 2016 and 2015.

i. **Deferred Outflows and Inflows of Resources** – Deferred outflows of resources represent consumption of resources that is applicable to future reporting periods and deferred inflows of resources represent acquisition of resources that is applicable to future reporting periods. Deferred outflows of resources include deferred losses on the refunding of bonds and certain amounts related to pension accounting. Deferred inflows of resources include certain amounts related to pension accounting and rate stabilization.

j. **Operating and Nonoperating Revenues and Expenses** – Operating revenues result from exchange transactions of Water Quality's activities. Expenses associated with providing wastewater treatment services and operating Water Quality's treatment facilities are considered operating. Nonoperating revenues result from nonexchange transactions such as operating subsidies and investment earnings.

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

Note 1 – Operations and Accounting Policies (continued)

k. **Debt-related Amortization** – Bond premiums, discounts and refunding losses and gains are amortized over the life of the bonds using the outstanding principal balance method.

l. **Capital Grant Revenues** – Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, grant revenues are reported separately from operating and nonoperating revenues as capital grant revenues. Water Quality received capital grant revenues of $50 thousand and $766 thousand for the year ended December 31, 2016 and 2015, respectively.

m. **Net Position** – Resources set aside for debt services and other obligations, net of related liabilities, are classified as restricted net position on the statements of net position as their use is limited by externally-imposed restrictions. Net investments in capital assets are reported as a separate component of net position and consists of capital assets, net of accumulate depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets. Any net position not subject to classification as restricted or invested in capital assets are reported as unrestricted.

n. **Use of Estimates** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Specific estimates have been made in the areas of allowance for uncollectible accounts, environmental remediation costs, useful lives of capital assets, pension liability and related deferred outflow and inflow of resources, and future interest rates. Actual results could differ from these estimates.

o. **Reclassification** – Certain reclassifications have been made to the prior year statements to conform to the current year presentation.

New Accounting Standards – The following GASB pronouncements were implemented during the current year.

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The statement is effective for periods beginning after June 15, 2015. It was implemented in 2016 by Water Quality.

GASB Statement No. 76, *The Hierarchy of GAAP for Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for periods beginning after June 15, 2015. It was adopted in 2016 by Water Quality.

Note 1 – Operations and Accounting Policies (continued)

GASB Statement No. 77, *Tax Abatement Disclosure*, defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The statement was adopted in 2016 and had no impact on Water Quality's financial statements.

Note 2 – Deposits in King County Investment Pool

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

The Pool is administered by the King County Treasury Operations Section and is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC), which serves the role of the County Finance Committee as defined in RCW 36.48.070.

The County has deposit and investment policies addressing risks that have the potential to result in losses of deposits and investments. All deposits not insured by the Federal Depository Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC), a statutory authority established under chapter 39.58 RCW that governs public depositaries and provides that "All public funds deposited in public depositaries, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter." Effective July 1, 2009, all public depositaries were required to pledge securities at 100% of their public deposits not covered by FDIC insurance. The PDPC constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositaries within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance. The custodial credit risk for deposits is the risk that Water Quality's deposits may not be returned to it in the event of a bank failure.

Assessing Water Quality's risk exposure, Water Quality's cash and cash equivalents balance of $620.1 million and $624.9 million were fully invested in the Pool as of December 31, 2016 and 2015, respectively. The County had demand deposits of $149.0 million and $30.7 million as of December 31, 2016 and 2015, respectively, in fully insured and collateralized depository accounts at U.S. Bank and other banks under FDIC and PDPC as set out above.

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

Credit Risk – Investments – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of December 31, 2016, the Pool was not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities and corporate notes (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

The Pool's policies limit the maximum amount that can be invested in various securities. At 2016 and 2015 year-end the Pool was in compliance. The Pool's actual composition, as of December 31, 2016 and 2015, is as follows (in thousands):

	2016		2015	
Investment Type	Total	Allocation Percentage	Total	Allocation Percentage
Repurchase agreements	$ 100,000	1.65%	$ 175,000	2.83%
Commercial paper	249,505	4.12%	221,744	3.59%
U.S. agency discount notes	440,879	7.29%	1,120,318	18.15%
Bank notes	-	-	732,896	11.87%
Bank notes floating rate	-	-	59,952	0.97%
Corporate notes	959,115	15.85%	-	-
U.S. treasury notes	2,456,511	40.60%	2,274,494	36.84%
U.S. agency notes	1,203,362	19.89%	1,250,334	20.25%
U.S. agency collateralized mortgage obligations	6,070	0.10%	7,212	0.12%
State treasurer's investment pool	634,558	10.50%	332,121	5.38%
	$ 6,050,000	100.00%	$ 6,174,071	100.00%

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

Concentration of Credit Risk – Investments – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issue. At 2016 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, 5.7 percent, Federal National Mortgage Association, 7.5 percent, Federal Home Loan Bank, 5.2 percent, and Federal Farm Credit Bank, 8.9 percent.

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

The issues with concentrations greater than 5 percent of the pool portfolio at 2015 year-end were as follows: Federal Home Loan Mortgage Corporation, 5.3 percent, Federal National Mortgage Association, 6.5 percent, Federal Home Loan Bank, 10.9 percent, and Federal Farm Credit Bank, 15.8 percent.

Interest Rate Risk – Investments – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The policy limit for the Pool's maximum effective duration is 1.5 years, and 40 percent of the Pool's total value in securities must have a maturity of 12 months or fewer. Securities in the portfolio cannot have an average life greater than five years at purchase. The combined effective duration of the liquidity and core portfolios was 1.122 years and 0.936 years at December 31, 2016 and 2015, respectively.

All securities are reported at fair value. Fair value reports are prepared monthly and distributed to all Pool participants. The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period.

Fair Value Hierarchy

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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

The following is a summary of inputs in valuing the County's investments as of December 31, 2016 and 2015.

