OFFICIAL STATEMENT

		Long-term	Short-term
New Issue	**Moody's:**	**Aaa**	**VMIG 1**
Full Book-Entry Only	**Standard & Poor's:**	**AAA**	**A-1+**

(See "Other Information—Ratings" herein.)

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

KING COUNTY, WASHINGTON
MULTI-MODAL LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS
(PAYABLE FROM SEWER REVENUES)

SERIES 2019A	SERIES 2019B
$100,000,000	$48,095,000
CUSIP NUMBER: 49474FUP3	CUSIP NUMBER: 49474FUR9

DATED: Date of Initial Issuance and Delivery **DUE: January 1, 2046**

King County, Washington (the "County"), will issue its Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019A (the "Series 2019A Bonds"), and Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019B (the "Series 2019B Bonds"), as fully registered bonds which, when issued, will be registered in the name of Cede & Co., as Bond Owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Together, the Series 2019A Bonds and the Series 2019B Bonds are referred to in this Official Statement as the "Bonds." DTC will act as securities depository for the Bonds. The Bonds are being issued to refund certain obligations of the sewer system (the "Sewer System") of the County and to pay the costs of issuance of the Bonds.

The Series 2019A Bonds initially will bear interest at Daily Interest Rates for Daily Interest Rate Periods and the Series 2019B Bonds initially will bear interest at Weekly Interest Rates for Weekly Interest Rate Periods, subject to conversion to other Modes and, while bearing interest at Weekly Interest Rates or Daily Interest Rates, will be issuable in authorized denominations of $100,000 or any integral multiple of $5,000 in excess of $100,000 within a Series, with interest paid on the first Business Day of each calendar month, commencing on July 1, 2019, as further provided in the Mode Agreement between the County and U.S. Bank National Association, as Registrar and Paying Agent, dated as of June 1, 2019, for the applicable Series (each, a "Mode Agreement").

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

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

The Bonds are general obligations of the County. The County irrevocably covenants and agrees 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 will become due. The County irrevocably pledges 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 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 are irrevocably pledged for the annual levy and collection of said taxes and for the prompt payment of the principal of and interest on the Bonds as the same will become due.

The Bonds are also payable from and secured by a pledge of Revenue of the System. The lien and charge of the Bonds on Revenue of the System is (i) subject to the payment of Operating and Maintenance Expenses of the Sewer System, (ii) subordinate to the lien and charge securing the Parity Bonds, the Parity Lien Obligations, and the Junior Lien Obligations, (iii) equal to the lien and charge securing the outstanding Multi-Modal LTGO/Sewer Revenue Bonds and any issued in the future, and (iv) superior to all other liens and charges on such revenue, including the lien and charge on such revenue securing any Subordinate Lien Obligations, the SRF Loans, and the Public Works Trust Fund Loans, as such terms are defined in the Ordinance described herein.

Bonds of a Series that are tendered and cannot be remarketed or for which remarketing proceeds are not timely received by the Paying Agent will be purchased, subject to the satisfaction of certain conditions precedent, by TD Bank, N.A. (the "Liquidity Provider"), pursuant to a separate standby bond purchase agreement related to that Series (each, a "Standby Bond Purchase Agreement"). Each Standby Bond Purchase Agreement will terminate on June 26, 2024, unless extended in the Liquidity Provider's sole discretion or terminated in accordance with its terms.

Upon the occurrence of certain specified events more fully described herein, the applicable Standby Bond Purchase Agreement will terminate or be suspended immediately and automatically without payment or notice, and funds thereunder will no longer be available to purchase the related Series of Bonds. In that event, sufficient funds may not be available to purchase such Series of Bonds tendered by the owners thereof or subject to mandatory purchase. The Standby Bond Purchase Agreements do not provide security for the payment of principal of or interest or premium, if any, on the Bonds. Neither Standby Bond Purchase Agreement is a letter of credit or guaranty, and performance by the Liquidity Provider under the applicable Standby Bond Purchase Agreement is subject to all rights and defenses available to contracting parties generally. See "The Standby Bond Purchase Agreements."

This Official Statement describes the Bonds only during the Weekly Mode and the Daily Mode and should not be relied upon if the Bonds are converted to any Mode other than the Weekly Mode or the Daily Mode.

The Bonds are offered when, as and if issued, subject to approval of legality by Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. The form of Bond Counsel's opinion is attached hereto as Appendix C. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, P.C., Seattle, Washington. It is anticipated that the Bonds in definitive book-entry form will be ready for delivery through the facilities of DTC in New York, New York, or to the Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about June 27, 2019.

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.

Underwriter and Initial Remarketing Agent
J.P. Morgan

Dated: June 19, 2019

KING COUNTY, WASHINGTON
500 FOURTH AVENUE
SEATTLE, WASHINGTON 98104

KING COUNTY EXECUTIVE

Dow Constantine

METROPOLITAN KING COUNTY COUNCIL

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

OTHER ELECTED OFFICIALS

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

DIRECTOR OF FINANCE AND BUSINESS OPERATIONS DIVISION
DEPARTMENT OF EXECUTIVE SERVICES

Ken Guy

CLERK OF THE METROPOLITAN KING COUNTY COUNCIL

Melani Pedroza

BOND COUNSEL/DISCLOSURE COUNSEL

Pacifica Law Group LLP
Seattle, Washington

UNDERWRITER'S COUNSEL

Stradling Yocca Carlson & Rauth P.C.
Seattle, Washington

MUNICIPAL ADVISOR TO THE COUNTY

Piper Jaffray & Co.
Seattle, Washington

REGISTRAR AND PAYING AGENT

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

TABLE OF CONTENTS

TABLE OF CONTENTS (CONTINUED)

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

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

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

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

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.

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OFFICIAL STATEMENT

KING COUNTY, WASHINGTON
MULTI-MODAL LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS
(PAYABLE FROM SEWER REVENUES)

SERIES 2019A	SERIES 2019B
$100,000,000	**$48,095,000**

INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County, Washington (the "County"), of $100,000,000 aggregate principal amount of its Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019A (the "Series 2019A Bonds"), and $48,095,000 aggregate principal amount of its Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019B (the "Series 2019B Bonds"). Together, the Series 2019A Bonds and the Series 2019B Bonds are referred to in this Official Statement as the "Bonds" and separately as a "Series."

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

The Bonds will be issued in authorized denominations of $100,000 or any integral multiple of $5,000 in excess of $100,000 within a Series ("Authorized Denominations." The Series 2019A Bonds will be initially issued in the Daily Mode bearing interest at Daily Interest Rates and the Series 2019B Bonds will be initially issued in the Weekly Mode bearing interest at Weekly Interest Rates. J.P. Morgan Securities LLC will serve as initial Remarketing Agent for each Series of the Bonds. See Appendix B—Form of Mode Agreements, "The Bonds—General," and "The Remarketing Agent."

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

This Official Statement describes the Bonds only in the Weekly Mode and Daily Mode.

Bonds of a Series that are tendered and cannot be remarketed or for which remarketing proceeds are not timely received by the Paying Agent will be purchased, subject to the satisfaction of certain conditions precedent, by TD Bank, N.A. (the "Liquidity Provider"), pursuant to a separate standby bond purchase agreement for that Series (each, a "Standby Bond Purchase Agreement"), dated as of June 1, 2019, by and among the County, the Paying Agent (defined below under "The Bonds—General"), and the Liquidity Provider. The Standby Bond Purchase Agreement of a Series will be the initial Liquidity Facility for that Series.

Upon the occurrence of certain events more fully described herein, the Standby Bond Purchase Agreements will terminate or be suspended immediately and automatically without payment or notice and funds thereunder will no longer be available to purchase the related Series of Bonds. In such event, sufficient funds may not be available to purchase such Series of Bonds tendered by the owners thereof or subject to mandatory purchase. The Standby Bond Purchase Agreements do not provide security for the payment of the principal of or interest or premium, if any, on the Bonds. Neither Standby Bond Purchase Agreement is a letter of credit or guaranty, and performance by the Liquidity Provider under the applicable Standby Bond Purchase Agreement is subject to all rights and defenses available to contracting parties generally. See "The Standby Bond Purchase Agreements."

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

Quotations, summaries and explanations of constitutional provisions, statutes, resolutions, ordinances, and other documents in this Official Statement do not purport to be complete and are qualified by reference to the complete text of such documents, which may be obtained from the King County Treasury Operations Section, 500 Fourth Avenue, Room 600, Seattle, Washington, 98104.

THE BONDS

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

General

Modes. The Series 2019A Bonds will be initially issued in the Daily Mode bearing interest at Daily Interest Rates and the Series 2019B Bonds will be initially issued in the Weekly Mode bearing interest at Weekly Interest Rates. At the option of the County and upon certain conditions provided in the Ordinance, each Series of the Bonds may be converted to or from the Daily Mode, Weekly Mode, Commercial Paper Mode, Index Floating Mode, Term Mode, or Fixed Mode. See "Conversion of Bonds to Other Modes" herein. The Bonds will mature on January 1, 2046.

Each Series of the Bonds is subject to mandatory tender in the event of any such conversion. See "Conversion of Bonds to Other Modes" and "Mandatory Tender for Purchase."

Accrual and Payment of Interest. The Interest Payment Date is, for interest accrued in any Daily Interest Rate Period or any Weekly Interest Rate Period, the first Business Day of the next succeeding calendar month.

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

The Record Date for the payment of interest while a Bond of either Series is in the Daily Mode or the Weekly Mode is the last Business Day of each calendar month or, in the case of the last Interest Payment Date in a Daily Interest Rate Period or Weekly Interest Rate Period, as applicable, the Business Day immediately preceding such Interest Payment Date.

Unless otherwise provided in any writing with or from the Securities Depository, the interest on the Bonds will be paid by the fiscal agent of the State of Washington (currently U.S. Bank National Association, acting as Paying Agent) on the Interest Payment Dates by wire transfer of immediately available funds to an account specified by the Owner in a writing delivered to the Registrar. The principal of and premium, if any, on each Bond is payable on the Principal Payment Date, upon surrender thereof at the Principal Office of the Registrar.

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

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

Conversion of Bonds to Other Modes

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

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

The County may rescind any election to effect a Conversion by delivering to the Paying Agent, Liquidity Provider, Moody's and S&P, and the Remarketing Agent, on or prior to 10:00 a.m., New York Time, on the second Business Day preceding a proposed Conversion Date, a notice to the effect that the County has determined to rescind its election to effect such Conversion. If the County rescinds its election to effect a Conversion of a Series of the Bonds, then such Series will bear interest as follows: (i) if a Daily Interest Rate Period is in effect immediately prior to the proposed Conversion, such Series will continue to bear interest at the Daily Interest Rate; and (ii) if a Weekly Interest Rate Period is in effect immediately prior to the proposed Conversion, such Series will bear interest at a Weekly Interest Rate commencing on the proposed Conversion Date.

Optional Tender

During any Weekly Interest Rate Period or Daily Interest Rate Period, the Bonds will be subject to tender for purchase at the option of the Registered Owner (or Beneficial Owner, if such Series of the Bonds is held in Book Entry Form) as set forth below.

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

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

Irrevocable Notice Deemed to be Tender of Bonds. The giving of notice of optional tender for purchase by a Registered Owner or Participant as provided in the preceding paragraphs will constitute the irrevocable tender for purchase of those Bonds with respect to which such notice is given regardless of whether such Bonds are delivered to the Paying Agent for purchase on the applicable Purchase Date. If Bonds tendered for purchase are registered in the name of the Securities Depository, such tender is subject to confirmation by the Securities Depository to the Paying Agent that the Participant has the required Ownership interest in those Bonds.

Mandatory Tender for Purchase

Each Series of the Bonds will be subject to mandatory tender for purchase at the Purchase Price on the following Purchase Dates (without duplication):

(i) on any Scheduled Mandatory Purchase Date for a Series of the Bonds;

(ii) on the first day of each Interest Rate Period;

(iii) on each proposed Conversion Date for which notice of mandatory tender has been given to the Registered Owner(s) pursuant to the Mode Agreement; and

(iv) during any Interest Rate Period in which the Series is subject to Credit Enhancement and/or a Liquidity Facility (including the Standby Bond Purchase Agreement for such Series), in the event that such Series ceases to be subject to that Credit Enhancement or Liquidity Facility, as set forth in the Mode Agreement.

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

Remarketing of Bonds

Remarketing. Upon a mandatory tender for purchase of Bonds of a Series or notice of optional tender for purchase of Bonds of a Series, the Remarketing Agent will offer for sale and use its best efforts to sell such Bonds at the Purchase Price on the Purchase Date and, if not remarketed on the Purchase Date, thereafter until sold.

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

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

Special Considerations Relating to Remarketing of the Bonds

Investors should consider the following factors with respect to the remarketing of the Bonds.

A Remarketing Agent Has Been Selected and Will Be Paid by the County. The Remarketing Agent's responsibilities include remarketing the Bonds, as further described in this Official Statement. The Remarketing Agent is appointed by the County and paid by the County for its services. As a result, the interests of the Remarketing Agent may differ from those of the owners of the Bonds.

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

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

The Remarketing Agent May Be Removed, Resign, or Cease Remarketing. A Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Mode Agreement by giving notice to the County, Paying Agent, Liquidity Provider, and Moody's and S&P. Except as provided in the Remarketing Agreement, such resignation or removal will be not be effective until the County has appointed a successor Remarketing Agent, with prior written notice to Moody's and S&P, and any funds held under the Remarketing Agreement are transferred to such successor.

Liquidity Facility

Liquidity Facility is defined in the Ordinance to mean any line of credit, standby purchase agreement, or other instrument then in effect that provides for the payment of the Purchase Price of any Series of the Bonds upon the tender thereof if remarketing proceeds are insufficient therefor. The Standby Bond Purchase Agreement for each Series of the Bonds provided by TD Bank, N.A.

will serve as the initial Liquidity Facility for such Series of the Bonds. See "The Standby Bond Purchase Agreements."

Draws for Liquidity Support. So long as a Liquidity Facility is in effect for a Series of the Bonds, the County will direct the Paying Agent to request purchase of Bonds of a Series that are eligible to be purchased under the applicable Liquidity Facility by delivering to the Liquidity Provider a request for purchase substantially in the form provided in the Liquidity Facility, at the times and otherwise as provided thereunder, in an amount that, together with any other proceeds on hand in the time of the draw request and available for payment of the Purchase Price, will be sufficient to pay the Purchase Price on the Purchase Date.

Delivery of Liquidity Facility. The Paying Agent will request purchase of Eligible Bonds under the Liquidity Facility as set forth in Section 9(a) of the Mode Agreement and, after the date of the mandatory tender for purchase established pursuant to Section 8(b) of the Mode Agreement, promptly surrender the Liquidity Facility then in effect to the County thereof for cancellation in accordance with its terms.

Notice of Termination. The Paying Agent will, pursuant to the County's written direction, give notice to the Remarketing Agent, Moody's and S&P, and the Registered Owner(s) of such Series of the Bonds of the termination, expiration, amendment, or extension of the applicable Standby Bond Purchase Agreement in accordance with its terms.

Bank Bonds. The Standby Bond Purchase Agreements provide that a Bond purchased by the Paying Agent with amounts paid or provided by the Liquidity Provider under the applicable Standby Bond Purchase Agreement will become a Bank Bond and will bear interest at the Bank Bond Rate for each day from and including the day such Bank Bond becomes a Bank Bond to and excluding the day such Bank Bond (i) ceases to be a Bank Bond and the Paying Agent receives notice that the Bond is eligible to be purchased or paid from amounts provided under the applicable Standby Purchase Agreement, or (ii) is paid in full. Interest on each Bank Bond will be calculated and be payable on the dates and in the manner specified in the applicable Standby Bond Purchase Agreement. To the extent there are not remarketing proceeds or refunding bond proceeds available to pay a Bank Bond on any interest or principal payment date for those Bank Bonds, the County will make such payment to the Paying Agent from the Multi-Modal LTGO/Sewer Revenue Bond Fund. The Standby Bond Purchase Agreements include a Term-Out Provision applicable to Bank Bonds. The Standby Bond Purchase Agreements include provisions permitting a term-out of Bank Bonds, providing for payment of principal over a period of up to three years at Bank Bond Rates.

Redemption

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

The Ordinance provides that, unless waived by the Registered Owner, notice of optional redemption will be given by the 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. This requirement is deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by any Owner.

Conditional Notice of Redemption; Rescission of Notice of Redemption. The Ordinance requires notice of redemption to be provided and provides that any notice for redemption may be conditional, in which case the conditions for redemption will be set forth therein. The County may make such redemption conditioned upon the occurrence of any specified event or events, including the deposit of funds, and if such event or events do not occur, then the County may cancel such redemption by delivering a written notice of rescission to the Paying Agent rescinding such notice of redemption at any time on or prior to the date fixed for redemption and such notice of redemption and redemption will be rescinded, cancelled, and of no force of effect. Upon such receipt of the rescission notice from the County, the Paying Agent will send a copy of the Notice to the Owners of the Bonds subject to the notice in the same manner as the notice of redemption was given.

Book-Entry Transfer System

Book-Entry Bonds. The Bonds will be issued under a book-entry only system, and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as Securities Depository for the Bonds. Principal or redemption price of and interest on the Bonds are payable by the Registrar, to Cede & Co., so long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, which, in turn, is obligated to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners. See Appendix H—Book-Entry System.

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

Termination of Book-Entry Transfer System. In the event that DTC or its successor (or substitute Securities Depository or its successor) resigns and no substitute Securities Depository can be obtained, or the County determines that it is in the best interests of the Beneficial Owners that they be able to obtain Bonds in the form of bond certificates, new Bonds are required to be issued and registered.

Events of Default on the Bonds

Any one or more of the following events will constitute a default under Ordinance:

(i) The County fails to make payment of the principal of any Bond when the same becomes due and payable, whether by maturity or scheduled redemption prior to maturity;

(ii) The County fails to make payment of the interest on any Bond when the same becomes due and payable;

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

(iv) The County (a) admits in writing its inability to pay its debts generally as they become due; (b) files a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law; (c) makes an assignment for the benefit of its creditors; (d) consents to the appointment of a receiver for the whole or any substantial part of the Sewer System; or (e) consents to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the county or of the whole or any substantial part of the Sewer System.

A failure by the County to comply with the terms of the Mode Agreements also constitutes a default under the Ordinance as provided in the Mode Agreement.

THE STANDBY BOND PURCHASE AGREEMENTS

General

The following description is a summary of certain provisions of the Standby Bond Purchase Agreements and various words or terms used in the following summary are defined in this Official Statement, the applicable Standby Bond Purchase Agreement, the Ordinance, or the applicable Mode Agreement, and reference thereto is made for full understanding of their import. Such summary does not purport to be a complete description or restatement of the material provisions of the applicable Standby Bond Purchase Agreement. Investors should obtain and review a copy of the applicable Standby Bond Purchase Agreement in order to understand all of the terms of that document. The Standby Bond Purchase Agreements are substantially similar. Accordingly, the majority of the discussion below is generic and applies equally to each Standby Bond Purchase Agreement, unless otherwise set forth below. The provisions of any future Alternate Liquidity Facility or Alternate Credit Enhancement may be different from those summarized below. A Series of Bonds will be supported only by the Standby Bond Purchase Agreement related to such Series of Bonds and will not provide support of any kind for the other Series of Bonds.

Subject to the terms and conditions of the applicable Standby Bond Purchase Agreement, the Liquidity Provider will purchase from time to time during the period prior to the expiration or earlier termination of the applicable Standby Bond Purchase Agreement, Eligible Bonds (as defined in each applicable Standby Bond Purchase Agreement) of the applicable Series bearing interest at the Weekly Interest Rate or Daily Interest Rate that are tendered or deemed tendered from time to time during the period (the "Commitment Period") commencing on the date of delivery of the applicable Standby Bond Purchase Agreement and ending on the Expiration Date (as defined below) pursuant to an optional or mandatory tender by owners thereof in accordance with the terms and provisions of the Ordinance and applicable Mode Agreement, to the extent that such Eligible Bonds are not remarketed by the Remarketing Agent or funds are otherwise unavailable therefor. The price to be paid by the Liquidity Provider for such Eligible Bonds will be equal to the aggregate principal amount of each such Eligible Bond (provided that the aggregate principal amount of all Eligible Bonds so purchased may not exceed the Available Principal Commitment (as defined in the applicable Standby Bond Purchase Agreement)) plus the aggregate interest accrued on all Eligible Bonds (provided that the aggregate interest accrued on all Eligible Bonds so purchased may not exceed the lesser of (i) the Available Interest Commitment (as defined in the applicable Standby Bond Purchase Agreement) on such date, and (ii) the aggregate interest accrued and unpaid with respect to each such Eligible Bond, other than Defaulted Interest (as defined in the applicable Standby Bond Purchase Agreement), to but excluding the Purchase Date (as defined in the applicable Standby Bond Purchase Agreement); provided, that if the applicable Purchase Date is an Interest Payment Date the amount described in clause (ii) will be reduced by the amount of interest payable with respect to each such Eligible Bond on such Interest Payment Date). The Available Principal Commitment with respect to the Eligible Bonds (which Available

Principal Commitment may be adjusted from time to time in accordance with the provisions of the applicable Standby Bond Purchase Agreement) initially means $100,000,000 with respect to the Series 2019A Bonds and $48,095,000 with respect to the Series 2019B Bonds. The Available Interest Commitment with respect to the Eligible Bonds (which Available Interest Commitment may be adjusted from time to time in accordance with the provisions of the applicable Standby Bond Purchase Agreement) initially means $1,150,685 with respect to the Series 2019A Bonds and $553,422 with respect to the Series 2019B Bonds, which, in either case, is an amount equal to 35 days' interest on the outstanding principal amount of the Eligible Bonds of the applicable Series calculated at a rate of 12% per annum, on the basis of a 365-day year. Neither Standby Bond Purchase Agreement will provide for the payment of principal of or interest on any Eligible Bonds other than with respect to the purchase price of the Eligible Bonds tendered or deemed tendered and not remarketed.

The applicable Standby Bond Purchase Agreement will provide that the obligations of the Liquidity Provider to purchase the Eligible Bonds of the applicable Series will be terminated upon the earliest to occur of (i) June 26, 2024 (the "Scheduled Expiration Date"); (ii) the date on which the County reduces the commitment to zero, (iii) the close of business on the business day immediately succeeding the conversion of all of the Bonds of the applicable Series to an interest rate other than a Weekly Interest Rate or Daily Interest Rate, (iv) the date of the occurrence of an Immediate Termination Event (as defined in paragraph (i) under "—Remedies Upon Occurrence of an Event of Default"), (v) the date on which the commitment has been terminated in its entirety as described in paragraph (ii) under "—Remedies Upon Occurrence of an Event of Default," (vi) the close of business on the business day immediately succeeding the Substitution Date (as defined in the applicable Standby Bond Purchase Agreement), and (viii) the date on which no Bonds of the applicable Series remain outstanding pursuant to the terms of the Ordinance and the applicable Mode Agreement (collectively, the "Expiration Date"). **Under certain circumstances as described below, the obligations of the Liquidity Provider to purchase Eligible Bonds of the applicable Series will be automatically suspended or terminated, without prior notice to or demand upon any party, and the Paying Agent will be unable to require the purchase of Eligible Bonds of such Series under the applicable Standby Bond Purchase Agreement.**

Representations, Warranties, and Covenants

The County makes certain representations, warranties and covenants under the Standby Bond Purchase Agreements relating to various matters, including, without limitation, authorization and validity, financial statements and litigation. The covenants and agreements contained in the Standby Bond Purchase Agreements run only in favor of the Liquidity Provider and may be waived at any time in the sole discretion of the Liquidity Provider or amended at any time upon the agreement of the County and the Liquidity Provider. Owners are not entitled to and should not rely upon any of the covenants and agreements in the Standby Bond Purchase Agreements.

Events of Default Under Each Standby Bond Purchase Agreement

The following events constitute an Event of Default under the Standby Bond Purchase Agreements:

(i) (a) any principal of or interest on any Bonds of the applicable Series or Bank Bonds (as defined in each Standby Bond Purchase Agreement) is not paid when due (other than as a result of the acceleration of the payment of any Bank Bonds), or (b) failure of the County to repay a Liquidity Advance when due (as defined in each Standby Bond Purchase

Agreement) (other than as a result of the acceleration of the payment of any Liquidity Advance); or

(ii) any Commitment Fee (as defined in each Standby Bond Purchase Agreement) is not paid when due under the Fee Agreement (as defined in each Standby Bond Purchase Agreement) and such failure to pay when due shall continue for three Business Days following the due date thereof; or

(iii) any amount payable under the applicable Standby Bond Purchase Agreement or under the Fee Agreement (other than those amounts described in paragraphs (i) and (ii) under this subheading “Events of Default Under Each Standby Bond Purchase Agreement”) is not paid when due under the applicable Standby Bond Purchase Agreement or under the Fee Agreement, and such failure to pay when due shall continue for three Business Days following the due date thereof; or

(iv) any representation or warranty made by the County under or in connection with the applicable Standby Bond Purchase Agreement or any of the Related Documents (as defined in each Standby Bond Purchase Agreement) proves to be untrue in any material respect on the date as of which it was made or deemed made; or

(v) the breach by the County of certain covenants set forth in the applicable Standby Bond Purchase Agreement; or

(vi) the breach by the County of any of other term or provision of the applicable Standby Bond Purchase Agreement (other than those referred to in paragraphs (i), (ii), (iii), (iv) or (v) under this subheading “Events of Default Under Each Standby Bond Purchase Agreement”) which is not remedied within 30 days after the occurrence thereof; or

(vii) (a) an “event of default” has occurred and is continuing under any of the Related Documents, or (b) any “event of default” has occurred under any other agreement between the County and the Liquidity Provider; or

(viii) (a) the County commences any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate the County as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition, or other relief with respect to the County or its Debt (as defined in each Standby Bond Purchase Agreement), or (B) seeking appointment of a receiver, trustee, custodian, or other similar official for it or for all or any substantial part of its assets, or the County makes a general assignment for the benefit of its creditors; or (b) there is commenced against the County any case, proceeding or other action of a nature referred to in clause (a) above which (A) results in an order for such relief or in the appointment of a receiver or similar official, or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (c) there is commenced against the County any case, proceeding, or other action seeking issuance of a warrant of attachment, execution, distraint, or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which has not been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof, or (d) the County takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or (e) the County admits in writing its inability to pay its Debts generally as they become due or becomes insolvent within the meaning of Section 101(32) of the United States Bankruptcy Code; or

(ix) the Ordinance terminates or ceases to be of full force and effect, other than as a result of any prepayment in full of the Bonds or provision for such prepayment in full in accordance with the Ordinance; or

(x) (a) any provision of the applicable Standby Bond Purchase Agreement, the Bonds of the applicable Series, the Ordinance, or the applicable Mode Agreement related to the payment of principal or interest on the Bonds of such Series or Bank Bonds or the pledge of the Revenue of the System (as defined in each Standby Bond Purchase Agreement) set forth in Section 12 of the Ordinance and the limited tax pledge of the County set forth in Section 13 of the Ordinance at any time for any reason ceases to be valid, binding, and fully enforceable on the County as determined by any court or governmental authority having appropriate jurisdiction in a final nonappealable judgment, or (b)(A) the validity or enforceability of any provision of the applicable Standby Bond Purchase Agreement, the Bonds of the applicable Series, the Ordinance, or the applicable Mode Agreement related to the payment of principal or interest on the Bonds of such Series or Bank Bonds or the pledge of the Revenue of the System set forth in Section 12 of the Ordinance and the limited tax pledge of the County set forth in Section 13 of the Ordinance is publicly contested in writing by an authorized representative of the County or (B) any governmental authority having appropriate jurisdiction over the County makes a finding or ruling or enacts or adopts legislation or issues an executive order or enters a judgment or decree which determines the invalidity or unenforceability of any material provision of the applicable Standby Bond Purchase Agreement, the Bonds of the applicable Series, the Ordinance, or the applicable Mode Agreement related to the payment of principal or interest on the Bonds of such Series or Bank Bonds or the pledge of the Revenue of the System set forth in Section 12 of the Ordinance and the limited tax pledge of the County set forth in Section 13 of the Ordinance, or (C) an authorized representative of the County publicly denies in writing that it has any or further liability or obligation under the applicable Standby Bond Purchase Agreement, the Bonds of the applicable Series, the Ordinance, or the applicable Mode Agreement (including, without limitation, its obligation to pay the principal of and interest on the applicable Series of Bonds, Bank Bonds, or related Liquidity Advances), or (c) any material provision of the applicable Standby Bond Purchase Agreement, the Bonds of the applicable Series, the Ordinance, or the applicable Mode Agreement or any other Related Document, other than a provision described in clause (a) and (b) of this paragraph at any time for any reason ceases to be valid, binding, and enforceable on the County, or is declared in a final nonappealable judgment by any court having jurisdiction over the County to be null and void, invalid, or unenforceable, or the validity or enforceability thereof is publicly contested by the County; or

(xi) (a) the County imposes a debt moratorium, debt restructuring, debt adjustment, or comparable extraordinary restriction on the repayment when due and payable of the Bonds of the applicable Series or any Senior or Parity Debt (as defined in each Standby Bond Purchase Agreement) or any interest on, principal of, or premium on any Senior or Parity Debt, or (b) any governmental authority having appropriate jurisdiction over the County makes a finding or ruling or enacts or adopts legislation or issues an executive order or enters a judgment or a decree which results in a debt moratorium, debt restructuring, debt adjustment, or comparable extraordinary restriction on the repayment when due and payable of the Bonds of the applicable Series or all Senior or Parity Debt or any interest on, principal of, or premium on the Bonds of the applicable Series or all Senior or Parity Debt; or

(xii) any of the funds or accounts established pursuant to the Ordinance or the applicable Mode Agreement or any moneys or amounts on deposit, or otherwise to the credit of, such funds or accounts becomes subject to any stay, writ, judgment, warrant of attachment, execution, or similar process by any of the creditors of the County and such stay, writ, judgment, warrant of attachment, execution, or similar process is not released, vacated, or stayed within 15 days after its issue or levy; or

(xiii) the County fails to pay any principal on any Senior or Parity Debt or any interest or premium on any Senior or Parity Debt, subject to the expiration of any applicable grace or cure period (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) (it being understood by the Liquidity Provider that default, for purposes of this paragraph, does not mean a situation whereby the County contests in good faith its liability with respect to such Senior or Parity Debt), or pursuant to the provisions of any resolution, indenture, contract, or instrument, the maturity of any Senior or Parity Debt will, as a result of the occurrence of a payment default of any principal of or interest or premium on such Senior or Parity Debt under such resolution, indenture, contract, or instrument, be accelerated or required to be prepaid prior to the stated maturity thereof (other than as a result of acceleration of the payment of such Senior or Parity Debt that is owned by a liquidity provider pursuant to the provisions of the related liquidity facility); or

(xiv) one or more final, non-appealable judgment or order for the payment of money in excess of $25,000,000 has been rendered against the County and such judgment or order has not been satisfied, stayed, or bonded within a period of 60 days from the date on which it was first so rendered; or

(xv) (a) each of Moody's and S&P and Fitch (to the extent any such rating agency is then providing a Rating) has (A) reduced the Rating (as defined in each Standby Bond Purchase Agreement) below Investment Grade (as defined in each Standby Bond Purchase Agreement), or (B) suspended or withdrawn such Rating, in each case, for credit-related reasons only, or (b) each of Moody's and S&P and Fitch (to the extent any such rating agency is then providing a long-term unenhanced rating on Senior or Parity Debt) has (A) reduced such long-term unenhanced rating on Senior or Parity Debt below Investment Grade, or (B) suspended or withdrawn such ratings, in each case, for credit-related reasons only; or

(xvi) (a) any of Moody's, S&P, or Fitch has downgraded its respective Rating to below "A3" (or its equivalent), "A-" (or its equivalent), or "A-" (or its equivalent), respectively, or suspended or withdrawn its Rating, but for credit-related reasons only, or (b) any of Moody's, S&P, or Fitch has downgraded its respective long-term unenhanced rating on any Senior or Parity Debt below "A3" (or its equivalent), "A-" (or its equivalent) or "A-" (or its equivalent), respectively, or suspended or withdrawn its long-term unenhanced rating on any Senior or Parity Debt, but for credit-related reasons only; or

(xvii) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service is rendered to the effect that interest on the Bonds is includable in the gross income of the holder(s) or owner(s) of such Bonds and either (a) the County, after it has been notified by the Internal Revenue Service, has not challenged such ruling, assessment, notice, or advice in a court of law during the period within which such challenge is permitted, or (b) the County has challenged such ruling, assessment, notice, or advice and a court of law makes a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered.

Remedies Upon Occurrence of an Event of Default

Following the occurrence of any event set forth under "—Events of Default Under Each Standby Bond Purchase Agreement," the Liquidity Provider may take any one or more of the following actions:

(i) Upon the occurrence of an event set forth in paragraph (i), (viii), (x)(a), (xi), (xiii), (xiv), or (xv) under "—Events of Default Under Each Standby Bond Purchase Agreement" (each an "Immediate Termination Event"), the Available Commitment and the obligation of the Liquidity Provider to purchase Bonds of the applicable Series will immediately terminate without notice or demand or any other action on the part of the Liquidity Provider, and thereafter the Liquidity Provider will be under no obligation to purchase such Bonds. Promptly upon obtaining knowledge of any such Immediate Termination Event (whether from the County, the Paying Agent, or otherwise), the Liquidity Provider will give the County and the Paying Agent written notice of such Immediate Termination Event; provided that the Liquidity Provider will not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the termination of the Available Commitment and of the obligations of the Liquidity Provider to purchase Bonds of the applicable Series pursuant to the applicable Standby Bond Purchase Agreement. The County will cause the Paying Agent to notify all holders of the applicable Series of Bonds of the termination of the Available Commitment and of the termination of the obligation of the Liquidity Provider to purchase such Bonds.

(ii) Upon the occurrence of event set forth in paragraph (ii), (iii), (iv), (v), (vi), (vii), (ix), (x)(c), (xii), (xvi), or (xvii) under "—Events of Default Under Each Standby Bond Purchase Agreement" (each a "Mandatory Tender Event"), the Liquidity Provider may terminate the Available Commitment by giving a written notice of mandatory tender event to the Paying Agent, specifying the date on which the Available Commitment will terminate (the "Termination Date"), which will be not less than 30 days from the date of receipt of such notice by the Paying Agent, and on and after the Termination Date, the Liquidity Provider will be under no further obligation to purchase Bonds of the applicable Series under the applicable Standby Bond Purchase Agreement other than such Bonds which are the subject of a Notice of Request for Purchase pursuant to the terms of the applicable Standby Bond Purchase Agreement received by the Liquidity Provider prior to the Termination Date, and the County will forthwith, upon written request of the Liquidity Provider, use its best efforts to convert all of the Bonds to a rate other than a Covered Rate (as defined in each Standby Bond Purchase Agreement) in accordance with the Ordinance and the applicable Mode Agreement, whereupon all such Bonds will be remarketed and the Liquidity Provider will be repaid all obligations owed hereunder.

(iii) Upon the occurrence of an Event of Default specified in paragraph (x)(b) under "—Events of Default Under Each Standby Bond Purchase Agreement," the obligation of the Liquidity Provider under the applicable Standby Bond Purchase Agreement to purchase Bonds of the applicable Series will be immediately and automatically suspended, without notice, from the time of the occurrence of such Event of Default, and the Liquidity Provider will be under no further obligation hereunder to purchase such Bonds unless and until the obligation of the Liquidity Provider to purchase such Bonds is reinstated as described below. Promptly upon the occurrence of any such Event of Default specified in paragraph (x)(b) under "—Events of Default Under Each Standby Bond Purchase Agreement," the Liquidity Provider will notify the County, the Remarketing Agent, and the Paying Agent of such suspension; provided that the Liquidity Provider will not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the suspension of the Available Commitment and of the Liquidity Provider's obligation to purchase applicable Bonds pursuant to the applicable Standby Bond Purchase Agreement. The County will promptly, upon receipt of notice from the Liquidity Provider or knowledge of such Event of Default, direct the Paying Agent to notify all owners of Bonds of the applicable Series of any suspension of the obligation of the Liquidity Provider to purchase such Bonds as a result of the occurrence of such Event of Default. If at any time prior to the earlier of (a) the termination of the Commitment Period (as defined in each Standby Bond Purchase Agreement), and (b) the date that is six months following the suspension of the obligation of the Liquidity Provider to purchase such Bonds, (a) the Event of Default which gave rise to such suspension is cured or ceases to be continuing, and (b) the obligation of the Liquidity Provider to purchase applicable Bonds pursuant to the applicable Standby Bond Purchase Agreement has not otherwise terminated or been suspended as otherwise provided in the applicable Standby Bond Purchase Agreement, then, upon written notice from the Paying Agent to the Liquidity Provider to such effect, the obligation of the Liquidity Provider to purchase applicable Bonds pursuant to the applicable Standby Bond Purchase Agreement will be automatically reinstated. If the Event of Default which gave rise to the suspension of the obligations of the Liquidity Provider to purchase applicable Bonds pursuant to the applicable Standby Bond Purchase Agreement has not been cured or has not ceased to exist prior to the earlier of the termination of the Commitment Period and the date that is six months after such occurrence, then the obligations of the Liquidity Provider to purchase such Bonds will, unless previously terminated pursuant to any other provision of the applicable Standby Bond Purchase Agreement, at such time terminate without notice or demand and thereafter, the Liquidity Provider will have no further obligations to purchase any such Bonds.

(iv) In addition to the foregoing, upon the occurrence of any Event of Default under the applicable Standby Bond Purchase Agreement, all obligations due and payable hereunder (including any Bank Bonds) will bear interest at the Default Rate set forth in the applicable Standby Bond Purchase Agreement.

THE LIQUIDITY PROVIDER

TD Bank, N.A. (referred to in this section as the "Bank") is a national banking association organized under the laws of the United States, with its main office located in Wilmington, Delaware. The Bank is an indirect, wholly-owned subsidiary of The Toronto-Dominion Bank

(“TD”) and offers a full range of banking services and products to individuals, businesses and governments throughout its market areas, including commercial, consumer and trust services and indirect automobile dealer financing. The Bank operates banking offices in Connecticut, Delaware, the District of Columbia, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, North Carolina, New York, Pennsylvania, Rhode Island, South Carolina, Vermont and Virginia. As of March 31, 2019, the Bank had consolidated assets of $301.4 billion, consolidated deposits of $251.0 billion and stockholder's equity of $39.5 billion, based on regulatory accounting principles.