KING COUNTY INVESTMENT POOL

		Fair Value Measurement Using		
Investments by fair value level	**Fair Value 12/31/2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Commercial paper	$ 249,505	$ -	$ 249,505	$ -
U.S. agency discount notes	440,879	-	440,879	-
Corporate notes	959,115	-	959,115	-
U.S. treasury notes	2,456,511	2,456,511	-	-
U.S. agency notes	1,203,362	-	1,203,362	-
U.S. agency collateralized Mortgage obligations	6,070	-	6,070	-
Subtotal	$ 5,315,442	$2,456,511	$ 2,858,931	$ -
Investments measured at amortized cost (not subject to fair value hierarchy)				
Repurchase agreements	100,000			
State treasurer's investment pool	634,558			
Subtotal	734,558			
Total investment in Investment Pool	$ 6,050,000			

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

KING COUNTY INVESTMENT POOL

		Fair Value Measurement Using		
Investments by fair value level	**Fair Value 12/31/2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Commercial paper	$ 221,744	$ -	$ 221,744	$ -
U.S. agency discount notes	1,120,318	-	1,120,318	-
Corporate notes	732,896	-	732,896	-
Bank notes floating rate	59,952	-	59,952	-
U.S. treasury notes	2,274,494	2,274,494	-	-
U.S. agency notes	1,250,334	-	1,250,334	-
U.S. agency collateralized Mortgage obligations	7,212	-	7,212	-
Subtotal	$ 5,666,950	$2,274,494	$ 3,392,456	$ -
Investments measured at amortized cost (not subject to fair value hierarchy)				
Repurchase agreements	175,000			
State treasurer's investment pool	332,121			
Subtotal	507,121			
Total investment in Investment Pool	$ 6,174,071			

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

Commercial Paper, U.S. Agency Discount Notes, Corporate Notes, U.S. Agency Notes and U.S. Agency Collateralized Mortgage Obligations are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

State Treasurer's Investment Pool and Repurchase Agreement are overnight securities and are not subject to GASB Statement No. 72, *Fair Value Measurement and Application*.

Note 3 – Restricted Assets

A significant portion of Water Quality's assets are restricted as to use by legal and contractual provisions and by fiscal management policy. Restricted assets comprise $236.8 million at December 31, 2016 and $394.6 million at December 31, 2015 to comply with bond covenants and other requirements.

Liability amounts payable from restricted assets primarily consist of escrow and in-house retainage payables. These amounted to $2.0 million and $2.8 million at December 31, 2016 and 2015, respectively. The details of restricted and unrestricted cash and cash equivalents as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Unrestricted cash and cash equivalents		
Operating funds	$ 23,702	$ 19,920
Construction funds	197,355	40,787
Bond funds	128,543	136,749
Policy reserves	33,632	32,893
Total unrestricted cash and cash equivalents	383,232	230,349
Restricted cash and cash equivalents		
Bond reserves	160,491	166,128
SRF loan reserves	10,352	9,204
Bond proceeds committed to construction	-	23,595
Retainage	2,049	2,766
Rate stabilization reserve	46,250	46,250
Legally restricted funds	17,699	146,637
Total restricted cash and cash equivalents	236,841	394,580
Total cash and cash equivalents	$ 620,073	$ 624,929

Note 4 – Risk Management

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

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

During 2016 and 2015, Water Quality claims paid by the Insurance Fund of King County were $154 thousand and $130 thousand, respectively. In the past three years there was no occurrence that resulted in payment in excess of the self-insured retention of $7.5 million.

Note 4 – Risk Management (continued)

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

Water Quality retains all risk associated with environmental claims.

Note 5 – Long-Term Liabilities and Notes Payable

Sewer Revenue Bonds – As of December 31, 2016, bonds outstanding include $2,884.9 million of serial and term bonds maturing from January 1, 2017 through January 1, 2052, bearing interest at stated rates of 1.00 percent to 5.75 percent per annum.

On February 17, 2016, the County issued $281.5 million in sewer revenue bonds, Series A, with an effective interest cost of 3.3 percent to advance refund $278.8 million of outstanding 2007, 2008, 2009, and 2010 sewer revenue bonds with an average coupon interest rate of 4.4 percent. The reacquisition price exceeded the net carrying amount of the old debt by $35.4 million. This advance refunding was undertaken to reduce total debt service payments by $65.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $39.6 million.

On October 12, 2016, the County issued $499.7 million in sewer revenue bonds, Series B, with an effective interest cost of 3.2 percent, to currently refund $120.9 million of outstanding 2006 sewer revenue bonds and advance refund $369.8 million of outstanding 2010, 2011-A, 2011-B, 2011-C sewer revenue bonds with a coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the old debt by $50.3 million. This refunding was undertaken to reduce total debt service payments by $103.9 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 $73.9 million.

On November 16, 2016, the County remarketed $100.0 million in junior lien sewer revenue bonds, 2015 Series A and B, changing their interest rate mode to a one-month variable rate from a one-year fixed rate. These bonds have a final maturity date of January 1, 2046.

Note 5 – Long-Term Liabilities and Notes Payable (continued)

On February 18, 2015, the County issued $474.0 million in sewer revenue bonds, Series A, with an effective interest cost of 3.6 percent to advance refund $475.3 million of outstanding 2007, 2008, and 2009 sewer revenue bonds with an average coupon interest rate of 5.2 percent. The reacquisition price exceeded the net carrying amount of the old debt by $54.3 million. This advance refunding was undertaken to reduce total debt service payments by $127.7 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $65.6 million.

On November 17, 2015, the County issued $93.3 million in sewer revenue bonds, Series B, with an effective interest cost of 3.4 percent, to currently refund $24.1 million of outstanding 2006 sewer revenue bonds with a coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the old debt by $409 thousand. This current refunding was undertaken to reduce total debt service payments by $3.8 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 $3.4 million.

On November 24, 2015, the County issued $100.0 million in junior lien sewer revenue bonds, Series A and B, maturing on January 1, 2046 to redeem all of its outstanding notes payable from its commercial paper program. The bonds bear interest at a rate of 2.0 percent through November 16, 2016, at which time they are subject to mandatory purchase by the County after which they may be remarketed in weekly or other Interest Rate Modes. The bonds were classified as a current liability as of December 31, 2015.

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

The bonds are secured by a pledge of the revenue of the sewer system subject to payment of all operating and maintenance expenses of the sewer system. Payments from revenues of Water Quality are required to be made to the sewer revenue bond fund to pay interest and retire serial or term bonds on or before maturity. The amount required in the cash reserves and surety policies are based on the highest year of debt service over the life of all outstanding revenue bonds.

Note 5 – Long-Term Liabilities and Notes Payable (continued)

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2016
2001A-B Junior Lien Variable	1/1/32	(variable)	$ 100,000	$ 100,000
2006 Refunding	1/1/36	5.00%	124,070	-
2006 (2nd Series) Refunding	1/1/36	3.50-5.00%	193,435	4,330
2007	1/1/47	5.00%	250,000	1,750
2008	1/1/48	5.00-5.75%	350,000	3,605
2009	1/1/42	4.00-5.25%	250,000	4,850
2010	1/1/50	2.00-5.00%	334,365	108,625
2011	1/1/41	5.00-5.125%	175,000	66,925
2011 Series B	1/1/41	1.00-5.00%	494,270	254,620
2011 Series C	1/1/35	3.00-5.00%	32,445	16,485
2011 Sewer Junior Lien Variable	1/1/42	(variable)	100,000	100,000
2012A Refunding	1/1/52	5.00%	104,445	104,445
2012B Refunding	1/1/35	4.00-5.00%	64,260	64,260
2012C Refunding	1/4/33	2.50-5.00%	65,415	65,415
2012 Sewer Junior Lien Variable	1/1/43	(variable)	100,000	100,000
2013A Refunding	1/1/35	2.00-5.00%	122,895	117,000
2013B Revenue and Refunding	1/1/44	2.00-5.00%	74,930	63,030
2014A Refunding	1/1/47	5.00%	75,000	75,000
2014B Refunding	7/1/35	1.00-5.00%	192,460	190,790
2015 Sewer Junior Lien Variable	1/1/46	(variable)	100,000	100,000
2015A Refunding	7/1/47	3.00-5.00%	474,025	473,190
2015B Refunding	1/1/46	4.00-5.00%	93,345	89,380
2016A Refunding	7/1/41	4.00-5.00%	281,535	281,535
2016B Refunding	7/1/49	4.00-5.00%	499,655	499,655
			$ 4,651,550	$ 2,884,890

General Obligation Bonds – As of December 31, 2016, bonds outstanding include $755.9 million of serial and term bonds maturing January 1, 2017 through 2040, bearing interest at stated rates of 2.00 percent to 5.25 percent per annum.

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

On February 18, 2015, the County issued $247.8 million in general obligation refunding bonds, Series A, with an effective interest cost of 3.3 percent to advance refund $252.9 million of 2009 general obligation bonds, with an average coupon interest rate of 5.1 percent. The reacquisition price exceeded the net carrying amount of the old debt by $36.6 million. This advance refunding was undertaken to reduce total debt service payments by $31.9 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $21.5 million.

Note 5 – Long-Term Liabilities and Notes Payable (continued)

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2016
2008 LTGO	1/1/34	3.25-5.25%	$ 236,950	$ 213,460
2009B LTGO	7/1/39	5.00-5.25%	300,000	28,795
2010A-B Multi-Modal LTGO	1/1/40	(variable)	100,000	100,000
2012A LTGO	1/1/25	2.00-5.00%	68,395	67,755
2012B LTGO	1/1/29	5.00%	41,725	41,725
2012C LTGO	1/1/34	5.00%	53,405	53,405
2012F LTGO	12/1/22	2.20%	3,010	3,010
2015A LTGO	7/1/38	2.00-5.00%	247,825	247,725
			$ 1,051,310	$ 755,875

State Loans – Water Quality has received loans from the Washington State Department of Ecology under the Water Pollution Control State Revolving Fund Loan Program and the Washington Public Works Trust Fund. The loans require annual payments of principal and interest from 2017 through 2037 and bear interest at stated rates from 0.0 percent to 3.1 percent. As of December 31, 2016, the balance due on all state loans is $206.0 million. Water Quality maintains separate cash reserves of $10.4 million as of December 31, 2016. These reserves are treated as restricted, being required under the Revolving Fund Loan Program.

At December 31, 2016, the required principal and interest payments for all classes of long-term debt are as follows (in thousands):

	Revenue Bonds		General Obligation Bonds		State Loans		
Year(s) Beginning	Principal	Interest	Principal	Interest	Principal	Interest	Total
January 1, 2017	$ 52,015	$ 119,897	$ 21,105	$ 36,033	$ 13,565	$ 4,369	$ 246,984
January 1, 2018	50,015	124,234	22,140	34,952	14,756	4,110	250,207
January 1, 2019	52,190	121,899	23,225	33,820	15,039	3,834	250,007
January 1, 2020	57,140	119,432	32,160	32,632	14,822	3,553	259,739
January 1, 2021	54,660	116,792	25,620	31,203	14,688	3,276	246,239
January 1, 2022–2026	334,690	538,752	151,580	134,767	62,292	12,265	1,234,346
January 1, 2027–2031	420,105	448,796	177,035	93,428	42,209	6,282	1,187,855
January 1, 2032–2036	608,735	321,131	164,595	48,277	28,208	1,530	1,172,476
January 1, 2037–2041	480,710	206,391	138,415	20,031	409	3	845,959
January 1, 2042–2046	626,705	93,301	-	-	-	-	720,006
January 1, 2047–2051	138,060	15,003	-	-	-	-	153,063
January 1, 2052	9,865	247	-	-	-	-	10,112
	$ 2,884,890	$ 2,225,875	$ 755,875	$ 465,143	$ 205,988	$ 39,222	$ 6,576,993

Note 5 – Long-Term Liabilities and Notes Payable (continued)

The future annualized interest payments for the variable rate revenue bonds are based on an interest rate of 5.4 percent, which represents 90 percent of the long-term interest rate assumed by the County for financial planning purposes.