Additional information regarding the foregoing, and the Bank and TD, is available from the filings made by TD with the U.S. Securities and Exchange Commission (the “SEC”), which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. In addition, the SEC maintains a website at *http://www.sec.gov*, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning TD and the Bank contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Standby Bond Purchase Agreements have been issued by the Bank and are the obligations of the Bank and not TD.

The Bank will provide copies of the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

TD Bank, N.A.
1701 Route 70 East
Cherry Hill, New Jersey 08034
Attn: Corporate and Public Affairs

Information regarding the financial condition and results of operations of the Bank is contained in the quarterly Call Reports of the Bank delivered to the Comptroller of the Currency and available online at *https://cdr.ffiec.gov/public*. General information regarding the Bank may be found in periodic filings made by TD with the SEC. TD is a foreign issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare certain filings with the SEC in accordance with the disclosure requirements of Canada, its home country. Canadian disclosure requirements are different from those of the United States. TD’s financial statements are prepared in accordance with International Financial Reporting Standards, and may be subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies prepared in accordance with United States generally accepted accounting principles.

The delivery hereof shall not create any implication that there has been no change in the affairs of TD or the Bank since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

NEITHER TD NOR ANY SUBSIDIARY OF TD OTHER THAN THE BANK IS OBLIGATED TO MAKE PAYMENTS UNDER THE STANDBY BOND PURCHASE AGREEMENTS.

The Bank is responsible only for the information contained in this section of the Official Statement and did not participate in the preparation of, or in any way verify the information contained in, any other part of this Official Statement. Accordingly, the Bank assumes no responsibility for and makes no representation or warranty as to the accuracy or completeness of information contained in any other part of this Official Statement.

THE REMARKETING AGENT

J.P. Morgan Securities LLC, as initial Remarketing Agent, has agreed to remarket each Series of the Bonds on each Purchase Date and on the Conversion Date, in accordance with the applicable Mode Agreement, subject to customary conditions as set forth in a Remarketing Agreement for each Series of the Bonds.

J.P. Morgan Securities LLC is also underwriting the Bonds. For additional information about J.P. Morgan Securities LLC and its affiliates, see “Other Information—Underwriting.”

USE OF PROCEEDS

Proceeds from the sale of the Bonds, along with a cash contribution from the County, will be used to refund the County’s Junior Lien Sewer Revenue Bonds, 2015 Series A and 2015 Series B, and Junior Lien Sewer Revenue Bonds, Series 2017 (together, the “Refunded Bonds”), on the date of delivery of the Bonds, and to pay the costs of issuing the Bonds.

Sources and Uses of Funds

The proceeds from the Bonds are expected to be applied as follows:

SOURCES OF FUNDS	SERIES 2019A	SERIES 2019B	TOTAL
Par Amount of Bonds	$ 100,000,000	$ 48,095,000	$ 148,095,000
Cash Contribution from County	174,058	83,713	257,771
Total Sources of Funds	$ 100,174,058	$ 48,178,713	$ 148,352,771
USES OF FUNDS			
Redemption of Refunded Bonds	$ 99,711,592	$ 47,956,179	$ 147,667,771
Issuance Expenses (1)	462,466	222,534	685,000
Total Uses of Funds	$ 100,174,058	$ 48,178,713	$ 148,352,771

(1) Includes underwriter’s discount, rating agency fees, Municipal Advisor fees, legal fees, printing costs, and other costs.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Full Faith and Credit of the County

The Bonds are general obligations of the County. The County irrevocably covenants and agrees 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 will become due.

The County irrevocably pledges 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 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 are irrevocably pledged for the annual levy and collection of said taxes and for the prompt payment of the principal of and interest on the Bonds as the same will become due.

Except for the pledge of Revenue of the System described below, Bond owners do not have a security interest in particular revenues or assets of the County. The Bonds do not constitute a debt or indebtedness of the State or any political subdivision thereof other than the County.

State law provides that the payment of general obligation bonds is enforceable in mandamus against the issuer. There is no express provision in the State Constitution or statutes on the priority of payment of debt service on general obligations incurred by a State 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."

Pledge of Sewer Revenues

The Bonds are also payable from and secured by a pledge of the earnings, revenues, and money received by the County from or on account of the operation of the Sewer System ("Revenue of the System"), subject to the payment of Operating and Maintenance Expenses of the Sewer System. See "The Sewer System." The lien and charge of the Bonds on Revenue of the System is subordinate to the lien and charge securing the Parity Bonds, the Parity Lien Obligations, and the Junior Lien Obligations, equal to the lien and charge securing any other Multi-Modal LTGO/Sewer Revenue Bonds outstanding and issued in the future, and superior to all other liens and charges on such revenue, including the lien and charge on such revenue securing any Subordinate Lien Obligations, the State Revolving Fund ("SRF") Loans, and the Public Works Trust Fund Loans, all of which are described below under "Outstanding Sewer System Obligations."

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

(i) to pay all Operating and Maintenance Expenses;

(ii) to make required debt service payments on the Parity Bonds and to make Payment Agreement Payments under any Parity Payment Agreements;

(iii) to make required payments pursuant to any reimbursement agreements in connection with any surety bond or letter of credit for the Parity Bond Reserve Account;

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

(v) to make required debt service payments on Parity Lien Obligations and to make Payment Agreement Payments under any Parity Lien Obligation Payment Agreements;

(vi) to make required debt service payments on Junior Lien Obligations, to make Payment Agreement Payments under any Junior Lien Payment Agreements, and to make any required payments to providers of credit enhancement or liquidity facilities providers for any Junior Lien Obligations;

(vii) to make required debt service payments on the Bonds and any other Multi-Modal LTGO/Sewer Revenue Bonds, to make Payment Agreement Payments entered into with respect to the Bonds and any other Multi-Modal LTGO/Sewer Revenue Bonds, and to make any required payments to credit enhancement or Liquidity Providers for the Bonds and any other Multi-Modal LTGO/Sewer Revenue Bonds;

(viii) to make required debt service payments on the Subordinate Lien Obligations;

(ix) to make required debt service payments on indebtedness secured by a lien on Revenue of the System that is junior and inferior to the Subordinate Lien Obligations; and

(x) to make required debt service payments on the SRF Loans and Public Works Trust Fund Loans.

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

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

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

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

(iv) to make any termination payment required to be paid with respect to a Payment Agreement; or

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

Outstanding Sewer System Obligations

Table 1 presents information on the outstanding obligations of the County's Sewer System ("Sewer System Obligations") as of June 19, 2019. See Table 34–"Scheduled Debt Service on All Obligations of the Sewer System" under "The Sewer System—Debt Service Requirements Payable From Revenue of the System."

TABLE 1
OUTSTANDING SEWER SYSTEM OBLIGATIONS

Sewer System Obligations	Principal Amount of Sewer System Obligations Outstanding	Final Maturity
Parity Bonds (Senior Lien)(1)	$ 2,323,905,000	2052
Parity Lien Obligations (LTGO)	559,480,000	2039
Junior Lien Obligations(2)	300,000,000	2042
Multi-Modal LTGO/Sewer Revenue Bonds(3)	248,095,000	2046
SRF Loans and Public Works Trust Fund Loans	223,673,333	2038
Total Sewer System Obligations Outstanding(4)	$ 3,655,153,333	

(1) Excludes $134.5 million in undrawn loan commitments from the U.S. Environmental Protection Agency ("EPA") through its Water Infrastructure Finance and Innovation Act ("WIFIA") loan program. See "The Sewer System—Future Sewer System Financing Plans—WIFIA Bond."

(2) Excludes the Refunded Bonds.

(3) Includes the Bonds.

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

Source: King County Finance and Business Operations Division

PARITY BONDS. Including the WIFIA Bond, which is yet to be drawn upon, the County has outstanding 18 series of Parity Bonds, which are sewer revenue bonds that are payable from and secured solely by a lien and charge on Revenue of the System. The lien on Revenue of the System that secures the Parity Bonds is subordinate to the payment of Operating and Maintenance Expenses and senior to the liens that secure all other Sewer System Obligations.

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

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

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

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

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

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

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

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

Although all Variable Rate Bonds have bullet maturities, the financial plans since the adoption of the 2017 Sewer Rate provide for the amortization of outstanding Variable Rate Bonds through optional redemptions that begin ten years prior to their final maturity dates. Such planned optional redemptions are excluded from Table 34—"Scheduled Debt Service on All Obligations of the Sewer System" under "The Sewer System," and could change from time to time.

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

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

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

The County's payment obligations under the Standby Bond Purchase Agreements, including with respect to Bank Bonds, may be subject to acceleration pursuant to a "most-favored nation" provision that provides the Liquidity Provider with remedies available to other credit providers.

A summary of the relevant Variable Rate Bonds and terms of the related credit agreements is shown in Table 2.

Additionally, the County has marketed certain of its Variable Rate Bonds as put bonds in a term rate mode. These bonds are subject to mandatory purchase on predetermined dates. If the County is unable to redeem or remarket the bonds on or before the respective mandatory purchase date, the County will become subject to certain step-up pricing provisions. See Table 3 for related optional and mandatory purchase dates and associated step-up pricing provisions.

TABLE 2
SUMMARY OF CREDIT AGREEMENTS

Series	Type of Sewer System Obligations	Amount Outstanding as of 6/1/2019	Type of Agreement	Provider	Expiration	Term-Out Provision	Maturity
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and B	Junior Lien Obligations	$100,000,000	Letter of Credit	Landesbank Hessen-Thuringen Girozentrale (Helaba)	9/30/2020	Three Years	1/1/2032
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2015A and B(1)	Junior Lien Obligations	$97,410,000	Continuing Covenant Agreement	State Street Public Lending Corporation	11/15/2019	Three Years	1/1/2046
Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2017 A and B	Multi-Modal LTGO/Sewer Revenue Bonds	$100,000,000	Continuing Covenant Agreement	State Street Public Lending Corporation	4/5/2021	Three Years	1/1/2040
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2017(1)	Junior Lien Obligations	$50,000,000	Continuing Covenant Agreement	State Street Public Lending Corporation	12/18/2020	Three Years	1/1/2048

(1) The Refunded Bonds, outstanding as of the date of this Official Statement. The Refunded Bonds will be redeemed in their entirety with proceeds of the Bonds on the date of delivery of the Bonds.

TABLE 3
SUMMARY OF PUT BONDS

Series	Type of Sewer System Obligations	Amount Outstanding as of 6/1/2019	Optional Redemption	Mandatory Purchase	Step-Up Provision	Maturity
Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011	Junior Lien Obligations	$100,000,000	on and after 6/1/2020	12/1/2020	6% for first 90 days following the Mandatory Purchase Date, 8% thereafter	1/1/2042
Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012	Junior Lien Obligations	$100,000,000	on and after 3/1/2021	12/1/2021	6% for first 90 days following the Mandatory Purchase Date, 8% thereafter	1/1/2043

Agreements With Participants

As the successor to the Municipality of Metropolitan Seattle ("Metro"), the County has assumed by operation of law Metro's rights and obligations under its Service Agreements with 34 Municipal Participants and three non-Municipal Participants (each, a "Participant"). See "The Sewer System—The Participants."

Service Agreements. The Service Agreements with the Municipal Participants (described below under "The Sewer System—The Participants") are essentially the same with respect to the facilities to be provided, terms for delivery and acceptance of sewage, and payment for sewage disposal. The Service Agreements with the non-Municipal Participants, which accounted for approximately 0.6% of sewage disposal revenues in the year ended December 31, 2018, do not differ substantially from the Service Agreements with the Municipal Participants. The rates set by Municipal Participants for sewer service to their customers are not subject to the jurisdiction of the Washington Utilities and Transportation Commission. Under Washington law, the Municipal Participants have various remedies for the enforcement of delinquent bills, including placing liens on the property of delinquent customers.

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

All of the Service Agreements with the Municipal Participants extend to at least July 1, 2036. Since 2002, the County has been in the process of negotiating extensions of the Service Agreements with the Participants. These negotiations 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 15.9% of sewage disposal revenues in the year ended December 31, 2018. 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) require the delivery of sewage to the Sewer System by each Participant and the acceptance of such sewage by the County for treatment and disposal, and (ii) establish the method for determining Sewage Disposal Charges (described below under "The Sewer System—Sewer Rates") and for making payment thereof. In 1960, the Service Agreement with the City of Seattle ("Seattle") (containing the essential common provisions of all the Service Agreements) was held valid by the Supreme Court of the State of Washington *(Municipality of Metropolitan Seattle v. City of Seattle*, 57 Wn.2d 446, 357 P.2d 863 (1960)).

Agency Customer Continuation Requirement. By Ordinance 15757 of the County, passed on May 7, 2007, the County Council invoked its authority under RCW 35.58.200(3) to require that each current Municipal Participant within the County continue as an "Agency Customer" (a wholesale customer of the Sewer System not subject to a Service Agreement) following expiration of its Service Agreement so long as bonds issued to finance the capital projects in the Regional Wastewater Services Plan ("RWSP"), which include the Bonds, remain outstanding. See "The Sewer System—The Participants." In accordance with RCW 35.58.200(4), Ordinance 15757 also established a monthly sewer rate for Agency Customers, including Municipal Participants within the County, which are required to connect to the Sewer System, and Municipal Participants outside the County and non-Municipal Participants, which are not required to connect to the Sewer System unless a Service Agreement is in effect. Municipal Participants outside the County and Non-Municipal Participants contributed 7.3% of sewage disposal revenues in the year ending December 31, 2018. The formula for the monthly rate charged Agency Customers under Ordinance 15757 is identical to the formula set forth in the Service Agreements.

Rate and Coverage Covenants

The County has covenanted in the Ordinance to establish, maintain, and collect rates and charges for sewage disposal in each calendar year that are fair and nondiscriminatory and adequate to provide the County with Revenue of the System sufficient to pay all Operating and Maintenance Expenses during that year, to pay all debt service, and to make all debt service reserve deposits required by the Ordinance or any other ordinance authorizing obligations of the County payable from Revenue of the System as described in paragraphs ii through x under "Pledge of Sewer Revenues," and to pay any and all amounts that the County is now or may hereafter become obligated by law or contract to pay during that calendar year from the Revenue of the System.

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

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

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

The County made deposits into the Rate Stabilization Fund between 2005 and 2011. From 2012 to 2014, the County withdrew $42.25 million from the Rate Stabilization Fund to mitigate sewer rate increases. In 2015, the County contributed $12 million to the Rate Stabilization Fund as a result of favorable operating performance and savings achieved through debt refundings. As of

June 1, 2019, the balance in the Rate Stabilization Fund was $46.25 million; the County does not expect to make any additional withdrawals through 2024. See Table 33—Projected Financial Statements" under "The Sewer System—Projected Customers, Revenues, and Expenses."

Additional Obligations of the Sewer System

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

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

(i) At the time of issuing such additional Multi-Modal LTGO/Sewer Revenue Bonds, there will be no default in the payment of the principal of or interest on any Parity Bonds, Parity Lien Obligations, Junior Lien Obligations or Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, the Public Works Trust Fund Loans or the SRF Loans.

(ii) The County will have on file one of the following:

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

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

Nothing in the Ordinance prevents the County from issuing revenue bonds, notes or other obligations that are a charge upon the Revenue of the System junior or inferior to the payments required to be made therefrom into the Multi-Modal LTGO/Sewer Revenue Bond Fund to pay and secure the payment of any Multi-Modal LTGO/Sewer Revenue Bonds.

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 ("Metro Transit") and wastewater treatment services ("Wastewater") (collectively, the "metropolitan functions"). Certain of these services are provided on a County-wide basis and certain others only to unincorporated areas or by intergovernmental contract.

Organization of the County

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

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

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

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

County's Budget Process

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

The PSB, under the direction of the County Executive, is responsible for (i) preparation and management of the operating and capital budgets, (ii) expenditure and revenue policy, and (iii) planning and growth management. The County has adopted biennial budgets for all agencies.

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

Finance and Business Operations Division

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

Auditing

Legal compliance and fiscal audits of all County agencies are conducted by examiners from the State Auditor's office. The County is audited annually. The most recent State Auditor's Report is for the year ended December 31, 2017, and is incorporated into the County's Comprehensive Annual Financial Report ("CAFR") for 2017.

The County's 2017 CAFR in its entirety may be accessed on the internet at the following link:

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

or obtained from the Financial Management Section at the King County Finance and Business Operations Division, 500 Fourth Avenue, Room 600, Seattle, Washington 98104. See Appendix D—Excerpts from King County's 2017 Comprehensive Annual Financial Report.

The financial statements of the Water Quality Enterprise Fund as of and for the fiscal year ended December 31, 2018, included herein as Appendix E, 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 94% of taxes and 96% of intergovernmental revenues in 2018. Taxes and intergovernmental revenues provided approximately 51% of the total revenue in the governmental funds of the County in 2018. Additional sources of revenue are licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues.

Taxes. Table 4 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.

TABLE 4
TAXES COLLECTED
AS OF DECEMBER 31 ($000)

Source	2013	2014	2015	2016	2017	2018[1]
Real and Personal Property Tax[2]	$ 582,478	$ 627,300	$ 641,916	$ 752,462	$ 778,591	$ 840,323
Retail Sales and Use Tax[3]	147,129	160,635	175,419	191,716	200,434	217,625
Penalty and Interest on Property Taxes	20,867	20,993	20,036	17,563	19,849	20,857
Hotel/Motel Tax[4]	20,244	23,237	22,843	3,287	-	-
Real Estate Excise tax	11,059	10,924	14,602	14,863	15,887	15,994
E-911 Excise Tax	23,515	22,440	21,396	21,430	22,270	22,264
Other Taxes[5]	15,003	16,115	20,000	20,559	20,903	10,206
Total	$ 820,295	$ 881,644	$ 916,212	$ 1,021,880	$ 1,057,934	$ 1,127,269

(1) Preliminary unaudited.
(2) Excludes revenue generated by real and personal property taxes to support public transit.
(3) Excludes revenue generated by the 0.9% levy to support public transit.
(4) See "Hotel/Motel Tax" below.
(5) Excludes revenue reported as taxes prior to 2018, now reported as charges for services.

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.

Varying slightly due to local city levies, a sales and use tax is currently charged at a rate of between 10.0% and 10.2% on gross retail sales in the County within the boundaries of the Central Puget Sound Regional Transit Authority ("Sound Transit") and at rates of between 8.6% and 8.9% outside such boundaries. The bulk of the revenue from the sales and use tax goes to the State (a levy rate of 6.5%) and to Sound Transit (a levy rate of 1.4%). Of the remainder, 0.9% is allocated to the County to support public transit, 0.15% is allocated to the County in incorporated areas or 1.0% to the County in unincorporated areas to support general government operations, 0.1% is allocated to cities and to the County for criminal justice programs, and 0.1% is allocated 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.

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 Legislature enacted certain provisions to mitigate net losses in sales and use tax collections of local taxing jurisdictions resulting from the change to a destination-based system during the 2007 session. In 2017, the State Legislature enacted Engrossed House Bill 2163, Chapter 28, Laws of 2017, 3rd special session ("EHB 2163"). Pursuant to EHB 2163, the State will cease mitigation payments to local governments on September 30, 2019; however, EHB 2163 is expected to increase revenues from local sales and use taxes remitted by customers within the State and by sellers and "marketplace facilitators" located outside the State, including from certain online purchases. In *South Dakota v. Wayfair* (No. 17-494, June 21, 2018), the U.S. Supreme Court held for the first time that states have the authority to collect sales taxes directly from out-of-state sellers having no physical presence in the taxing state. Mitigation payments will be halted before September 30, 2019, if a jurisdiction's voluntary compliance and marketplace/remote seller revenue exceeds the losses due to destination-based taxation. The County stopped receiving all mitigation payments at the end of 2017.

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 to pay or reimburse payments 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. 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. Table 5 lists various intergovernmental revenues. A description of each type of intergovernmental revenue follows the table.

TABLE 5
VARIOUS INTERGOVERNMENTAL REVENUES
AS OF DECEMBER 31 ($000)

Source	2013	2014	2015	2016	2017	2018[1]
Grants	$ 161,851	$ 146,453	$ 135,870	$ 146,873	$ 149,166	$ 145,791
Revenue Sharing	10,753	12,703	13,604	13,801	14,200	14,566
Gas Tax	12,989	12,838	12,792	13,542	13,422	13,228
Liquor Tax and Profits	1,088	1,169	1,261	1,466	1,459	1,478
Intergovernmental Payments[2]	369,344	463,739	233,702	182,883	83,506	22,050
Other Intergovernmental Revenues	10,363	10,580	11,213	10,270	12,125	19,241
Total	$ 566,388	$ 647,482	$ 408,442	$ 368,835	$ 273,878	$ 216,354

(1) Preliminary unaudited.

(2) As of 2015, intergovernmental payments that are not grants are reported as charges for services. For 2016-2018, 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 2018, operating, health, public employment, and capital improvement grants from the federal government, either directly or indirectly through the State or local governmental agencies, contributed an estimated $93.9 million in federal grant revenue to the County. This comprised 64.4% of total 2018 grant revenue received by the County. The remaining 35.6% of estimated grant revenue was from the State.

Table 6 lists by source and function the various grants received by the County for the years ended December 31, 2017 and 2018.

TABLE 6
2017 AND 2018 GRANT REVENUE
BY SOURCE AND FUNCTION

	2017		2018(1)	
	Actual	Item as a Percent of Total Actual	Actual	Item as a Percent of Total Actual
Federal				
General Government Services	$ -	0.0%	$ 167	0.1%
Law, Safety and Justice	13,334	8.9%	12,236	8.4%
Physical Environment	2,488	1.7%	1,689	1.2%
Transportation	4,750	3.2%	4,138	2.8%
Economic Environment	29,278	19.6%	27,878	19.1%
Mental and Physical Health	50,141	33.6%	47,742	32.7%
Culture and Recreation	-	0.0%	-	0.0%
Total Federal	$ 99,991	67.0%	$ 93,850	64.4%
State:				
General Government Services	$ 655	0.4%	$ 195	0.1%
Law, Safety and Justice	7,426	5.0%	7,326	5.0%
Physical Environment	7,095	4.8%	8,181	5.6%
Transportation	461	0.3%	269	0.2%
Economic Environment	16,292	10.9%	19,199	13.2%
Mental and Physical Health	16,678	11.2%	16,617	11.4%
Culture and Recreation	568	0.4%	154	0.1%
Total State	$ 49,175	33.0%	$ 51,941	35.6%
Total Grants	$ 149,166	100.0%	$ 145,791	100.0%

(1) Preliminary unaudited.

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 2018, 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 the 49.4 cents (RCW 82.38.030) 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 8.0916% of the tax distributed to counties in 2018.

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 the 49.4 cents of the State motor vehicle fuel tax

(RCW 46.68.090(2)(i)). The County received 3.63847% of these funds in 2018, based on the County's share of State-wide arterial preservation funds.

LIQUOR TAX AND PROFITS. Liquor distribution and sales within the State have been privatized since June 1, 2012, following voter approval of Initiative 1183. Accordingly, the State 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 2012, an additional $10 million annually be distributed on a quarterly basis to cities, counties, and border areas. After revenues are distributed to border areas (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 2018, these payments were primarily related to the County's provision of mental health, public health, law enforcement, housing opportunity, and roads.

OTHER INTERGOVERNMENTAL REVENUE. Other sources of intergovernmental revenue currently include distributions from the State for criminal justice purposes and criminal justice costs related to aggravated murder costs, foundational public health services, teenage pregnancy prevention, vessel registration fees, 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. 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).

TABLE 7
GENERAL FUND
COMPARATIVE BALANCE SHEET
(YEARS ENDED DECEMBER 31) ($000)

	2013	2014	2015	2016	2017	2018[1]
ASSETS						
Cash and cash equivalents	$ 87,093	$ 71,558	$ 59,475	$ 80,231	$ 85,179	$ 109,419
Taxes receivable - delinquent	7,652	7,716	7,686	7,879	8,086	8,465
Accounts receivable	81,750	85,476	68,647	50,372	52,180	48,776
Estimated uncollectible accounts receivable	(68,035)	(71,194)	(59,283)	(37,250)	(34,943)	(33,386)
Interest receivable	7,453	6,817	8,872	11,497	14,323	16,594
Due from other funds	8,232	92	790	1,896	1,489	3,836
Due from other governments	45,341	34,828	49,562	57,469	64,301	60,270
Estimated uncollectible due from other governments	(187)	(297)	(10)	(10)	(94)	(5)
Advances to other funds	300	300	300	-	-	-
TOTAL ASSETS	$ 169,599	$ 135,296	$ 136,039	$ 172,084	$190,521	$ 213,969
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE						
Liabilities						
Accounts payable	$ 3,377	$ 3,806	$ 6,967	$ 8,331	$ 4,561	$ 6,485
Due to other funds	6,629	2,407	1,554	4,339	4,944	4,266
Due to other governments	-	513	-	2,200	2,025	542
Wages payable	24,620	14,471	16,194	18,133	19,720	24,852
Taxes payable	189	179	108	180	147	122
Unearned revenues	3,411	1,724	970	-	-	-
Custodial accounts	1,886	1,021	51	78	1,589	939
Total liabilities	$ 40,112	$ 24,121	$ 25,844	$ 33,261	$ 32,986	$ 37,206
Deferred inflows of resources [2]						
Unavailable revenue	$ 15,117	$ 7,967	$ 7,566	$ 13,344	$ 12,765	$ 12,682
Fund balance						
Nonspendable	$ 300	$ 300	$ 300	$ -	$ -	$ -
Restricted	2,506	2,803	1,781	1,659	2,016	1,348
Committed	24,982	20,212	20,310	20,497	25,161	26,310
Assigned	8,264	8,151	12,125	35,128	19,181	28,578
Unassigned	78,318	71,742	68,113	68,195	98,412	107,845
Total fund balance [3]	$ 114,370	$ 103,208	$ 102,629	$ 125,479	$144,770	$ 164,081
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	$ 169,599	$ 135,296	$ 136,039	$ 172,084	$190,521	$ 213,969

NOTES TO TABLE:

(1) Preliminary unaudited.

(2) 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.

(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

TABLE 8
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(YEARS ENDED DECEMBER 31) ($000)

	2013	2014	2015	2016	2017	2018[1]
REVENUES						
Property taxes	$ 311,500	$ 319,188	$ 326,774	$ 334,446	$ 344,847	$ 357,771
Penalties and interest - delinquent taxes	20,869	20,993	20,036	17,563	-	-
Sales, excise and other taxes	104,291	112,333	128,979	132,846	138,435	148,456
Licenses and permits	4,741	4,753	4,971	5,712	7,783	8,075
Federal grants	8,287	9,028	8,803	8,087	7,263	7,584
State grants	2,531	2,326	2,590	2,594	3,039	3,088
Entitlements and shared revenues	10,109	10,422	11,439	10,485	10,803	17,445
Intergovernmental revenues [2]	4,294	3,370	3,470	13,563	199	101
Charges for services [2]	192,632	206,899	225,752	242,055	257,517	260,059
Fines and forfeits	7,233	5,922	6,906	8,191	25,754	26,888
Interest earnings	1,458	1,632	1,696	3,881	8,114	15,562
Rents and royalties	3,045	7,490	8,252	8,285	14,582	14,285
Other miscellaneous revenues	13,668	4,653	3,049	2,459	3,611	3,717
TOTAL REVENUES	$ 684,658	$ 709,009	$ 752,717	$ 790,167	$ 821,947	$ 863,031
EXPENDITURES						
Current						
Personal services	$ 460,039	$ 491,145	$ 513,910	$ 539,041	$ 552,544	$ 581,368
Supplies	14,189	14,619	13,601	14,905	15,188	17,093
Contract services and other charges	53,504	40,186	41,640	42,727	39,710	46,562
Contributions	2,733	2,901	3,217	3,657	4,469	4,767
Interfund service support	89,794	99,114	106,630	107,950	116,625	117,667
Debt service	17	44	64	203	75	5
Capital outlay	1,452	1,895	1,792	1,861	1,138	2,635
TOTAL EXPENDITURES	$ 621,728	$ 649,904	$ 680,854	$ 710,344	$ 729,749	$ 770,097
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	$ 62,930	$ 59,105	$ 71,863	$ 79,823	$ 92,198	$ 92,934
OTHER FINANCING SOURCES (USES)						
Sale of capital assets	$ 62	$ 156	$ 81	$ 2	$ 168	$ 1
Transfers in	5,328	118	261	11,119	13,255	11,797
Transfers out	(93,594)	(71,991)	(72,784)	(68,094)	(84,358)	(85,421)
TOTAL OTHER FINANCING SOURCES (USES)	$ (88,204)	$ (71,717)	$ (72,442)	$ (56,973)	$ (70,935)	$ (73,623)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ (25,274)	$ (12,612)	$ (579)	$ 22,850	$ 21,263	$ 19,311
FUND BALANCE - JANUARY 1 (Restated) [3][4]	139,644	115,820	103,208	102,629	123,507	144,770
FUND BALANCE - DECEMBER 31 [4]	$ 114,370	$ 103,208	$ 102,629	$ 125,479	$ 144,770	$ 164,081

NOTES TO TABLE:

(1) Preliminary unaudited.

(2) 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.

(3) For 2014, the beginning fund balance was restated to reflect a change in the property tax availability policy. For 2017, the beginning fund balance was restated for an accounting system issue that did not distribute recording fees to County funds and the State.

(4) 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

TABLE 9
GENERAL GOVERNMENT FUNDS
COMBINED COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (1)
(YEARS ENDED DECEMBER 31) ($000)

	2013	2014	2015	2016	2017	2018(2)
REVENUES						
Taxes	$ 841,050	$ 867,250	$ 925,205	$ 1,016,654	$ 1,031,306	$ 1,127,586
Licenses and permits	22,155	23,633	24,564	28,697	28,002	29,254
Intergovernmental revenues (3)	548,620	627,173	388,549	216,260	224,316	190,958
Charges for services (3)	264,907	269,959	517,048	764,866	757,105	781,445
Fines and forfeits	7,376	6,357	7,334	8,989	26,368	27,662
Interest earnings	3,170	4,358	4,127	7,596	12,545	25,828
Miscellaneous revenues	77,618	67,924	73,912	67,321	45,668	45,043
TOTAL REVENUES	$ 1,764,896	$ 1,866,654	$ 1,940,739	$ 2,110,383	$ 2,125,310	$ 2,227,776
EXPENDITURES						
Current						
General government services (4)	$ 176,679	$ 180,300	$ 245,177	$ 262,528	$ 248,639	$ 173,021
Law, safety and justice (5)	590,415	618,175	641,962	592,710	604,713	719,701
Physical environment (6)	116,434	184,211	156,615	55,042	24,470	21,278
Transportation (7)	61,287	80,573	67,189	68,749	73,062	69,455
Economic environment (8)	97,806	101,865	102,918	116,746	179,724	198,999
Mental and physical health (9)	490,932	521,960	522,650	677,657	646,839	715,975
Culture and recreation (10)	42,418	42,774	46,255	79,950	54,601	58,895
Total current	$ 1,575,971	$ 1,729,858	$ 1,782,766	$ 1,853,382	$ 1,832,048	$ 1,957,324
Debt service (11)						
Redemption of long-term debt	$ 70,686	$ 71,998	$ 64,407	$ 57,641	$ 63,702	$ 64,093
Interest and other debt service costs	32,713	31,429	29,042	35,590	33,363	33,231
Payment to escrow agent	-	260	19,467	8,417	-	2,329
Total debt service	$ 103,399	$ 103,687	$ 112,916	$ 101,648	$ 97,065	$ 99,653
Capital outlay (12)	40,046	12,857	17,514	20,577	37,647	32,300
TOTAL EXPENDITURES	1,719,416	1,846,402	1,913,196	1,975,607	1,966,760	2,089,277
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	$ 45,480	$ 20,252	$ 27,543	$ 134,776	$ 158,550	$ 138,499
OTHER FINANCING SOURCES (USES)						
General obligation bonds issued	$ (99,593)	$ 12,160	$ -	$ 25,025	$ 6,050	$ 5,845
Refunding bonds issued	92,940	34,815	198,290	-	-	-
Premium on bonds sold	7,261	5,971	29,888	3,764	880	863
Sale of capital assets	4,500	1,144	1,751	3,371	2,912	5,226
Transfers in	125,404	111,746	119,586	188,895	225,949	206,772
Transfers out	(171,135)	(142,594)	(173,270)	(270,268)	(298,651)	(295,399)
Payment to refunded bond escrow agent	-	(38,958)	(227,200)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	$ (40,623)	$ (15,716)	$ (50,955)	$ (49,213)	$ (62,860)	$ (76,693)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ 4,857	$ 4,536	$ (23,412)	$ 85,563	$ 95,690	$ 61,806
SPECIAL ITEM (13)	-	-	(12,756)	-	-	-
FUND BALANCE - JANUARY 1 - RESTATED (14)	$ 546,046	$ 528,973	$ 540,915	$ 520,972	$ 606,955	$ 701,888
FUND BALANCE - DECEMBER 31	$ 550,903	$ 533,509	$ 504,747	$ 606,535	$ 702,645	$ 763,694

NOTES TO TABLE:

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

(2) Preliminary unaudited.

(3) 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.

(4) 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.

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

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

(7) Road construction and maintenance and traffic planning.

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

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

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

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

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

(13) 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.

(14) 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.

For 2017, beginning fund balance was restated for an accounting system issue that did not distribute recording fees to County funds and the State and for a failure to recognize certain prior year advance grants as revenue.

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 remains robust during the current economic expansion. As of April 2019, the unemployment rate was 2.8% in the County. The region's relatively better performance was driven by the strength of major industry sectors, including information, business, and professional services as well as construction.

Tax Limitation Legislation. Future property tax revenue growth will remain low due to State law limiting annual property tax revenue growth without voter approval to the lesser of inflation or 1%, plus an adjustment to reflect 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 Seattle meets this requirement. Other provisions in the law give incentives to cities to annex additional areas, even if they are already receiving a sales tax credit for a previous annexation.

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% to provide a larger undesignated reserve. At the end of 2016, this amount increased to 8%, which is the high end of the policy. The 2017-2018 and 2019-2020 Adopted Budgets maintained this level.

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 2017, the Rainy Day Reserve Fund, which is now a sub-fund of the General Fund, held $25.2 million.

Enterprise Funds. The County has four enterprises that fund operations from sources other than the General Fund: the Metro 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.

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 levy. The Metro Transit budget reflects the direction of the new long-range plan 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 continues to focus on optimizing financial management and building reserves. Based on the adopted General Fund financial plan, the General Fund undesignated fund balance will maintain the 8.0% level through the end of the biennium. This is the high end of the range established by County policy. The Metro Transit budget reflects newly approved financial policies and fully funds all the reserves called for in the policies. As a sales tax-dependent fund, the Mental Illness and Drug Dependency (MIDD) Fund also increased reserves to $11.2 million, which fully funds its 60-day Rainy Day Reserve Fund. The County continues to routinely engage in quarterly financial monitoring, which allows for early budget decisions, improved risk management, and a common understanding of financial issues facing the County.

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, including 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 Results

The financial performance of the General Fund for the first year of the 2017-2018 biennium did not vary significantly from the assumptions in the 2017-2018 Adopted Budget. The ending fund balance for 2017 was $119.7 million, with an additional $25.1 million in the Rainy Day Reserve Fund. In 2017, General Fund revenues ended higher than budgeted due to the strength of County sales tax collections and other revenues sensitive to the economy. In addition, multiple programs and projects have under-expenditures in the first year of the biennium. These programs and projects are expected to ramp up and meet spending expectations in 2018.

At the August 1, 2017, primary election, County voters rejected a sales tax increase to fund art and culture programs across the region. This proposition received 49% of the vote.

At the November 7, 2017, general election, County voters approved a levy lid lift for Veterans, Seniors and Human Services, which funds human services and housing programs that improve the well-being of vulnerable populations through an increase in the regular property tax levy. This proposition passed with 69% of the vote and authorized taxes to be levied for six years beginning in 2018 to fund the program.

2018 Preliminary Results

The preliminary financial performance of the General Fund for 2018 ended with a higher fund balance than previously projected. The strong local economy continues to result in strong and growing sales and property tax collections, resulting in higher than expected final revenues for 2018, while expenditures ended approximately at expected levels.

The General Fund is expected to end the 2017-2018 biennium with an ending fund balance of $138.6 million, including an undesignated fund balance of 8.0%, which meets the target established in the budget process. This fund balance will be available to mitigate future risks and stabilize the General Fund. The Rainy Day Reserve Fund is expected to hold an additional approximately $25.5 million in fund balance.

At the August 8, 2018, primary election, County voters approved a levy lid lift for the automated fingerprint identification system (“AFIS”) through an increase in the regular property tax levy. This proposition passed with 55% of the vote and authorized taxes to be levied for six years beginning in 2019 to fund the program.

2019-2020 Adopted Budget

The County Executive submitted his 2019-2020 Proposed Budget to the County Council on September 24, 2018, and the budget was adopted by the County Council on November 13, 2018. This is the third County-wide biennial budget. The 2019-2020 Adopted Budget totals $11.7 billion, including $1.8 billion for the General Fund. The 2019-2020 Adopted Budget invests in clean water and healthy habitats, affordable housing, public safety, mobility, and other important services.

The County Executive followed five principles in developing the 2019-2020 Proposed Budget: (i) continue strong financial practices; (ii) continue to improve County operations through the Best-Run Government initiative; (iii) maintain a long-term focus; (iv) continue to make progress on the County-wide initiatives of Equity and Social Justice ("ESJ"), the Strategic Climate Action Plan ("SCAP"), and the human resources strategy known as Investing in You (IIY"); and (v) focus additional resources on emerging priorities including homelessness, the path to Zero Youth Detention, and clean water and healthy habitat.

The 2019-2020 Adopted Budget continues to support and promote strong financial practices in several ways:

(i) The general obligation bond rating is further supported. The County has the highest possible ratings for its voter-approved and nonvoted general obligation bonds, and often uses its general obligation bond rating to support debt issued by other County agencies, including Wastewater, Solid Waste, and Metro Transit. These agencies pay a credit enhancement fee to the County's General Fund to reflect part of the savings they realize. Half of the credit enhancement fee will be used to continue to increase the General Fund balance in future years. The 2019-2020 Adopted Budget maintains an undesignated balance in the General Fund of 8.0%, which is the top of the range established by County policy. In addition, a projected Rainy Day Fund balance of $25.6 million is preserved.

(ii) Metro Transit's new financial policies are maintained. The County Executive proposed and the County Council approved new financial policies for Metro Transit in 2016. These focus on defining clearer purposes for various reserves, setting target funding levels for each reserve, establishing rules about drawing on and refilling reserves, and defining an updated method for financing bus purchases that involves building fund balances and occasionally using short-term debt in peak purchasing periods. The 2019-2020 Adopted Budget fully funds all the reserves called for in these policies.

(iii) Routine quarterly financial monitoring of significant County funds is continued. Starting in mid-2015, the PSB began regular quarterly reviews of all major County funds, including the development of a standard financial plan and the use of consistent accounting practices across all funds, which replaced a variety of different approaches used previously for various funds. This standardized reporting and review allowed excess balances in some funds to be identified during the 2019-2020 budget process that were used to reduce cost growth or expand services.

In order to continue to improve County operations, the 2019-2020 Adopted Budget reflects three significant reorganizations that were approved in 2018. These are intended to create clearer accountability and improved customer service.

(i) Metro Transit, the County's largest and most widely used function, has become its own department rather than being a division of the Department of Transportation ("DOT"). The Marine Division of DOT, which provides passenger ferry service, is now included in Metro Transit.

(ii) A new Department of Local Services ("DLS") has been created to bring together most services that are used solely by residents of the unincorporated areas. The two largest functions are the Road Services Division, formerly part of DOT, and the Permitting Division, formerly its own department. DLS also includes several smaller functions, including a new economic development program. DLS will also coordinate functions provided by other agencies in the unincorporated areas and is pioneering a "product catalog" that tracks these services and related performance measures.

(iii) A new Department of Human Resources ("DHR") has been formed, drawn mostly from a former division in the Department of Executive Services. In addition, the payroll function and the alternative dispute resolution program are now part of DHR. Department human resources managers, who previously were housed in departments with a matrixed reporting relationship to the central agency, will be moved to DHR as part of the 2019-2020 Adopted Budget and will be matrixed to their individual departments, which is expected to improve consistency and coordination County-wide.

The 2019-2020 Adopted Budget completes a 12-year effort to replace the County's antiquated major information technology systems. New systems for the Department of Judicial Administration, District Court, and the Behavioral Health Division of the Department of Community and Human Services are expected to be deployed by early 2019. The 2019-2020 Adopted Budget includes the final appropriations for a new Jail Management System and the Property Tax Administration System, and includes a wide range of technology projects for Metro Transit, some of which update existing systems and some that provide new services to riders.

For the last several budgets, the County has been providing funding for three County-wide policy priorities: ESJ, SCAP, and IIY. The 2019-2020 Adopted Budget expands on previous investments in all three areas. County residents and their government face several new or growing challenges, including water quality and habitat preservation, homelessness, and racial disproportionality in the juvenile justice system. The 2019-2020 Adopted Budget makes significant investments in each of these areas.

The 2019-2020 Adopted Budget for the General Fund includes $1.8 billion in estimated expenditures and $1.8 billion in revenues and transfers. The forecasted 2019-2020 year-end fund balance in the General Fund is $150 million, including the Rainy Day Reserve Fund. The General Fund will maintain an undesignated fund balance in the General Fund of 8.0%, which is the high end of the County's policy.

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 had an average asset balance of more than $7.1 billion during 2018. Assets of County agencies in 2018 comprised between 40% and 47% of the Investment Pool.

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

The County has commissioned an outside financial consultant, Public Financial Management ("PFM"), to conduct quarterly reviews of all assets in the Investment Pool. In its most recent assessment, as of March 31, 2019, PFM concluded that "the County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality." The most recent portfolio review can be obtained at the following website:

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

County Employees

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

TABLE 10
COUNTY EMPLOYEES

Year	Full-time	Part-time
2013	13,540	894
2014	13,319	866
2015	13,614	929
2016	13,821	883
2017	14,395	872
2018	14,652	943

Source: King County Department of Human Resources—Benefits, Payroll, and Retirement Operations Section

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

A two-year agreement with a coalition of County unions from January 1, 2019, through December 31, 2020, covers the majority of labor contracts and a total of 5,900 employees (approximately 45% of total employees). The agreement calls for a 4.00% wage increase for 2019 and for two subsequent increases of 1.50% each on January 1, 2020, and July 1, 2020, respectively. A majority of other unions not part of the coalition agreed to similar terms.

Negotiations with other unions not part of the coalition are ongoing. The County is still in negotiations with two of the larger unions in the County, the Police Officers Guild, and the King County Corrections Guild.

The Amalgamated Transit Union (the "ATU"), the largest union in the County, representing approximately 4,200 employees, has a three-year agreement which calls for a 2% wage increase in 2017, a 3% increase in 2018, and a 4% increase in 2019. Bargaining for the successor agreement began in spring of 2019.

All ratified agreements are submitted to the County Council for adoption.

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

Retirement Systems

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

TABLE 11
RETIREMENT SYSTEMS

Number of Employees As of December 31, 2018	Retirement System
13,145	State of Washington—Public Employees Retirement System ("PERS")
798	State of Washington—Law Enforcement Officers and Fire Fighters Retirement System ("LEOFF")
431	State of Washington—Public Safety Employees Retirement System ("PSERS")

Source: King County Department of Human Resources—Benefits, Payroll, and Retirement Operations Section

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

TABLE 12
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. Retirement funds are held in the Commingled Trust Fund and invested by the State Investment Board (the "WSIB"), a 15-member board created by the State Legislature. The average annual dollar-weighted investment return of the Commingled Trust Fund for the ten-year period from July 1, 2008, to June 30, 2018 was 7.48%. The actuarial assumptions used in the most recent rate calculations are summarized in Table 13:

TABLE 13
ACTUARIAL ASSUMPTIONS FOR FUNDING CALCULATIONS

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

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

Source: 2017 Actuarial Valuation from the Office of the State Actuary

The County's employer and employee contribution rates and contribution amounts for all WSDRS-administered plans for the fiscal year ended December 31, 2018, and current contribution rates for 2019 are shown in Table 14:

TABLE 14
COUNTY CONTRIBUTION RATES AND AMOUNTS

	PERS Plan 1	PERS Plan 2	PERS Plan 3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2
2018						
Average Employer Contribution Rate (%)	12.74 (1)	12.74 (1)	12.74 (1)	0.18 (1)	5.43 (1)	12.09 (1)
Average Employee Contribution Rate (%)	6.00 (2)	7.43 (2)	Varies (2)(3)	0.00	8.75	6.50
Employer Contribution Amount ($000)	1,448	117,280	23,381	-	5,219	4,776
Employee Contribution Amount ($000)	690	68,347	12,798	-	8,409	2,706
Total Contribution Amount ($000)	2,138	185,626	36,179	-	13,628	7,482
2019 (Current)						
Employer Contribution Rate (%)	12.83 (1)	12.83 (1)	12.83 (1)	0.18 (1)	5.43 (1)	12.38 (1)
Employee Contribution Rate (%)	6.00 (2)	7.41 (2)	Varies (2)(3)	0.00	8.75	7.07

Note: Totals may not add due to rounding.

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

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

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

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

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

To calculate the funded status, the WSDRS-administered plans compare the Actuarial Value of Assets ("AVA") to the Entry Age Normal ("EAN") liabilities. The EAN cost method projects future benefits under the plans, using salary growth and other assumptions, and applies the service that has been earned as of the valuation date to determine accrued liabilities. The AVA is calculated using a methodology that smooths the effect of short-term volatility in the Market Value of Assets ("MVA") by deferring a portion of the annual investment gains or losses over a period of up to eight years. This helps limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in the MVA. Additional information on this measure is provided in the 2017 Actuarial Valuation Report (published August 2018), which can be found on the Office of the State Actuary's website at:

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

Retirement System Funded Status. Information regarding the funded status from the most recent actuarial report for each WSDRS-administered plan (as of June 30, 2017) is shown in Table 15:

TABLE 15
RETIREMENT SYSTEM FUNDED STATUS[(1)]
($000,000)

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

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

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

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

Source: 2017 Actuarial Valuation from the Office of the State Actuary

As shown in Table 15, the funded status on an actuarial basis for some plans is greater than 100%, while others are underfunded. Other than PERS Plans 2 and 3, assets from one plan may not be used to fund benefits for another plan. Retirement funds for the WSDRS-administered plans are invested by the Washington State Investment Board.

Table 16 shows historical investment returns for retirement funds held in the WSDRS-administered plans.

TABLE 16
HISTORICAL ONE-YEAR INVESTMENT RETURNS ON RETIREMENT FUNDS

Year	Investment Return[(1)]
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
2018	10.0

(1) As of June 30.

Source: Washington State Investment Board

The County implemented GASB 68 for the year 2015. In accordance with GASB 68, the County elected to use June 30, 2017, as the measurement date for reporting net pension liability. Table 17 represents the aggregate pension amounts for all pension plans subject to the requirements of GASB 68.

TABLE 17
AGGREGATE PENSION AMOUNTS—ALL WSDRS-ADMINISTERED PLANS, 2017
($000)

Net pension liabilities	$756,022
Net pension assets	49,475
Deferred outflows of resources	115,425
Deferred inflows of resources	148,138
Pension expense/expenditures	49,237

Source: 2017 CAFR—Note 9

For more information on employee retirement plans, see Appendix D—Excerpts from King County's 2017 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, 2017, 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, 2017, the County's annual OPEB cost (expense), which is calculated based on the annual required contribution of the County, was $8.0 million and the County's net OPEB obligation was $73.0 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 D—Excerpts from King County's 2017 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 purchases reinsurance and excess liability insurance above a $7.5 million per occurrence self-insured retention ("SIR") for Metro Transit and a

$6.5 million SIR per occurrence for non-Metro Transit operations. The County maintains $112.5 million in limits above the SIR for general liability and auto liability claims and $93.5 million in limits above the SIR for errors and omissions, employment practice liability, and medical malpractice claims.

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

TABLE 18
INSURANCE POLICIES

Coverage	Limits
Combined Property Damage and Extra Expense for covered County property (includes $100 million earthquake and $250 million flood)	$750 million (1)
Stand-Alone Terrorism Insurance for covered County property (excluding the airport)	$500 million (1)
Stand-Alone Terrorism Insurance for Liability (excluding the airport)	$40 million
Airport Liability	$300 million (2)
Airport Property Damage and Extra Expense for covered airport property (includes $50 million earthquake and $100 million flood)	$186 million
Fiduciary Liability	$20 million
Crime Insurance/Employee Dishonesty	$2.5 million
Aviation (Police Helicopter) Program	$50 million (2)
Excess Workers' Compensation	Statutory above $2 million deductible per occurrence
Marine Liability	$150 million
Cyber Liability	$50 million
Cedar Hill Pollution Legal Liability	$50 million

(1) Subject to renewal on July 1, 2019.

(2) Subject to renewal on June 30, 2019.

The balance of current assets in the Insurance Fund was $76.6 million as of December 31, 2018. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2018, was $70.5 million.

For additional information, see Appendix D—Excerpts from King County's 2017 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

General Obligation Debt Limitation

For counties, the statutory limitation (RCW 39.36.020) on non-voted general obligation debt, 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

Table 19 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. Table 20 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 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."

TABLE 19
COMPUTATION OF STATUTORY DEBT CAPACITY
(AS OF DECEMBER 31, 2018, UNAUDITED)

2018 Assessed Value (for 2019 Tax Year)	$	606,623,698,132
Limited Tax General Obligation Debt Capacity for County Purposes and Metropolitan Functions		
1.5% of Assessed Value	$	9,099,355,472
County Purposes		
Outstanding Limited Tax General Obligation Bonds for County Purposes	$	851,282,793
General Obligation Lease Revenue Bonds for County Purposes[1]		8,291,000
County Credit Enhancement Program for Housing[2]		240,582,427
Capital Leases/Installment Purchase Contracts for County Purposes		-
General Obligation Long-Term Liabilities for County Purposes[3]		106,572,940
Less: Amount Legally Available for Payment of All Limited Tax General Obligation Indebtedness for County Purposes		(7,598,881)
Net Limited Tax General Obligation Debt for County Purposes	$	1,199,130,279
Metropolitan Functions		
Outsanding Limited Tax General Obligation Bonds for Metropolitan Functions	$	22,110,000
Outstanding Limited Sales Tax General Obligation Bonds		44,730,000
Outstanding Limited Tax General Obligation Bonds (Payable from Sewer Revenues)		743,888,423
The Bonds		148,095,000
Credit Enhancement Program for Reimbursement Agreements[4]		100,000,000
General Obligation Long-Term Liabilities for Metropolitan Functions[3]		70,559,676
Capital Leases/Installment Purchase Contracts for Metropolitan Functions		-
Less: Amount Legally Available for Payment of all Limited Tax General Obligation Indebtedness for Metropolitan Functions		(34,340,074)
Net Limited Tax General Obligation Debt for Metropolitan Functions	$	1,095,043,025
Total Net Limited Tax General Obligation Debt for County Purposes and Metropolitan Functions	$	2,294,173,304
Remaining Capacity: LTGO Debt for County Purposes and Metropolitan Functions	$	6,805,182,168
Total General Obligation Debt Capacity for County Purposes		
2.5% of Assessed Value	$	15,165,592,453
Outstanding Unlimited Tax General Obligation Debt for County Purposes		64,430,000
Less: Amount Legally Available for Payment of all Unlimited Tax General Obligation Indebtedness for County Purposes		(2,253,901)
Net Unlimited Tax General Obligation Debt for County Purposes	$	62,176,099
Net Limited Tax General Obligation Debt for County Purposes (from above)		1,199,130,279
Total Net General Obligation Debt for County Purposes	$	1,261,306,378
Remaining Capacity: General Obligation Debt for County Purposes	$	13,904,286,075
Total General Obligation Debt Capacity for Metropolitan Functions		
2.5% of Assessed Value	$	15,165,592,453
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)		1,095,043,025
Total Net General Obligation Debt for Metropolitan Functions	$	1,095,043,025
Remaining Capacity: General Obligation Debt for Metropolitan Functions	$	14,070,549,428

NOTES TO TABLE:

(1) Beginning in 2017, NJB Properties, Inc. a component unit of the County changed from being blended to being discretely presented for financial reporting. As a result, the NJB Properties Lease Revenue Bonds liability was removed from the County and reported with the component unit. Because of the existing project lease agreement between the two parties, the County retroactively recognized a capital lease liability. Under the lease agreements, the County's obligation to pay rent to NJB Properties is a limited tax general obligation.

(2) Reflects the outstanding principal amount plus accrued interest as of December 31, 2018, under contingent loan agreements authorized by the County Credit Enhancement Programs.

(3) As of December 31, 2018.

(4) 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 Table 22–"Summary of Credit Facilities" under "General Obligation Debt Information—Credit Facilities."

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

TABLE 20
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	Metropolitan Functions[2]		Total LTGO Debt Service
				Outstanding	The Bonds	
2019	$ 16,209,475	$ 103,690,577	$ 763,434	$ 66,654,490	$ 5,923,800	$ 177,032,301
2020	15,080,700	97,918,455	767,455	64,098,015	5,923,800	168,707,725
2021	13,807,700	93,537,202	765,374	47,923,415	5,923,800	148,149,791
2022	14,126,950	97,988,938	767,467	58,217,915	5,923,800	162,898,120
2023	14,460,825	79,978,378	763,457	67,232,690	5,923,800	153,898,325
2024	-	77,067,765	763,621	55,897,240	5,923,800	139,652,426
2025	-	71,152,777	762,683	55,876,740	5,923,800	133,716,000
2026	-	58,642,339	765,643	55,915,040	5,923,800	121,246,822
2027	-	57,480,382	762,226	55,903,065	5,923,800	120,069,473
2028	-	53,904,844	762,706	55,875,140	5,923,800	116,466,490
2029	-	49,151,672	766,809	55,848,915	5,923,800	111,691,196
2030	-	44,023,921	764,259	68,363,596	5,923,800	119,075,576
2031	-	35,872,009	765,332	43,394,709	5,923,800	85,955,849
2032	-	31,578,639	764,751	56,499,140	5,923,800	94,766,330
2033	-	22,780,279	762,518	48,505,430	5,923,800	77,972,026
2034	-	22,779,104	763,631	42,409,910	5,923,800	71,876,445
2035	-	20,424,394	762,816	24,342,600	5,923,800	51,453,610
2036	-	20,409,874	770,073	24,399,850	5,923,800	51,503,596
2037	-	9,572,286	-	24,346,600	5,923,800	39,842,686
2038	-	9,122,656	-	24,389,200	5,923,800	39,435,656
2039	-	8,650,406	-	4,000,000	5,923,800	18,574,206
2040	-	8,645,163	-	104,000,000	5,923,800	118,568,963
2041	-	-	-	-	5,923,800	5,923,800
2042	-	-	-	-	5,923,800	5,923,800
2043	-	-	-	-	5,923,800	5,923,800
2044	-		-	-	5,923,800	5,923,800
2045	-	-	-	-	5,923,800	5,923,800
2046	-	-	-	-	154,018,800	154,018,800
Total	$ 73,685,650	$ 1,074,372,056	$ 13,764,253	$ 1,104,093,700	$ 313,961,400	$ 2,506,191,409

NOTES TO TABLE:

(1) 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) These bonds are primarily secured by an additional pledge of certain taxes and revenues of the metropolitan functions of the County. Includes debt service at an assumed interest rate of 4.00% on the Bonds and the Multi-Modal Limited Tax General Obligation Bonds (Payable From Sewer Revenue), Series 2017A and Series 2017B, the principal of which is payable in full on January 1, 2040.

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

Net Direct and Overlapping Debt Outstanding

Table 21 lists the net outstanding direct debt and overlapping debt payable from taxes on property within the County.

TABLE 21
NET DIRECT AND OVERLAPPING DEBT
(AS OF DECEMBER 31, 2018, UNAUDITED)

2018 Assessed Value (for 2019 Tax Year)	$606,623,698,132
Net Direct Debt (rounded)[1]	$ 650,251,000
Estimated Overlapping Debt	
School Districts	$ 5,025,579,000
City of Seattle	971,384,000
Other Cities and Towns	831,663,000
Port of Seattle	362,390,000
Hospital Districts	229,369,000
Fire Districts	95,586,000
Sewer Districts	-
Park Districts	5,243,000
King County Library System	76,194,000
Library Capital Facilities	-
Parks and Recreation Service District	414,000
Total Estimated Overlapping Debt	$ 7,597,822,000
Total Net Direct and Estimated Overlapping Debt	$ 8,248,073,000
County Debt Ratios	
Net Direct Debt to Assessed Value	0.11%
Net Direct and Overlapping Debt to Assessed Value	1.36%
2018 Population	2,190,200
Per Capita Net Direct Debt	$297
Per Capita Net Direct and Overlapping Debt	$3,766
Per Capita Assessed Value	$276,972

NOTES TO TABLE:

(1) Total net general obligation debt per debt capacity schedules, as of December 31, 2018, adjusted for subsequent County debt-related transactions:

Total Net General Obligation Debt for County Purposes	$ 1,261,306,378
Total Net General Obligation Debt for Metropolitan Functions	1,095,043,025
Total Net General Obligation Debt	$ 2,356,349,403
General Obligation Debt Serviced by Proprietary-Type Funds*	(192,167,522)
General Obligation Debt Issued for Component Units*	(178,305,018)
General Obligation Debt Issued for Metropolitan Functions*	(1,095,043,025)
County Credit Enhancement Program**	(240,582,427)
Net Direct Debt	$ 650,251,411

* 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, 2018, under contingent loan agreements authorized by the County Credit Enhancement Program.

Source: King County Finance and Business Operations Division—Financial Management 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. In 2017, the County authorized an additional credit enhancement program in the maximum principal amount available solely to the King County Housing Authority. The combined maximum outstanding principal amount permitted under the County's two credit enhancement programs is $400 million. The aggregate outstanding principal of and accrued interest on the contingent loan agreements provided under the County's credit enhancement programs was $240,582,427 as of December 31, 2018.

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 Table 19—"Computation of Statutory Debt Capacity" and Table 21—"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 Table 22.

TABLE 22
SUMMARY OF CREDIT FACILITIES

Series	Amount Outstanding as of 6/1/2019	Type of Facility	Provider	Expiration	Term-Out Provision	Maturity
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001 A&B[(1)]	$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 2017 A and B	$100,000,000	Continuing Covenant Agreement	State Street Bank and Trust Company	4/5/2021	Three Years	1/1/2040

(1) 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.

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. Each of the credit facilities includes events of default (or events of termination) and remedies. Events of default include certain cross defaults, judgments against the County, and downgrade below certain thresholds of ratings. Remedies included in the credit facilities or available pursuant to a "most-favored nation" provision include acceleration or a requirement that the County immediately pay the outstanding principal amount of bank bonds as well as other available legal and equitable remedies, including the right of mandamus against the County and its officials. The Bonds are not subject to acceleration.

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 Table 20—"Aggregate Debt Service Requirements for All General Obligation Debt of the County."

Future General Obligation Financing Plans

The County anticipates issuing approximately $425 million of new limited tax general obligation bonds through the end of the 2019-2020 biennium to fund a variety of technology projects, facility improvements, land acquisitions, affordable housing developments, and the capital programs of the Solid Waste Division and the Metro Transit Department.

Beyond 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 opportunities.

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 levied $1.09639 per $1,000 of assessed value for the 2019 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 levied at a rate of $1.87677 per $1,000 of assessed value for the 2019 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 2013 for an additional six years, at a rate not to exceed $0.335 per $1,000 of assessed value. The sixth and final year rate is $0.21762 per $1,000 of assessed value for 2019. The County's levy rate for conservation futures in 2019 is $0.03426 per $1,000 of assessed value, and its levy rate for transportation-related purposes is $0.04855 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.

In 2018, the State Legislature approved SHB 2597 (Chapter 46, Wash. Laws of 2018), which permits cities and counties to provide senior citizens, individuals with disabilities, and veterans in the Senior Exemption Program with an exemption from any portion of their regular property tax attributable to a levy lid lift, with voter approval.

Table 23—"Allocation of 2018 and 2019 Tax Levies" shows the allocation of the County's existing levies.

(i) The AFIS levy, a regular property tax levy authorized by RCW 84.55.050, was renewed on November 6, 2018, for a six-year term by a majority of voters in the County. In 2018, the rate was $0.04153 per $1,000 of assessed value. Beginning in 2019, the rate will be $0.035 per $1,000 of assessed value, the reduction due to increased property values in the County.

(ii) In 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. 2019 is the final year of this levy, and the rate is $0.12926 per $1,000 of assessed value.

(iii) In November 2017, voters approved a new temporary six-year lid lift for the Veterans, Seniors, and Human Services Levy at a rate of $0.10 per $1,000 of assessed value. This is a regular property tax levy and is to be increased by no more than 3.5% in each of the remaining five years. Due to the passage of SHB 2597 in the 2018 legislative session, this lid lift is now exempt for taxpayers in the Senior Exemption Program for the next five years of its existence. The 2019 tax rate is $0.09349 per $1,000 of assessed value.

(iv) The Children and Family Justice Center levy is a nine-year temporary levy lid lift approved by voters in 2012, at a rate of $0.07 per $1,000 of assessed value for the first year (2013). The rate for 2019 is $0.04278 per $1,000 of assessed value for a total dollar amount of $25.1 million.

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.

(v) The Puget Sound Emergency Radio Network replacement levy lid lift was approved by voters in 2015, at a rate of $0.07 per $1,000 of assessed value for nine years, beginning in 2016. The rate for 2019 is $0.05394 per $1,000 of assessed value.

(vi) The Best Starts for Kids levy was approved by voters at the 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 2019 is $0.11428 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 levied regular property taxes at rates of $0.09660 and $0.01012 per $1,000 of assessed value, respectively, for the 2019 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. The County assumed the ferry district and its taxing authority in 2015. Since that time the ferry district has been a County agency and, following a County reorganization in 2019, has moved from the Department of Transportation—Marine Division to the newly formed Metro Transit Department.

Allocation of Tax Levies

Table 23 sets forth the allocation of the County-wide, EMS, and unincorporated County (road district) levies.

TABLE 23
ALLOCATION OF 2018 AND 2019 TAX LEVIES

County-wide Levy Assessed Value[1] $534,662,434,753	2018 Original Taxes Levied ($000)	2018 Levy Rate ($ per $1,000)	2019 Original Taxes Levied ($000)	2019 Levy Rate ($ per $1,000)
Items Within Operating Levy[2]				
General Fund	$ 358,302	0.67262	$ 369,346	0.61087
Veteran's Relief	3,011	0.00565	3,107	0.00514
Human Services	6,761	0.01269	6,977	0.01154
Intercounty River Improvement	50	0.00009	48	0.00008
Automated Fingerprint Identification System[3]	22,123	0.04153	21,169	0.03501
Parks[3]	74,259	0.13940	78,152	0.12926
Veterans, Seniors, and Human Services[3]	53,265	0.10000	56,290	0.09349
Children and Family Justice Center[3]	25,054	0.04703	25,865	0.04278
Puget Sound Emergency Radio Network[3]	31,590	0.05930	32,614	0.05394
Best Starts for Kids[3]	65,656	0.12325	69,095	0.11428
Total Operating Levy	$ 640,071	1.20156	$ 662,663	1.09639
Conservation Futures Levy[4]				
Conservation Futures Levy	$ 11,071	0.02078	$ 20,714	0.03426
Farmland and Park Debt Service	8,999	0.01689	-	0.00000
Total Conservation Futures Levy	$ 20,070	0.03767	$ 20,714	0.03426
Unlimited Tax G.O. Bonds				
(Voter-approved Excess Levy)	$ 17,298	0.03261	$ 17,906	0.02974
Transportation[5]	23,642	0.04438	29,353	0.04855
Marine Operating (Ferry)	5,930	0.01113	6,120	0.01012
Flood Control Zone	57,041	0.10708	58,406	0.09660
Total County-wide Levy	$ 764,052	1.43443	$ 795,162	1.31566
EMS Assessed Value[1]				
$320,439,276,143				
EMS Levy[6]	$ 76,412	0.23940	$ 78,403	0.21762
Unincorporated County Assessed Value[1]				
$43,773,720,022				
Unincorporated County Levy (Road District)[7]	89,354	2.05402	91,211	1.87677
Total County Tax Levies	$ 929,818		$ 964,776	

NOTES TO TABLE:

(1) Assessed value for taxes payable in 2019.

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

(3) Voter-approved temporary lid lifts.

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

(5) The Transportation Levy is limited statutorily to $0.075 per $1,000 of assessed value.

(6) 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.

(7) 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.

TABLE 24
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
Sound Transit	0.25

(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.

Table 25 presents the assessed value of the taxable property within the County for the current year and the last six years.

TABLE 25
KING COUNTY
ASSESSED VALUE

Tax Year	Amount	Percentage Change From Previous Year
2014	$ 340,643,616,343	8.20%
2015	388,118,855,592	13.90%
2016	426,335,605,837	9.80%
2017	471,456,288,019	10.58%
2018	534,662,434,753	13.45%
2019	606,623,698,132	13.42%

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 once 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.

Table 26 shows the County's property tax collection record.

TABLE 26
PROPERTY TAX COLLECTION RECORD
ALL COUNTY FUNDS

Tax Year	Original Amount Levied ($000)[1]	Amount Collected Year of Levy	Percent Collected Year of Levy	Percent Collected As of 6/1/2019
2014	$ 708,251	$ 696,451	98.33%	99.70%
2015	727,802	716,418	98.44%	99.72%
2016	839,988	825,870	98.32%	99.51%
2017	866,842	846,388	97.64%	98.68%
2018	929,813	915,950	98.51%	99.31%
2019	964,779	497,679	51.58%	51.58%

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

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

Principal Taxpayers

Table 27 lists the ten largest taxpayers in the County and the assessed value of their real and personal property for the 2019 tax collection year.

TABLE 27
LARGEST TAXPAYERS IN THE COUNTY
2019 TAX COLLECTION YEAR

Taxpayer	Assessed Value	AV as Percentage of County's Total AV
Microsoft	$ 4,140,395,442	0.68%
Boeing	2,894,810,295	0.48%
Amazon.Com	2,691,324,955	0.44%
Puget Sound Energy/Gas/Electric	2,642,928,363	0.44%
Essex Property Trust	1,923,762,005	0.32%
Alaska Airlines	1,307,962,411	0.22%
Union Square LLC	1,046,601,127	0.17%
Altus Group US Inc.	946,516,900	0.16%
Prologis - RE Tax	832,141,000	0.14%
Kemper Development	813,663,953	0.13%
Total Assessed Value of Top Ten Taxpayers	$ 19,240,106,451	3.17%
Total Assessed Value of All Other Taxpayers	587,383,591,681	96.83%
2018 Assessed Value for Taxes Due in 2019	$ 606,623,698,132	100.00%

Source: King County Department of Assessments

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 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. These four divisions 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 30-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 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 12 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 12 years in various capacities, including Assistant Manager at Brightwater and Engineering Unit Manager. He negotiated with the Department of 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.

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

The Facilities

The Sewer System has been designated by the County as its Water Quality Enterprise. Distributed over a 424-square-mile service area, the Sewer System collected and treated an average of 177 million gallons of sewage per day ("mgd") from approximately 1.8 million residents in 2018. The major wastewater facilities include three major secondary treatment plants (West Point in Seattle, South in Renton, and Brightwater in south Snohomish County), 395 miles of conveyance lines, 47 pump stations, and 25 regulator stations. Other facilities include four combined sewer overflow ("CSO") treatment plants, four CSO storage facilities, 39 CSO outfall locations, and secondary treatment plants on Vashon Island and in Carnation.

The Participants

As the successor to Metro, the County has assumed by operation of law Metro's rights and obligations under its Service Agreements with 34 Municipal Participants and three non-Municipal Participants (each, a "Participant"). The Municipal Participants accounted for approximately 99.42% of sewage disposal revenues in the year ended December 31, 2017, and the non-Municipal Participants accounted for 0.58%.

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 single family residences ("Residential Customers") and Residential Customer Equivalents ("RCEs") (together, the "Customers") reported by each Participant as of December 31, 2018, is presented in Table 28.

TABLE 28
SEWER SYSTEM PARTICIPANTS AS OF DECEMBER 31, 2018

	Single Family Residential Customers	RCE[1]	Total Customers	Percentage of Total (%)
Municipal Participants-Cities				
Algona	1,023	261	1,284	0.17
Auburn	13,160	22,750	35,910	4.71
Bellevue	32,550	28,076	60,626	7.95
Black Diamond	894	191	1,085	0.14
Bothell	5,096	4,226	9,322	1.22
Brier[2]	1,560	235	1,795	0.24
Carnation	846	225	1,071	0.14
Issaquah	6,750	5,640	12,390	1.62
Kent	12,966	21,735	34,701	4.55
Kirkland	9,813	6,880	16,693	2.19
Lake Forest Park	3,577	508	4,085	0.54
Mercer Island	7,127	1,249	8,376	1.10
Pacific	1,519	1,018	2,537	0.33
Redmond	15,043	16,812	31,855	4.18
Renton	15,903	15,177	31,080	4.07
Seattle[3]	146,746	151,827	298,573	39.14
Tukwila	1,028	6,683	7,711	1.01
Subtotal	275,601	283,493	559,094	73.30
Municipal Participants-Sewer Districts and Tribe				
Alderwood Water & Wastewater District[2]	33,817	16,143	49,960	6.55
Cedar River Water & Sewer District	4,097	1,434	5,531	0.73
Coal Creek Utility District	3,053	1,565	4,618	0.61
Cross Valley Water District[2]	-	458	458	0.06
Highlands Sewer District	105	2	107	0.01
Lakehaven Utility District	993	10	1,003	0.13
Muckleshoot Indian Tribe	293	90	383	0.05
NE Sammamish Sewer & Water District	4,676	144	4,820	0.63
Northshore Utility District	19,804	12,598	32,402	4.25
Olympic View Water & Sewer District[2]	203	-	203	0.03
Ronald Wastewater District	15,148	4,221	19,369	2.54
Sammamish Plateau Water & Sewer District	10,840	5,251	16,091	2.11
Skyway Water & Sewer District	3,923	830	4,753	0.62
Soos Creek Water & Sewer District	31,868	7,105	38,973	5.11
Valley View Sewer District	6,985	7,700	14,685	1.93
Vashon Sewer District	408	534	942	0.12
Woodinville Water District	2,861	2,319	5,180	0.68
Subtotal	139,074	60,404	199,478	26.15
Non-Municipal Participants and Other Customers	-	4,170	4,170	0.55
Total	414,675	348,067	762,742	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 Rates established by the County Council do not require the approval of the Washington Utilities and Transportation Commission or the Participants or Agency Customers.

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

The monthly Sewer Rate is applied to each Residential Customer and to an RCE value of each 750 cubic feet of water consumption by all other customers such as multifamily, commercial, and industrial properties. Each Participant and Agency Customer is billed monthly an amount based upon the adopted Sewer Rate and the number of Residential Customers at the end of the second previous calendar quarter and the average number of RCEs for multifamily, commercial, and industrial accounts for the four calendar quarters beginning five quarters prior to the current quarter. Monthly billings in the first quarter of 2019, for example, were based on the number of Residential Customers as of September 30, 2018, and the average number of RCEs beginning with the fourth quarter of 2017 through the third quarter of 2018.

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 and RCE for the years 2011 through 2020 are set forth in Table 29.

TABLE 29
SEWER RATES FOR RESIDENTIAL CUSTOMERS AND RESIDENTIAL CUSTOMER EQUIVALENTS

Effective Date (January 1)	Rate ($/month)	Percentage Change (%)
2011	$ 36.10	13.2%
2012	36.10	--
2013	39.79	10.2
2014	39.79	--
2015	42.03	5.6
2016	42.03	--
2017	44.22	5.2
2018	44.22	--
2019	45.33	2.5
2020	45.33	--

Source: King County Wastewater Treatment Division

Projected Sewer Rates. Table 30 shows the County's current Sewer Rate projections for the years 2021 through 2024. The projections are for planning purposes only and subject to County Council approval. See "—Financial Policies" and "—Projected Customers, Revenues, and Expenses" for further discussion regarding these projections.

TABLE 30
PROJECTED SEWER RATES
FOR RESIDENTIAL CUSTOMERS OR RESIDENTIAL CUSTOMER EQUIVALENTS

Effective Date (January 1)	Rate ($/month)	Percentage Change (%)
2021	$ 47.37	4.5%
2022	47.37	0.0
2023	49.50	4.5
2024	49.50	--

Source: King County Wastewater Treatment Division

Sewer System Operating Revenues

Sewage Disposal Charges, based on the adopted Sewer Rates described above, contributed on average 81% of Sewer System operating revenues between 2014 and 2018.

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 15% of total Sewer System operating revenues between 2014 and 2018. Table 31 shows the number of new capacity charge connections for the past five years.

TABLE 31
HISTORICAL NEW CAPACITY CHARGE CONNECTIONS

Year	Connections
2014	10,767
2015	11,676
2016	10,743
2017	12,484
2018	12,906

Capacity charges are based upon the year of connection and remain fixed for a term of 15 years. The capacity charge assessed for Customers who establish new connections to the Sewer System in 2019 is $64.50 per month, compared to $62.60 for Customers who established service in 2018. In June 2019, the County Council adopted a capacity charge of $66.35, a 2.9% increase, for 2020 along with provisions that expand the low-income housing rate classification, establish new reductions in capacity charges for shelter housing for homeless people, and permit qualified low-income seniors and disabled people to defer payment of the capacity charge through a low-interest lien. State law authorizes WTD to collect capacity charges subject to certain restrictions, but capacity charges do not require the approval of the Washington State Utilities and Transportation Commission or the Participants or Agency Customers.

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 3.2% in 2019 and was 2.9% in 2018.

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 4% of operating revenue between 2014 and 2018.

Financial Policies

Coverage Policy. The County Council is obligated by applicable bond covenants to set rates and charges for sewage disposal service at a level adequate to provide Net Revenue equal to at least 1.15 times the amounts required, together with certain interest earnings, to pay debt service on both Parity Bonds and Parity Lien Obligations. Under the Ordinance, the County has covenanted to establish, maintain, and collect rates and charges for sewage disposal service that, together with interest to be earned on investments, will provide in each calendar year Net Revenue, after deducting therefrom amounts required in such year to pay Annual Debt Service on Parity Bonds and Parity Lien Obligations, in an amount equal to at least 1.10 times the amounts required to pay the Annual Debt Service for all Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds for that year. See "Security and Sources of Payment for the Bonds—Rate and Coverage Covenants." The County Council's policy is to achieve debt service coverage of at least 1.25 times, which is higher than what is required by the bond covenants, on both Parity Bonds and Parity Lien Obligations and higher than what is required by the covenant in the Ordinance on Junior Lien Obligations and Multi-Modal LTGO/Sewer Revenue Bonds.

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

In proceedings for the adoption of the 2020 Sewer Rate, the County Council was presented with projected Sewer Rates that, after payment of operating expenses and debt service, were projected to be sufficient to fund out of Net Revenue on average 40% of projected capital expenditures through 2024, thereby increasing projected coverage ratios on all Sewer System Obligations to between 1.30 and 1.42 times. These Sewer Rates appear in Table 30—"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 "Projected Customers, Revenues, and Expenses."

Reserve Policy. In 2001, the County Council established an operating liquidity reserve, equal to $5.0 million plus 10% of annual operating expenses, and an emergency capital reserve equal to $15 million. These policies were reviewed and affirmed by the County Council in 2012. As of May 31, 2019, these reserves were fully funded, with balances of $20.3 million and $15 million, respectively.

Sewer System Interfund Borrowing

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

Historical Customers, Revenues and Expenses

Table 32 sets forth a summary of customers, revenues and expenses, and debt service coverage of the Sewer System. The debt service coverage calculations shown in Table 32 are based on provisions of the applicable bond ordinances, incorporating data from the audited financial statements and financial records of the Sewer System.

TABLE 32
HISTORICAL FINANCIAL STATEMENTS
($ EXPRESSED IN THOUSANDS) (FISCAL YEAR ENDING DECEMBER 31)

	2014	2015	2016	2017	2018
Residential Customer and Residential Customer Equivalents (RCEs) (Annual Average, Rounded)	725,844	736,090	756,430	756,916 (1)	760,571
Percentage Annual Increase	1.07%	1.41%	2.76%	0.06%	0.48%
Operating Revenues					
Sewage Disposal Charges	$ 346,591	$ 371,253	$ 381,513	$ 401,650	$ 403,589
Capacity Charge Revenues	59,522	62,479	71,200	82,615	86,835
Other Operating Revenues	11,675	11,673	11,828	18,308	19,125
Total Operating Revenues	$ 417,788	$ 445,405	$ 464,541	$ 502,573	$ 509,549
Operating Expenses (2)	(124,201)	(128,926)	(136,321)	(148,199)	(152,589)
Net Operating Revenue	$ 293,587	$ 316,479	$ 328,220	$ 354,374	$ 356,960
Interest Income (3)	2,822	2,863	4,549	6,055	8,956
Rate Stabilization (4)	18,000	(12,000)	-	-	-
Net Revenue Available for Debt Service	$ 314,409	$ 307,342	$ 332,769	$ 360,429	$ 365,916
Debt Service					
Parity Bonds	$ 175,463	$ 167,694	$ 160,957	$ 159,761	$ 163,967
Parity Lien Obligations	42,876	40,348	53,164	52,650	49,121
Subordinate Debt (5)	17,477	18,318	21,316	26,277	33,139
Total Debt Service	$ 235,816	$ 226,360	$ 235,437	$ 238,688	$ 246,227
Debt Service Coverage (6)					
On Parity Bonds	1.79	1.83	2.07	2.26	2.23
On Parity Bonds and Parity Lien Obligations	1.44	1.48	1.55	1.70	1.72
On All Sewer System Obligations	1.33	1.36	1.41	1.51	1.49

NOTES TO TABLE:

(1) The small (0.06%) increase in billed RCEs in 2017 reflects non-recurring adjustments to Sewage Disposal Charges relating to prior periods that increased revenues by $1.9 million in 2016 and decreased revenues by $2.0 million in 2017. When billed RCEs are adjusted for these prior period changes, total RCEs increased by 0.60%, to 757,240 in 2017 from 752,710 in 2016.