Commercial Paper (Notes Payable) – On November 24, 2015, Water Quality redeemed all of its outstanding commercial paper from the proceeds of the junior lien sewer revenue bonds, 2015 Series A and B, thereby ending the program. Changes in short-term note payables for the year ended December 31, 2015 were as follows (in thousands):

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
Commercial paper	$ 100,000	$ 621,280	$ (721,280)	$ -

Variable Rate General Obligation and Revenue Bonds – The variable rate bonds, 2001 Series A and Series B revenue bonds are supported by a periodically renewable letter of credit that expires September 30, 2020. The variable rate bonds, 2010 Series A and Series B general obligation bonds are supported by a Standby Bond Purchase Agreement that expires November 3, 2017. The variable rate bonds, 2011, 2012 and variable rate 2016 Series A and Series B Sewer Jr Lien do not have liquidity facilities.

Financial Policy Reserves – In addition to bond reserves related to Sewer Revenue Bonds, Water Quality maintains liquidity and asset management reserves totaling $33.6 million at December 31, 2016.

Compliance with Bond Resolutions – With respect to the year ended December 31, 2016, Water Quality complied with all financial covenants stipulated by its bond resolutions.

Note 5 – Long-Term Liabilities and Notes Payable (continued)

Changes in Long-Term Liabilities – Long-term liability activity for the years ended December 31, 2016 and 2015 was as follows (in thousands):

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Bonds payable	$ 3,695,560	$ 781,190	$ (835,985)	$ 3,640,765	$ 73,120
Bond premiums and discounts	274,709	102,618	(25,176)	352,151	-
Total bonds payable	3,970,269	883,808	(861,161)	3,992,916	73,120
State loans	179,388	39,151	(12,550)	205,989	13,565
Compensated absences	11,265	11,133	(10,925)	11,473	608
Other post-employment benefits	1,467	190	(74)	1,583	-
Net pension liability	38,885	25,693	(13,010)	51,568	-
Environmental remediation	52,298	2,838	(8,259)	46,877	6,928
Total long-term liabilities	$ 4,253,572	$ 962,813	$ (905,979)	$ 4,310,406	$ 94,221

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Bonds payable	$ 3,593,310	$ 915,195	$ (812,945)	$ 3,695,560	$ 166,430
Bond premiums and discounts	190,669	103,237	(19,197)	274,709	-
Total bonds payable	3,783,979	1,018,432	(832,142)	3,970,269	166,430
State loans	159,053	31,563	(11,228)	179,388	12,121
Compensated absences	11,484	10,208	(10,427)	11,265	642
Other post-employment benefits	1,351	190	(74)	1,467	-
Net pension liability	29,193	25,796	(16,104)	38,885	-
Environmental remediation	44,800	13,241	(5,743)	52,298	8,477
Total long-term liabilities	$ 4,029,860	$ 1,099,430	$ (875,718)	$ 4,253,572	$ 187,670

Note 6 – Changes in Capital Assets

Changes in capital assets for the years ended December 31, 2016 and 2015 are shown in the following table (in thousands):

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
Land	$ 253,535	$ 2,175	$ (14,951)	$ 240,759
Easements	14,863	426	-	15,289
Construction work in progress	319,960	144,565	(132,577)	331,948
Total nondepreciable assets	588,358	147,166	(147,528)	587,996
Buildings	1,915,240	65,005	(197)	1,980,048
Improvements other than building	94,246	11,104	(2,569)	102,781
Artwork	5,645	60	(5)	5,700
Right of way	7,635	-	-	7,635
Infrastructure	2,238,131	22,656	-	2,260,787
Equipment	1,071,642	43,873	(4,537)	1,110,978
Software development	35,614	52	(35)	35,631
Total depreciable assets	5,368,153	142,750	(7,343)	5,503,560
Accumulated depreciation and amortization				
Building	(655,574)	(51,441)	182	(706,833)
Improvements other than building	(25,993)	(3,256)	672	(28,577)
Artwork	(874)	(205)	-	(1,079)
Right of way	(927)	(218)	-	(1,145)
Infrastructure	(530,650)	(47,484)	-	(578,134)
Equipment	(606,100)	(59,834)	4,520	(661,414)
Software development	(29,874)	(2,991)	35	(32,830)
Total depreciation and amortization	(1,849,992)	(165,429)	5,409	(2,010,012)
Depreciable assets - net	3,518,161	(22,679)	(1,934)	3,493,548
Total capital assets - net	$ 4,106,519	$ 124,487	$ (149,462)	$ 4,081,544

Note 6 – Changes in Capital Assets (continued)

	Balance January 1, 2015	Increases	Decreases	Balance December 31, 2015
Land	$ 242,993	$ 10,542	$ -	$ 253,535
Easements	11,720	3,143	-	14,863
Construction work in progress	282,785	138,085	(100,910)	319,960
Total nondepreciable assets	537,498	151,770	(100,910)	588,358
Buildings	1,871,986	45,676	(2,422)	1,915,240
Improvements other than building	67,321	26,925	-	94,246
Artwork	5,572	73	-	5,645
Right of way	7,635	-	-	7,635
Infrastructure	2,259,362	-	(21,231)	2,238,131
Equipment	1,038,783	46,142	(13,283)	1,071,642
Software development	35,603	11	-	35,614
Total depreciable assets	5,286,262	118,827	(36,936)	5,368,153
Accumulated depreciation and amortization				
Building	(606,698)	(50,901)	2,025	(655,574)
Improvements other than building	(23,263)	(2,730)	-	(25,993)
Artwork	(668)	(206)	-	(874)
Right of way	(709)	(218)	-	(927)
Infrastructure	(483,397)	(47,367)	114	(530,650)
Equipment	(560,247)	(58,569)	12,716	(606,100)
Software development	(25,911)	(3,963)	-	(29,874)
Total depreciation and amortization	(1,700,893)	(163,954)	14,855	(1,849,992)
Depreciable assets - net	3,585,369	(45,127)	(22,081)	3,518,161
Total capital assets - net	$ 4,122,867	$ 106,643	$ (122,991)	$ 4,106,519

Note 7 – Environmental Remediation

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

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

Note 7 – Environmental Remediation (continued)

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

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

There are no estimated recoveries at this time that will reduce the amount of Water Quality's pollution remediation obligations. The total environmental remediation liability at December 31, 2016 stands at $46.9 million and $52.3 million in 2015.