(2) Excludes depreciation and amortization expense along with non-cash accounting adjustments for pension and other employee benefit costs.

(3) Excludes unrealized gains and losses that are included in the audited financial statements.

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

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

(6) Operating Revenues and Expenses in the 2017 and 2018 Audited Financial Statements exclude $10 million of expenses associated with repairs at the West Point treatment plant ("West Point") and an insurance advance of $12.5 million in 2017 and a final insurance settlement of $10 million in 2018. These amounts, with other items, were reported as nonoperating revenues and expenses and have been excluded from the computation of debt service coverage in 2017 and 2018. See "West Point Flooding Accident" herein.

Source: Audited Financial Statements and financial records of the Water Quality Enterprise Fund 2014-2018, Finance and Business Operations Division

Management Discussion of 2018 Sewer System Financial Results

The Sewer System's net operating revenue (excluding depreciation expense) in 2018 was $357.0 million, a 0.7%, or $2.6 million, increase from the $354.4 million of net operating revenue in 2017. Total operating revenues increased by $7.0 million, or 1.4%, to $509.5 million from $502.6 million, while operating expenses (excluding depreciation) increased by $2.6 million, or 0.7%, to $152.6 million in 2018 from $148.2 million in 2017.

Revenues. The $7.0 million, or 1.4%, increase in operating revenue in 2018 from 2017 was due to growth in RCEs and increases in capacity charge and other operating revenues. Sewage Disposal Charges increased by $1.9 million, or 0.5%, compared to 2017 due solely to the growth in RCEs, as the monthly Sewer Rate in 2018 was unchanged from 2017. Capacity charge revenues increased by 5.1%, or $4.2 million, to $86.8 million in 2018 from $82.6 million in 2017. Billings increased by $5.4 million to $63.0 million, or 9.3%, from 2017 while revenues from early payoffs and late fees decreased by $1.2 million, or 4.7%, to $23.8 million in 2018. Other operating revenues increased by $0.8 million, or 4.5%, to $19.1 million in 2018. Other operating revenues included $4.4 million from the sale of environmental benefits of bio-methane gas (known as Renewable Identification Numbers, or RINs) generated at the South Treatment Plant. RINs revenues in 2017 were $5.6 million

Expenses. Operating expenses of the Sewer System, excluding depreciation and adjusted for non-cash accounting adjustments associated with employee benefits, increased $4.4 million to $152.6 million in 2018, an increase of 3.0%. Labor expenses of $58.5 million in 2018 increased by $3.3 million, or 6.0%, from 2017 because of general wage and benefit increases and budgeted increases for both temporary and new positions. Utility and service costs increased by

$2.0 million, or 5.6%, to $38.0 million in 2018 from $36.0 million in 2017, primarily from increases in consultant service costs and $0.8 million in higher electricity and chemical costs. Intergovernmental expenses of $39.4 million in 2018 increased by $0.2 million from 2017.

Interest Income. Interest income increased by $2.9 million to $9.0 million in 2018 due to higher average yields in the Investment Pool (1.73% in 2018 compared to 1.12% in 2017), and a higher average monthly balance ($531 million in 2018 compared to $515 million in 2017).

Debt Defeasance. In October 2018, the County defeased $135.8 million of then outstanding Series 2010, Series 2011B, and Series 2012 Parity Bonds with $142.0 million of funds received in a litigation judgment arising from the construction of the conveyance system for the Brightwater treatment plant. The remaining $2.9 million of Brightwater litigation judgment funds were used to pay for capital expenditures in 2018.

Debt Service Coverage. The Sewer System achieved a coverage ratio of 1.72x on the combined debt service of Parity Bonds and Parity Lien Obligations in 2018, exceeding the 1.25x minimum coverage target stipulated by the County's adopted financial policies. The debt service coverage ratio of 1.49x on all Sewer System Obligations in 2018 exceeded the 1.15x minimum coverage target stipulated by the County's adopted financial policies.

West Point Flooding Accident

On February 9, 2017, a partial interruption of power supply occurred at the West Point treatment plant resulting in major equipment failure and culminating in flooding of the plant, the emergency bypass of the treatment system, and the discharge into Puget Sound of an estimated 235 million gallons of stormwater mixed with untreated sewage. Because of the accident, WTD was unable to meet the discharge limits required by West Point's National Pollutant Discharge Elimination System ("NPDES") permit until May 11, 2017, when biological treatment processes were fully restored.

WTD incurred $23.8 million in operating and capital costs to remediate damage at West Point in 2017 and 2018. In December 2018, it reached a final settlement of $22.5 million with its insurer for the damage that was sustained from the flood. Of this amount, $12.5 million was advanced in 2017 and recorded as other nonoperating revenue. Netted against this advance were an asset impairment loss of $1.6 million and recovery costs of $10.0 million, resulting in a net gain of $0.9 million. The balance of the settlement has been recorded as other nonoperating income in 2018. WTD incurred and capitalized an additional $4.5 million in 2018 and $10.0 million in 2017 in capital assets to remediate the flood damage at West Point. WTD has also opened a claim with the Federal Emergency Management Agency ("FEMA") and intends to submit to FEMA remediation costs that have not be paid by its insurance carrier.

In September 2017, the Department of Ecology ("Ecology") issued a Notice of Penalty in the amount of $361,000 for permit violations stemming from the incident. The County reached a settlement in June 2018 in which it paid a penalty of $73,721 and agreed to contribute $287,279 for ecological studies and habitat restoration projects to be completed by the end of 2022. In a separate administrative order, Ecology also required six corrective actions at West Point to evaluate facilities and procedures as well as training and emergency planning. WTD completed these actions by February 2019.

Because of the equipment failure and flooding at West Point, the County commissioned independent studies to investigate the causes of the accident, provide recommendations to ensure the reliability of West Point, and assess how well positioned West Point is to meet potential future growth, regulatory, and environmental challenges. WTD has implemented most of the recommendations and continues to address reliability issues through ongoing evaluations and capital project implementation. The new Comprehensive Plan is expected to provide guidance on how WTD could make the most effective use of past and future investments at West Point to increase System-wide redundancy while increasing water quality benefits to the region. See "Regional Wastewater Services Plan."

2019 Drought

On May 13, 2019, the State Governor (the "Governor") expanded an existing drought emergency to encompass 24 additional watersheds in the western and northern parts of the State. Watersheds in the County were not included among those that were subject to the emergency declaration.

Seattle Public Utilities ("SPU") is the primary supplier of water to Customers of the Municipal Participants. SPU stated that, as of June 11, 2019, it anticipates that the regional water system will have sufficient water supply for people and fish this summer but will be monitoring conditions daily.

Reductions in consumption by Residential Customers have no financial impact on the Sewer System because Municipal Participants are billed at a fixed rate for each Residential Customer in their systems. Sewage Disposal Charges derived from Residential Customers of Municipal Participants comprised approximately 54% of Sewage Disposal Charges in 2018. Any reductions in water consumption in response to drought conditions would reduce Sewage Disposal Charges due to the reduction in RCEs from multifamily, commercial, and industrial customers of Municipal Participants. Any reductions in RCEs beginning in the third quarter of 2019 would not impact billings and revenues for Sewage Disposal Charges until the first quarter of 2020. See "—Sewer Rates." Should RCEs that will be reported for the third quarter of 2019 indicate a significant shortfall from forecasted revenues for 2020 is likely, WTD will evaluate appropriate responses, including reducing operating expenses, suspending work on non-critical capital projects, and making withdrawals from the Rate Stabilization Fund.

Projected Customers, Revenues, and Expenses

Table 33 sets forth a summary of WTD's projections of the Sewer System's Customers, Revenue of the System, and Operating and Maintenance Expenses for the fiscal years ending December 31, 2019, through December 31, 2024. Notes for Table 33 are provided on the page following the table.

The revenues that are projected in Table 33 reflect the assumed monthly Sewer Rates presented in Table 30—"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 CIP presented to the County Council in proceedings for the adoption of the 2020 Sewer Rate.

Estimates for 2019 are based on year-to-date unaudited revenues and expenses through May 2019 and WTD's projections for the remainder of the year. The Sewer System is expected to generate net operating revenue of $349.0 million in 2019, a decrease of $8.0 million, or 2.2%, from $357.0 million in 2018. Total operating revenues are projected to increase by $12.2 million, or 2.4%, to $521.8 million in 2019 from $509.6 million in 2018, while operating expenses are projected to increase by $20.2 million, or 13.2%, to $172.8 million in 2019 from $152.6 million in 2018.

Revenues from Sewage Disposal Charges are projected to increase by $11.8 million, or 2.9%, from 2018 due to the 2.5% increase in the monthly Sewer Rate that went into effect on January 1, 2019, and projected growth of 0.39% in RCEs. Annual growth in RCEs is expected to increase to 0.62% beginning in 2021, which is closer to recent historical average growth rates. WTD periodically conducts audits of the billing records of its Municipal Participants and is currently conducting one of Seattle. The audit of Seattle is expected to be completed by the end of 2019 and may result in adjustments to 2019 Sewage Disposal Charges relating to 2019 and prior year billings to Seattle.

A 3.0% increase in the 2019 capacity charge rate for new customers and continued growth in new connections, along with some increase in early payoffs, is expected to result in an increase in Capacity Charge Revenues of $1.7 million, or 2.0%, from 2018. The $1.3 million, or 6.7%, projected decrease in Other Operating Revenues for 2019 reflects lower projected sales of RINs from WTD's contract with IGI Resources, Inc. Annual revenues from the sale of RINs are projected to be approximately $3.4 million in 2019 and 2020 (almost $1.0 million less than 2018 sales) and $3.2 million in 2021 and 2022, the final year of the contract. No RINs sales are projected after 2022 and Other Operating Revenues are projected to grow at a 3.0% annual rate in 2023 and 2024.

The $20.2 million increase in operating expenses of the Sewer System reflects program decisions that were made with the adoption of the 2019-2020 biennium budget, including the implementation of resiliency programs at West Point ($3.5 million) and staff development and succession planning ($3.6 million) associated, in part, with improvements in the Sewer System's asset management program. Projected increases in electricity, chemical, and diesel prices account for another $4.3 million of additional spending, along with $3.1 million of additional renewable energy costs associated with cogeneration facilities at West Point. Another $3.4 million of the increase is attributed to previously committed but unexpended WaterWorks Grant funds from previous years. While all of this balance is shown in 2019, it is likely that a similar amount may remain unspent and be carried forward to 2020.

Interest income is expected to be $9.3 million in 2019, an increase of $0.3 million from 2019, due to the higher expected average interest rate on WTD funds in the Investment Pool (2.30% projected for 2019, compared to 1.73% in 2018), offset by a lower average annual balance because of the expenditure of $142.0 million of funds for debt retirement. See "Management Discussion of 2018 Sewer System Financial Results."

WTD does not expect to make any additions to or withdrawals from the Rate Stabilization Fund through 2024.

TABLE 33
PROJECTED FINANCIAL STATEMENTS
($ EXPRESSED IN THOUSANDS) (FISCAL YEAR ENDING DECEMBER 31)[1]

	2019[2]	2020	2021	2022	2023	2024
Residential Customer and Residential						
Customer Equivalents (Average for Year, Rounded)	763,552	768,286	773,049	777,842	782,665	787,517
Percentage Annual Increase	0.39%	0.62%	0.62%	0.62%	0.62%	0.62%
Operating Revenues						
Sewage Disposal Charges[3]	$ 415,342	$ 417,917	$ 439,416	$ 442,180	$ 464,891	$ 467,797
Capacity Charge Revenues	88,549	92,302	95,800	99,086	102,113	106,158
Other Operating Revenues	17,848	18,281	18,528	18,988	15,484	15,949
Total Operating Revenues	$ 521,739	$ 528,500	$ 553,744	$ 560,254	$ 582,489	$ 589,904
Operating Expenses [4]	(172,758)	(168,886)	(177,064)	(185,917)	(195,213)	(207,773)
Net Operating Revenue	$ 348,980	$ 359,614	$ 376,680	$ 374,337	$ 387,276	$ 382,130
Interest Income [5]	$ 9,256	$ 8,577	$ 8,747	$ 10,533	$ 11,045	$ 11,154
Rate Stabilization	-	-	-	-	-	-
Net Revenue Available for Debt Service	$ 358,235	$ 368,192	$ 385,427	$ 384,869	$ 398,321	$ 393,285
Debt Service						
Parity Bonds [6]	$ 171,584	$ 165,716	$ 168,208	$ 181,880	$ 194,242	$ 203,688
Parity Lien Obligations	41,343	48,934	51,145	51,126	48,849	48,822
Subordinate Debt [7]	38,980	48,060	51,640	54,173	50,623	49,850
Total Debt Service	$ 251,907	$ 262,709	$ 270,993	$ 287,180	$ 293,714	$ 302,359
Debt Service Coverage						
On Parity Bonds	2.09	2.22	2.29	2.12	2.05	1.93
On Parity Bonds and Parity Lien Obligations	1.68	1.72	1.76	1.65	1.64	1.56
On All Sewer System Obligations	1.42	1.40	1.42	1.34	1.36	1.30

NOTES TO TABLE:

(1) Totals may not add due to rounding.

(2) Projections for 2019 are based on unaudited financial statements for the five months ending May 2019, 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 2019 and 2020 are based on the Sewer System's operating budget, as amended by the County Council. Operating expenses after 2020 are assumed to increase at an annual rate of 5% through 2024.

(5) Based on the Investment Pool earning at projected annual rates of 2.30% in 2019, 2.50% in 2020, 2.70% in 2021, 2.74% in 2022, 2.81% in 2023, and 2.87% in 2024. Projected Investment Pool earnings rates are from the County's Office of Economic and Financial Analysis.

(6) Projections assume draws on the $134.5 million WIFIA Bond of $74.5 million in 2020 and $60.0 million in 2021 at its 3.06% interest rate and issuance of additional Parity Bonds at a 6% interest rate with 30-year terms of $94 million in 2021, $188 million in 2022, $170 million in 2023, and $130 million in 2024.

(7) 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 2019, $42 million of planned optional redemptions of outstanding and additional Variable Rate Bonds. See "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations—Variable Rate Debt."

Projections assume the issuance of $36 million of Variable Rate Bonds between 2022 and 2024. See "—Future Sewer System Financing Plans." The projections assume interest rates on Variable Rate Bonds of 3.00% in 2019 and 5.40% thereafter, which is equal to 90% of the assumed long-term rate for additional Parity Bonds. See Table 34—"Scheduled Debt Service on All Obligations of the Sewer System," footnote 2.

Projections include debt service on $26.0 million of pending loan commitments from Ecology and the Washington State Public Works Board ("PWB"). The $26.0 million total comprises funding offers totaling $25.0 million from Ecology for two loans with 30-year terms and a rate of 2.6% and two loans totaling $1.0 million from the PWB at a rate of 0.84% with terms of five years. See "—Future Sewer System Financing Plans."

Source: King County Wastewater Treatment Division

Debt Service Requirements Payable from Revenue of the System

Table 34 sets forth the scheduled amounts required to be paid from Revenue of the System in each year for all the Sewer System Obligations. Notes to Table 34 are provided on the following page.

TABLE 34
SCHEDULED DEBT SERVICE ON ALL OBLIGATIONS OF THE SEWER SYSTEM[(1)]
(FISCAL YEAR ENDING DECEMBER 31)

Year Ending December 31[(1)]	Parity Bonds	Parity Lien Obligations	Junior Lien Obligations[(2)]	Multi-Modal LTGO/Sewer Bonds Outstanding[(2)]	Multi-Modal LTGO/Sewer Bonds The Bonds[(3)]	SRF Loans and PWTF Loans[(4)]	QECB Bonds[(5)]	Total
2019	$ 171,583,900	$ 41,342,550	$ 10,604,791	$ 3,000,000	$ 2,288,372	$ 22,175,227	$ 66,220	$ 251,061,060
2020	164,005,350	48,934,300	10,695,833	5,400,000	7,998,986	21,879,440	66,220	258,980,128
2021	157,236,475	51,144,975	13,633,333	5,400,000	7,995,274	21,465,509	66,220	256,941,786
2022	157,239,850	51,126,250	16,200,000	5,400,000	7,997,130	20,410,678	3,076,220	261,450,128
2023	157,239,625	48,849,025	16,200,000	5,400,000	7,997,130	19,413,328	-	255,099,108
2024	157,232,875	48,822,025	16,200,000	5,400,000	7,998,986	19,401,991	-	255,055,877
2025	157,234,875	48,860,025	16,200,000	5,400,000	7,995,274	18,028,295	-	253,718,470
2026	157,237,875	48,821,150	16,200,000	5,400,000	7,997,130	14,775,469	-	250,431,624
2027	152,388,500	48,786,525	16,200,000	5,400,000	7,997,130	14,348,036	-	245,120,191
2028	152,328,950	48,746,325	16,200,000	5,400,000	7,998,986	13,905,494	-	244,579,755
2029	152,350,375	48,781,900	16,200,000	5,400,000	7,995,274	12,940,590	-	243,668,139
2030	157,030,300	48,712,175	16,200,000	5,400,000	7,997,130	12,935,064	-	248,274,669
2031	157,398,450	49,355,350	116,200,000	5,400,000	7,997,130	11,789,074	-	348,140,004
2032	157,823,825	49,306,325	10,800,000	5,400,000	7,998,986	11,718,492	-	243,047,628
2033	157,844,950	41,295,050	10,800,000	5,400,000	7,995,274	11,713,248	-	235,048,522
2034	158,353,625	19,892,600	10,800,000	5,400,000	7,997,130	9,392,850	-	211,836,205
2035	134,664,850	19,916,225	10,800,000	5,400,000	7,997,130	8,310,259	-	187,088,464
2036	133,153,975	19,950,725	10,800,000	5,400,000	7,998,986	5,972,860	-	183,276,546
2037	133,229,200	19,970,400	10,800,000	5,400,000	7,995,274	1,665,963	-	179,060,837
2038	133,406,575	19,997,100	10,800,000	5,400,000	7,997,130	186,347	-	177,787,152
2039	133,410,525	-	10,800,000	105,400,000	7,997,130	-	-	257,607,655
2040	123,807,500	-	10,800,000	-	7,998,986	-	-	142,606,486
2041	108,865,625	-	110,800,000	-	7,995,274	-	-	227,660,899
2042	86,519,400	-	105,400,000	-	7,997,130	-	-	199,916,530
2043	86,362,550	-	-	-	7,997,130	-	-	94,359,680
2044	83,101,200	-	-	-	7,998,986	-	-	91,100,186
2045	83,047,350	-	-	-	156,090,274	-	-	239,137,624
2046	79,040,250	-	-	-	-	-	-	79,040,250
2047	55,781,875	-	-	-	-	-	-	55,781,875
2048	26,799,875	-	-	-	-	-	-	26,799,875
2049	26,796,375	-	-	-	-	-	-	26,796,375
2050	10,358,000	-	-	-	-	-	-	10,358,000
2051	10,358,250	-	-	-	-	-	-	10,358,250
Total	$ 3,973,233,175	$ 822,611,000	$ 610,333,957	$ 211,000,000	$ 358,308,752	$ 272,428,214	$ 3,274,880	$ 6,251,189,978

NOTES TO TABLE:

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

(2) Includes interest expense on the Refunded Bonds through their redemption date at an estimated rate of 3.0%. Projections for the 2011 and 2012 Junior Lien Obligations are based on their stated interest rates of 2.45% and 2.60%, respectively, through their Initial Term Rate Periods of December 1, 2020, and December 1, 2021, respectively, and 5.40% thereafter. The projections assume interest rates on the other Variable Rate Bonds of 3.0% in 2019 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, 2042, and 2043. The Multi-Modal LTGO/Sewer Revenue Bonds have a bullet maturities in 2040 and 2046. Projections exclude planned optional redemptions of Variable Rate Bonds prior to their final maturity dates. See "—Financial Policies—Variable Rate Debt" and "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations—Summary of Credit Facilities."

(3) Includes interest on the Bonds at a rate of 3.0% in 2019 and 5.40% thereafter. The Bonds have a bullet maturity in 2046.

(4) Does not include debt service on $26.0 million of pending loan commitments from Ecology and the PWB that, once executed, are expected to be drawn upon in 2019 and 2020. See "The Sewer System—Future Sewer System Financing Plans."

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

Regional Wastewater Services 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 capacity until around 2060 to treat average wet weather flows. WTD is currently undertaking a Treatment Plant Flows and Loadings Study that is reviewing in detail the flows, loadings, and limitations of the treatment processes at each of the regional treatment plants. The report is scheduled for completion in the third quarter of 2019 and will help inform future capital plans for the Sewer System.

The Conveyance System Improvement ("CSI") program focuses on guiding major upgrades and improvements to County-owned regional wastewater conveyance facilities. The facilities consist of the pumping stations and pipes that transport wastewater from the local systems to the regional treatment facilities. The current CIP includes nine CSI construction and design projects with estimated spending of $275 million through 2024. See "—Capital Improvement Plan."

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

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

Development of the system-wide plan is expected to be completed by the middle of 2022. The plan will be submitted to the County Council for approval later that year or in 2023. The final plan will serve as a guide to near- and long-term investments in the regional wastewater system.

Combined Sewer Overflow Projects

CSOs are untreated discharges of mixed stormwater and diluted wastewater into water bodies during heavy rainfall events when the capacity of the existing sewer system is full. Combined sewers, which carry both wastewater and stormwater, exist in many parts of older cities across the nation, including Seattle. Stormwater can cause extreme variations in wastewater flows, resulting in the need for large wastewater facilities and in challenges to the treatment process. To avoid damage to the regional sewer system and treatment plants during heavy rainfall events, combined sewers in Seattle sometimes overflow into Puget Sound, the Duwamish Waterway, Elliott Bay, Lake Union, the Lake Washington Ship Canal, and Lake Washington. Within the County wastewater service area, CSOs exist only within a portion of Seattle. Based on agreements made at the start of the regional system in 1958, depending on the size of the drainage basin, either the County or Seattle is responsible for CSOs, and both entities are working to control them under separate CSO long-term 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 one billion gallons in a typical year of rainfall (based on long-term averages). In 2018, the County's combined sewer system discharged 839 million gallons of untreated CSOs. Weather conditions resulted in 1.7 billion gallons of untreated CSO discharges in 2017, which includes the effect of the February 9, 2017, equipment failure incident at West Point, which shut down the plant and resulted in additional CSO discharges at locations other than the treatment plant outfall. Seattle has experienced higher than average rainfall in four of the previous five years.

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

Figure 1 shows the approximate locations of the nine CSO control projects included in the LTCP as well as the four "Beach" CSO projects, consisting of North Beach, South Magnolia, Murray, and Barton, which were underway prior to the LTCP development. Except as noted for South Magnolia and Barton, the Beach projects have been completed and are operating. The Rainier Valley Wet Weather Storage Project achieved substantial completion on June 9, 2018, and began operation in winter 2018. Rainier Valley will be monitored to ensure that it achieves the required regulatory performance standard for the next year. Construction on the Georgetown Wet Weather Treatment Station ("Georgetown") began in January 2018 and is expected to be completed in early 2022. The County is also working with Seattle on a project to control overflows at two locations (the "Joint Project"), as further described below). As allowed in the 2013 Consent Decree, the County is evaluating the use of green stormwater infrastructure for the sizing of facilities for the CSOs at University and Montlake.

FIGURE 1: CURRENT AND FUTURE PROJECTS OF THE CSO SYSTEM

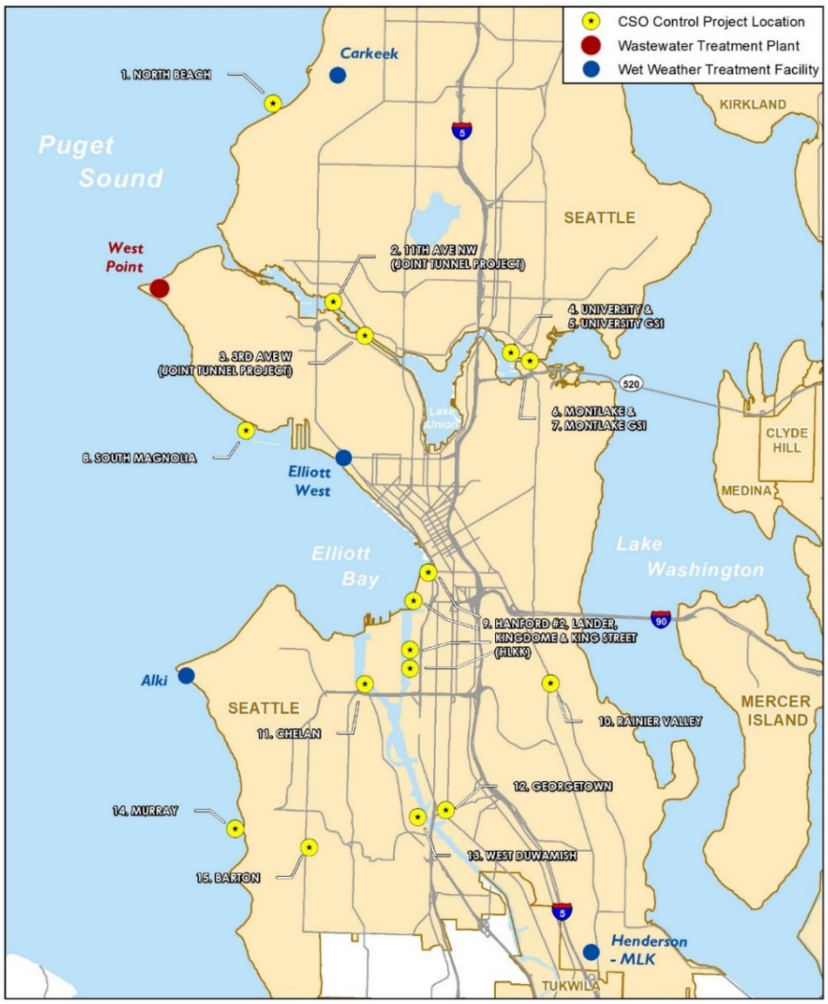

Diagram is not to scale.

Source: King County Wastewater Treatment Division

In connection with its application for the renewal of its NPDES permit for West Point, the County submitted an update to its 2012 LTCP to Ecology in January 2019 (the "Program Update"). As part of the Program Update, alternatives developed in the 2012 LTCP for University, Montlake, and Hanford-Lander-Kingdome-King (see Figure 1) were reevaluated with updated information. The analysis considered recent monitoring of control techniques (such as green stormwater infrastructure), updated modeling information, and opportunities for collaboration with other agencies. The ranking of results and alternatives was similar to what was found in the 2012 LTCP. Although WTD did not recommend any changes or amendment to the LTCP in the Program Update, further refinement of alternatives for these projects over the next ten years (when the last of the projects is in design) could significantly increase project costs. The Clean Water Plan discussed under "—Regional Wastewater Services Plan" may also result in recommendations to change the CSO program and projects as currently conceived.

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

The South Magnolia Wet Weather Storage project did not achieve controlled status within one year of construction completion. Construction on South Magnolia was completed in December 2015, and the facility was operating correctly until an unexpected conveyance pipe break in the fall of 2016 prevented storm flows from reaching the storage tank. WTD submitted a Supplemental Compliance Plan to Ecology and EPA in January 2017 (with an addendum containing the specific plan and schedule submitted in April 2018) outlining plans to bring the facility back into service and compliance. The remedial action undertaken was the replacement of the damaged pipe using a pipe bursting method that simultaneously pulled a new pipe into the space occupied by the damaged pipe.

South Magnolia went back online in late December 2018 and has been operating as designed. The pipe break investigation, remedial construction, and the County's internal costs are projected to cost approximately $24 million. The County and its contractor, Walsh Construction Co. II, LLC, are pursuing coverage through the project builders risk insurance for those costs. The insurer failed to respond to the request from the County and the contractor to reopen the claim for coverage. Therefore, the County initiated suit against ACE American Insurance Co. on December 31, 2018, in federal court for the Western District of Washington. The case is scheduled for a mediation in August 2019 and, if not settled, would likely go to trial in mid-2020.

The Barton Street CSO project uses green stormwater infrastructure components within the impacted basin to achieve CSO reductions. Because modeling showed that the post-project performance was not performing at its design capacity of 33 mgd, a Supplemental Compliance Plan was filed as part of the 2013 Consent Decree in April 2018 to address some electrical and controls optimization fixes. Repairs totaling $1.6 million were undertaken in 2018 and 2019, and performance will be monitored and reported on through the end of the 2020 wet season.

Projected CSO expenditures are included in Table 35—"Capital Improvement Plan—Projected Expenditures" and total $559 million for the period 2019 through 2024. Expenditures from 2019 through 2024 for the two largest projects currently in design and construction are $163 million for Georgetown and $116 million for the Joint Project, described below.

Joint Project with Seattle

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

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

The current capital cost estimate for the County's 35% financial share of the agreed shared elements of the Joint Project's total cost is $178.2 million through 2025, based on costs incurred to date and an updated estimate made in May 2018. A reassessment of total project costs is expected to occur by August 2019 after the bids for tunnel construction, which has an engineers' estimate of $218 million and comprises 80% of the project's total construction costs, have been received and evaluated.

The milestones in Seattle's consent decree for the Joint Project have been met to date. Ecology approved a Final Facility Plan Addendum for the Joint Project on April 23, 2019. The Seattle consent decree milestones for the design of the pump station and conveyance facilities are on schedule for completion at the end of 2020. Completion of the Joint Project is currently scheduled for April 2025, eight months before the construction completion milestone in the modified 2013 Consent Decree for the County.

Capital Improvement Plan

As shown in Table 35, the Sewer System's CIP for the period 2019-2024 includes three distinct elements. In addition to CSO control and CSI projects, the Sewer System expects to spend significant amounts annually for other capital improvements and the replacement of existing assets pursuant to its capital asset management plans.

TABLE 35
CAPITAL IMPROVEMENT PLAN—PROJECTED EXPENDITURES(1)
($000)

	RWSP		Other Improvements and	
Year	**CSO**	**CSI**	**Asset Management**	**Total**
2019	$ 79,279	$ 32,909	$ 113,951	$ 226,139
2020	106,600	37,611	127,746	271,957
2021	118,618	39,153	111,023	268,795
2022	119,074	60,960	97,269	277,304
2023	95,003	62,218	110,311	267,533
2024	70,224	42,622	104,048	216,894
Total	$ 588,798	$ 275,474	$ 664,350	$ 1,528,622

(1) Expenditures in 2019-2024 are in nominal dollars. The capital expenditures shown above were used to develop projected Sewer Rates and the projections shown in Table 33—"Projected Financial Statements" and are based on an expected accomplishment rate of 86% 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 approximately 41% of the CIP will be funded from Net Revenue from 2019 through 2024. It also anticipates the issuance of approximately $781 million of additional debt to fund the CIP: $717 million of additional Parity Bonds (including draws on the WIFIA Bond described below), $36 million of additional variable rate Junior Lien Obligations, and $28 million from existing and pending loan commitments received from Ecology which are expected to be executed in the second quarter of 2019. Offsetting this anticipated issuance of $781 million of additional debt are scheduled principal payments on outstanding obligations and the Bonds of $614 million.

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

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

The WIFIA Bond is available to be drawn from time to time in an aggregate principal amount not to exceed $134.5 million solely to pay project costs for Georgetown. The County expects to draw on the WIFIA Bond in 2020 and 2021. No draws are permitted after the date that is one year after substantial completion of the project, which is estimated to occur at the end of 2022. The WIFIA Bond has a final maturity date of January 1, 2051, unless earlier paid, with principal payment dates beginning on January 1, 2033. Amounts drawn bear interest at a fixed rate of 3.06%, except as described below. The WIFIA Bond is subject to prepayment at the option of the County at any time at par plus accrued interest to the date of prepayment.

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

Environmental Regulation

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

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

TABLE 36
NPDES PERMITS

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

(1) Administratively extended.

Source: King County Wastewater Treatment Division

The Carnation permit is in the process of being renewed; no significant changes are expected. The application for renewal of the West Point NPDES permit was submitted in January 2019, and the application for renewal of the South Plant NPDES and Reclaimed Water permits will be submitted in July 2019. Based on current information from Ecology regarding the efforts to develop nutrient reduction actions for Puget Sound (discussed further below), these renewed permits may include planning requirements to begin developing nutrient reduction actions for each facility. The timeframe for the planning and actions is uncertain at this time.

All five of the regional wastewater treatment plants have met their permit effluent limits through the June 15, 2019, reporting period. The South Plant, Vashon, and Carnation treatment plants met their permit limits in the period 2014 through 2017. Brightwater, which began discharging into Puget Sound in November 2012, routinely complies with its effluent limitations; however, the effluent failed to meet the minimum pH level for several hours on one day in 2014, and chlorine levels exceeded the permitted maximum for the week of October 9, 2016. West Point, in addition to what is described under "West Point Flooding Accident," had two other exceptions for exceeding the weekly average limit for effluent total suspended solids concentration. In late October 2017, a failed flap gate located at a relief point in the collection system resulted in exceedances of a weekly effluent limit in October and November 2017. Replacement of the flap gate was completed in December 2017. Notwithstanding the events described above, West Point has been meeting its effluent limitations since completion of the recovery from the flooding event.

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

In 2018, Ecology and the Puget Sound Partnership (a State agency created to coordinate and lead the effort to restore and protect Puget Sound) initiated the marine water quality Implementation Strategy ("IS") process to develop a broad strategic framework for nutrient reduction strategies. A draft IS is scheduled to be completed by late 2019, and the results of the IS process will support Ecology in its development of the Nutrient Reduction Project. Also in 2018, Ecology and the Batelle Pacific Northwest National Laboratory (a division of the Department of Energy) completed development of a computer model of Puget Sound (Salish Sea Model) and released an initial "Bounding Scenarios" modeling report in January 2019. The report provides a baseline assessment and problem definition of nutrient loading and dissolved oxygen conditions in Puget Sound. Through a collaborative process of stakeholder coordination and modeling, Ecology expects to develop its nutrient reduction plan in the mid-2021 through late 2022 timeframe.

An environmental organization (Northwest Environmental Advocates) filed petitions to Ecology in November 2018 and Thurston County Superior Court in February 2019 to prompt Ecology to develop and implement technology-based nutrient removal requirements for all wastewater dischargers to Puget Sound. Ecology denied the direct petition (the lawsuit process is still underway); however, it stated in its denial its intent to impose interim requirements via each discharger's NPDES permit renewal process to limit nutrient loading to current levels and prepare plans for nutrient reduction. Ecology has not released any further guidance on how these provisions will be implemented.

If the result of the Nutrient 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 to develop and promulgate regulations based on, and implement actions identified in, the Nutrient Reduction Project. As part of the Clean Water Plan, WTD has started conducting a review of technologies that are available for reducing nutrient levels at its treatment plants.

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

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

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

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

Further information regarding existing and potential environmental remediation liabilities is contained in Appendix E—King County Water Quality Enterprise Fund 2018 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.

The orca population in Puget Sound was placed on the list of endangered species in 2005. The Southern Resident Killer Whale Task Force ("Task Force") convened by the Governor issued its first report with recommendations on November 16, 2018, after extensive public review and comment. The Task Force is continuing its work in 2019, which includes discussing additional potential actions relating to habitat, salmon hatcheries, salmon harvest, hydropower, vessels, and contaminants, including actions that could be potentially controlled by wastewater treatment facilities. A final report from the Task Force is due October 1, 2019.

One of the Task Force's recommendations in 2018 was that Ecology expedite development of a prioritized list of chemicals of emerging concern that threaten the health of orcas and their prey. The 2018 report also recommended that Ecology improve pollution permitting to reduce contaminant exposure of orcas and their prey by updating aquatic life water quality standards and developing stronger pre-treatment standards for municipal wastewater discharges under NPDES permits. Ecology is developing responses to both recommendations, but has not yet issued any new lists, updates, or guidance. At this time, the County cannot predict the impact on its operations of any changes in its NPDES permits that Ecology may initiate based on recommendations made by the Task Force.

Revisions to State Water Quality Standards. 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 to 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. The NPDES permits for both the Vashon and Brightwater treatment plants were renewed in consideration of the revised human health criteria and resulted in no changes to the effluent limitations for these facilities.

Earthquakes and Climate Change

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

Rising sea levels and changing regional rainfall patterns, such as an increase in winter rainstorm frequency or intensity, are potential climate change impacts for the Sewer System. Sea level rise has been incorporated as a factor in the siting and planning of new facilities since 2008 and include the elevation of critical components, installing barriers (tide gates and flaps), and siting new facilities at higher ground for protection from possible future intrusion and corrosion. Studies at that time evaluated the potential for sea level rise to flood existing coastal facilities and found that the risk of flooding at WTD facilities is expected to remain low until at least after 2050. New studies on the risk of sea level rise at WTD facilities are in progress and are expected to be completed before the end of 2019.

WTD and WLRD contracted with researchers at the University of Washington to develop new projections for precipitation in the region. Results from the May 2018 report show the potential for large increases in future rain intensity, but with results differing substantially among seasons and across climate scenarios. WTD staff will be using the results of this research to complete studies in 2019 that will model the possible impacts of these changes on wastewater conveyance and treatment.

Strategic Climate Action Plan

The County is developing an updated SCAP, which is expected to be transmitted to the County Council by June 30, 2020. For more information on the SCAP, see "Other Considerations—Climate Change and the County's Strategic Action Climate Plan."

In furtherance of the existing SCAP, the County required WTD to achieve carbon neutrality in its operations by 2025. WTD has estimated that, in 2018, 71% of its total GHG emissions were being offset through the application of biosolids as a soil amendment on farms and forests (which stores carbon in the soil, promotes plant growth that further removes carbon from the atmosphere, and replaces commercial fertilizer that is fossil-fuel intensive to produce).