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

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

Note 8 – Regulatory Assets and Credits

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

Rate Stabilization – In 2005, the Council established a Rate Stabilization Reserve. This action created a deferred inflow of resource which deferred operating revenue to be set aside in a reserve and recognized in subsequent years to maintain stable sewer rates. The reserve was $46.3 million in 2015 and remains unchanged in 2016.

Note 8 – Regulatory Assets and Credits (continued)

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

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

Note 9 – Employee Benefit Plans

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, the County elected to use June 30, 2016 and 2015, respectively, as the measurement date for reporting net pension liability at 2016 and 2015 year-end, respectively.

The following table represents the aggregate pension amounts allocated to Water Quality for all pension plans subject to the requirements of GASB Statement No. 68 for the years 2016 and 2015 (in thousands):

	Aggregate Pension Amounts—All Plans	
	2016	2015
Pension liabilities	$ 51,568	$ 38,885
Deferred outflows of resources	$ 9,849	$ 4,987
Deferred inflows of resources	$ 1,217	$ 6,984
Pension expense/expenditures	$ 8,848	$ 4,190

Pension Plans – Substantially all full-time and qualifying part-time employees of Water Quality participate in one of the following retirement plans: Public Employees' Retirement System (PERS) Plan 1, 2 and 3.

PERS is administered by the Washington State Department of Retirement Systems (DRS) under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all statewide public retirement systems.

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

Note 9 – Employee Benefit Plans (continued)

The DRS CAFR may be obtained by writing to:

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees Retirement System – PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 and 2015 were as follows:

PERS Plan 1

	Employer	Employee
Actual contribution rates:		
January through December 2016	11.18%	6.00%
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

Note 9 – Employee Benefit Plans (continued)

Water Quality's actual contributions to the plan were as follows for the years ended December 31 (in thousands):

	PERS Plan 1
2016	$ 77
2015	$ 78
2014	$ 88

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Note 9 – Employee Benefit Plans (continued)

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 and 2015 were as follows:

PERS Plan 2/3		
	Employer 2/3	Employee 2
Actual contribution rates:		
January through December 2016	11.18%	6.12%
2016 Employee PERS Plan 3		Varies
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%
2015 Employee PERS Plan 3		Varies

Water Quality's actual contributions to the plan were as follows for the years ended December 31 (in thousands):

	PERS Plans 2/3
2016	$ 6,717
2015	$ 5,705
2014	$ 5,020

Actuarial Assumptions – The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Note 9 – Employee Benefit Plans (continued)

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate – The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return – The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Note 9 – Employee Benefit Plans (continued)

Estimated Rates of Return by Asset Class – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20.00%	1.70%
Tangible assets	5.00%	4.40%
Real estate	15.00%	5.80%
Global equity	37.00%	6.60%
Private equity	23.00%	9.60%
	100.00%	

Sensitivity of NPL – The table below presents Water Quality's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what Water Quality's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate (in thousands).

Pension Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 23,099	$ 19,155	$ 15,761
PERS 2/3	$ 59,679	$ 32,413	$ (16,873)
PERS 1	$ 20,644	$ 16,956	$ 13,785
PERS 2/3	$ 64,119	$ 21,929	$ (10,376)

Pension Plan Fiduciary Net Position – Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016 and 2015, Water Quality reported a total pension liability of $51.6 million and $38.9 million, respectively, for its proportionate share of the net pension liabilities as follows (in thousands):

	Liability	
	2016	2015
PERS 1	$ 19,155	$ 16,956
PERS 2/3	$ 32,413	$ 21,929

Note 9 – Employee Benefit Plans (continued)

At June 30, Water Quality's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.32%	0.36%	0.04%
PERS 2/3	0.61%	0.64%	0.03%

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.33%	0.32%	(0.01%)
PERS 2/3	0.62%	0.61%	(0.01%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1.

The collective net pension liability was measured as of June 30, 2016 and 2015, respectively, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2015 and 2014, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense – For the year ended December 31, 2016 and 2015, Water Quality recognized pension expense as follows (in thousands):

	Pension Expense 2016	Pension Expense 2015
PERS 1	$ 760	$ (945)
PERS 2/3	8,088	5,135
Total	$ 8,848	$ 4,190

Note 9 – Employee Benefit Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2016 and 2015, Water Quality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2016		2015	
PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments.	$ 482	$ -	$ -	$ 928
Contributions subsequent to the measurement date.	1,007	-	901	-
Total	$ 1,489	$ -	$ 901	$ 928

	2016		2015	
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience.	$ 1,726	$ 1,070	$ 2,331	$ -
Net difference between projected and actual investment earnings on pension plan investments.	3,967	-	35	5,854
Changes of assumptions	335	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions.	462	147	-	202
Contributions subsequent to the measurement date.	1,870	-	1,720	-
Total	$ 8,360	$ 1,217	$ 4,086	$ 6,056

Note 9 – Employee Benefit Plans (continued)

Deferred outflows of resources related to pensions resulting from Water Quality's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017 and 2016, respectively. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

	2016	
Year Ending December 31,	PERS 1	PERS 2/3
2017	$ (119)	$ 106
2018	$ (119)	$ 106
2019	$ 443	$ 3,153
2020	$ 277	$ 1,908

	2015	
Year Ending December 31,	PERS 1	PERS 2/3
2016	$ (360)	$ (1,649)
2017	$ (360)	$ (1,649)
2018	$ (360)	$ (1,649)
2019	$ 152	$ 1,257

Note 10 – Other Post-Employment Benefits

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

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

Note 10 – Other Post-Employment Benefits (continued)

Funding Policy – Law Enforcement Officers' and Fire Fighters' Retirement System Plan (LEOFF) 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan. Water Quality contributed an estimated $74 thousand each year to the Health Plan during both 2016 and 2015. The contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to advance fund the cost of benefits.

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

Water Quality's allocated annual OPEB costs, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for the years ended December 31, 2016 and 2015 were as follows (in thousands):

	2016	2015
Normal cost - Unit Credit Method	$ 164	$ 165
Amortization of unfunded actuarial accrued liability (UAAL)	32	32
Annual Required Contribution (ARC)	196	197
Interest on net OPEB obligation	5	5
Adjustment to annual required contribution	(11)	(12)
Annual OPEB cost (expense)	190	190
Contributions made	(74)	(74)
Increase in net OPEB obligation	116	116
Net OPEB obligation - beginning of year	1,467	1,351
Net OPEB obligation - end of year	$ 1,583	$ 1,467

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2016	$ 190	38.9%	$ 1,583
12/31/2015	$ 190	38.9%	$ 1,467
12/31/2014	$ 219	29.0%	$ 1,351

Note 10 – Other Post-Employment Benefits (continued)

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

The December 31, 2016 valuation used the projected unit credit actuarial cost method. The actuarial assumptions included a 2.5 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 7.0 percent for KingCare medical, 9.0 percent for KingCare pharmacy, and 7.0 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 3.8 percent after 59 years and 7 years for medical and pharmacy, respectively. The Medicare Premium trend rate is 6.0 percent, for all years. All trend rates include a 3.0 percent inflation assumption. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 22 years.

Note 11 – Interfund Balances and Transfers

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

Interfund Balances – The balances result from the time lag between the dates when interfund goods and services were provided or reimbursable expenditures incurred and when interfund payments were made, Water Quality reported total due from other funds of $1.3 million and due to other funds of $16 thousand at December 31, 2016. Water Quality had $1.2 million due from other funds and due to other funds of $111 thousand at December 31, 2015.

Interfund Transfers – The King County Council approves ordinances and/or motions authorizing Water Quality to contribute and receive amounts to and from various County funds. During 2016 and 2015, the transfers from Water Quality to other funds were $150 thousand and $115 thousand, respectively.

Note 12 – Commitments and Contingencies

Construction and Maintenance Programs – To ensure the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities, Water Quality is committed to expending approximately $54.4 million on active construction contracts as of December 31, 2016.

Note 12 – Commitments and Contingencies (continued)

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

- An administrative order issued by the Environmental Protection Agency (EPA) that required King County, the City of Seattle, Boeing, and the Port of Seattle to conduct studies to determine the nature and extent of contamination in the Lower Duwamish Waterway. The County and the other three parties recently agreed with EPA to amend the administrative order and to conduct additional studies pursuant to the amendment. The Feasibility Study, which discusses the remediation alternatives, has been issued in final form by EPA. EPA issued a Record of Decision (ROD) in the latter part of 2014. The ROD contains EPA's final plan for cleanup of the Lower Duwamish Waterway. King County and a number of other parties are participating in an alternative dispute resolution process, called an allocation, to determine shares of liability for the costs of the cleanup. If parties that participate in the allocation accept their allotted shares, they then expect to enter into a settlement agreement and to negotiate a consent decree with EPA to implement the cleanup. Due to the fact that the parties do not yet know their respective shares of cleanup costs and no consent decree has been negotiated with EPA, the County is unable to determine the schedule or cost of any required remediation. In addition, the County is unable to determine the extent to which King County and the Wastewater Treatment Division (WTD) or Water Quality will be responsible for the cost of such remediation.

- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. Water Quality has already performed interim cleanup costing $3.6 million to comply with a formal agreement with the Washington State Department of Ecology (DOE). Water Quality is preparing a draft Cleanup Action Plan in anticipation of final cleanup being required for the site. Water Quality's proposed remedy would be subject to discussions with and approval by DOE. The County is unable to determine an amount, if any, for which Water Quality may be responsible.

- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The City of Seattle, Port of Seattle and 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 Water Quality 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 Water Quality has only a one-third pro rata share of the study costs although that portion may still be reallocated among the parties or with other Potentially Responsible Parties (PRP) who may agree to participate in the study. The parties may also seek contribution from other PRP's for the cost of the study. The EPA will not determine if, or the nature of, any additional remediation until the study is completed. Further remediation costs cannot be reasonably estimated until the study has been completed. The County and three other PRPs have negotiated a memorandum of agreements to implement a search for other responsible parties.

Note 12 – Commitments and Contingencies (continued)

- Water Quality has undertaken a capital project to replace a major sewer pipe running under the Ship Canal between Fremont and Queen Anne. The contractor has submitted a claim to perform the south shaft excavation for the exit shaft for the tunnel boring machine that will bore under the Ship Canal from Fremont across the canal to Queen Anne, in the vicinity of Seattle Pacific University and the King County Laboratory. The amount the contractor claims for itself and the subcontractor is $1.4 million. The builder risk insurer is adjusting a claim for the repair costs.

- A series of requests for change orders and claims for damages from the prime contractor for the Brightwater Treatment Plant central conveyance system alleging differing site conditions and defective specifications. The County vigorously defended against the claims and filed suit alleging contract default by the contractor for failure to complete the contract work within time limits. The County received a jury verdict of $155 million on December 21, 2012. The contractor received a verdict of $26.2 million. Rulings on post-trial motions were issued on April 19, 2013, leaving in place the verdict amounts. The rulings also awarded the County additional $14.7 million for its legal costs. While the contractor has paid the net judgment amount, it continued to appeal the judgment to the Court of Appeals who affirmed the superior court decision. On January 28, 2016, the contractor petitioned the Washington Supreme Court for review of the defective specification ruling, and the surety defendants petitioned for review of the attorney fees award. The County answered the petition advocating denial of review because the trial court rulings on both issues are consistent with Washington precedent. Amici briefs were submitted by the contractor and industry trade groups on behalf of the contractor. The Washington Supreme Court denied the contractor's petition for review but accepted review of the petition on legal costs. The County is awaiting a decision in regards to the legal costs. Water Quality recognized $133.6 million as other nonoperating revenue during 2016.