The fuel mix of WTD's energy suppliers has a significant impact on the quantity of WTD's GHG emissions. Based on emissions data from its energy suppliers, WTD estimates that, due to the emissions offset by the land application of biosolids as well as its tree planting efforts, WTD has been carbon-neutral since 2016. In 2017 and 2018, WTD paid WLRD for tree planting and tree maintenance to offset additional emissions. WTD estimates that tree planting offset approximately 22,960 and 18,108 metric tons of carbon dioxide equivalent in 2017 and 2018, respectively.

WTD's biennium budget for 2019 and 2020 includes $0.8 million to support a project that will help meet green building goals in the SCAP.

As stated in "Management Discussion of 2018 Sewer Revenue Financial Results," WTD has a five-year contract that ends in 2022 to sell RINs (the environmental attributes of bio-methane gas) to IGI Resources, Inc. WTD expects to use RINs revenue to fund projects that increase energy efficiency or further reduce WTD's GHG emissions. Example projects include optimizing the use of biogas at the West Point Treatment Plant by adding an additional cogeneration engine, improving insulation of digesters at Brightwater, and adding solar panels to Georgetown, which is currently under construction.

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

Cybersecurity

WTD has implemented cybersecurity measures including isolating its distributed control system ("DCS") network from the corporate network and controlling access to the DCS network, using a variety of tools such as anti-virus clients, patch management, internal firewalls, and centrally managed policies and permissions. WTD has allocated up to $1.2 million to a control system upgrade (scheduled to begin in 2019 for completion in 2020) to purchase additional software and hardware intended to further tighten security and identify and resolve potential threats. Notwithstanding these and other cybersecurity measures, a cybersecurity breach could damage WTD systems and cause material disruption to operations and services. The cost to remedy such damage or protect against future attacks could be substantial.

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 2018, the County received $93.4 million in federal grant revenue (64.4% of total 2018 grant revenue received by the County). These federal grant funds may be adversely impacted by federal legislative and executive actions, including cuts to federal spending. Federal funding is subject to federal 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, 2018, and September 30, 2019, were reduced by 6.2%, totaling approximately $87,000. Sequestration of such interest payments has been extended by Congress and is scheduled to remain in effect through federal fiscal year 2027.

Cybersecurity

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

Climate Change and the County's Strategic Climate Action Plan

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

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

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

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

Seismic Risk

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

INITIATIVES AND REFERENDA

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

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

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

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

Future Initiatives and Legislative Action

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

LEGAL AND TAX INFORMATION

Litigation

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

The County is party to litigation in its normal course of business. The excerpts from the County's 2017 Comprehensive Annual Financial Report attached as Appendix D include Note 17 concerning non-tort legal matters. As to tort litigation, the County and its agencies are a party to litigation involving tort claims. Information under the heading "King County—Risk Management and Insurance" herein describes the County's self-insurance program and the insurance policies that cover pending tort litigation. The County expects that the amount of the Insurance Fund and County insurance coverage, together with routinized budget practices, are sufficient to cover all costs associated with known tort litigation pending. Although the County cannot predict the amount of damages that may be payable, if any, in its litigation, the County does not believe that any pending litigation would materially adversely affect the ability of the County to pay when due the principal of or interest on the Bonds.

Recent Developments in Non-Tort Litigation. Certain class action litigation is described in Note 17 to the excerpts from the County's 2017 Comprehensive Annual Financial Report attached as Appendix D.

In *King County v. Dolan*, the Pierce County Superior Court (the "Court") has certified a class of approximately 400 public defender attorneys and staff who had worked for four nonprofit public defender entities under contract with the County within three years prior to filing the complaint (*i.e.*, since January 24, 2003). The County has vigorously defended the action, denying liability and damages.

On February 9, 2009, the Court issued a written opinion stating that "the Plaintiff and the class he represents should be enrolled in the PERS Retirement System" and that the Court will grant injunctive relief accordingly. As of the date of this Official Statement, the Court has not entered judgment or ordered injunctive relief, as there are two open issues in the case: (i) whether the class members are entitled to three years of relief pursuant to the statute of limitations (or retroactively to the beginning of their employment); and (ii) whether the class members will have to contribute their share of the PERS retirement contributions. The County is prepared to appeal, when a final or appealable judgment is entered.

Although the County cannot estimate the amount of damages that may be payable pursuant to this litigation, if any, the County does not believe that the amount of any such damages would materially adversely affect the ability of the County to make payments on the Bonds when due.

Approval of Counsel

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

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

Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth P.C., Seattle, Washington. Any opinion of such firm will be rendered solely to the Underwriter and cannot be relied on by investors.

Limitations on Remedies and Municipal Bankruptcy

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

In addition to the limitations on remedies contained in the Ordinance, the rights and obligations under the Bonds and the Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinions to be delivered by Pacifica Law Group LLP, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to such limitations. The form of Bond Counsel's opinion is set forth in Appendix C.

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

The Bonds are general obligations of the County and also are payable from and secured by a pledge of Revenue of the System as described in the Ordinance. Under Chapter 9, creditors secured by a pledge of "special revenues" are granted certain protections in cases brought by municipalities. The definition of "special revenues" includes "receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems." Under Chapter 9, the pledge of Revenue of the System is enforceable if a bankruptcy court determines that Revenue of the System is considered "special revenues" under Chapter 9 and that the pledge (in the form of a lien and charge) of Revenue of the System as an additional source of payment on general obligations pursuant to the Ordinance is valid and binding under Chapter 9.

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

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

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

Tax Matters

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

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

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

Post Issuance Matters

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the Tax Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The interest rate mode and certain requirements and procedures contained in or referred to in the Mode Agreements and other documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion herein as to the effect on the exclusion from gross income for federal income tax purposes of interest on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Pacifica Law Group LLP.

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

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

Not Bank Qualified

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

Proposed Tax Legislation; Miscellaneous

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

Continuing Disclosure Undertaking

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 2019 for the fiscal year ended December 31, 2018 (and commencing in 2020 for the fiscal year ended in December 31, 2019, in the case of the annual financial statements of the Water Quality Enterprise Fund generally of the type attached to this Official Statement as Appendix E):

(i) annual financial statements prepared in accordance with the Budget Accounting and Reporting System ("BARS") prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statutes) and generally of the type attached to this Official Statement as Appendix D and Appendix E, 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 of the type 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;

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;

(xv) incurrence of a financial obligation of the obligated person, if material, or agreements to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and

(xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

For the purposes of events (xv) and (xvi), "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with SEC Rule 15c2-12 ("Rule 15c2-12").

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

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

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

The County may amend the undertaking, and any provision of the undertaking may be waived, in accordance with Rule 15c2-12, which, as currently interpreted by the SEC, requires that (i) the amendment or waiver be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the

County, or type of business conducted; (ii) the undertaking, as amended or waived, would have complied with the requirements of Rule 15c2-12 at the time of the primary offering, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any change in circumstances; and (iii) the amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by parties unaffiliated with the County (such as Bond Counsel) or by the approving vote of holders of the Bonds pursuant to the terms of the Ordinance.

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

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

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

OTHER INFORMATION

Ratings

Long-term ratings of Aaa and AAA and short-term ratings of VMIG 1 and A-1+ have been assigned to the Bonds by Moody's and S&P, respectively, on the condition that each Standby Bond Purchase Agreement is executed and delivered by the Liquidity Provider, the County and the Registrar. 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.

Underwriting

The Bonds are being purchased by J.P. Morgan Securities LLC ("JPMS"), acting as the Underwriter and Remarketing Agent. The purchase contract for the Bonds provides that JPMS will purchase all of the Series 2019A Bonds, if any are purchased, at an aggregate purchase price of $99,880,764.77 (representing the principal amount of the Series 2019A Bonds less underwriter's discount of $119,235.23), and all of the Series 2019B Bonds, if any are purchased, at an aggregate purchase price of $48,037,653.81 (representing the principal amount of the Series 2019B Bonds less underwriter's discount of $57,346.19).

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

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

J.P. Morgan Securities LLC is not acting as a financial or municipal advisor to the County in connection with the remarketing of the Bonds.

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

Potential Conflicts of Interest

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

Official Statement

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

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

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

APPENDIX A

SUMMARY OF CERTAIN DEFINITIONS AND OTHER BOND PROVISIONS OF THE ORDINANCE

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SUMMARY OF THE BOND ORDINANCE

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

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

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

Certain Definitions

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

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

"Annual Debt Service" means, for the applicable obligations of the System, with respect to any calendar year, the sum of the following:

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

a. For purposes of calculating the amounts required to pay interest on such designated obligations, capitalized interest, accrued interest paid to the County upon the issuance of such designated obligations, and Debt Service Offsets pledged to the payment of such designated obligations will be excluded.

b. The amount of interest deemed payable on any such designated obligations bearing interest at a variable rate will be calculated on the assumption that the interest rate on such designated obligations would be equal to the rate that is 90% of the average Bond Buyer Revenue Bond Index or comparable index during the fiscal quarter preceding the quarter in which the calculation is made; provided, that for purposes of determining actual compliance in any past calendar year with the Rate Covenants made in the Ordinance, the actual amount of interest paid on any issue of variable rate obligations will be taken into account.

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

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

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

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

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

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

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

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

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

"Credit Enhancement" means any letter of credit, insurance policy, surety bond, line of credit or other instrument then in effect that secures or guarantees the payment of principal of and interest on, and/or purchase price of, any series of Bonds. As of this date, there is no Credit Enhancement for the Bonds.

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

"Credit Provider" means any bank, insurance company, pension fund or other financial institution that provides a Credit Enhancement for any series of Bonds. As of this date, there is no Credit Provider for the Bonds.

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

"Debt Service Offset" means receipts of the County that are (i) legally available to pay debt service on obligations payable from Revenue of the System, including federal interest subsidy payments, and (ii) pledged to the payment of obligations payable from Revenue of the System.

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

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

System on a parity with the lien thereon of the currently outstanding Multi-Modal LTGO/Sewer Revenue Bonds.

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

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

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

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

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

"Junior Lien Obligations" means the outstanding Junior Lien Obligations, any series of Bonds issued as Junior Lien Obligations, and any other Future Junior Lien Obligations.

"Liquidity Facility" means any letter of credit, line of credit, standby purchase agreement or other instrument then in effect that provides for the payment of the purchase price of any series of Bonds upon the tender thereof if remarketing proceeds are insufficient therefor. As of this date and as provided in the Mode Agreement, the Standby Bond Purchase Agreement for each Series of Bonds is a Liquidity Facility.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Parity Lien Obligations" means the outstanding Parity Lien Obligations, together with any sewer revenue bonds, warrants or other obligations that may be issued in the future with a lien on Revenue of the System equal to the lien thereon of those bonds. The term "Parity Lien Obligations" includes any Parity Lien Obligation Payment Agreements and parity reimbursement agreements entered into with the provider of a Credit Facility securing any Parity Lien Obligations.

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

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

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

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

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

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

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

"Qualified Insurance" means any unconditional municipal bond insurance policy or surety bond issued for the benefit of the registered owners of Parity Bonds by any insurance company licensed to conduct an insurance business in any state of the United States or by a service corporation acting on behalf of one or more such insurance companies, which insurance company or service corporation, as of the time of issuance of such policy or surety bond, is then rated in one of the two highest rating categories by Moody's, S&P, and any other rating agency then maintaining a rating on the Parity Bonds and maintains a policy owner's surplus in excess of $500,000,000.

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

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

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

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

"Revenue of the System" means all the earnings, revenues and money received by the County from or on account of the operations of the System and the income from the investment of money in the Revenue Fund or any account within such fund, but shall not include (i) any money collected pursuant to the Service Agreements applicable to administrative costs of the County other than costs of administration of the System or (ii) any Debt Service Offsets. For certain purposes described in the Ordinance, deposits from the Rate Stabilization Fund into the Revenue Fund may be included in calculations of "Revenue of the System."

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

1. Annual Debt Service for such year for the Parity Bonds and Parity Lien Obligations then outstanding; and

2. any other payments described in paragraphs "Second" through "Fifth" of the “Flow of Funds” of the Ordinance required to be made during such year.

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

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

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

Multi-Modal LTGO/Sewer Revenue Bond Fund

A special fund of the County designated the "King County, Washington, Multi-Modal Limited Tax General Obligation (Payable from Sewer Revenue) Bond Fund" has been created for the purpose of paying Multi-Modal LTGO/Sewer Revenue Bonds. The Multi-Modal LTGO/Sewer Revenue Bond Fund shall be held separate and apart from all other funds and accounts of the County and shall be a trust fund for the owners of Multi-Modal LTGO/Sewer Revenue Bonds.

The County irrevocably obligates and binds itself to set aside and pay into the Multi-Modal LTGO/Sewer Revenue Bond Fund, as set forth in the Ordinance, on or prior to the respective dates the same become due (and if such payment is made on the due date, such payment must be made in immediately available funds): (i) such amounts as are required to pay the interest scheduled to become due on the Bonds that are issued as Multi-Modal LTGO/Sewer Revenue Bonds; and (ii) such amounts with respect to the Bonds that are issued as Multi-Modal LTGO/Sewer Revenue Bonds as are required to pay maturing principal, to make any required sinking fund payments and to redeem such Bonds in accordance with any mandatory redemption provisions.

Any Series of the Bonds also may be payable from and secured by Credit Enhancement or a Liquidity Facility that secures payment of only that Series of Bonds, and such Credit Enhancement or Liquidity Facility need not secure payment of any other series of the Bonds. The County's payment obligation with respect to Bonds secured by Credit Enhancement shall be deemed satisfied if provided by draws on the Credit Enhancement.

Pledge of Sewer Revenues to Multi-Modal LTGO/Sewer Revenue Bonds

The Bonds that are issued as Multi-Modal LTGO/Sewer Revenue Bonds also are payable from and secured by a pledge of Revenue of the System. The County irrevocably obligates and binds itself to set aside and pay into the Multi-Modal LTGO/Sewer Revenue Bond Fund out of Revenue of the System, on or prior to the respective dates the same become due, the amounts required under the “Flow of Funds.”

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

Pledge of Taxation and Credit to Multi-Modal LTGO/Sewer Revenue Bonds

The County irrevocably covenants and agrees for as long as any Bonds that are issued as Multi-Modal LTGO/Sewer Revenue Bonds 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 make the payments into the Multi-Modal LTGO/Sewer Revenue Bond Fund required by the Ordinance as the same become due. All of the taxes so collected will be paid into the Multi-Modal LTGO/Sewer Revenue Bond Fund no later than the date those funds are required for the payments required under the "Flow of Funds."

The County irrevocably pledges that the annual tax in the Ordinance authorized to be levied for the payment of such amounts 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 amounts required by the Ordinance will be and is irrevocably set aside, pledged and appropriated for the payment of the amounts required under the "Flow of Funds."

The full faith, credit and resources of the County are irrevocably pledged in the Ordinance for the annual levy and collection of those taxes and for the prompt payment of the amounts required under the "Flow of Funds" as the same become due.

Revenue Fund

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

Rate Stabilization Fund

In anticipation of increases in revenue requirements of the System, a special fund of the County designated as the "Sewer Rate Stabilization Fund" has been established and is continued. The County may from time to time appropriate or budget amounts in the Revenue Fund for deposit in the Rate Stabilization Fund, as provided in the Ordinance, and may from time to time withdraw amounts therefrom for deposit in the Revenue Fund to prevent or mitigate sewer rate increases or for other lawful purposes of the County related to the System, including calculations of "Net Revenue" and "Revenue of the System" for the purposes of satisfying requirements of the Rate Covenant and for the issuance of additional obligations under the Ordinance.

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

Sewer Revenue Priorities of Payment; Flow of Funds

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

First, to pay all Operating and Maintenance Expenses;

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

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

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

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

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

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

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

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

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

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

Due Regard for Expenses and Sewer Revenues Pledged

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

General Rate Covenant

The County will establish, maintain and collect rates and charges for sewage disposal service for each calendar year that are fair and nondiscriminatory and adequate to provide the County with Revenue of the System sufficient (i) to pay all Operating and Maintenance Expenses during that calendar year; (ii) to pay punctually all amounts described in paragraphs "Second" through "Tenth" in the “Flow of Funds” of the Ordinance due during that calendar year; and (iii) to pay any and all amounts that the County is now or may hereafter become obligated by law or contract to pay during that calendar year from the Revenue of the System.

Coverage Covenant

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

Certain Other Covenants of the County Regarding the Bonds

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

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

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

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

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

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

F. *Collection of Revenue*. The County will operate and maintain the System and conduct its affairs so as to entitle it at all times to receive and enforce payment to it of sewage disposal charges payable (i) pursuant to the ordinance or ordinances establishing a tariff of rates and charges for sewage disposal services and (ii) under any Service Agreement that the County has now or may hereafter enter into and to entitle the County to collect all revenues derived from the operation of the System. The County shall not release the obligations of any person, corporation or political subdivision under such tariff of rates and charges or the Service Agreements and shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the County and of the Registered Owners of the Bonds under or with respect thereto. In accordance with RCW 35.58.200(3), the County shall require any county, city, special district or other political subdivision to discharge to the System all sewage collected by that entity from any portion of the Seattle Metropolitan Area that can drain by gravity flow into facilities of the System that serve such areas if the County Council declares that the health, safety or welfare of the people within the metropolitan area require such action.

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

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

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

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

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

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

Defaults

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

A. The County fails to make payment of the principal of any Bond when the same becomes due and payable, whether by maturity or scheduled redemption prior to maturity;

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

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

D. The County: (i) admits in writing its inability to pay its debts generally as they become due; (ii) files a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law; (iii) makes an assignment for the benefit of its creditors; (iv) consents to the appointment of a receiver for the whole or any substantial part of the System; or (v) consents to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the County or of the whole or any substantial part of the System.

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

Remedies

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

B. *Appointment of Bondowners' Trustee*. Upon the occurrence of a Default and so long as such Default is not remedied, and subject to the rights of any Credit Provider as provided in subsection A. of this section, a Bondowners' Trustee may be appointed for the Registered Owners of the Bonds by the Registered Owners of a majority in principal amount of the Bonds then outstanding by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized and delivered to the Bondowners' Trustee, notification thereof having been given to the County. Any Bondowners' Trustee appointed under the provisions of this section must be a bank or trust company organized under the laws of a state or a national banking association. The fees and expenses of the Bondowners' Trustee must be borne by the Registered Owners of the Bonds and not by the County. The bank or trust company acting as the Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed, by the Registered Owners of a majority in principal amount of the Bonds then outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized. The Bondowners' Trustee may resign upon 60 days' notice and a new Bondowners' Trustee appointed by the Registered Owners of a majority in principal amount of the Bonds then outstanding; provided, that no such resignation or removal will be effective until a successor Bondowners' Trustee has been appointed and has delivered to the County and the Registered Owners of the Bonds then outstanding a written instrument of acceptance of the duties and responsibilities of the Bondowners' Trustee under the Ordinance.

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

C. *Legal Action by Bondowners' Trustee*. Subject to the rights of the Credit Provider, if any, as provided in subsection A. of this section, upon the happening of a Default and during the continuation thereof, the Bondowners' Trustee may, and upon the written request of the Registered Owners of not less than 25% in principal amount of the Bonds then outstanding must, take such steps and institute such suits, actions or other proceedings as it may deem appropriate for the protection and enforcement of the rights of such Registered Owners to collect any amounts due and owing to or from the County, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in the Ordinance or in the Bonds. Any action, suit or other proceedings instituted by the Bondowners' Trustee under the Ordinance will be brought in its name as trustee for the Registered Owners of all Bonds, and all such rights of action upon or under any of the Bonds or the provisions of the Ordinance may be enforced by the Bondowners' Trustee without the possession of any of the Bonds, and without the production of the same at any trial or proceedings relating thereto except where otherwise required by law. Any such suit or proceeding instituted by the Bondowners' Trustee will be brought for the ratable benefit of all of the Registered Owners of the Bonds, subject to the provisions of the Ordinance. The respective Registered Owners of the Bonds, by taking and holding the same, will be conclusively deemed irrevocably to have appointed the Bondowners' Trustee the true and lawful trustee of the respective Registered Owners of the Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums that become distributable on account of the Bonds; to execute any paper or documents for the receipt of such money; and to do all acts with respect thereto that such registered owners themselves might have done. Nothing in the Ordinance will be deemed to authorize or empower the Bondowners' Trustee to consent to accept or adopt, on behalf of any Registered Owner of the Bonds, any plan of reorganization or adjustment affecting such Bonds or any right of any Registered Owner thereof, or to authorize or empower the Bondowners' Trustee to vote the claims of the Registered Owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the County is a party.

D. *Restrictions on Legal Action by Individual Owners*. Subject to the rights of the Credit Provider, if any, as provided in subsection A. of this section, no Registered Owner of any Bonds has any right to institute any action, suit or proceedings at law or in equity for the enforcement of the same unless:

1. a Default has happened and is continuing; and

2. a Bondowners' Trustee has been appointed as in the Ordinance provided; and

3. such Registered Owner previously has given to the Bondowners' Trustee written notice of the Default as to which such suit, action or proceeding is to be instituted; and

4. Registered Owners of not less than 25% in principal amount of the Bonds then outstanding, after the occurrence of such Default, have made written request of the Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action or proceedings; and

5. the Bondowners' Trustee has been offered security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in the Ordinance or thereby; and

6. the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

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

Waivers of Default; Remedies not Exclusive

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

Subject to the rights of the Credit Provider, the Bondowners' Trustee may waive any past Default and its consequences, except a default in the payment of the principal of or premium, if any, or interest on any of the Bonds. No such waiver will extend to or affect any subsequent Default or impair any rights or remedies consequent thereon. No delay or omission of the Credit Provider or the Bondowners' Trustee to exercise any right or power accruing upon any Default will impair any such right or power or be construed to be a waiver of any such Default or acquiescence tin the Ordinance.

Additional Obligations of the System

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

B. *Future Junior Lien Obligations; Future Multi-Modal LTGO/Sewer Revenue Bonds*. The County reserves the right to issue Future Junior Lien Obligations and Future Multi-Modal LTGO/Sewer Revenue Bonds, but only if such Future Junior Lien Obligations and Future Multi-Modal LTGO/Sewer Revenue Bonds are issued (i) for the purpose of refunding any Junior

Lien Obligations or Multi-Modal LTGO/Sewer Revenue Bonds then outstanding or (ii) for any lawful purpose of the County related to the System and the following conditions are met:

1. At the time of issuing such Future Junior Lien Obligations or Future Multi-Modal LTGO/Sewer Revenue Bonds, there is no default in the payment of the principal of or interest on any Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, Future Subordinate Lien Obligations, SRF Loans or Public Works Trust Fund Loans.

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

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

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

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

Payment Agreements

A. *General*. To the extent and for the purposes permitted from time to time by chapter 39.96 RCW, as it may be amended, and other applicable provisions of State law, the

County may enter into Payment Agreements with respect to any series of the Bonds, subject to the conditions set forth in this section and in other provisions of the Ordinance.

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

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

D. *Calculation of Payment Agreement Payments and Debt Service on Bonds with Respect to which a Payment Agreement is in Force*. It is the intent of the County, for purposes of the Rate Covenant and the requirements for additional obligations of the Ordinance, that debt service on Bonds with respect to which a Payment Agreement is in force will be calculated to reflect the net economic effect on the County intended to be produced by the terms of such Bonds and the Payment Agreement. In calculating such amounts, the County will be guided by the following requirements:

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

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

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

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

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

Investment of Funds and Accounts

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

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

Refunding or Defeasance of Bonds

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

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

Supplemental Ordinances.

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

1. To add to the covenants and agreements of the County in the Ordinance such other covenants and agreements thereafter to be observed that will not adversely affect the interests of the Registered Owners of any Bonds, or to surrender any right or power in the Ordinance reserved to or conferred upon the County;

2. To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in the Ordinance in regard to matters or questions arising under the Ordinance as the County Council may deem necessary or desirable and not inconsistent with the Ordinance and that will not adversely affect the interest of the Registered Owners of any Bonds;

3. To modify, alter, amend, supplement or restate the Ordinance in any and all respects necessary, desirable or appropriate in connection with the delivery of Credit Enhancement or a Liquidity Facility (other than modifying notice provisions to Registered Owners of the Bonds);

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

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

B. *With Owner Consent*.

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

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

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

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

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

4. Notwithstanding any provision of this subsection B. to the contrary, the Credit Provider, if any, will be entitled to consent, on behalf of the Registered Owners of any Bonds secured by Credit Enhancement provided by such Credit Provider, for so long as the Credit Provider is not in default of its obligations under the Credit Enhancement, to the adoption by the County Council of any ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Ordinance.

C. *Consent of Credit Provider and Liquidity Provider*. Any amendment or supplement to the Ordinance requires the prior written consent of any Credit Provider and Liquidity Provider if the rights of such Credit Provider or Liquidity Provider, as the case may be, will be adversely affected thereby, for so long as the Credit Provider or Liquidity Provider, as applicable, is not in default of its obligations.

Ordinance a Contract; Severability

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

APPENDIX B

FORM OF MODE AGREEMENTS

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SUBSTANTIALLY FINAL FORM OF MODE AGREEMENT

KING COUNTY, WASHINGTON
MULTI-MODAL LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS
(PAYABLE FROM SEWER REVENUES), SERIES 2019__

This Mode Agreement (the "Mode Agreement") is entered into as of June 1, 2019, by and between King County, Washington (the "County"), and U.S. Bank National Association, as Registrar and Paying Agent (the "Paying Agent"), in connection with the County's Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019__ (the "Bonds"), issued pursuant to Ordinance 18898 of the County adopted on May 22, 2019 (the "Ordinance").

RECITALS

WHEREAS, pursuant to the Ordinance, the County has authorized the issuance of Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenues), Series 2019__, described in **Exhibit A** (the "Bonds"); and

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

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

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

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

2. Resignation or Removal of Paying Agent. The Paying Agent may resign by giving at least 30 days' prior written notice to the County. The Paying Agent shall provide written notice of resignation to the Liquidity Provider, if any, and Credit Provider, if any, and to Moody's and

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

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

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

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

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

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

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

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

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

5. Conflict with Bond Documents. In the event of a conflict between the provisions of this Mode Agreement and those of the Ordinance, the terms of this Mode Agreement shall govern.

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

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

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

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

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

KING COUNTY, WASHINGTON

____
Name: Ken Guy
Title: Finance Director

U.S. BANK NATIONAL ASSOCIATION,
as Paying Agent

____
Name:
Title:

EXHIBIT A
DESCRIPTION OF THE BONDS

Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019__

(____ Interest Rate Bonds)

$________

Price: 100%

Initial ____ Interest Rate Period:

Initial ____ Interest Rate:

First Interest Payment Date: July 1, 2019

Maturity Date: January 1, 2046

Initial Liquidity Facility: Standby Bond Purchase Agreement by and among the County, the Paying Agent and TD Bank, N.A., dated as of June 1, 2019

CUSIP NUMBER: ______

Bank Bond CUSIP NUMBER: ______

EXHIBIT B

INTEREST RATE MODES AND RELATED PROVISIONS

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

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

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

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

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

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

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

"***Bond Purchase Contract***" means the Bond Purchase Contract by and between the County and J.P. Morgan Securities LLC, dated June 26, 2019, regarding the issuance, sale and delivery of the Bonds. The Bond Purchase Contract is not a Direct Purchase Agreement.

"***Bonds***" mean the King County, Washington Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019__, issued pursuant to the Ordinance with such series and additional or alternative naming conventions as may be convenient to indicate a Series designation.

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

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

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

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

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

"***Conversion Date***" means the effective date of a Conversion.

"***County***" means King County, Washington.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Purchase Agreement may provide for alternate Interest Determination Dates to be in effect during a Direct Purchase Period.

"***Interest Payment Date***" means:

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

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

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

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

"***Interest Reset Date***" means (a) for each Index Floating Rate Period that is not a Direct Purchase Period (1) if the Index is the LIBOR Index, SIFMA Index, the EFFR Index, or the SOFR Index, Thursday of each week, or if not a Business Day, the next succeeding Business Day; and (2) if any other Index has been selected by the Finance Director, the date(s) selected by the Finance Director in connection with selecting the Index; and (b) for each Direct Purchase Period, either (1) the Interest Reset Dates set forth in the Direct Purchase Agreement or (2) if none are specified, the dates set forth in subsection (a) of this definition.

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

making the London Interbank Offered Rate available) as the information vendor for the purpose of displaying the London Interbank Offered Rate for U.S. Dollar deposits).

"***Liquidity Facility***" means any line of credit, standby purchase agreement or other instrument then in effect that provides for the payment of the Purchase Price of any series of Bonds upon the tender thereof if remarketing proceeds are insufficient therefor. Initially, the Liquidity Facility means the Standby Bond Purchase Agreement.

"***Liquidity Provider***" means any bank, insurance company, pension fund or other financial institution that provides a Liquidity Facility. Initially, the Liquidity Provider means TD Bank, N.A.

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

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

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

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

"***Ordinance***" means Ordinance No. 2019-0049 adopted on May 22, 2019 of the County authorizing the issuance and sale of the Bonds.

"***Par Call Date***" means with respect to any Series of the Bonds during any Term Rate Period, and any Index Floating Rate Period or Direct Purchase Period, the date established by the Finance Director and set forth in the applicable Direct Purchase Agreement, Bond Purchase Contract or Remarketing Agreement, and if none is established, the first Business Day after the end of the Index Floating Rate Period or Term Rate Period, as applicable. Notwithstanding the foregoing, during any Delayed Remarketing Period, the Par Call Date for any Delayed Remarketing Bond shall mean any Business Day, and the Par Call Date for any Bank Bond shall be as set forth in the applicable Liquidity Facility or Credit Enhancement.

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

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

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

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

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

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

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

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

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

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

"***Series***" as used in this Exhibit B refers to the Series 2019__ Bonds, unless and until consolidated or changed to another Series designation by written direction of the Finance Director, issued pursuant to the Ordinance and subject to the terms set forth in this Exhibit B.

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

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

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

"***Standby Bond Purchase Agreement***" means the Standby Bond Purchase Agreement dated as of June 1, 2019, by and among the County, TD Bank, N.A., and U.S. Bank National Association, as it may be amended from time to time.

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

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

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

"***Term Rate***" means during any Term Rate Period, a term, fixed (non-variable) interest rate established for Bonds of a Series in the Term Mode in accordance with Section 4(a)(3) of this Exhibit B.

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

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

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

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

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

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

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

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

2. Bond Terms.

During the initial **_____** Interest Rate Period, the Bonds of this Series have terms set forth on A-1. The Bonds of this Series are issued in the aggregate principal amount of $100,000,000, mature on January 1, 2046, and are subject to optional and mandatory tender, prior redemption and defeasance in whole or part as set forth in the Ordinance and herein.

3. Accrual and Payment of Interest.

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

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

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

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

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

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

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

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

(4) <u>Index Floating Rate Period</u>. During an Index Floating Rate Period:

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

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

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

4. Determination of Interest Rates.

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

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

(2) Determination of Weekly Interest Rate. Each Series of the Bonds for which a Weekly Interest Rate Period has been selected shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by 5:00 p.m., New York Time, on Tuesday of each week, or if such day is not a Business Day, then on the succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall be in effect for the period commencing on and including the first day of such Weekly Interest Rate Period and ending on and including the succeeding Tuesday. Thereafter,

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

(3) Determination of Term Rate or Fixed Rate. Each Series of the Bonds for which a Term Rate Period or Fixed Rate Period has been selected shall bear interest at the Term Rate or Fixed Rate, as applicable, which shall be determined by the Remarketing Agent on a Business Day no later than the first day of such Term Rate Period or Fixed Rate Period, as applicable. The Term Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of obligations comparable, in the judgment of the Remarketing Agent, to such Series of the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate at which the Remarketing Agent will agree to purchase such Series of the Bonds on the effective date of that rate and as set forth in the Remarketing Agreement. The Delayed Remarketing Rate(s) applicable during any Term Rate Period to be in effect during a Delayed Remarketing Period shall be set forth in the Bond Purchase Contract or the Remarketing Agreement or an amendment thereto. For any Term Rate Period, the Delayed Remarketing Rate(s) shall be determined on a Business Day no later than the first day of such Term Rate Period and shall remain in effect throughout such period. The Fixed Rate shall remain in effect until the Maturity Date for such Series of Bonds in the Fixed Mode.

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

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

(i) The Index and the term of the Index Rate Floating Rate Period shall be selected by the Finance Director. The Index Floating Rate shall be the sum of (i) the Index multiplied by the Index Floating Rate Percentage, plus (ii) the Index Floating Rate Spread.

(ii) The Index Floating Rate Percentage shall be selected by the Finance Director in connection with each Index Floating Rate Period (and if not so selected, shall be equal to 100%) and shall remain in effect throughout such period.

(iii) The Index Floating Rate Spread shall be determined on or prior to the first Interest Determination Date with respect to an Index Floating Rate Period and shall remain in effect throughout such period. The Index Floating Rate Spread shall be the spread to such index determined by the Remarketing Agent (based on an examination of obligations comparable, in the judgment of the Remarketing Agent and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum spread which, when added to the Index (multiplied by the Index Floating Rate Percentage), equals the interest rate at which, if borne by such Series of the Bonds, the Remarketing Agent will agree to purchase such Series of the Bonds on the effective date of that rate and as set forth in the Remarketing Agreement at a price equal to the principal amount thereof.

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

(C) *Delayed Remarketing Period; Delayed Remarketing Rate.* For any Term Rate Period or Index Floating Rate Period, the Delayed Remarketing Rate(s) shall be determined on or prior to the first Interest Determination Date for such Term Rate Period or Index Floating Rate Period and shall remain in effect throughout such period.

(5) <u>Determination of Commercial Paper Rates.</u> Each Series of the Bonds for which a Commercial Paper Rate Period has been selected shall bear interest at the Commercial Paper Rate, which shall be determined by the County on a Business Day no later than the first day of such

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

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

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

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

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

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

(1) Election of Daily Interest Rate Period. The Finance Director, on behalf of the County may, from time to time, by written notice to the Paying Agent, Credit Provider (if any), Liquidity Provider (if any), Moody's and S&P, and the Remarketing Agent (if any), Elect that any Series of the Bonds bear interest at a Daily Interest Rate. The notice of Election given by the Finance Director shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Paying Agent of such notice; (ii) in the case of a Conversion from a Commercial Paper Rate Period, the day following the last day

of such Commercial Paper Rate Period or a day on which such Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Exhibit B if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period or Term Rate Period, the day following the last day of such Index Floating Rate Period or Term Rate Period or on or after a Par Call Date; (iv) and, if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect; and (B) state whether Credit Enhancement and/or a Liquidity Facility is to be in effect on the Conversion Date.

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

(3) Election of Term Rate Period or Fixed Rate Period. The Finance Director, on behalf of the County may by written notice to the Paying Agent, Credit Provider (if any), Liquidity Provider (if any), Moody's and S&P, and the Remarketing Agent (if any), Elect that any Series of the Bonds bear, or continue to bear, interest at the Term Rate or bear interest at the Fixed Rate. The notice of Election given by the Finance Director shall (A) specify the proposed Conversion Date, which shall be (i) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Paying Agent of such notice; (ii) in the case of a Conversion from a Commercial Paper Rate Period, the day following the last day of such Commercial Paper Rate Period or a day on which such Series of the Bonds would otherwise be subject to optional redemption pursuant to Section 7(a) of this Exhibit B if such Conversion did not occur; and (iii) in the case of a Conversion from an Index Floating Rate Period or another Term Rate Period, the day following the last day of such Index Floating Rate or Term Rate Period or on or after a Par Call Date; (iv) and, if applicable, the day specified pursuant to a Direct Purchase Agreement then in effect; (B) the last day of the Term Rate Period for Bonds in the Term Mode, which shall be either the day prior to the Maturity Date or a day that both immediately precedes a Business Day and is at least 181 days after the proposed Conversion Date; and (C) whether some or all of the Bonds to be converted shall be converted to Serial Bonds and, if so, the applicable serial maturity dates and serial payments.

(4) Election of Index Floating Rate Period. The Finance Director, on behalf of the County may, from time to time, by written notice to the Paying Agent, Credit Provider (if any), Liquidity Provider (if any), Moody's and S&P, and the Remarketing Agent (if any), Elect that any Series of the

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

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

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

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

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

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

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

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

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

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

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

(g) **Certain Additional Conditions.** No Conversion shall take effect unless each of the following conditions (1) through (4), to the extent applicable, has been satisfied and the Paying Agent may conclusively assume, without inquiry, investigation or notice to any other party, that each such condition has been satisfied in connection with any notice of Conversion it is instructed to provide under this Section 6. If any applicable condition has not been satisfied, the Conversion shall not occur, and Bonds in the Daily Mode shall continue to bear interest at the Daily Interest Rate, Bonds in the Weekly Mode shall continue to bear interest at the Weekly Interest Rate, Bonds in the Index Floating Mode or Term Mode shall bear interest at the Delayed Remarketing Rate, and Bonds in a Direct Purchase Period shall bear interest as provided in the Direct Purchase Agreement.

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

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

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

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

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

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

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

7. Redemption and Payment of Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Optional and Mandatory Tender and Purchase.

(a) **Optional Tender for Purchase.** During any Weekly Interest Rate Period or Daily Interest Rate Period, the Bonds in a Daily Mode or Weekly Mode shall be subject to tender for purchase at the option of the Registered Owner (or Beneficial Owner, if such Series of the Bonds is held in Book-

Entry Only Form) as set forth below, and if tendered in accordance with this subsection (a), shall be payable as set forth in subsection (e).

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

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

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

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

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

(i) on any Scheduled Mandatory Purchase Date for a Series of the Bonds;

(ii) on the first day of each Interest Rate Period (except if such new Interest Rate Period is the result of an extension or renewal of a Direct Purchase Agreement in connection with a Direct Purchase Period);

(iii) on each proposed Conversion Date for which notice of mandatory tender has been given to the Registered Owner(s) pursuant to subsection (c) of this section;

(iv) on each proposed redemption date on or after the Par Call Date for which notice of mandatory tender has been given to the Registered Owner(s) pursuant to subsection (c) of this section;

(v) during any Interest Rate Period in which the Series is subject to Credit Enhancement and/or a Liquidity Facility, in the event that such Series ceases to be subject to that Credit Enhancement or Liquidity Facility, as set forth in subsection (b)(2) of this section;

(vi) at any time during a Delayed Remarketing Period, upon notice given by the Remarketing Agent to the Paying Agent in accordance with Section 11 of this Exhibit B of a successful remarketing and the availability of funds sufficient to pay the Purchase Price for all such Bonds (or principal portions thereof in Authorized Denominations), without regard to any notice requirements set forth in subsection (c) of this section; and

(vii) during any Direct Purchase Period, as specified in a Direct Purchase Agreement then in effect.

(2) Mandatory Tender of Bonds Upon Expiration or Termination of Credit Enhancement or Liquidity Facility. In addition, each Series of the Bonds with respect to which Credit Enhancement and/or Liquidity Facility is then in effect shall be subject to mandatory tender for purchase if at any time the Paying Agent receives notice that such Series will cease to be subject to purchase pursuant to such Credit Enhancement or Liquidity Facility as a result of (A) the termination, replacement or expiration of such Credit Enhancement or Liquidity Facility (including upon termination of the Credit Enhancement or Liquidity Facility at the option of the County and including upon an event of default or –

other mandatory tender event under the Reimbursement Agreement or Liquidity Facility, as applicable), or (B) a Conversion. The Purchase Date for such mandatory tender shall be determined by the County as (A) the fifth Business Day preceding any such expiration or termination of such Credit Enhancement or Liquidity Facility (if no Alternate Credit Enhancement or Alternate Liquidity Facility is to be delivered to the Paying Agent), (B) the Business Day on which such Alternate Credit Enhancement or Alternate Liquidity Facility is delivered to the Paying Agent, or (C) the Conversion Date.

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

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

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

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

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

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

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

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

(1) <u>Delayed Remarketing Period – No Direct Purchase Agreement in Effect</u>. With respect to Delayed Remarketing Bonds for which no Direct Purchase Agreement is in effect, a Delayed Remarketing Period will commence on the Purchase Date with respect to the Bonds (of principal portions thereof) for which funds were insufficient to pay the entire Purchase Price. During a Delayed Remarketing Period, the following will apply: (A) the Delayed Remarketing Bonds will bear interest at the Delayed Remarketing Rate during the Delayed Remarketing Period; (B) interest shall continue to be due and payable on each Interest Payment Date and also shall be payable on the last day of the Delayed Remarketing Period for the Delayed Remarketing Bonds; (C) the Remarketing Agent (if any) will continue to be obligated to remarket the applicable Bonds; (D) the Delayed Remarketing Bonds will continue to be subject to optional redemption by the County as described in Section 7; (E) the Finance Director on behalf of the County, by notice to the Paying Agent and the Remarketing Agent, may Elect to effect a Conversion of the Delayed Remarketing Bonds as described in Sections 5 and 6; and (F) if and when the Delayed Remarketing Bonds are successfully remarketed as described in Section 11, the Registered Owner(s) of the Delayed Remarketing Bonds will be obligated to tender

their Bonds to the Paying Agent for purchase. Commencement of a Delayed Remarketing Period is not a default hereunder.

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

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

9. Bank Bonds.

(a) **Draws for Credit and/or Liquidity Support.** In the case of Credit Enhancement that secures, supports or guarantees the payment of principal of and interest on (and may secure or support the payment of the Purchase Price of) the Bonds, the County hereby requests and directs the Paying Agent to draw on any Credit Enhancement on the County's behalf for amounts eligible to be drawn thereunder (including for the purchase of Bonds eligible to be purchased thereunder) by delivering to the Credit Provider a draw request substantially in the form provided in the Credit Enhancement, at the times and otherwise as provided under the Credit Enhancement in an amount that, together with any other proceeds then on hand at the time of the draw request and available for payment of such amount, will be sufficient to make the necessary payment. The County hereby requests and directs the Paying Agent, solely as agent for the County and not in any independent capacity, to draw on any Credit Enhancement on behalf of the County at the times set forth in the Credit Enhancement.

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

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

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

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

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

11. Remarketing of Bonds; Notice of Interest Rates.

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

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

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

12. Bond Purchase Fund. In conjunction with any remarketing, the Paying Agent agrees to establish and maintain on behalf of the County a separate fund to be designated the

"Bond Purchase Fund." The Paying Agent further agrees to establish within the Bond Purchase Fund a separate account to be designated the "Remarketing Account" and, if Credit Enhancement or a Liquidity Facility is delivered in connection with a Conversion, a separate account to be designated the "Credit Enhancement/Liquidity Facility Purchase Account" as follows:

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

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

(c) **Other County Funds; Defeasance of Variable Rate Bonds.** Amounts contributed by the County to pay the Purchase Price as provided in Section 8(e) shall be transferred to the Paying Agent and deposited into the Remarketing Account for use in accordance with subsection (a) of this section. Amounts contributed by the County to defease a portion of the Bonds shall be held in a separate fund created and held under Section 32 of the Ordinance, and shall be applied as provided therein. Except for Bonds in the Fixed Mode, any defeasance plan for Bonds subject to this Mode Agreement shall provide for payment of interest on the Bonds to be defeased (the "defeased Bonds") calculated at the Maximum Rate, shall require the County to deliver a report of a certified accountant verifying the sufficiency of the amount contributed to defease the defeased Bonds, shall provide for the redemption or mandatory tender of the defeased Bonds on the earliest optional redemption or mandatory tender date available under this Mode Agreement, following the date of defeasance, and shall require written notice of defeasance be provided to Moody's and S&P. The notice of defeasance shall state that Bonds continue to be subject to optional tender as provided in Section 8(a) of this Mode Agreement until paid. In the event that defeased Bonds are optionally tendered and cannot be remarketed on the Purchase Date for the optional tender, the defeasance plan shall provide for a direction to the Paying Agent to apply amounts set aside to defease the defeased Bonds to redeem and cancel such tendered Bonds on the Purchase Date.

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

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

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

15. **Direct Payment Period**. Amounts payable to a Direct Purchaser during a Direct Purchase Period may, upon the request of the Direct Purchaser, be made by the County to the Direct Purchaser (without any presentment thereof, except upon the payment of the final installment of principal, and without any notation of such payment being made thereon), in such manner or at such address or addresses in the United States as may be designated by the Direct Purchaser in writing to the Paying Agent and the County. During any such Direct Payment Period, (i) any payment made shall be accompanied by sufficient information to identify the source and proper application of such payment, (ii) the County shall notify the Paying Agent in writing of each such payment, (iii) the Direct Purchaser shall notify the Paying Agent in writing of any failure of the County to make any payment of principal of or interest on the Bonds when due, and the Paying Agent shall not be deemed to have any notice of such failure unless it has received such notice in writing (provided that a failure by the Direct Purchaser to give any such notice will not affect the obligation of the County to make any such payment), and (iv) if any Bonds are sold or transferred, the transferring bondholder shall notify the Paying Agent and the County in writing of the name and address of the transferee, the effective date of the transfer, the principal amount of the Bonds transferred and the payment information notated on the Bonds as hereinafter described, and the Paying Agent will, prior to delivery of such Bonds, make a notation of such Bonds of the date to which interest has been paid thereon and of the amount of any prepayments made on account of the principal thereof. Furthermore, to the extent that the County has made the required payments to any prior bondholder during any Direct Payment Period, the Paying Agent shall have no obligations to make payments of the principal of or interest on the Bonds or to take any other action in respect thereof, except at the express written direction of the County.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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PACIFICA
LAW GROUP

June __, 2019

King County, Washington

Re: King County, Washington
Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019A (the "Series 2019A Bonds") and Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues), Series 2019B (the "Series 2019B Bonds" and together with the Series 2019A Bonds, the "Bonds")

Ladies and Gentlemen:

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

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

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

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

1. The Bond Ordinance and the Mode Agreements are legal, valid and binding obligations of the County, have been duly authorized, executed and delivered and are enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The Bonds have been legally issued and constitute valid and binding general obligations of the County, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. 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 will 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 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 are irrevocably pledged for the annual levy and collection of said taxes and for the prompt payment of the principal of and interest on the Bonds when due.

4. The County also has irrevocably bound itself to set aside and pay into the Multi-Modal LTGO/Sewer Revenue Bond Fund (the "Bond Fund") Revenue of the System in amounts sufficient to pay the principal of and interest on the Bonds when due, and this pledge constitutes a legally valid lien and charge on Revenue of the System junior, subordinate and inferior to Operating and Maintenance Expenses; junior, subordinate and inferior to the lien and charge on Revenue of the System for the payments required to be made into the Parity Bond Fund; junior, subordinate and inferior to the lien and charge on Revenue of the System for the payments required to be made into the Parity Lien Obligation Bond Fund; junior, subordinate and inferior to the lien and charge on Revenue of the System to pay and secure the payment of any Junior Lien Obligations; equal to the lien and charge on Revenue of the System to pay and secure the payment of any Outstanding Multi-Modal LTGO/Sewer Revenue Bonds and any Future Multi-Modal LTGO/Sewer Revenue Bonds; and superior to all other liens and charges of any kind or nature.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The opinion set forth in the preceding sentence is subject to the condition that the County must comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The County has covenanted to comply with all applicable requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

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

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

Very truly yours,

PACIFICA LAW GROUP LLP

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APPENDIX D

EXCERPTS FROM KING COUNTY'S 2017 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 28, 2018

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, 2017, 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 or the Public Transportation fund, each major funds, which in aggregate represent 92 percent, 91 percent, and 90 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, as of December 31, 2017, 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 discussed in Note 1 to the financial statements, in 2017, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14;* and Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68, and No. 73.* 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 and required supplementary information listed in the table of contents 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 combining financial statements and schedules are presented for the 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 Introductory and Statistical Sections are presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated June 28, 2018, 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

State Auditor

Olympia, WA

CAFR

Comprehensive Annual Financial Report

January 1 - December 31, 2017 King County, 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, 2017. 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, 2017, the assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources by $6.1 billion (referred to as *net position*). Of this amount, $701.8 million represents unrestricted net position, which may be used to meet the County's short-term obligations to its vendors, creditors, employees and customers.

- The County's total net position increased 11.1 percent or $605.1 million over last year mainly because of capital assets acquisitions and construction that did not utilize borrowing. Public Transportation used federal grants to make several purchases of new fuel-efficient and high technology buses to add to its existing fleet. Two major construction projects, namely, the Child and Family Justice Center and the Puget Sound Emergency Radio Network, were in the early development phase where costs are being financed through current revenues until longer-term financing becomes available.

- The governmental activities component of net position grew by 12.9 percent or $334.1 million over last year while the business-type activities component gained 9.5 percent or $271.0 million.

- At yearend 2017, the County's governmental funds reported combined fund balances of $967.1 million, an increase of $121.4 million over the prior year. Approximately 8.3 percent or $80.0 million of this amount is unassigned fund balance which is available for spending at the government's discretion.

- At yearend 2017, unrestricted fund balance (the total of the *committed*, *assigned* and *unassigned* components of fund balance) for the General Fund was $142.8 million, or approximately 19.6 percent of total General Fund expenditures. Total fund balance for the General Fund increased 17.2 percent or $21.3 million from the prior year.

- Total outstanding debt of the County decreased by 1.7 percent or $84.3 million in 2017. Newly issued debt comprised general obligation bonds at $324.3 million and revenue bonds at $237.5 million while principal payments and refunding issues amounted to $646.1 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; law, safety and justice; physical environment; transportation; economic environment; health and human services; culture and recreation; debt service and capital outlay. Also included within governmental activities are the operations of the King County Flood Control District which, although legally separate, is reported as a blended component unit 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 public transportation, wastewater treatment, solid waste disposal and recycling, airport property leasing, ferry, radio communications and public internet 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, Cultural Development Authority of King County and NJB Properties. 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 financial statements for these discrete component units can be found in the Basic Financial Statements section, immediately following the fiduciary funds financial statements.

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 **major funds**, namely, the General Fund and the Behavioral Health Fund. Each major fund 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 and Behavioral Health Fund, appropriated at the department or division level. Budgetary comparison schedules are 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 column within the proprietary funds financial statements.

Internal service funds are used to report activities that provide centralized services to the County's other programs and activities on a cost reimbursement basis. The County uses this type of fund to account for services, such as, motor pool, information and technology, employee benefits, facilities management, risk management, financial and various other administrative services. Most of these funds support or benefit governmental rather than business-type functions and those funds have therefore been appropriately consolidated within governmental activities in the government-wide financial statements. One of the internal service funds, however, provides equipment and fleet maintenance services almost exclusively to the Water Quality Enterprise and is therefore consolidated within the business-type activities in the government-wide financial statements. At the fund level, because of their business-type nature, all the internal service funds are aggregated for reporting purposes under the proprietary fund group in the basic financial statements with individual fund statements provided as other supplementary information in the Internal Service Funds combining section.

Fiduciary funds

Fiduciary funds such as trust and agency funds are used to account for resources held for the benefit of parties outside the government. This fund group also includes 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, except fiduciary funds are not required to prepare a statement of activities. 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 $6.1 billion, 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	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	$ 1,524,913	$ 1,344,764	$ 2,180,420	$ 2,032,013	$ 3,705,333	$ 3,376,777
Capital assets	3,160,561	3,062,261	6,046,506	5,968,158	9,207,067	9,030,419
Total Assets	4,685,474	4,407,025	8,226,926	8,000,171	12,912,400	12,407,196
Deferred Outflows of Resources	88,119	136,468	280,051	319,215	368,170	455,683
Liabilities						
Long-term liabilities	1,544,905	1,751,792	5,035,343	5,172,486	6,580,248	6,924,278
Other liabilities	206,158	176,344	244,241	241,759	450,399	418,103
Total Liabilities	1,751,063	1,928,136	5,279,584	5,414,245	7,030,647	7,342,381
Deferred Inflows of Resources	88,326	15,300	106,109	54,848	194,435	70,148
Net Position						
Net investment in capital assets	2,404,324	2,233,273	1,903,034	1,788,355	4,307,358	4,021,628
Restricted	767,889	701,966	278,438	244,689	1,046,327	946,655
Unrestricted	(238,009)	(335,182)	939,812	817,249	701,803	482,067
Total Net Position	$ 2,934,204	$ 2,600,057	$ 3,121,284	$ 2,850,293	$ 6,055,488	$ 5,450,350

By far, the largest portion of King County's net position, 71.1 percent, reflects its net investment in capital assets. The County employs these long-lived assets in providing a variety of public goods and services to its citizens. Accordingly, the net position associated with the capital assets do not represent amounts available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay the capital-related borrowing must be provided from other more current or liquid assets.

An additional portion of the King County's net position, 17.3 percent or $1.0 billion, represents resources that are subject to external restrictions on how they may be used. The remaining balance of $701.8 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 11.1 percent or $605.1 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 $334.1 million, or 12.9 percent from the prior fiscal year for an ending balance of $2.9 billion. Net position invested in capital assets comprised 81.9 percent of total net position, or $2.4 billion, an increase from the prior year of $171.1 million. The increase was caused by the combined net additions to capital assets and net reductions in outstanding capital related debt during the year. Net position restricted for specific purposes amounted to $767.9 million, including $246.2 million for future capital spending, $215.9 million dedicated to health and human services, and $101.4 million for law, safety and justice services.

Governmental activities accounted for 55.2 percent of the total improvement in net position of the County. The total revenues for governmental activities were $2.2 billion, an increase of 1.9 percent or $40.9 million from the prior year. Increases in retail sales and use taxes accounted for the largest portion, $27.8 million, followed by property taxes with $23.8 million. The increase in retail sales and use taxes was the result of incremental tax rate increases in 2017 earmarked for the general fund, E-911 services and mental illness and drug dependency programs. The increase in property taxes were due to prior year voter-approved levies taking effect in 2017 for public safety and other programs in the general fund.

Expenses for governmental activities during the year decreased in the aggregate by a net of 0.8 percent or $14.6 million. Culture and recreation expenses decreased by 36.2 percent due to the expiration of an agreement which required the County to transfer bond proceeds to the Cultural Development Authority through 2016 to fund public art. Interest and debt service costs decreased by 12.5 percent, the result of debt defeasances that took effect in 2017. Meanwhile, a 17.1 percent increase in spending occurred in transportation services as the County continued to catch up on deferred maintenance for the roads and bridges infrastructure.

Changes in Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	$ 811,062	$ 794,180	$ 1,055,751	$ 1,110,882	$ 1,866,813	$ 1,905,062
Operating grants and contributions	234,877	218,760	36,387	58,374	271,264	277,134
Capital grants and contributions	17,169	29,709	46,741	89,336	63,910	119,045
General revenues						
Property taxes	833,200	809,365	29,000	28,118	862,200	837,483
Retail sales and use taxes	226,695	198,941	591,088	567,128	817,783	766,069
Other taxes	21,992	59,973	—	—	21,992	59,973
Unrestricted interest earnings	16,167	11,830	12,147	10,286	28,314	22,116
Miscellaneous revenue	2,463	—	—	—	2,463	—
Total revenues	2,163,625	2,122,758	1,771,114	1,864,124	3,934,739	3,986,882
Expenses[(a)]						
General government[(b) (c)]	229,651	214,328	—	—	229,651	214,328
Law, safety and justice[(b) (c)]	574,938	572,925	—	—	574,938	572,925
Physical environment[(b) (c)]	20,784	21,046	—	—	20,784	21,046
Transportation[(b)]	103,509	88,394	—	—	103,509	88,394
Economic environment[(b) (c)]	187,712	226,291	—	—	187,712	226,291
Health and human services[(c)]	632,257	602,843	—	—	632,257	602,843
Culture and recreation[(b) (c)]	59,726	93,599	—	—	59,726	93,599
Interest and other debt service costs	25,987	29,714	—	—	25,987	29,714
Airport	—	—	23,830	26,304	23,830	26,304
Public transportation	—	—	883,804	848,622	883,804	848,622
Solid waste	—	—	105,597	132,386	105,597	132,386
Water quality	—	—	466,564	467,987	466,564	467,987
Other enterprise activities	—	—	15,029	14,773	15,029	14,773
Total expenses	1,834,564	1,849,140	1,494,824	1,490,072	3,329,388	3,339,212
Increase in net position before transfers and special items	329,061	273,618	276,290	374,052	605,351	647,670
Transfers	5,299	(4,265)	(5,299)	4,265	—	—
Special items	(213)	5,042	—	—	(213)	5,042
Increase in net position	334,147	274,395	270,991	378,317	605,138	652,712
Net position, beginning of year[(d)]	2,600,057	2,325,662	2,850,293	2,471,976	5,450,350	4,797,638
Net position, end of year	$ 2,934,204	$ 2,600,057	$ 3,121,284	$ 2,850,293	$ 6,055,488	$ 5,450,350

(a) Expenses for all functions include the allocation of indirect expenses from general government. The amount of indirect general government expenses allocated to each function is shown in a separate column on the government-wide Statement of Activities next to the column of direct operating expenses incurred by each function. In the above statement, the $229.7 million in general government expense consists of $271.9 million in direct program expenses reduced by indirect charges of $42.3 million that was charged to the other benefiting functions.

(b) 2016 expenses in these functions were adjusted for the corresponding effects of the restatements of beginning net position mentioned in the footnote (d) below.

(c) 2016 expenses in these functions were adjusted due to a redefinition of functional components to make the classification more meaningful to County stakeholders. Also the 2016 function labels "public safety" and "mental and physical health" were replaced in 2017 by "law, safety and justice" and "health and human services", respectively.

(d) Net position, beginning of year has been restated. See Note 18 - Components of Fund Balance, Restrictions, Restatements and Special Item.

Business-type Activities King County's business-type activities reported a net position of $3.1 billion, increasing by 9.5 percent or $271.0 million from the prior year. Of the total net position for business-type activities, 61.0 percent or $1.9 billion was invested in capital assets net of the related debt used to finance the acquisition or construction of these capital assets. Another 8.9 percent or $278.4 million of the total net position of business-type activities is restricted for spending on capital projects, debt service, regulatory assets and environmental liabilities. The remaining 30.1 percent or $939.8 million is unrestricted net position which is available to meet ongoing obligations to customers, vendors, other creditors and employees.

Business-type activities' net position of $3.1 billion comprised 51.5 percent of the total County net position at the end of 2017. This resulted from an increase during 2017 which accounted for 44.8 percent of the total increase in aggregate net position of the County. This growth in net position was due primarily to acquisitions of capital assets not funded through long-term debt, as in the case of new bus purchases by the Public Transportation Enterprise.

Total revenues of business-type activities decreased by 5.0 percent or $93.0 million over the prior year. Grants and contributions declined sharply at 37.7 percent and 47.7 percent for operating and capital, respectively. Charges for services declined by 5.0 percent. The drop in grant revenues was attributable to a tapering off of grant eligible spending on public transportation buses after the activity crested in early 2017. Only retail sales and use tax revenues showed a slight growth of 4.2 percent driven by favorable business conditions.

Business-type activities expenses stayed at about the same level over last year at $1.5 billion. Only public transportation had a notable increase in expenses at 4.1 percent. Expenses for solid waste and airport declined by 20.2 percent and 9.4 percent, respectively, while that for water quality dipped slightly by 0.3 percent over the prior year. The marked reduction in solid waste expenses in 2017 reflects a normalization in the trend coming off the 2016 period when there was a significant increase in expenses corresponding to an upward revision in the system-wide estimated closure and post-closure care liability. Another reason for the general decrease in expenses in 2017 was an across-the-board reduction in pension-related costs due to changes in actuarial assumptions in the main retirement plan.

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, 2017, the County's governmental funds reported a combined fund balance of $967.1 million, an increase of 14.4 percent or $121.4 million in comparison with the prior year. Approximately 8.3 percent or $80.0 million constitutes *unassigned fund balance*. The remainder of fund balance is either *nonspendable, restricted, committed* or *assigned* to indicate, respectively, that it is 1) not in spendable form or legally required to be maintained intact, $11.4 million, 2) restricted for particular purposes, $785.4 million, 3) committed for particular purposes, $25.2 million, or assigned for particular purposes, $65.1 million.

The **General Fund** is the chief operating fund of the County. At the end of the 2017 fiscal year, total fund balance for the General Fund was $144.8 million. Unassigned fund balance totaled $98.4 million, an increase of 48.6 percent or $32.2 million over the prior year. 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 $729.7 million. The unassigned fund balance of $98.4 million represents 13.5 percent of total General Fund expenditures, compared to 9.3 percent in 2016 while the total fund balance of $144.8 million represents 19.8 percent of total expenditures in 2017, compared to 17.4 percent in 2016.

Fund balance of the General Fund increased by 17.2 percent or $21.3 million during 2017. The increase in fund balance was attributed to an overall increase to nearly all revenue streams. The notable increases occurred in property taxes and sales taxes by $10.4 million and $5.6 million, respectively, due to new levies and continued growth in consumer spending. In addition, miscellaneous revenue and charges for services increased by $7.4 million and $4.1 million, respectively, due to recent rate increases and additional revenue streams from new service offerings.

The **Behavioral Health Fund** provides oversight and management of crisis services, mental health treatment, substance use disorder treatment and diversion and reentry services to low income clients, with an emphasis on prevention, intervention, treatment and recovery. At the end of 2017, it had a total fund balance of $57.3 million, a decrease of 21.4 percent or $15.6 million over the prior year.

The large decrease in fund balance in the current year was caused by an increase in expenditures owing to growth in service demand and an unanticipated revenue shortfall in grant funding. The increase of $40.4 million in expenditures were most notable in mental health services and substance abuse services with increases of $16.6 million and $20.2

million, respectively. Although revenues increased from last year by $17.6 million, many grants were not renewed or continued to help defray the increase in program costs.

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, 2017, the County's proprietary funds reported a combined net position of $3.0 billion, an increase of 9.1 percent or $250.6 million in compared to the prior year. The Public Transportation Enterprise net position increased 8.0 percent or $151.7 million while the net position of the Water Quality Enterprise improved by 8.9 percent or $57.2 million.

The **Public Transportation Enterprise** accounts for the operations, maintenance and capital improvements of the County's public transportation system. At the end of 2017, the Public Transportation Enterprise had total net position of $2.0 billion of which 71.0 percent or $1.5 billion was invested in capital assets net of associated debt; 2.1 percent or $42.6 million was restricted for capital projects and debt service; while 26.9 percent or $550.9 million was unrestricted. Unrestricted net position increased from the prior year by 18.8 percent or $87.1 million. The large increase is due to continually keeping expenses under revenues. The key revenues that help continue to increase the Enterprise's net position are sales taxes at $591.1 million, or 58.4 percent of total revenues; passenger fares at $176.3 million, or 17.4 percent of total revenue; and service contracts at $151.3 million or 15.0 percent of total revenues. Total operating expenses increased by $46.5 million from the prior year, with personal services experiencing the largest increase at $16.3 million and internal services increasing by $12.9 million.

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 2017, the Water Quality Enterprise reported total net position of $696.6 million of which 25.9 percent or $180.7 million was invested in capital assets net of the related debt; 33.9 percent or $235.9 million was restricted for debt service and regulatory assets and environmental liabilities; and the remaining 40.2 percent or $280.0 million was unrestricted. Changes in net position were largely due to increased sewage disposal, capacity charge and other operating revenues. The Enterprise also prevailed in a court judgment and agreed to a settlement which released it from a liability of $15.4 million in attorney's fees.

General Fund Budgetary Highlights

King County budgets on a biennial basis with each budget period beginning in an odd-numbered year. This is the first year of the 2017-2018 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 $14.4 million in unexpected revenues and $38.2 million in expenditures due to 2017 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 $4.0 million; law, safety and justice by $17.8 million; health and human services by $4.5 million; capital outlay by $1.5 million; and transfers out by $10.4 million. The majority of the significant increases to law, safety and justice 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 Property taxes are by far the largest revenue source, accounting for 41.9 percent. Charges for services, retail sales and use taxes and intergovernmental revenues are the other significant sources of revenues for the General Fund, with 18.4 percent, 16.5 percent and 14.6 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 $890.5 million less than the final appropriation. Public safety and general government appropriations comprise the majority of total actual expenditures at 68.2 percent and 17.1 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, 2017, amounted to $3.2 billion for governmental activities and $6.0 billion for business-type activities totaling $9.2 billion, 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 $176.6 million, net of depreciation.

Major capital asset events during 2017 included the following:

- Construction is underway on the voter-approved, $210.0 million, Children and Family Justice Center which replaces the existing Youth Services Center. The new justice center is scheduled to be completed in the fall of 2019, and the parking garage is scheduled to be completed by the spring of 2021.

- Public Transportation purchased and placed into service 108 new buses during the year at a cost of $114.1 million. Water Quality brought new facilities into service during the year at a cost of $61.1 million. This includes buildings at a cost of $5.8 million and infrastructure at a cost of $41.6 million.

- Solid Waste Enterprise fully completed construction of the new Factoria Recycling and Transfer Station at a cost of $91.0 million in September 2017. The new facility replaced the 1960s-era Factoria Transfer Station with a larger, modern transfer station that meets current building and environmental standards, and that accommodates future growth in the region.

- Significant land acquisitions for Parks, Open Spaces and Flood Control were also made in 2017.

- Puget Sound Emergency Radio Network (PSERN) is engaged in replacing the existing radio system that is over 20 years old. The new system as a whole will provide improved coverage, capacity, capability and connectivity in PSERN'S regional service area. Currently, King County has spent $22.3 million on the project, and construction is anticipated to be completed in 2021.

A summary of the 2017 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	
	2017	2016		2017	2016	2017	2016
Land and land rights	$ 1,049.3	$ 1,016.9		$ 491.7	$ 485.8	$ 1,541.0	$ 1,502.7
Buildings*	538.7	566.3		1,828.5	1,820.5	2,367.2	2,386.8
Leasehold Improvements*	12.4	13.4		3.5	3.9	15.9	17.3
Improvements other than buildings*	51.3	60.1		235.9	199.3	287.2	259.4
Infrastructure - roads and bridges	1,106.2	1,101.4	**	—	—	1,106.2	1,101.4
Infrastructure - other*	26.7	21.9		1,672.3	1,682.7	1,699.0	1,704.6
Equipment, software and art collection*	99.6	108.5		1,281.2	1,255.6	1,380.8	1,364.1
Construction in progress	276.5	173.9	**	533.4	520.4	809.9	694.3
Total	$ 3,160.7	$ 3,062.4		$ 6,046.5	$ 5,968.2	$ 9,207.2	$ 9,030.6

* 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 2017, King County had a total of $5.2 billion in debt outstanding. Of this amount, $1.9 billion comprises debt backed by the full faith and credit of the County. The other $3.3 billion 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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
General obligation bonds	$ 805.7	$ 849.4	$ 1,054.4	$ 1,077.0	$ 1,860.1	$ 1,926.4
Lease revenue bonds	—	18.4	—	—	—	18.4
GO capital leases [(a)]	8.8	—	—	—	8.8	—
Revenue bonds	—	—	3,155.9	3,170.4	3,155.9	3,170.4
State revolving loans	—	—	218.0	206.0	218.0	206.0
Total	$ 814.5	$ 867.8	$ 4,428.3	$ 4,453.4	$ 5,242.8	$ 5,321.2

(a) Beginning in 2017, NJB Properties, Inc. as a component unit of King County went from being blended to being discretely presented for financial reporting. As a result, the NJB Properties lease revenue bonds liability was removed from the County and reported with the component unit. Because of the existing project lease agreement between the two parties, the County retroactively recognized a capital lease liability. Under the lease agreements, the County's obligation to pay rent to NJB Properties is a limited tax general obligation.

Total debt decreased over the previous year by 1.5 percent or $78.4 million (a 6.1 percent or $53.3 million decrease for governmental activities and a 0.6 percent or $25.1 million decrease for business-type activities). Governmental activities' outstanding debt decreased primarily due to $69.9 million debt service payments offset by an increase of $33.3 million in new limited general obligation bond issuances.

Business-type activities' outstanding debt decreased primarily due to the issuance of $485.4 million in both new limited tax general obligation bonds and refunding sewer revenue bonds, with related net premiums and discounts of $51.4 million, offset by $90.6 million debt service payments and $440.4 million in defeased bonds. State revolving loans increased by $12.0 million.

During 2017, the County refinanced some of its existing business-type activities debt taking advantage of favorable interest rates. The County refinanced business-type debt in the amount of $159.7 million of sewer revenue bonds and $175.6 million of limited tax general obligation bonds payable from sewer revenue that is expected to decrease future aggregate debt service payments by $77.0 million over the life of the bonds.

The County maintained a rating of "Aaa" from Moody's, a rating of "AAA" from Standard & Poor's, and a rating of "AAA" 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 "Aa1" 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 $13.4 billion, significantly higher than the County's outstanding net general obligation long-term liabilities of $719.5 million. For metropolitan functions the debt limitation is also $13.4 billion and the County's outstanding net general obligation debt for metropolitan functions is $880.1 million.

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

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

A broad-based economic recovery continues in the United States. Retail sales increased 4.5 percent throughout 2017. Stock market values, relatively flat in 2015 and most of 2016, soared following the November 2016 election at least in part due to the prospect of a friendlier corporate earnings environment. This trend continued throughout 2017, punctuated in December by cuts to corporate and personal income taxes. Personal income is growing steadily, and corporate profits are strong. The housing market is flourishing and real manufacturing output is at an all-time high. The Blue Chip consensus forecast is for a 2.8 percent growth in real GDP in 2018.

Items of note within King County:

- King County's unemployment rate is now at 4.2 percent (as of January 2018), lower than state and national unemployment rates, which are 4.7 percent and 4.1 percent, respectively. Amazon continues to hire thousands of new employees in King County each year and boasts the most job openings in the area.

- Boeing, while still the largest employer in Washington State, has seen steady declines in employment the last several years due to attrition and increased efficiency of assembly processes. Despite the reductions Boeing's outlook continues to be solid. It continues to build the 737 MAX in Renton, a plane they have received over 4,300 orders for as of March 2018.

- In the years since the Great Recession, County taxable retail sales have rebounded thanks to growing incomes, enhanced consumer confidence, strong employment, and a booming construction sector. Local retail sales tax collections grew 7.9 percent in 2014, 8.8 percent in 2015, 7.7 percent in 2016, and 5.2 percent in 2017.

- King County's first ever master labor agreement was reached in May 2018, indicating a strong partnership with employees.

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

REQUESTS FOR INFORMATION

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

CAFR

Comprehensive Annual Financial Report

January 1 - December 31, 2017 King County, WA

Basic Financial Statements

CAFR

Comprehensive Annual Financial Report

STATEMENT OF NET POSITION
DECEMBER 31, 2017
(IN THOUSANDS)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 1,300,353	$ 1,672,068	$ 2,972,421	$ 333,680
Investments	2,670	—	2,670	32,456
Receivables, net	228,650	266,530	495,180	173,217
Internal balances	(82,876)	82,876	—	—
Inventories	2,262	32,372	34,634	11,909
Prepayments and other assets	11,127	5,980	17,107	19,580
Net pension asset	49,475	—	49,475	—
Capital assets:				
Nondepreciable assets	2,442,405	1,022,534	3,464,939	16,446
Depreciable assets, net	718,156	5,023,972	5,742,128	273,731
Net investment in capital lease	—	—	—	8,843
Deposits with other governments	—	—	—	600
Regulatory assets - environmental remediation	—	116,750	116,750	—
Other assets	13,252	3,844	17,096	24,448
TOTAL ASSETS	4,685,474	8,226,926	12,912,400	894,910
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on refunding	21,014	231,731	252,745	—
Deferred outflows on pensions	67,105	48,320	115,425	303
TOTAL DEFERRED OUTFLOWS OF RESOURCES	88,119	280,051	368,170	303
LIABILITIES				
Accounts payable and other current liabilities	139,161	142,397	281,558	83,626
Accrued liabilities	42,158	92,120	134,278	49,763
Unearned revenues	24,839	9,724	34,563	13,299
Noncurrent liabilities:				
Due within one year	131,875	151,470	283,345	2,338
Due in more than one year	1,413,030	4,883,873	6,296,903	27,296
TOTAL LIABILITIES	1,751,063	5,279,584	7,030,647	176,322
DEFERRED INFLOWS OF RESOURCES				
Advanced grants	47	—	47	—
Deferred inflows on pensions	88,279	59,859	148,138	226
Rate stabilization	—	46,250	46,250	—
TOTAL DEFERRED INFLOWS OF RESOURCES	88,326	106,109	194,435	226
NET POSITION				
Net investment in capital assets	2,404,324	1,903,034	4,307,358	290,062
Restricted for:				
Capital projects	246,181	30,336	276,517	—
Debt service	—	174,325	174,325	—
General government	30,614	—	30,614	—
Law, safety and justice	101,373	—	101,373	—
Physical environment	18,482	—	18,482	—
Transportation	64,639	—	64,639	—
Economic environment	66,552	—	66,552	—
Health and human services	215,910	—	215,910	—
Culture and recreation	21,518	—	21,518	—
Regulatory assets and environmental liabilities	—	73,777	73,777	—
Expendable	—	—	—	49,171
Nonexpendable	2,620	—	2,620	2,632
Unrestricted	(238,009)	939,812	701,803	376,800
TOTAL NET POSITION	$ 2,934,204	$ 3,121,284	$ 6,055,488	$ 718,665

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(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	$ 271,920	$ (42,269)	$ 140,081	$ 21,260	$ 7,758	$ (60,552)	$ —	$ (60,552)	$ —
Law, safety and justice	573,433	1,505	158,375	32,210	2	(384,351)	—	(384,351)	—
Physical environment	20,254	530	37,316	5,582	—	22,114	—	22,114	—
Transportation	101,343	2,166	3,123	24,658	5,255	(70,473)	—	(70,473)	—
Economic environment	184,639	3,073	71,750	50,913	1,708	(63,341)	—	(63,341)	—
Health and human services	625,388	6,869	391,338	100,143	440	(140,336)	—	(140,336)	—
Culture and recreation	58,514	1,212	9,079	111	2,006	(48,530)	—	(48,530)	—
Interest and other debt service costs	25,987	—	—	—	—	(25,987)	—	(25,987)	—
Total governmental activities	1,861,478	(26,914)	811,062	234,877	17,169	(771,456)	—	(771,456)	—
Business-type activities:									
Airport	23,428	402	20,965	1	1,368	—	(1,496)	(1,496)	—
Public Transportation	864,278	19,526	355,548	35,750	41,064	—	(451,442)	(451,442)	—
Solid Waste	102,895	2,702	143,524	181	—	—	38,108	38,108	—
Water Quality	462,554	4,010	524,439	—	—	—	57,875	57,875	—
Institutional Network	2,445	60	3,004	—	—	—	499	499	—
Marine	7,927	185	2,678	455	4,309	—	(670)	(670)	—
Radio Communications Services	4,383	29	5,593	—	—	—	1,181	1,181	—
Total business-type activities	1,467,910	26,914	1,055,751	36,387	46,741	—	(355,945)	(355,945)	—
Total primary government	$ 3,329,388	$ —	$ 1,866,813	$ 271,264	$ 63,910	$ (771,456)	$ (355,945)	$(1,127,401)	$ —
Component Units	$ 1,009,117		$ 992,694	$ 16,624	$ 892				$ 1,093
General revenues:									
Property taxes						$ 833,200	$ 29,000	$ 862,200	$ —
Retail sales and use taxes						226,695	591,088	817,783	—
Business and other taxes						21,992	—	21,992	—
Interest earnings						16,167	12,147	28,314	(839)
Miscellaneous revenues						2,463	—	2,463	—
Transfers						5,299	(5,299)	—	—
Special item						(213)	—	(213)	—
Total general revenues, transfers and special item						1,105,603	626,936	1,732,539	(839)
Change in net position						334,147	270,991	605,138	254
Net position - January 1, 2017 (Restated)						2,600,057	2,850,293	5,450,350	718,411
Net position - December 31, 2017						$ 2,934,204	$ 3,121,284	$ 6,055,488	$ 718,665

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

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017
(IN THOUSANDS)

	GENERAL FUND	BEHAVIORAL HEALTH FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	$ 85,179	$ 66,743	$ 801,554	$ 953,476
Investments	—	—	2,670	2,670
Taxes receivable-delinquent	8,086	55	8,542	16,683
Accounts receivable, net	17,237	1,900	29,833	48,970
Interest receivable	14,323	—	—	14,323
Due from other funds	1,489	78	3,832	5,399
Due from other governments, net	64,207	3,279	79,102	146,588
Inventory	—	—	834	834
Prepayments	—	—	7,914	7,914
Advances to other funds	—	—	4,000	4,000
Notes receivable	—	—	13,253	13,253
TOTAL ASSETS	$ 190,521	$ 72,055	$ 951,534	$ 1,214,110
LIABILITIES				
Accounts payable	$ 4,561	$ 12,610	$ 88,903	$ 106,074
Due to other funds	4,944	208	6,063	11,215
Interfund short-term loans payable	—	—	15,144	15,144
Due to other governments	2,025	—	8,279	10,304
Wages payable	19,720	605	11,005	31,330
Taxes payable	147	1	96	244
Unearned revenues	—	1,309	23,119	24,428
Custodial accounts	1,589	—	6,404	7,993
Advances from other funds	—	—	17,679	17,679
TOTAL LIABILITIES	32,986	14,733	176,692	224,411
DEFERRED INFLOWS OF RESOURCES				
Advanced grants	—	—	47	47
Unavailable revenue-property taxes	6,472	40	6,553	13,065
Unavailable revenue-other receivables	6,293	—	3,234	9,527
TOTAL DEFERRED INFLOWS OF RESOURCES	12,765	40	9,834	22,639
FUND BALANCES				
Nonspendable	—	—	11,367	11,367
Restricted	2,016	57,282	726,107	785,405
Committed	25,161	—	43	25,204
Assigned	19,181	—	45,905	65,086
Unassigned	98,412	—	(18,414)	79,998
TOTAL FUND BALANCES	144,770	57,282	765,008	967,060
TOTAL LIABILIITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 190,521	$ 72,055	$ 951,534	$ 1,214,110