- A lawsuit filed by a contractor over contractual penalties of approximately $736 thousand that Water Quality withheld from payment to the contractor for defective installation of the four new centrifuges. The claim seeks $1.9 million. Water Quality will file an answer and counterclaim for damages in addition to the withheld liquidated damages for delay and the penalties for non-compliant centrifuge performance.

- A claim submitted by a contractor against Water Quality over the project to repair and replace two miles of pipeline serving the rapidly developing area in the vicinity of Canyon Park. The project is subject to an agreement with DOE that mandates a bypass system be constructed if this capital project was not completed by the onset of the 2016 wet season. The contractor has submitted a request for change order based on its assertion that the contract dewatering and open-faced shield tunneling specifications are defective. The amount claimed for costs for additional work at this time is approximately $1.5 million. Water Quality found the contractor in default, terminated the contract, made demand upon the performance bond surety, and procured a $20 million completion contract. Water Quality's additional costs to complete the project and consequential damages, and the contractor's counterclaims will be addressed in the lawsuit. The contractor filed a second lawsuit in Snohomish County Superior Court to enjoin the default termination. This lawsuit was dismissed and the contractor is appealing that decision to Division One of the Court of Appeals.

Note 13 – Subsequent Event

In February 2017, Water Quality deposited cash in an irrevocable escrow to defease $5.1 million of outstanding 2008 and 2009 sewer revenue bonds. With the defeasance of these bonds, revised covenants in the bond ordinance that establish the minimum ratings for surety bonds that the County may use as qualified investments in lieu of cash in the Bond Reserve have become effective.

On February 9, 2017, the West Point Treatment Plant received catastrophic damage from a massive inflow of combined stormwater and sewage when a power surge disabled pumps and a critical overflow valve malfunctioned resulting in flooding the plant. It also resulted in engagement of the emergency bypass function routing untreated flow volumes past the treatment processes of the plant and directly into Puget Sound. Water Quality management reported the incident to the DOE immediately and continue to update the agency on operational conditions and permit compliance. The loss comes under the terms of insurance coverage with a $250 thousand deductible and a maximum loss recovery of $250 million per occurrence. Water Quality management is working with insurance carriers to document and recover costs related to the incident. Restoration of primary and secondary treatment back to normal operation is Water Quality's top priority and is anticipated by April 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the County's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30*
(dollars in thousands)

	2016	2015
County's proportion of the net pension liability/(asset)	8.90%	8.76%
County's proportionate share of the net pension liability/(asset)	$ 477,871	$ 458,477
County's covered-employee payroll	$ 18,793	$ 20,440
County's proportionate share of the net pension liability/(asset) as a percentage of covered-employee payroll	2542.81%	2243.04%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	57.03%	59.10%

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

Schedule of the County's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30*
(dollars in thousands)

	2016	2015
County's proportion of the net pension liability/(asset)	10.52%	10.36%
County's proportionate share of the net pension liability/(asset)	$ 529,855	$ 370,294
County's covered-employee payroll	$ 953,254	$ 933,304
County's proportionate share of the net pension liability/(asset) as a percentage of covered-employee payroll	55.58%	39.68%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	85.82%	89.20%

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

Schedule of County's Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended December 31*
(dollars in thousands)

	2016	2015
Contractually required contribution	$ 1,901	$ 2,076
Contributions in relation to the contractually required contribution	1,901	2,076
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 17,003	$ 20,440
Contributions as a percentage of covered-employee payroll	11.18%	10.16%

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

Schedule of County's Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Year Ended December 31*
(dollars in thousands)

	2016	2015
Contractually required contribution	$ 109,269	$ 95,176
Contributions in relation to the contractually required contribution	109,269	95,176
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 977,342	$ 933,304
Contributions as a percentage of covered-employee payroll	11.18%	10.20%

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

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)
2014	12/31/2014	$ -	$ 167,420	$ 167,420	-	$ 1,073,511	15.6%
2015	12/31/2015	$ -	$ 167,417	$ 167,417	-	$ 1,076,068	15.6%
2016	12/31/2016	$ -	$ 167,417	$ 167,417	-	$ 1,121,961	14.9%

OTHER INFORMATION

SUPPLEMENTAL SCHEDULE OF NET REVENUES AVAILABLE FOR DEBT SERVICE (UNAUDITED)

YEAR ENDED DECEMBER 31, 2016

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

Coverage (1.15 required by covenant, adopted policy 1.25)	1.55

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

Coverage (1.15 adopted target)	1.41

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

Coverage (1.00 required by covenant)	1.32

In 2001, Water Quality issued an additional tier of revenue bonds. The bond covenants of the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, require that sewage disposal rates provide net revenue equal to at least 1.10 times the annual debt service requirements for all Junior Lien obligations after payment of senior lien requirements. In 2010, Water Quality issued Multi-Modal Limited Tax General Obligation Sewer Revenue Bonds, series 2010A and 2010B which incorporate the identical requirement as Junior Lien obligations. In 2011 and 2012, Water Quality issued $100M of Junior Lien Variable Rate Demand Sewer Revenue Bonds which incorporate the identical requirement as Junior Lien obligations. In 2016, Water Quality issued $100M of Junior Lien Variable Rate Sewer Revenue Bonds which incorporate the identical requirement as Junior Lien obligations.

Coverage (1.10 required by covenant)	31.45

APPENDIX E

SUMMARY OF KING COUNTY'S INVESTMENT POLICY

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SUMMARY OF KING COUNTY'S INVESTMENT POLICY

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

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

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

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

The Investment Pool must maintain an effective duration of 1.5 years or less and 40% of its total value must be held in securities that mature within one year. As of June 30, 2017, the Investment Pool had a balance of $6.8 billion and an effective duration of 1.06 years, and 55.5% of the portfolio had a maturity of one year or less.