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

Total fund balances - governmental funds	$ 967,060
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	3,110,079
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	128,253
Governmental activities internal service funds assets and liabilities are included in the governmental activities in the statement of net position.	83,821
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,355,009)
Net position of governmental activities	$ 2,934,204

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, 2017
(IN THOUSANDS)

	GENERAL FUND	BEHAVIORAL HEALTH FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes:				
Property taxes	$ 344,847	$ 3,259	$ 485,319	$ 833,425
Retail sales and use taxes	134,140	—	92,555	226,695
Business and other taxes	4,295	14	17,684	21,993
Licenses and permits	7,783	—	20,470	28,253
Intergovernmental revenues	21,304	25,589	187,181	234,074
Charges for services	257,517	256,419	243,681	757,617
Fines and forfeits	25,754	—	615	26,369
Interest earnings	8,114	767	5,848	14,729
Miscellaneous revenues	18,191	919	29,087	48,197
TOTAL REVENUES	821,945	286,967	1,082,440	2,191,352
EXPENDITURES				
Current:				
General government	218,379	—	35,786	254,165
Law, safety and justice	471,092	—	133,621	604,713
Physical environment	—	—	24,470	24,470
Transportation	—	—	107,082	107,082
Economic environment	503	—	188,886	189,389
Health and human services	38,560	305,591	302,688	646,839
Culture and recreation	—	—	57,508	57,508
Debt service:				
Principal	—	—	63,702	63,702
Interest and other debt service costs	75	—	33,487	33,562
Capital outlay	1,138	—	154,057	155,195
TOTAL EXPENDITURES	729,747	305,591	1,101,287	2,136,625
Excess (deficiency) of revenues over (under) expenditures	92,198	(18,624)	(18,847)	54,727
OTHER FINANCING SOURCES (USES)				
Transfers in	13,255	5,477	349,885	368,617
Transfers out	(84,358)	(2,428)	(262,071)	(348,857)
General government debt issued	—	—	33,325	33,325
Premium on general government bonds issued	—	—	5,037	5,037
Sale of capital assets	168	—	4,841	5,009
Insurance recoveries	—	—	3,538	3,538
TOTAL OTHER FINANCING SOURCES (USES)	(70,935)	3,049	134,555	66,669
Net change in fund balances	21,263	(15,575)	115,708	121,396
Fund balances - beginning	125,479	72,857	648,320	846,656
Prior period adjustment	(1,972)	—	980	(992)
Fund balances - ending	$ 144,770	$ 57,282	$ 765,008	$ 967,060

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, 2017

(IN THOUSANDS)

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental funds	$ 121,396
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.	109,269
The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net position.	(9,175)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	7,937
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.	25,339
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.	52,790
The net revenues and expenses of certain activities of internal service funds are reported with governmental activities.	26,591
Change in net position of governmental activities	$ 334,147

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017
(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	$ 810,548	$ 366,227	$ 120,050	$ 1,296,825	$ 361,020
Restricted cash and cash equivalents	4,577	2,481	16,595	23,653	274
Accounts receivable, net	24,172	57,767	14,962	96,901	2,049
Due from other funds	2,719	2,087	882	5,688	4,378
Interfund short-term loans receivable	—	—	—	—	15,144
Property tax receivable-delinquent	408	—	75	483	—
Due from other governments	163,561	—	5,559	169,120	37
Inventory of supplies	20,960	9,531	1,876	32,367	1,433
Prepayments and other assets	254	579	196	1,029	3,215
Total current assets	1,027,199	438,672	160,195	1,626,066	387,550
Noncurrent assets					
Restricted assets:					
Cash and cash equivalents	42,532	242,406	52,238	337,176	—
Due from other governments	26	—	—	26	—
Total restricted assets	42,558	242,406	52,238	337,202	—
Capital assets:					
Nondepreciable assets	280,768	649,011	92,755	1,022,534	17,442
Depreciable assets, net	1,249,310	3,428,774	336,094	5,014,178	42,836
Total capital assets	1,530,078	4,077,785	428,849	6,036,712	60,278
Other noncurrent assets:					
Prepayments	4,952	—	—	4,952	—
Notes receivable	356	—	—	356	—
Advances to other funds	—	—	—	—	13,679
Regulatory and other utility assets, net of amortization	—	116,750	—	116,750	—
Other assets:	—	3,488	—	3,488	—
Total other noncurrent assets	5,308	120,238	—	125,546	13,679
Total noncurrent assets	1,577,944	4,440,429	481,087	6,499,460	73,957
TOTAL ASSETS	2,605,143	4,879,101	641,282	8,125,526	461,507
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows on refunding	2,588	227,851	1,292	231,731	—
Deferred outflows on pensions	38,484	5,767	4,069	48,320	9,341
TOTAL DEFERRED OUTFLOWS OF RESOURCES	41,072	233,618	5,361	280,051	9,341

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017
(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	$ 89,388	$ 34,827	$ 10,923	$ 135,138	$ 13,049
Retainage payable	673	2,481	3,361	6,515	19
Estimated claim settlements	—	—	—	—	52,638
Due to other funds	3,648	25	412	4,085	167
Due to other governments	—	—	11	11	—
Interest payable	274	66,590	620	67,484	42
Wages payable	19,235	3,080	2,315	24,630	4,947
Compensated absences payable	9,843	669	639	11,151	894
Taxes payable	11	16	368	395	11
Unearned revenues	7,251	2,325	148	9,724	413
Pollution remediation	—	6,627	—	6,627	—
General obligation bonds payable	12,250	29,340	6,640	48,230	5,465
Revenue bonds payable	—	55,535	—	55,535	—
Capital leases payable	133	—	—	133	—
State revolving loan payable	—	15,690	—	15,690	—
Landfill closure and post-closure care	—	—	13,207	13,207	—
Other liabilities	—	—	897	897	2,062
Total current liabilities	142,706	217,205	39,541	399,452	79,707
Noncurrent liabilities					
Compensated absences payable	41,572	10,596	5,495	57,663	16,002
Other postemployment benefits	11,262	1,631	1,359	14,252	2,645
Net pension liability	289,836	35,112	24,761	349,709	59,463
General obligation bonds payable	66,427	755,018	184,756	1,006,201	5,850
Revenue bonds payable	—	3,100,316	—	3,100,316	—
Capital leases payable	2,381	—	—	2,381	—
State revolving loans payable	—	202,354	—	202,354	—
Landfill closure and post-closure care	—	—	109,675	109,675	—
Estimated claim settlements	—	—	—	—	106,035
Pollution remediation	593	39,833	256	40,682	—
Other liabilities	—	—	640	640	—
Total noncurrent liabilities	412,071	4,144,860	326,942	4,883,873	189,995
TOTAL LIABILITIES	554,777	4,362,065	366,483	5,283,325	269,702
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows on rate stabilization	—	46,250	—	46,250	—
Deferred inflows on pensions	46,512	7,825	5,522	59,859	12,184
TOTAL DEFERRED INFLOWS OF RESOURCES	46,512	54,075	5,522	106,109	12,184
NET POSITION					
Net investment in capital assets	1,451,476	180,727	261,037	1,893,240	48,963
Restricted for:					
Capital projects	30,336	—	—	30,336	255
Debt service	12,222	162,103	—	174,325	—
Regulatory assets and environmental liabilities	—	73,777	—	73,777	—
Unrestricted	550,892	279,972	13,601	844,465	139,744
TOTAL NET POSITION	$ 2,044,926	$ 696,579	$ 274,638	3,016,143	$ 188,962
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				105,141	
Net position of business-type activities				$ 3,121,284	

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, 2017
(IN THOUSANDS)

	BUSINESS-TYPE ACTIVITIES				
	PUBLIC TRANSPOR-TATION	WATER QUALITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES					
I-Net fees	$ —	$ —	$ 3,003	$ 3,003	$ —
Airfield fees	—	—	4,100	4,100	—
Hangar, building and site rentals and leases	—	—	16,486	16,486	—
Radio services	—	—	5,332	5,332	—
Solid waste disposal charges	—	—	134,291	134,291	—
Passenger fares	176,338	—	2,621	178,959	—
Service contracts	151,322	—	—	151,322	—
Sewage disposal fees	—	401,650	—	401,650	—
Other operating revenues	27,485	100,923	8,873	137,281	564,656
TOTAL OPERATING REVENUES	355,145	502,573	174,706	1,032,424	564,656
OPERATING EXPENSES					
Personal services	497,281	49,160	56,883	603,324	135,083
Materials and supplies	70,461	17,880	9,501	97,842	11,961
Contract services and other charges	44,767	19,075	23,893	87,735	313,567
Utilities	5,610	16,974	3,567	26,151	—
Purchased transportation	62,007	—	—	62,007	—
Internal services	86,154	39,174	23,273	148,601	28,674
Environmental related amortization	—	4,242	—	4,242	—
Depreciation and amortization	130,203	172,779	18,501	321,483	11,058
TOTAL OPERATING EXPENSES	896,483	319,284	135,618	1,351,385	500,343
OPERATING INCOME (LOSS)	(541,338)	183,289	39,088	(318,961)	64,313
NONOPERATING REVENUES					
Sales tax	591,088	—	—	591,088	—
Property tax	23,257	—	5,743	29,000	—
Intergovernmental	35,750	—	—	35,750	—
Interest earnings	6,236	4,386	1,426	12,048	1,536
Other nonoperating revenues	403	21,780	1,695	23,878	3
TOTAL NONOPERATING REVENUES	656,734	26,166	8,864	691,764	1,539
NONOPERATING EXPENSES					
Interest	1,045	128,137	2,765	131,947	949
Loss (Gain) on disposal of capital assets	(571)	4,250	1,575	5,254	(439)
Landfill closure and post-closure care	—	—	5,112	5,112	—
Other nonoperating expenses	622	19,107	1,667	21,396	87
TOTAL NONOPERATING EXPENSES	1,096	151,494	11,119	163,709	597
Income before contributions, transfers and special item	114,300	57,961	36,833	209,094	65,255
Capital grants and contributions	41,064	—	5,698	46,762	2,852
Transfers in	17	—	471	488	1,514
Transfers out	(3,724)	(741)	(1,235)	(5,700)	(16,062)
Special item	—	—	—	—	(6,621)
CHANGE IN NET POSITION	151,657	57,220	41,767	250,644	46,938
NET POSITION - JANUARY 1, 2017 (RESTATED)	1,893,269	639,359	232,871		142,024
NET POSITION - DECEMBER 31, 2017	$ 2,044,926	$ 696,579	$ 274,638		$ 188,962
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				20,347	
Change in net position of business-type activities				$ 270,991	

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

CAFR

Comprehensive Annual Financial Report

January 1 - December 31, 2017 King County, WA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(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	$ 367,545	$ 492,400	$ 171,571	$ 1,031,516	$ 566,226
Cash payments to suppliers	(270,749)	(90,653)	(58,564)	(419,966)	(374,785)
Cash payments for employee services	(514,563)	(54,953)	(58,734)	(628,250)	(139,344)
Other receipts	—	12,500	750	13,250	5,042
Other payments	—	(22,661)	(1,667)	(24,328)	—
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(417,767)	336,633	53,356	(27,778)	57,139
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants and subsidies received	639,035	—	6,681	645,716	—
Interfund loan principal amounts loaned to other funds	—	—	—	—	(15,144)
Interfund loan principal repayments from other funds	—	—	—	—	38,567
Interfund advance principal loaned to other funds	—	—	—	—	(13,679)
Interfund advance principal repayments from other funds	—	—	—	—	13,880
Grants to others	(21)	(425)	—	(446)	—
Transfers in	17	—	471	488	1,514
Transfers out	(3,724)	(741)	(1,235)	(5,700)	(16,062)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	635,307	(1,166)	5,917	640,058	9,076
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(169,658)	(175,138)	(47,279)	(392,075)	(8,557)
Proceeds from capital debt	—	76,471	35,616	112,087	—
Principal paid on capital debt	(11,856)	(86,944)	(5,785)	(104,585)	(9,815)
Interest paid on capital debt	(3,532)	(157,869)	(7,424)	(168,825)	(880)
Cash payments for bond defeasance	—	(5,394)	—	(5,394)	—
Capital grants and contributions	83,640	—	2,505	86,145	—
Other capitalized payments	—	—	(2,292)	(2,292)	—
Proceeds from disposal of capital assets	1,217	62	498	1,777	758
Landfill closure and post-closure care	—	—	(8,507)	(8,507)	—
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(100,189)	(348,812)	(32,668)	(481,669)	(18,494)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	6,236	4,386	1,426	12,048	1,527
NET CASH PROVIDED BY INVESTING ACTIVITIES	6,236	4,386	1,426	12,048	1,527
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	123,587	(8,959)	28,031	142,659	49,248
CASH AND CASH EQUIVALENTS - JANUARY 1, 2017	734,070	620,073	160,852	1,514,995	312,046
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2017	$ 857,657	$ 611,114	$ 188,883	$ 1,657,654	$ 361,294

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, 2017
(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)	$ (541,338)	$ 183,289	$ 39,088	$ (318,961)	$ 64,313
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	130,203	172,779	18,501	321,483	11,058
Other nonoperating revenues (expenses)	402	22,358	(917)	21,843	—
(Increases) decreases in assets:					
Accounts receivable, net	5,169	(13,011)	(3,003)	(10,845)	(590)
Due from other funds	250	(92)	83	241	(2,963)
Due from other governments, net	6,371	—	(376)	5,995	245
Inventory	(85)	(771)	226	(630)	195
Prepayments	280	(265)	(18)	(3)	678
Other assets	50	(6,963)	—	(6,913)	—
(Increases) decreases in deferred outflows of resources:					
Deferred outflows on pensions and refunding	21,739	4,082	2,824	28,645	5,727
Increases (decreases) in liabilities:					
Accounts payable	(5,595)	3,393	1,715	(487)	(359)
Retainage payable	—	82	(77)	5	10
Due to other funds	3,648	9	(76)	3,581	(850)
Wages payable	3,158	134	116	3,408	336
Taxes payable	7	2	(52)	(43)	7
Unearned revenues	158	(269)	38	(73)	—
Claims and judgments payable	—	—	—	—	(10,687)
Compensated absences	463	(208)	296	551	227
Other postemployment benefits	359	48	41	448	85
Net pension liability	(83,008)	(16,457)	(9,773)	(109,238)	(20,990)
Customer deposits and other liabilities	(6)	(18,115)	75	(18,046)	343
Increases (decreases) in deferred inflows of resources:					
Deferred inflows on pension	40,008	6,608	4,645	51,261	10,354
Total adjustments	123,571	153,344	14,268	291,183	(7,174)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (417,767)	$ 336,633	$ 53,356	$ (27,778)	$ 57,139

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Public Transportation capital grants on account decreased by $42.6 million in 2017.

Water Quality issued bonds in 2017 to refund debt issued from 2008 to 2011. The $356.4 million of bond proceeds and $6.5 million of cash payments by Water Quality were placed in escrow for the defeasance of $335.3 million of outstanding bond principal and $30.5 million of interest.

Nonmajor Enterprise Funds received $21 thousand of capital assets from other funds.

Internal Service Funds received $2,852 thousand of capital assets from other funds and transferred $87 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, 2017

(IN THOUSANDS)

	INVESTMENT TRUST FUNDS	AGENCY FUNDS*
ASSETS		
Cash and cash equivalents	$ —	$ 190,998
Investments	3,477,614	9,083
Taxes receivable - delinquent	—	69,081
Accounts receivable	—	12,780
Interest receivable	3,545	—
Assessments receivable	—	3,340
Notes and contracts receivable	—	51
TOTAL ASSETS	$ 3,481,159	$ 285,333
LIABILITIES		
Warrants payable	$ —	$ 43,846
Accounts payable	—	2,711
Wages payable	—	17,267
Custodial accounts - County agencies	—	108,010
Due to special districts/other governments	—	113,499
TOTAL LIABILITIES	—	$ 285,333
NET POSITION		
Held in trust for pool participants	$ 3,481,159	

*Special Districts' residual cash balances invested in the County-managed external investment pool are no longer reported in the Agency Funds statements as these resources are reported in the aggregate as investments in the Investment Trust Funds.

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, 2017

(IN THOUSANDS)

	INVESTMENT TRUST FUNDS
ADDITIONS	
Contributions	$ 7,925,383
Net investment earnings:	
Interest	37,011
(Decrease) in the fair value of investments	(10,309)
TOTAL ADDITIONS	7,952,085
DEDUCTIONS	
Distributions	7,521,975
TOTAL DEDUCTIONS	7,521,975
Change in net position	430,110
Net position - January 1, 2017	3,051,049
Net position - December 31, 2017	$ 3,481,159

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

STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2017
(IN THOUSANDS)

	Harborview Medical Center	Cultural Development Authority	NJB Properties	Total
ASSETS				
Cash and cash equivalents	$ 305,944	$ 27,697	$ 39	$ 333,680
Investments	—	32,456	—	32,456
Receivables, net	173,192	15	10	173,217
Inventories	11,909	—	—	11,909
Prepayments	19,260	313	7	19,580
Nondepreciable assets	16,446	—	—	16,446
Depreciable assets, net of depreciation	273,731	—		273,731
Net investment in capital lease	—	—	8,843	8,843
Deposits with other governments	600	—	—	600
Other assets	23,474	94	880	24,448
TOTAL ASSETS	824,556	60,575	9,779	894,910
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on pensions	—	303	—	303
TOTAL DEFERRED OUTFLOWS OF RESOURCES	—	303	—	303
LIABILITIES				
Accounts payable and other current liabilities	83,179	437	10	83,626
Accrued liabilities	49,462	—	301	49,763
Unearned revenues	—	13,299	—	13,299
Noncurrent liabilities:				
Due within one year	801	1,262	275	2,338
Due in more than one year	11,987	6,717	8,592	27,296
TOTAL LIABILITIES	145,429	21,715	9,178	176,322
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows on pensions	—	226	—	226
TOTAL DEFERRED INFLOWS OF RESOURCES	—	226	—	226
NET POSITION				
Net investment in capital assets	290,062	—	—	290,062
Restricted for:				
Expendable	10,234	38,937	—	49,171
Nonexpendable	2,632	—	—	2,632
Unrestricted	376,199	—	601	376,800
TOTAL NET POSITION	$ 679,127	$ 38,937	$ 601	$ 718,665

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

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2017
(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**	**NJB Properties**	**Total**
Component Units:								
Harborview Medical Center	$ 992,514	$ 992,041	$ 6,389	$ 892	$ 6,808	$ —	$ —	$ 6,808
Cultural Development Authority	16,470	73	10,235	—	—	(6,162)	—	(6,162)
NJB Properties	133	580	—	—	—	—	447	447
Total Component Units	$ 1,009,117	$ 992,694	$ 16,624	$ 892	$ 6,808	$ (6,162)	$ 447	$ 1,093
General revenues:								
Payments to King County for debt service interest					$ —	$ (932)	$ (503)	$ (1,435)
Interest earnings					—	584	12	596
Net general revenues					—	(348)	(491)	(839)
Change in net position					6,808	(6,510)	(44)	254
Net position - January 1, 2017					672,319	45,447	645	718,411
Net position - December 31, 2017					$ 679,127	$ 38,937	$ 601	$ 718,665

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

CAFR

Comprehensive Annual Financial Report

January 1 - December 31, 2017 King County, WA

Notes to the Financial Statements
For the Year Ended December 31, 2017

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.

Reporting Entity Change

A reevaluation of component units in the light of GASB Statement 61 *The Financial Reporting Entity: Omnibus* and the more recent GASB Statement 80 *Blending Requirements for Certain Component Units* has resulted in a change in the definition of the King County reporting entity. In 2016, the County reported the Building Development and Management Corporations as a blended internal service fund. This fund aggregated the reporting of CDP-King County III, Inc. and NJB Properties, two nonprofit corporations that have separate lease agreements with the County for buildings financed using 63-20 bonds (in accordance with Revenue Ruling 63-20 and Revenue Procedure 82-26). This year the two nonprofit corporations were evaluated for component unit status separately. It was reaffirmed that both nonprofit corporations are component units because they are fiscally dependent on the County and they create a financial burden to the County. Because CDP-King County III, Inc. provides services exclusively to King County, it will continue to be reported as a blended internal service fund. However, because NJB Properties provides service almost exclusively to Harborview Medical Center, a discrete component unit of the County, NJB Properties qualifies for discrete presentation. The change in reporting entity resulted in a prior period adjustment to net position in the financial statements and is disclosed in Note 18 - *Components of Fund Balance, Changes in Equity and Restrictions*.

Blended Component Units

King County Flood Control District (FCD)

King County Flood Control 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 FCD.

FCD 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 FCD board because the County Council members are the ex officio supervisors of the district; and (3) the County can impose its will on FCD. FCD 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 FCD. FCD contracts with King County Department of Natural Resources and Parks for flood control projects and programs. During 2017, FCD reimbursed the County $43.6 million for such projects and programs.

FCD issues its own financial statements, which are audited by the State Auditor's Office. Financial statements of FCD are included in Nonmajor Special Revenue Funds in the Governmental Funds section of this CAFR. Independently audited statements for the FCD can be obtained from Francis & Company, PLLC, 701 Dexter Ave. N, Suite 404, Seattle, WA 98109.

CDP-King County III, Inc.

King County has a project lease agreement with CDP-King County III, Inc. a Washington State nonprofit corporation, which provided for the design and construction of the King Street Center Building in accordance with IRS Revenue Ruling 63-20 and Revenue Procedure 82-26. The building was financed through bonds issued by CDP-King County III, Inc. on behalf of the County. The building is leased to the County by the nonprofit corporation under guaranteed monthly rent payments over the term of the lease or until the bonds are fully retired. In June, 2017 King County refinanced the remaining bond liability of the nonprofit corporation and assumed full ownership of the building.

CDP-King County III, Inc. is recognized as a component unit of the County. Although it has an independently-appointed board, the nonprofit corporation is a single-purpose entity that is fiscally dependent on the County and who imposes a financial burden on the County because the monthly rent payments are considered limited general obligation debt. Because CDP-King County III, Inc. provides services exclusively to County departments, it is reported using the blending method. Separately issued and audited financial statements for CDP-King County III, Inc. 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 - "Debt" reports on all the general obligation bonds issued by the County as of December 31, 2017, including bonds reported by HMC as of June 30, 2017.

HMC hires independent auditors and prepares its own financial statements with a fiscal year ending June 30. 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.

NJB Properties

King County has a project lease agreement with NJB Properties, a Washington State nonprofit corporation, which provided for the design and construction of the Ninth and Jefferson Building (NJB) for use by Harborview Medical Center, a discrete component unit of the County. The agreement is in accordance with IRS Revenue Ruling 63-20 and Revenue Procedure 82-26. The building was financed through bonds issued by NJB Properties on behalf of the County. The building is being leased to the County by the nonprofit corporation under guaranteed monthly rent payments over the term of the lease or until the bonds are fully retired. Harborview Medical Center makes monthly transfers to King County to satisfy the County’s monthly rental payments to NJB Properties.

NJB Properties is recognized as a component unit of the County. Although it has an independently-appointed board, the nonprofit corporation is a single-purpose entity that is fiscally dependent on the County and who imposes a financial burden on the County because the monthly rent payments are considered limited general obligation debt. Because NJB Properties provides services almost exclusively to Harborview Medical Center and not to the County, it is reported using discrete presentation. Separately issued and audited financial statements for NJB Properties may be obtained from the National Development Council, 1218 Third Avenue, Suite 1403, Seattle, WA 98101.

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, 2017, 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 2017, the WDC reimbursed King County approximately $2.3 million for the Employment and Education Resource Program in eligible program costs. King County has a $100 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, fiduciary funds (excluded from the government-wide financial statements), and component units. As discussed earlier, the government has three discretely presented component units, HMC, CDA and NJB. While none of the three is considered to be a major component unit, each is nevertheless shown in a separate column in the component unit 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 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 Health major fund reported in 2016 is a roll-up of Behavioral Health, Public Health and Environmental Health into the "Health" mission. In 2017, the "Health" fund was broken down to its components for fund-based reporting. Only Behavioral Health was determined to be a major governmental fund. Public Health and Environmental Health are now reported with the aggregate nonmajor funds.

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 Governmental Funds Level of Detail Change

In previous years the nonmajor special revenue and capital projects funds, except blended component units, were reported as higher level aggregations of individual funds based on the strategic planning missions of the County that the funds aligned with; namely, Justice and Safety, Human Potential, Economic Growth, Built Environment, Environmental Sustainability, Service Excellence, and Public Engagement. In 2017, the higher level presentation was eliminated and the combining special revenue and capital projects funds now show the balances and activity of the individual legal funds as adjusted for generally accepted accounting principles.

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, 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. Assets owned by special districts that are invested in the County-managed external investment pool, and therefore accounted for in Investment Trust Funds, are not reported in the Agency Funds statements.

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. 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local governmental employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement No. 68. This new GASB statement was considered by the County in 2017 and determined it was not applicable.

GASB Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* GASB Statement No. 74 establishes financial reporting standards for state and local governmental other postemployment benefit (OPEB) plans other than pension plans. It also establishes financial reporting standards for governments that hold assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are not administered through trusts or equivalent arrangements. This new GASB statement was considered by the County in 2017 and determined it was not applicable.

GASB Statement No. 80 - *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14.* GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This new GASB statement was adopted by the County in 2017.

GASB Statement No. 81 - *Irrevocable Split-Interest Agreements* establishes recognition and measurement requirements for irrevocable split-interest agreements. This new GASB statement was considered by the County in 2017 and determined it was not relevant and/or material to King County.

GASB Statement No. 82 - *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73.* GASB Statement No. 82 amends the definition of covered payroll for pensions reported in required supplementary information. Instead of presenting covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, the required supplementary information will present covered payroll, defined as the payroll on which contributions to a pension plan are based. This new GASB statement was adopted by the County in 2017.

Terminology

Expenditure Functions

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

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

Physical Environment - Provided to achieve a satisfactory living environment for the community and the individual. This function includes 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, child-care services, and services for the aging and disabled. This function includes Youth Employment Programs, Development and Environmental Services, Planning and Community Development, River Improvement, Animal Control, River and Flood Control Construction and Natural Resources.

Health and Human Services - 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.

<u>Certain Accounts are Grouped on the Statement of Net Position:</u>

- 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.

<u>Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance</u>

<u>Cash and Cash Equivalents</u>

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.

<u>Receivables (See Note 5 - "Receivables")</u>

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.

Interfund Reimbursements

Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not recognized in the fund-level activity statements. Charge back transactions for shared services from certain departmental funds or cost centers to the fund of divisions under their administration are also treated as reimbursements.

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 $158.9 million and $19.1 million, respectively.

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

Capital assets other than land, roads and bridges infrastructure, and artwork are depreciated or amortized over their estimated useful lives using a standard straight-line allocation method. 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, program payments to Rainwise participants, and strategic planning costs as regulatory assets to allow for cost recovery through future rate increases. The portion of regulatory asset costs that have been accrued is being amortized over a recovery period of 7 to 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 2 - 14	$5,000
February 15 - March 9	$50,000
March 10 - 20	$100,000
March 21 - April 23	$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 - “Debt”)

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 - “Debt.” Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. Because investment yields of the County’s Investment Pool remained at low-levels during 2017, interest earned on bond proceeds was insignificant. The County had no arbitrage liability at December 31, 2017.

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. 47). 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.

<u>Net Position Flow Assumption</u>

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.

<u>Fund Balance Flow Assumptions</u>

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.

<u>Fund Balance Policies</u>

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	$ (731,140)
Plus: Unamortized premiums on bonds sold	(63,247)
Accrued interest payable	(5,595)
Capital leases payable	(8,843)
Compensated absences	(89,759)
Net pension liability	(346,850)
Deferred inflows on pensions	(76,094)
Earned but unavailable court fines and penalties	8,391
Earned but unavailable taxes and assessments	14,199
Other postemployment benefits	(56,071)
Total adjustments related to long-term liabilities	$ (1,355,009)

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 assets	$ 2,442,405
Depreciable assets	718,156
Less: Capital assets in governmental internal service funds (all internal service funds except Wastewater Equipment Replacement)	(50,482)
Total adjustments related capital assets	$ 3,110,079

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."

Other long-term assets reported for governmental activities:	
Net pension asset	$ 49,475
Deferred outflows on refunding (to be amortized as interest expense)	21,014
Deferred outflows on pensions	57,764
Total adjustments related to long-term assets	$ 128,253

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	$ 165,078
Internal payable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds - prior years	(62,397)
Internal payable representing the amount overcharged to the enterprise funds by the governmental activities internal service funds - current year	(18,860)
Total adjustments related to internal service funds	$ 83,821

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	$ 155,195
Depreciation expense	(45,926)
Total adjustments related to capital outlay	$ 109,269

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 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.	$ (16,495)
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds.	7,320
Total adjustments related to miscellaneous capital asset transactions	$ (9,175)

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 the governmental activities:	
Unavailable revenue-property taxes	$ (226)
Unavailable revenue-abatement fees	(48)
Unavailable revenue-noxious weeds	1
Unavailable revenue-charges for services	(514)
Unavailable revenue-fines and forfeits	(355)
Unavailable revenue-grants	1,892
Unavailable revenue-pet licenses	206
LEOFF special funding	573
Special item	6,408
Total adjustments related to revenues	$ 7,937

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	$ (33,325)
Premium on bonds sold	(5,038)
Principal repayments	63,702
Total adjustments related to debt issuance or refundings	$ 25,339

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	$ (3,598)
Other postemployment benefits	(1,541)
Interest on long-term debt	8,526
Pension expense	51,229
Transfers out	(2,164)
Lease payments	338
Total adjustments related to expenses	$ 52,790

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	$ 1,437
Intergovernmental revenues	3
Revenues related to services provided to outside parties	4,105
Expenses related to services provided to outside parties	(3,637)
Gain on disposal of capital assets	377
Interest on long-term debt	(949)
Capital contributions	2,235
Transfers in	1,514
Transfers out	(15,961)
Internal service fund gains allocated to governmental activities	44,088
Special Item	(6,621)
Total adjustments related to internal service funds	$ 26,591

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	$ 23,884
Internal receivable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds - prior years	62,397
Internal receivable representing the amount overcharged to the enterprise funds by the governmental activities internal service funds - current year	18,860
Total adjustments related to internal service fund activities related to enterprise funds	$ 105,141

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	$ 99
Revenues related to services provided to outside parties	86
Expenses related to services provided to outside parties	(76)
Loss on disposal of capital assets	(25)
Capital contributions	617
Transfers out	(101)
Internal service fund gains allocated to business-type activities	19,747
Total adjustments related to internal service fund activities related to enterprise funds	$ 20,347

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, Behavioral 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

The Housing Opportunity Loans fund expenditures exceeded appropriations by $47 thousand. This 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.

Expenditures exceeded appropriations in the Byrne Justice Assistance Grants appropriation unit by $172 thousand. Appropriations were moved to the Grants Fund, but the expenditures were kept where they were because the project was half finished. Future activity will now be in the Grants Fund.

Medical Examiner's Office expenditures exceeded appropriations by $6 thousand. The budget for Medical Examiner's Office was under Public Health in the past and moved to general fund for 2017. The $6 thousand are remaining charges for paying differential corrections completed by payroll for time worked for 2015 and 2016 and temporary help invoices related to 2016. These charges should have been recorded to the general fund expenditures where the budget is for 2017.

Expenditures exceed appropriations in the OMB 2006 appropriation unit in the Risk Abatements fund by $118 thousand due to interest charges on cash deficits. This will be addressed through administrative procedures before the end of the 2017-2018 biennium.

Deficit Fund Equity

Nonmajor Governmental Funds

The Employment and Education Resources fund reports a total fund balance deficit of $35 thousand. This deficit is due to cost incurred pending transfer of resources from other funds. The transfers occurred in January 2018 to cover the deficit.

The Long Term Leases fund reports a total fund deficit of $1.8 million. The Facilities Management Division has developed a plan to address the fund deficit in 2017. The plan was approved by the Executive Finance Committee during 2016 and 2017. The fund balance deficit will be resolved by the end of 2022 through streamlined rates.

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. The deficit will be paid down over five years by transfers from the General Fund.

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, 2017 (in thousands):

Fund:		Total Net Position
Construction and Facilities Management	$	(16,037)
Financial Management Services		(10,382)
King County Geographic Information Systems		(1,196)
King County Information Technology Services		(5,459)

Note 4
Deposits and Investments

Deposits

King County maintains deposit relationships with several local commercial banks in addition to its concentration bank. The deposits that are not covered by the Federal Deposit Insurance Corporation (FDIC) are collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC) at no less than fifty percent. Effective July 1, 2016, resolution 2016-1 adopted by Commission on May 31, 2016, "allowed for well capitalized public depositaries to collateralize uninsured public deposits at no less than fifty percent. The PDPC is a statutory authority established under chapter 39.58 RCW that governs public depositaries and provides that "All public funds deposited in public depositaries, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter." It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositaries within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance.

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 the State of Washington and total deposits cannot exceed the net worth of the financial institution. Those institutions not meeting the fifty percent collateralization or the minimum credit rating requirements may receive deposits up to the FDIC or federally guaranteed amounts. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 25 percent of the total amount of the portfolio and five percent from a single issuer.

As of December 31, 2017, the County's total deposits, excluding the equity in the component units, were $41.2 million in carrying amount and $38.1 million in bank balance, of which $18.0 million was exposed to custodial credit risk as uninsured and uncollateralized.

Investments

King County Investment Pool - The King County Investment Pool (KCIP), the 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 KCIP 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 KCIP 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 King County Investment Pool. The IPAC has not been vested with decision-making authority for the KCIP; it makes recommendations to the EFC on agenda items related to the KCIP.

The King County Investment Policy is designed to help King County meet the objectives of the KCIP. 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 KCIP 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 King County Investment 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 and supranational institutions where the United States is its largest shareholders.
- 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 values its investments at amortized cost, which approximates fair value. The LGIP portfolio will be managed to meet the portfolio maturity, quality, diversification and liquidity requirements set forth in GASB 79 for external investment pools who wish to measure, for financial reporting purposes, all of its investments at amortized cost. LGIP 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 King County Investment 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 KCIP (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 King County Investment Pool. All non-County participation in the KCIP 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 King County Investment Pool's shares.

The King County Investment 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 King County Investment Pool's total fair value of investment including purchased interest was $6.9 billion. Excluding $311.1 million of equity in the component unit, the net total investment was $6.6 billion. 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 $33.6 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, 2017 (dollars in thousands):

KING COUNTY INVESTMENT POOL

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
Repurchase Agreements	$ 296,000	$ 296,000	1.39%	0.011
Commercial Paper	386,989	387,500	1.31%	0.092
U.S. Agency Discount Notes	478,950	479,900	0.63%	0.154
Corporate Notes	1,019,747	1,024,093	1.67%	1.262
U.S. Treasury Notes	2,486,956	2,504,000	1.18%	1.324
U.S. Agency Notes	1,418,257	1,426,234	0.66%	1.149
U.S. Agency Collateralized Mortgage Obligations	4,922	4,681	4.18%	3.447
Supranational Coupon Notes	377,600	382,044	1.01%	1.835
State Treasurer's Investment Pool (LGIP)	415,634	415,634	1.28%	0.008
Total investments in Pool	$ 6,885,055	$ 6,920,086	1.3%	1.022

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 King County Investment Pool had concentrations greater than 5 percent in the following issuers: Federal Farm Credit Bank, 9.7 percent, Federal Home Loan Mortgage Corporation, 8.6 percent, Wells Fargo Bank, 5.7 percent, and Federal National Mortgage Association, 5.6 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 King County Investment Pool. The policy limit for the KCIP's maximum effective duration is 1.5 years or less, and 40 percent of the KCIP'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, 2017, the effective duration of the main Pool was 1.022 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, the King County Investment Pool's policy authorizes investments in U.S. Treasury securities, U.S. federal agency securities and mortgage-backed securities, municipal securities and corporate notes (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements and the 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 King County Investment 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	$ 296,000	$ —	$ —	$ —	$ 296,000
Commercial Paper	386,989	—	—	—	386,989
U.S. Agency Discount Notes	478,950	—	—	—	478,950
Corporate Notes	118,828	350,070	550,849	—	1,019,747
U.S. Agency Notes	—	1,418,257	—	—	1,418,257
U.S. Agency Collateralized Mortgage Obligations	—	4,922	—	—	4,922
Supranational Coupon Notes	377,600	—	—	—	377,600
State Treasurer's Investment Pool	—	—	—	415,634	415,634
Total investments	$ 1,658,367	$ 1,773,249	$ 550,849	$ 415,634	$ 4,398,099

The King County Investment Pool's policies limit the maximum amount that can be invested in various securities. The following table summarizes the King County Investment 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%	2%	A(5)
Commercial Paper	270 Days	25%	3%	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(9)	N/A	25%	25%	N/A

N/A = Not applicable

(1) Senior debt only and includes Supranational agencies where the U.S. is the largest shareholder.

(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 for 2 percent issuer limit. But if rated AA or higher, 3 percent issuer limit applies.

(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. Ten percent of the portfolio can be in overnight repos rated A-2 or P-2.

(8) Bankers' acceptances must be rated in top credit category by Standard & Poor's and Moody's.