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

(i) up to 100% of the portfolio in U.S. Treasury or U.S. Agency securities;

(ii) up to 25% of the portfolio in certificates of deposit ("CDs") with institutions that are public depositaries in the State of Washington with a maximum of 5% per issuer across investment types;

(iii) up to 25% of the portfolio in bankers' acceptances with a maximum of 5% per issuer across investment types;

(iv) up to 100% of the portfolio in repurchase agreements, with a maximum of 25% exposure to any one repo counterparty, provided that the underlying security must be a U.S. Treasury or U.S. Agency and all underlying securities are held by a third party;

(v) up to 25% in commercial paper and corporate notes with a maximum of 5% per issuer across investment types;

(vi) up to 20% in general obligation municipal bonds with a maximum of 5% per issuer;

(vii) up to 25% in mortgage-backed securities issued by agencies of the U.S. Government which pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test that banks use to determine lowest risk securities; and

(viii) up to 25% in the State's Local Government Investment Pool.

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

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

www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx

APPENDIX F

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 populous county in the United States. Of the State's population, nearly 30% reside in King County, and of the County's population, 33% 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, the County, and Seattle are given below.

POPULATION

Year	Washington	King County	Seattle
1980 (1)	4,130,163	1,269,749	493,846
1990 (1)	4,866,692	1,507,319	516,259
2000 (1)	5,894,121	1,737,034	563,374
2010 (1)	6,724,540	1,931,249	608,660
2013 (2)	6,882,400	1,981,900	626,600
2014 (2)	6,968,170	2,017,250	640,500
2015 (2)	7,061,410	2,052,800	662,400
2016 (2)	7,183,700	2,105,100	686,800
2017 (2)	7,310,300	2,153,700	713,700

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

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

Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division (the cities of Seattle, Bellevue, and Everett), the County, the State, and the U.S.

PER CAPITA INCOME

	2011	2012	2013	2014	2015
Seattle MD	$ 53,931	$ 56,267	$ 58,483	$ 62,481	$ 65,187
King County	57,837	60,090	62,770	68,877	72,530
State of Washington	43,878	46,045	47,717	49,610	51,898
U.S.	41,560	43,735	44,765	46,049	48,112

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 the County. The value of public construction is not included in this table.

KING COUNTY
RESIDENTIAL BUILDING PERMIT VALUES

	New Single Family Units		New Multi-Family Units		
Year	**Number**	**Value($)**	**Number**	**Value($)**	**Total Value($)**
2012	3,864	$ 1,133,343,731	7,750	$ 1,118,023,021	$ 2,251,366,752
2013	4,419	1,419,065,243	7,858	1,053,237,846	2,472,303,089
2014	4,215	1,478,116,875	10,488	1,478,117,263	2,880,006,794
2015	4,010	1,539,049,136	14,527	2,227,509,189	3,766,558,325
2016	4,254	1,616,722,532	13,445	1,759,255,696	3,375,978,228
2016(1)	2,749	1,037,054,946	6,212	788,295,596	1,825,350,542
2017(1)	2,654	1,018,590,067	6,164	893,682,242	1,912,272,309

(1) Through July.

Source: U.S. Bureau of the Census

Retail Activity

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

KING COUNTY AND SEATTLE
TAXABLE RETAIL SALES

Year	King County	Seattle
2011	$ 40,846,118,928	$ 15,751,585,856
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
2015	54,890,159,770	22,407,443,037
2016(1)	$ 13,378,793,026	$ 5,480,078,811
2017(1)	14,094,314,668	5,829,963,492

(1) Through first quarter.

Source: Washington State Department of Revenue and Quarterly Business Review

Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data in 2015.

PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	**Employees**
The Boeing Company	78,200
Joint Base Lewis-McChord	58,100
Navy Region Northwest	46,700
Microsoft Corp.	43,600
Amazon.com Inc.	24,000
University of Washington	23,600
Wal-Mart Stores, Inc.	19,500(1)
Providence Health & Services	17,700
Fred Meyer Stores	15,500
King County Government	14,700(2)
City of Seattle	13,700(3)
Starbucks Corp.	12,600
CHI Franciscan Health System	11,800
Nordstrom Inc.	10,900
Costco Wholesale Corp.	10,500(1)

(1) Does not include part-time or seasonal employment figures.

(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, 2017

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT[1]

	Annual Average				
	2012	**2013**	**2014**	**2015**	**2016**
Civilian Labor Force	1,129,670	1,139,610	1,158,230	1,178,606	1,208,334
Total Employment	1,055,000	1,079,950	1,104,930	1,128,497	1,160,734
Total Unemployment	74,670	59,660	53,300	50,109	47,600
Percent of Labor Force	6.6%	5.2%	4.6%	4.3%	3.9%

NAICS INDUSTRY	**2012**	**2013**	**2014**	**2015**	**2016**
Total Nonfarm	1,196,042	1,237,217	1,278,033	1,311,575	1,358,517
Total Private	1,030,608	1,069,975	1,108,425	1,137,442	1,180,175
Goods Producing	154,283	162,508	168,283	174,908	176,800
Mining and Logging	425	458	458	575	500
Construction	50,625	55,883	60,792	66,800	70,833
Manufacturing	103,225	106,167	107,025	107,542	105,475
Service Providing	1,041,758	1,074,708	1,109,750	1,136,667	1,181,717
Trade, Transportation, and Utilities	216,167	225,167	235,758	244,433	254,642
Information	81,017	82,617	85,583	89,058	95,967
Financial Activities	68,850	70,892	72,000	69,675	70,758
Professional and Business Services	192,525	201,042	207,933	215,733	222,667
Educational and Health Services	159,275	162,633	167,983	167,008	174,592
Leisure and Hospitality	114,850	120,575	124,883	130,108	136,425
Other Services	43,642	44,542	46,000	46,517	48,325
Government	165,433	167,242	169,608	174,133	178,342
Workers in Labor/Management Disputes	0	0	0	0	0

	July 2017
Civilian Labor Force	1,224,298
Total Employment	1,179,997
Total Unemployment	44,301
Percent of Labor Force	3.6%

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

Source: Washington State Employment Security Department

APPENDIX G

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

The following information has been provided by the Depository Trust Company, New York, New York ("DTC"). The County makes no representation regarding the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners

are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records.

Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

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

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

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.