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

At year-end, the King County Investment Pool was in compliance. The KCIP's actual composition consisted of Repurchase Agreements, 4.3 percent, Commercial Paper, 5.6 percent, U.S. Agency Discount Notes, 7.0 percent, Corporate Notes, 14.8 percent, U.S. Treasury Notes, 36.1 percent, U.S. Agency Notes, 20.6 percent, U.S. Agency Collateralized Mortgage Obligations, 0.1 percent, Supranational Coupon Notes, 5.5 percent, and the State Treasurer's Investment Pool (LGIP), 6.0 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, 2017 (in thousands):

		Fair Value Measurements Using		
Investments by fair value level	**Fair Value 12/31/2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Commercial Paper	$ 386,989	$ —	$ 386,989	$ —
U.S. Agency Discount Notes	478,950	—	478,950	—
Corporate Notes	1,019,747	—	1,019,747	—
U.S. Treasury Notes	2,486,956	2,486,956	—	—
U.S. Agency Notes	1,418,257	—	1,418,257	—
U.S. Agency Collateralized Mortgage Obligations	4,922	—	4,922	—
Supranational Coupon Notes	377,600	—	377,600	—
Subtotals	6,173,421	$ 2,486,956	$ 3,686,465	$ —
Investments measured at amortized cost (not subject to fair value hierarchy)				
Repurchase Agreements	296,000			
State Treasurer's Investment Pool	415,634			
Subtotal investments measured at cost	711,634			
Total investments in Investment Pool	$ 6,885,055			

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

Commercial Paper, U.S. Agency Discount Notes, Corporate Notes, U.S. Agency Notes, U.S. Agency Collateralized Mortgage Obligations and Supranational Coupon Notes are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications and are classified in Level 2 of the fair value hierarchy.

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. 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, 2017.

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, 2017, was $5.4 million and the book value was $8.0 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 2017, VFNC Trust distributed a total of $1.4 million to the County. Including all the receipts to date brings the cash recovery rate on the original Victoria investment to 87 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 $5.4 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, 2017 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 (main Pool) and the Impaired Investment Pool's Condensed Statements of Net Position and Changes in Net Position as of December 31, 2017 (in thousands) are as follows:

Condensed Statement of Net Position

	Total	King County Investment Pool	Impaired Pool
Net position held in trust for pool participants	$ 6,895,033	$ 6,889,659	$ 5,374
Equity of internal pool participants	$ 3,413,874	$ 3,411,613	$ 2,261
Equity of external pool participants	3,481,159	3,478,046	3,113
Total equity	$ 6,895,033	$ 6,889,659	$ 5,374

Condensed Statement of Changes in Net Position

	Total	King County Investment Pool	Impaired Pool
Net Position - January 1, 2017	$ 6,059,385	$ 6,053,547	$ 5,838
Net change in investments by pool participants	835,648	836,112	(464)
Net Position - December 31, 2017	$ 6,895,033	$ 6,889,659	$ 5,374

Nonfinancial Assets

The County has some land that is being held for future sale. The investment is valued at $2.7 million which is determined based on comparable sales in the area or average per acre value of similar size and layout in the vicinity at the end of 2017.

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, 2017, the deposits not covered by the FDIC are uninsured and collateralized by the PDPC collateral pool at no less fifty percent. The HMC's custodial credit risk for its deposits as shown in the following table (in thousands):

Harborview Medical Center
As of June 30, 2017

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Cash in other banks	$ 4,354	$ 3,992	$ 3,317
Equity in Investment Pool	301,590	304,189	—
Total deposits	$ 305,944	$ 308,181	$ 3,317

Cultural Development Authority of King County (CDA)

Custodial credit risk - Deposits The Cultural Development Authority of King County (CDA) maintains a deposit relationship with a local commercial bank. The deposits with this qualified public depositary that are not insured by the FDIC are collateralized by the PDPC at no less than fifty percent. At yearend, the CDA's total deposits consisted of $1.4 million in carrying amount, and $1.8 million in bank balance of which $800 thousand was exposed to custodial credit risk as uninsured and uncollateralized.

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, 2017 (in thousands):

		Fair Value Measurements Using		
Investments by fair value level	**Fair Value 12/31/2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
U.S. Treasury Notes	$ 2,763	$ 2,763	$ —	$ —
Federal Home Loan Mortgage Corp Debentures	2,365	—	2,365	—
Federal National Mortgage Association Notes	7,488	—	7,488	—
Federal Home Loan Bank Bonds	16,981	—	16,981	—
Federal Farm Credit Bank Bonds	1,903	—	1,903	—
Subtotal investments at fair value	31,500	$ 2,763	$ 28,737	$ —
Investments measured at amortized cost (not subject to fair value hierarchy)				
State Treasurer's Investment Pool (LGIP)	26,323			
Other/Money Market Fund	956			
Subtotal investments measured at cost	27,279			
Total CDA investments	$ 58,779			

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, 2017 (in thousands):

Cultural Development Authority
Investments By Type

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)	Concentration
U.S. Treasury Notes	$ 2,763	$ 2,728	3.26%	1.172	5%
Federal Home Loan Mortgage Corp Debentures	2,365	2,382	2.08%	1.057	4%
Federal National Mortgage Association Notes	7,488	7,622	1.38%	2.488	13%
Federal Home Loan Bank Bonds	16,981	17,108	2.44%	1.585	29%
Federal Farm Credit Bank Bonds	1,903	1,919	2.24%	1.014	3%
State Treasurer's Investment Pool	26,323	26,323	1.28%	0.003	45%
Other/Money Market Fund	956	956	0.92%	0.003	2%
Subtotal investments	58,779	$ 59,038	1.78%	0.906	100%
Less: State Treasurer's Investment Pool (Cash Equivalent)	(26,323)				
Total Investments per Statement of Net Position	$ 32,456				

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, 2017, the combined weighted average effective duration of the CDA's portfolio was 0.906 years.

Credit risk - Credit risk is the risk that an issuer will not fulfill its obligations. As of December 31, 2017, 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, 2017, CDA had concentrations greater than 5 percent of its total portfolio, excluding U.S. Treasury obligations, in the following issuers: Federal Home Loan Banks, 28.9 percent, Federal National Mortgage Association, 12.7 percent.

NJB Properties

Concentration of credit risk The Organization maintains its cash and reserves in various financial institutions in which the accounts are insured up to $250,000 per depositor under the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts, and monitors the credit-worthiness of the financial institutions with which it conducts business. The Organization believes it is not exposed to any significant credit risk on its cash, reserves and other deposits.

Deposits Held In Trust In accordance with the Indenture of Trust, certain restricted deposits and funded reserves have been established in the form of escrows. The balance of each fund as of December 31 is as follows (in thousands):

	2017
Non-bond Proceeds	$ 55
Revenue Fund	825
	$ 880

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**	**Behavioral Health Fund**	**Nonmajor Governmental Funds**	**Total Governmental Funds**
Accounts receivable:				
Accounts receivable	$ 52,180	$ 1,900	$ 35,056	$ 89,136
Estimated uncollectible	(34,943)	—	(5,223)	(40,166)
Accounts receivable, net	$ 17,237	$ 1,900	$ 29,833	$ 48,970
Due from other governments:				
Due from other governments	$ 64,301	$ 3,311	$ 79,271	$ 146,883
Estimated uncollectible	(94)	(32)	(169)	(295)
Due from other governments, net	$ 64,207	$ 3,279	$ 79,102	$ 146,588

Proprietary	**Public Transportation**	**Water Quality**	**Nonmajor Enterprise Funds**	**Total Enterprise Funds**	**Internal Service Funds**
Current assets:					
Accounts receivable:					
Accounts receivable	$ 24,246	$ 58,657	$ 15,289	$ 98,192	$ 2,096
Estimated uncollectible	(74)	(890)	(327)	(1,291)	(47)
Accounts receivable, net	$ 24,172	$ 57,767	$ 14,962	$ 96,901	$ 2,049
Due from other governments:					
Due from other governents	$ 163,561	$ —	$ 5,564	$ 169,125	$ 37
Estimated uncollectible	—	—	(5)	(5)	—
Due from other governments, net	$ 163,561	$ —	$ 5,559	$ 169,120	$ 37
Noncurrent assets:					
Due from other governments	$ 26	—	—	$ 26	—

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 $1.24349 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, for which the County currently is at its maximum rate of $2.25 per $1,000 of assessed value for the 2017 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 1.0 percent 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 1.0 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 1.0 percent or $5.90 per $1,000 of assessed value limitations, then, in order to bring the aggregate levy into compliance, levies requested by “junior” taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010). Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts and public utility districts.

Regular Property Tax Increase Limitation. The regular property tax increase limitation (RCW 84.55) limits the total dollar amounts of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the lesser of 101 percent or 100 percent plus inflation, but if the inflation rate is less than 1.0 percent, the limit factor can be increased to 101.0 percent, if approved by a majority plus one vote of the governing body of the taxing district, upon a finding of substantial need. In addition, the limit factor may be increased, regardless of inflation, if such increase is authorized by the governing body of the taxing district upon a finding of substantial need and is also approved by the voters at a general or special election within the taxing district. Such election must be held less than 12 months before the date on which the proposed levy will be made, and any tax increase cannot be greater than described under "Maximum Rate Limitations." The approval of a majority of the voters would be required for the limit factor to be increased. The new limit factor will be effective for taxes collected in the following year only.

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

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

With a majority 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 60.0 percent 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 40.0 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the number of voters approving the excess levy is at least 60% 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 2017, the county-wide flood control zone district levy rate was $0.11740 per $1,000 of assessed value. The boundaries of the District s coterminous with the boundaries of the County and the members of the County Council serve initially as the legislative body for the District, but under state law, it 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 46.0 percent to 54.0 percent, 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 2017 and 2016 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 2017 countywide assessed valuation was $471.4 billion, a $45.1 billion increase from 2016; the assessed valuation for the unincorporated area levy was $39.3 billion, an increase of $2.5 million from 2016.

ALLOCATION OF 2017 AND 2016 TAX LEVIES

	2017 Original Taxes Levied (in thousands)	2017 Levy Rate (per thousand)	2016 Original Taxes Levied (in thousands)	2016 Levy Rate (per thousand)
Countywide Levy				
Assessed Value:				
$471,456,288,019[a]				
Items Within Operating Levy:[b]				
General Fund	$ 346,708	$ 0.73827	$ 336,454	$ 0.79209
Veterans' Relief	2,921	0.00622	2,837	0.00668
Human Services	6,556	0.01396	6,367	0.01499
Intercounty River Improvement	52	0.00011	50	0.00012
Automated Fingerprint Identification System	21,024	0.04477	20,240	0.04765
Parks Levy	70,579	0.15029	67,940	0.15995
Veterans and Human Services	18,614	0.03964	17,924	0.04219
Children and Family Justice Center	24,518	0.05221	23,825	0.05609
Best Starts for Kids	62,384	0.13285	59,456	0.14000
Radio Communications	30,602	0.06517	29,727	0.07000
Marine Operating	5,770	0.01229	1,186	0.00279
Total Operating Levy	589,728	1.25578	566,006	1.33255
Conservation Futures Levy				
Conservation Futures Levy[c]	10,445	0.02224	10,140	0.02058
Farmland and Park Debt Service	9,002	0.01917	8,741	0.02387
Total Conservation Futures Levy	19,447	0.04141	18,881	0.04445
Unlimited Tax GO Bonds (Voter-approved Excess Levy)	16,878	0.03609	16,818	0.03981
Transportation Levy[d]	23,322	0.04966	26,956	0.06346
Total Countywide Levy	649,375	1.38294	628,661	1.48027
Emergency Medical Services Levy				
Assessed Value:				
$471,354,435,905[a]				
Emergency Medical Services Levy[e]	74,664	0.26305	73,781	0.28235
Unincorporated County Levy				
Assessed Value:				
$39,295,405,501[a]				
County Road Fund[f]	87,679	$ 2.24557	82,424	$ 2.25000
Total County Tax Levies	$ 811,718		$ 784,866	

(a) Assessed value for taxes payable in 2017.

(b) The operating levy tax rate is statutorily limited to $1.80 per $1,000 of assessed value.

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

(d) The Transportation Levy is limited statutorily to $0.075 per $1,000 of assessed value.

(e) The Emergency Medical Services Levy is limited statutorily to $0.335 over $1,000 of assessed value. The assessed value for the County's Emergency Medical Services levy does not include the cities of Seattle or Milton.

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

The Automated 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 2016 and 2017, the tax rate was $0.04765 and $0.04477 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 2016 and 2017 tax year rate for the Parks levy lid lift is $0.15995 and $0.15029 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 2016 and 2017 tax rate is $0.04219 and $0.03964 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 2016 and 2017 is $0.05609 and $0.05221 per $1,000 of assessed value.

A new nine-year 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 of assessed value for the first year (2016). The rate for 2017 is $0.06517 per $1,000 assessed value.

The Best Starts for Kids levy was approved by voters at the November 3, 2015, general election that will be used to invest in prevention and early intervention strategies for children and families. This is a six-year levy beginning in 2016 at a rate of $0.14 per $1,000 of assessed value. The rate for 2017 is $0.13285 per $1,000 of assessed value.

The County's levy rate for transit-related purposes is $0.04966 per $1,000 of assessed value, and its levy rate for conservation futures is $0.04141 per $1,000 of assessed value in 2017.

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 rate for 2016 and 2017 is $0.28235 and $0.26305 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 100.0 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year, in order to levy taxes payable the following year, the County Council receives the Assessor's final certificate of assessed value of property within the County.

Tax Collection 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 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 thousand in proceeds of the forced sale of a family residency or other "homestead" property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties
February 14	Tax bills are mailed
April 30	First of two equal installment payments due
May 31	Assessed value of property established for next year's levy at 100% 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, 2017, 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. The tax abatements did not result in a reduction or loss of revenue to the County because, pursuant to state law, these taxes were effectively reallocated to other property taxpayers.

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.

<u>Historic Preservation Program</u>

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 (DOR) 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).

<u>Single-family Dwelling Improvement Program</u>

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 (in thousands):

Tax Abatement Program	Total Amount of Taxes Abated
Current Use	$ 7,694
Single-family Dwelling Improvement	117
Historic Preservation	1

State of Washington Tax Abatements

The information provided by Washington State is based upon calendar 2016 as a proxy for fiscal year 2017. The State's fiscal year end is June 30, 2017. The state of Washington provides tax abatements through seven programs subject to the requirements of GASB Statement No. 77, seven of which are only available to businesses in the aerospace industry. Only tax abatement programs with greater than $10.0 million in taxes abated during the calendar year ended December 31, 2016, are disclosed.

High Unemployment County Sales & Use Tax Deferral for Manufacturing Facilities

To encourage public and private investment in low-income areas with high rates of unemployment, sales and use tax arising from certain construction and equipment purchases for new and expanding manufacturers, persons conditioning vegetable seeds, research and development, and commercial testing for manufacturers in a Community Empowerment Zone (CEZ) may be permanently deferred if the project meets specific criteria per chapter 82.60 RCW. To qualify for deferral, the business must submit an application to DOR prior to completion of construction or the business takes possession of the machinery and equipment. Approved applicants will receive a sales and use tax deferral certificate, which allows vendors and contractors to sell to the approved applicant without charging sales tax.

Deferred taxes need not be repaid if the business fills at least one permanent full-time position for each $750 thousand investment with a resident of the CEZ by the end of the second calendar year following the year in which the project is certified as operationally complete. Failure to meet the employment requirement causes all deferred taxes to become immediately due. Each recipient of a deferral of taxes must file a complete annual survey with DOR for eight years following the year in which the project is operationally complete. If DOR finds that the project does not qualify for the deferral, all deferred taxes become immediately due.

High-Technology Sales and Use Tax Deferral

Chapter 82.63 RCW provides a deferral and ultimate waiver of sales and use tax to encourage the creation of high-wage, high-skilled jobs in Washington. The deferral applies to sales and use tax arising from the construction or expansion of a qualified research and development facility or a pilot scale manufacturing facility used in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, or environmental technology.

Businesses must apply for a deferral certificate prior to being issued a building permit for the project(s) or before taking possession of machinery and equipment. Eligible projects will receive a sales and use tax deferral certificate issued by DOR, which allows vendors and contractors to sell to the approved business without charging sales tax. An annual survey must be filed by May 31, of the year in which the project is certified and for the following seven years. If the investment project is used for any other purpose at any time during the calendar year in which the investment is certified as operationally complete, or during the next seven calendar years, a portion of the deferred taxes must be repaid immediately. The portion due is determined by a sliding scale ranging from 100 percent recapture in the year the project is operationally complete to 12.5 percent recapture in year eight.

Aerospace Incentives

The state of Washington provides seven tax abatement and incentive programs to the aerospace industry to encourage the industry's continued presence in the state of Washington.

RCWs 82.04.260(11), 82.04.290(3), and 82.04.250(3) allow for a reduced business and occupation (B&O) tax for manufacturers and processors for hire of commercial airplanes, component parts of commercial airplanes, or tooling designed for use in manufacturing commercial airplanes or components; non-manufacturers engaged in the business of aerospace product development; and certificated Federal Acquisition Regulation (FAR) repair stations making retail sales.

The purchase of goods and services, including labor, for the construction of new buildings used to manufacture commercial airplanes or fuselages or wings of commercial airplanes are exempt from sales and use tax per RCWs 82.08.980 and 82.12.980. The exemption also applies to new buildings or parts of new buildings used for storing raw materials or finished products used to manufacture commercial airplanes and certain commercial airplane parts. Port districts, political subdivisions, or municipal corporations may also use the sales and use tax exemption when constructing new facilities to lease to these manufacturers. The eligible purchaser must present a Buyers' Retail Sales Tax Exemption Certificate to the seller at the time of purchase. The amount of sales and use tax abated from the exemption for the construction of new facilities used to manufacture commercial airplanes, or fuselages or wings of commercial airplanes cannot be disclosed because there are fewer than three taxpayers that received the exemption in the calendar year ended December 31, 2016, per RCW 82.32.330(2).

RCW 82.04.4461 allows a business and occupation tax credit equal to 1.5 percent of expenditures on aerospace product development performed within Washington. A business claiming the credit must file an annual report with DOR.

Per RCW 82.04.4463, manufacturers and processors for hire of commercial airplanes or their component parts and aerospace tooling manufacturers are eligible for a business and occupation tax credit equal to the property and leasehold taxes paid on certain buildings, land, and the increased value from certain building renovations or expansions, as well as a portion of property taxes paid on certain machinery and equipment. The credit for machinery and equipment is equal to the amount of property taxes paid on the machinery and equipment multiplied by a fraction. Eligibility for the credit requires the building, land, and/or machinery and equipment be used exclusively in manufacturing commercial airplanes or their components or in manufacturing tooling specifically designed for use in manufacturing commercial airplanes or their components. A business claiming the credit must file an annual report with DOR.

Non-manufacturers engaged in the business of aerospace product development and certificated FAR repair stations making retail sales are eligible for a business and occupation tax credit equal to property and leasehold taxes on certain buildings, land, and the increased value of renovated buildings, and qualifying computer equipment and peripherals under RCW 82.04.4463. Eligibility for the credit requires the building, land, and/or computer equipment and peripherals be used exclusively in aerospace product development or in providing aerospace services. A business claiming the credit must file an annual report with DOR.

The purchase and use of computer hardware, software, or peripherals, including installation charges is exempt from sales and use tax per RCWs 82.08.975 and 82.12.975 if the buyer uses the purchased item primarily in developing, designing, and engineering aerospace products. The purchaser must present a Buyers' Retail Sales Tax Exemption Certificate to the seller at the time of purchase.

Leasehold interests in port district facilities used by a manufacturer of super-efficient airplanes are exempt from leasehold excise tax per RCW 82.29A.137. In addition, all buildings, machinery, equipment, and other personal property of a lessee of a port district used exclusively in manufacturing super-efficient airplanes is exempt from property taxation per RCW 84.36.655. No taxpayers were eligible for either of these exemptions during the calendar year ended December 31, 2016.

The following table shows the amount of taxes abated by the state of Washington during the calendar year ended December 31, 2016 (in thousands):

Tax Abatement Program	Total Amount of Taxes Abated
High Unemployment County Sales and Use Tax Deferral for Manufacturing Facilities	D*
High-Technology Sales and Use Tax Deferral	$1,330
Multi-Unit Urban Housing Exemption	$6,137
Aerospace incentives: Computer Hardware, Software and Peripherals sales and use tax exemption	D

*Washington State cannot disclose the amounts abated.

Note 7
Capital Assets

Primary Government

A summary of changes in capital assets for the King County Primary Government (in thousands):

	Balance 1/1/2017	Additions	Retirements	Transfers / Reclassifications	Balance 12/31/2017
Governmental Activities:					
Capital assets not being depreciated:					
Land	$ 570,339	$ 24,743	$ (6,342)	$ 4,040	$ 592,780
Rights-of-way and easements	446,576	7,840	(347)	2,415	456,484
Infrastructure - road and bridges	1,101,395	7,470	(2,697)	—	1,106,168
Art collections	10,468	27	—	—	10,495
Work in progress	173,899	122,269	—	(19,690)	276,478
Total capital assets not being depreciated	2,302,677	162,349	(9,386)	(13,235)	2,442,405
Capital assets being depreciated:					
Buildings	1,038,419	2,570	(18,502)	(6)	1,022,481
Leasehold improvements	19,076	—	—	—	19,076
Improvements other than buildings	81,362	(13,058)	—	7,403	75,707
Infrastructure – levees	23,930	—	—	5,444	29,374
Furniture, machinery and equipment	161,419	12,566	(4,176)	401	170,210
Software	113,276	—	(1,656)	—	111,620
Total capital assets being depreciated	1,437,482	2,078	(24,334)	13,242	1,428,468
Less accumulated depreciation for:					
Buildings	(472,130)	(28,571)	16,858	1	(483,842)
Leasehold improvements	(5,723)	(954)	—	—	(6,677)
Improvements other than buildings	(21,342)	(3,048)	—	—	(24,390)
Infrastructure – levees	(2,011)	(700)	—	—	(2,711)
Furniture, machinery and equipment	(114,983)	(12,496)	3,953	(28)	(123,554)
Software	(61,709)	(9,085)	1,656	—	(69,138)
Total accumulated depreciation	(677,898)	(54,854)	22,467	(27)	(710,312)
Total capital assets being depreciated, net	759,584	(52,776)	(1,867)	13,215	718,156
Governmental activities capital assets, net	$ 3,062,261	$ 109,573	$ (11,253)	$ (20)	$ 3,160,561
Business-type Activities:					
Capital assets not being depreciated:					
Land	$ 448,018	$ 2,470	$ (41)	$ 3,556	$ 454,003
Rights-of-way and easements	31,278	—	—	93	31,371
Art collections	3,747	—	—	—	3,747
Work in progress	520,363	389,545	—	(376,495)	533,413
Total capital assets not being depreciated	1,003,406	392,015	(41)	(372,846)	1,022,534
Capital assets being depreciated:					
Buildings	3,361,878	2,144	(4,882)	99,119	3,458,259
Leasehold improvements	7,307	—	—	—	7,307
Improvements other than buildings	356,020	7,750	(1,414)	43,934	406,290
Rights-of-way - temporary easement	7,635	—	—	—	7,635
Infrastructure – water quality	2,260,787	—	(14,485)	49,036	2,295,338
Furniture, machinery and equipment	2,658,368	10,065	(96,025)	179,148	2,751,556
Software	150,273	—	(5,252)	1,603	146,624
Total capital assets being depreciated	8,802,268	19,959	(122,058)	372,840	9,073,009
Less accumulated depreciation for:					
Buildings	(1,541,393)	(91,886)	3,523	(3)	(1,629,759)
Leasehold improvements	(3,406)	(377)	—	—	(3,783)
Improvements other than buildings	(156,706)	(14,874)	1,176	—	(170,404)
Rights-of-way - temporary easement	(1,145)	(218)	—	—	(1,363)
Infrastructure – water quality	(578,134)	(48,101)	3,243	—	(622,992)
Furniture, machinery and equipment	(1,458,653)	(148,784)	91,442	29	(1,515,966)
Software	(98,079)	(11,943)	5,252	—	(104,770)
Total accumulated depreciation	(3,837,516)	(316,183)	104,636	26	(4,049,037)
Total capital assets being depreciated, net	4,964,752	(296,224)	(17,422)	372,866	5,023,972
Business-type activities capital assets, net	$ 5,968,158	$ 95,791	$ (17,463)	$ 20	$ 6,046,506

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.

Beginning Balance Adjustment

Net beginning balance adjustment for Work In Progress of $23.7 million is mainly due to prior period capital costs not capitalized to the Work in Progress. Beginning balance adjustment for Infrastructure - roads and bridges decreased by $7.5 million due to over-reporting in prior years.

Depreciation Expense

Depreciation expense charged to functions of the Primary Government (in thousands):

	2017
Governmental Activities	
General government	$ 29,113
Law, safety and justice	9,971
Physical environment	924
Transportation	261
Economic environment	9
Health and human services	939
Culture and recreation	4,708
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	8,929
Total depreciation - governmental activities	$ 54,854
Business-type Activities	
Water Quality	$ 172,779
Public Transportation	130,203
Solid Waste	10,666
King County International Airport	5,757
Institutional Network	313
Radio Communications	706
Marine Fund	1,059
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on its usage of the assets	2,129
Total depreciation and amortization expense - business-type activities	$ 323,612
Less amortization - Water Quality other assets	(7,429)
Total depreciation - business-type activities	$ 316,183

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 - $186.8 million is committed to the maintenance of existing infrastructure, service delivery and partnership efforts.

Water Quality Enterprise - $197.7 million is committed to ensuring the continued operation, reliability and compliance with regulatory standards of existing wastewater treatment facilities.

Other Enterprises - $22.2 million is committed to improving the County's solid waste regional landfill and maintenance of existing facilities, $0.8 million for Airport facility improvements within the County, and $23.1 million for the construction of a new permanent passenger-only facility in downtown Seattle for Marine Enterprise.

Capital Projects Funds

$264.1 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, 2017 (in thousands):

	Balance 7/1/2016	Additions	Retirements	Transfers	Balance 6/30/2017
Capital assets not being depreciated:					
Land	$ 2,432	$ —	$ —	$ —	$ 2,432
Work in progress	12,584	13,462	—	(6,777)	19,269
Total capital assets not being depreciated	15,016	13,462	—	(6,777)	21,701
Capital assets being depreciated:					
Buildings	419,700	—	(2,034)	4,202	421,868
Improvements other than buildings	16,098	—	(101)	392	16,389
Equipment	438,266	8,997	(88,172)	2,183	361,274
Total capital assets being depreciated	874,064	8,997	(90,307)	6,777	799,531
Less accumulated depreciation for:					
Buildings	(201,977)	(13,755)	2,034	—	(213,698)
Improvements other than buildings	(7,701)	(1,047)	101	—	(8,647)
Equipment	(379,038)	(17,580)	87,908	—	(308,710)
Total accumulated depreciation	(588,716)	(32,382)	90,043	—	(531,055)
HMC capital assets, net	$ 300,364	$ (9,923)	$ (264)	$ —	$ 290,177

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.	$	47,135
Water Quality - restricted for future construction projects, debt service, and reserves and obligations.		244,887
King County International Airport - restricted for construction projects and obligations.		737
Radio Communications Services - restricted for construction projects and obligations.		6
Solid Waste - restricted for construction projects, landfill closure and post-closure care costs.		68,090
Construction & Facilities Management - restricted for construction projects and obligations.		19
King County Information Technology Services - restricted for construction projects.		255
Total Proprietary Funds restricted assets	$	361,129

Component Unit - Harborview Medical Center (HMC)

HMC Construction Fund - restricted for construction projects, seismic, public safety and other improvements and furnishings of HMC buildings.	$	4,573
HMC Special Purpose Fund - restricted donations, gifts and bequests from various sources for specific uses.		8,395
Total HMC restricted assets	$	12,968

Component Unit - Cultural Development Authority of King County (CDA)

1% for Art Fund - restricted for the one percent for public art programs operated to benefit King County.	$	6,995
Building for Culture Program - restricted for a regional King County cultural capital investment partnership program.		6,304
Cultural Special Account & Other Funds - restricted for arts and heritage cultural programs.		47,276
Total CDA restricted assets	$	60,575

Component Unit - NJB Properties

Non-bond Proceeds Fund - restricted for costs of the NJB Project	$	55
Revenue Fund - restricted for transfers to the Bond Fund and authorized administrative fees		825
Total NJB Properties restricted assets	$	880

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 2017:

Aggregate Pension Amounts - All Plans (in thousands)	
Pension liabilities	$ 756,022
Pension assets	49,475
Deferred outflows of resources	115,425
Deferred inflows of resources	148,138
Pension expense/expenditures	49,237

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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January through June 2017	11.18%	6.00%
July through December 2017	12.70%	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 $1.7 million for the year ended December 31, 2017.

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 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 OSA 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 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January through June 2017	11.18%	6.12%
July through December 2017	12.70%	7.38%
Employee PERS Plan 3	N/A	varies

* For employees participating in JBM, the contribution rate was 15.30% for January - June 2017 and 18.45% for July - December 2017.

The County's actual contributions to the plan were $123.3 million for the year ended December 31, 2017.

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 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, 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 OSA to fully fund Plan 2. The Plan 2 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. In addition to the regular change in contribution rates on July 1, 2017, PSERS contribution rates changed again September 1, 2017 due to HB 1709, which allows PERS members meeting specific criteria to transfer service credit into PSERS as long as they and their employer pay the difference between the PERS and PSERS contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	**Employer**	**Employee**
January through June 2017	11.54%	6.59%
July through August 2017	11.94%	6.73%
September through December 2017	11.95%	6.74%

The County's actual contributions to the plan were $4.3 million for the year ended December 31, 2017.

<u>Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)</u>

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, 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 2017. 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 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 OSA 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 2017 were as follows:

LEOFF 2		
Actual Contribution Rates:	**Employer**	**Employee**
January through June 2017	5.23%	8.41%
July through December 2017	5.43%	8.75%

The County's actual contributions to the plan were $5.0 million for the year ended December 31, 2017.

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, 2017, the State contributed $62.2 million to LEOFF Plan 2. The amount recognized by the County as its proportionate share of this amount is $26.2 million.

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 15.29 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 covered payroll) for 2017 were as follows:

SCERS		
Actual Contribution Rates:	**Employer**	**Employee**
January through December 2017	15.29%	10.03%

The County's actual contributions to the plan were $0.4 million for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017.

Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3.0% 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 for DRS pension plans 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 plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

The TPL for SCERS pension plan was determined by an actuarial valuation as of December 31, 2016. The actuarial assumptions used in the valuation were based on an actuarial experience study for the period January 1, 2010 through December 31,2013. The following actuarial assumptions were applied to all periods including the measurement period.

- Inflation: 3.25%
- Salary increases: In addition to the 4.0% salary increase assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5% compounded annually, net of expenses

Mortality rates for SCERS plan were based on the RP-2000 report's Employee Table, Combined Healthy Table and Combined Disabled Table. All mortality tables are generational using Projection Scale AA to reflect expected future mortality improvement.

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 and PSERS Plan 2, whose rates include a component for the PERS 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.

The discount rate used to measure the total pension liability for SCERS pension plan was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's 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 on pension plan investments was applied to all periods on projected benefit payment to determine the total pension 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. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB).

The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017, 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%	1.7%
Tangible Assets	5%	4.9%
Real Estate	15%	5.8%
Global Equity	37%	6.3%
Private Equity	23%	9.3%
	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, 2016 are summarized in the chart that follows:

Asset Class	% Long-term Expected Real Rate of Return Geometric
Equity: Public	5.0%
Equity: Private	6.3%
Fixed Income: Broad	0.6%
Fixed Income: Credit	3.8%
Real Assets: Real Estate	3.3%
Real Assets: Infrastructure	2.8%
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 (7.5%)**	**1% Increase (8.5%)**
PERS 1	$ 488,255	$ 400,803	$ 325,051
PERS 2/3	949,298	352,361	(136,740)
PSERS 2	13,055	1,944	(6,767)
LEOFF 1	(6,710)	(9,046)	(11,052)
LEOFF 2	8,749	(40,429)	(80,496)
SCERS	1,236	914	642

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' and SCERS plan's fiduciary net position are available in the separately issued DRS and City of Seattle financial reports.

Pension Liabilities (Assets), Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the County reported a total pension liability of $756.0 million and total pension asset of $49.5 million for its proportionate share of the net pension liabilities (assets) as follows:

Total Pension Liability (Asset) (in thousands)	
PERS 1	$ 400,803
PERS 2/3	352,361
PSERS 2	1,944
LEOFF 1	(9,046)
LEOFF 2	(40,429)
SCERS	914

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	$ (40,429)
LEOFF 2 - State's proportionate share of the net pension liability/(asset) associated with King County	(26,225)
TOTAL	$ (66,654)

The County proportionate share of the collective net pension liabilities was as follows:

Collective Net Pension Liabilities			
	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	8.9%	8.45%	-0.45%
PERS 2/3	10.52%	10.14%	-0.38%
PSERS 2	11.33%	9.92%	-1.41%
LEOFF 1	0.6%	0.6%	0%
LEOFF 2	3.02%	2.91%	-0.1%

Collective Net Pension Liabilities			
	Proportionate Share 12/31/15	Proportionate Share 12/31/16	Change in Proportion
SCERS	0.09%	0.07%	-0.02%

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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary. In fiscal year 2017, 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 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) for all DRS pension plans was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

The collective net pension liability for SCERS was measured as of December 31, 2016, and the actuarial valuation date on which the total pension liability is based was as of January 1, 2016, with update procedures used to roll forward the total pension liability to the measurement date taking into account any significant changes between the valuation date and the fiscal year end.

Pension Expense

For the year ended December 31, 2017, the County recognized pension expense as follows:

Pension Expense (in thousands)	
PERS 1	$ 757
PERS 2/3	47,675
PSERS 2	2,745
LEOFF 1	(1,397)
LEOFF 2	(832)
SCERS	289
TOTAL	$ 49,237

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, 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	—	14,957
Changes of assumptions	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	—	—
Contributions subsequent to the measurement date	28,207	—
TOTAL	$ 28,207	$ 14,957

PERS 2/3	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ 35,702	$ 11,589
Net difference between projected and actual investment earnings on pension plan investments	—	93,931
Changes of assumptions	3,743	—
Changes in proportion and differences between contributions and proportionate share of contributions	375	14,071
Contributions subsequent to the measurement date	38,826	—
TOTAL	$ 78,646	$ 119,591

PSERS 2	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ 1,150	$ 138
Net difference between projected and actual investment earnings on pension plan investments	—	1,364
Changes of assumptions	17	—
Changes in proportion and differences between contributions and proportionate share of contributions	1	248
Contributions subsequent to the measurement date	1,265	—
TOTAL	$ 2,433	$ 1,750

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	—	841
Changes of assumptions	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	—	—
Contributions subsequent to the measurement date	—	—
TOTAL	$ —	$ 841

LEOFF 2	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ 1,777	$ 1,533
Net difference between projected and actual investment earnings on pension plan investments	—	9,077
Changes of assumptions	49	—
Changes in proportion and differences between contributions and proportionate share of contributions	812	135
Contributions subsequent to the measurement date	2,282	—
TOTAL	$ 4,920	$ 10,745

SCERS	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Differences between expected and actual experience	$ 1	$ 4
Net difference between projected and actual investment earnings on pension plan investments	—	(73)
Changes of assumptions	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	847	323
Contributions subsequent to the measurement date	371	—
TOTAL	$ 1,219	$ 254

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)
2018	$ (10,110)
2019	3,192
2020	(741)
2021	(7,298)
2022	—
Thereafter	—

Year ended December 31:	PERS 2/3 (in thousands)
2018	$ (39,471)
2019	7,921
2020	(10,372)
2021	(40,013)
2022	941
Thereafter	1,223

Year ended December 31:	PSERS 2 (in thousands)
2018	$ (309)
2019	$ 227
2020	$ 49
2021	$ (303)
2022	$ (29)
Thereafter	$ (217)

Year ended December 31:	LEOFF 1 (in thousands)
2018	$ (528)
2019	$ 142
2020	$ (57)
2021	$ (398)
2022	$ —
Thereafter	$ —

Year ended December 31:	LEOFF 2 (in thousands)
2018	$ (4,144)
2019	$ 970
2020	$ (597)
2021	$ (3,915)
2022	$ (75)
Thereafter	$ (346)

Year ended December 31:	SCERS (in thousands)
2018	$ 192
2019	$ 192
2020	$ 149
2021	$ 47
2022	$ 14
Thereafter	$ —

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, deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2017 were $ 1.4 million, $300 thousand and $200 thousand, 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 $73.0 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, 2017 by approximately $2.1 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, 2017, 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, 2017 (in thousands):

	2017
Normal cost - Unit Credit Method	$ 1,934
Amortization of unfunded actuarial accrued liability (UAAL)	8,524
Annual Required Contribution (ARC)	10,458
Interest on net OPEB obligation	2,481
Adjustment to annual required contribution	(4,988)
Annual OPEB cost (expense)	7,951
Contributions made	(5,878)
Increase in net OPEB obligation	2,073
Net OPEB obligation - beginning of year	70,895
Net OPEB obligation - end of year	$ 72,968

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
12/31/2015	$ 11,543	51.1%	$ 65,251
12/31/2016	11,542	51.1%	70,895
12/31/2017	7,951	73.9%	72,968

Funded Status and Funding Progress

The funded status of the Health Plan as of December 31, 2017 (in thousands) is as follows:

Actuarial accrued liability (AAL) – Unit Credit	$ 121,079
Actuarial value of plan assets	—
Unfunded actuarial accrued liability (UAAL)	$ 121,079
Funded ratio (actuarial value of plan assets ÷ AAL)	0.00%
Covered payroll	$ 1,178,142
UAAL as a percentage of covered payroll	10.3%

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, 2017 valuation used the unit credit actuarial cost method. The actuarial assumptions included a 3.50 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 7.5 percent for KingCare medical and miscellaneous LEOFF 1 expenses, 9.0 percent for KingCare pharmacy, and 7.5 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 3.8 percent after 57 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 20 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. With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2017, is $75.0 million.

Changes in the Insurance Fund's estimated claims liability in 2016 and 2017 (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2016	$ 88,565	$ 20,731	$ (33,741)	$ 75,555
2017	75,555	9,229	(9,863)	74,921

In 2017, there were no losses paid in excess of the County's self-insured retention. In 2016, there were two settlements that exceeded the SIR. In 2015, there were no settlements that exceeded insurance coverage.

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, 2017, 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.

During 2017 the County (excluding KCIA) property insurance limits increased from $500 million to $750 million. In addition, the County placed a separate Property Terrorism insurance policy with limits of $500 million. Effective April 1, 2017, the county does not purchase Accidental Death and Dismemberment insurance for the Superior Court's Community Service programs.

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 on the next page.

COVERAGE	COVERAGE AMOUNT	DEDUCTIBLE
Excess General Liability	$92.5 million	$6.5 million per occurrence /
		$7.5 million Transit bus losses
Property & Mobile Equipment	$750 million	$250 thousand per occurrence
	$100 million EQ	5% of location value / $500 thousand minimum
	$250 million Flood	$250 thousand / $500 thousand
Terrorism -- Property	$500 million	$100 thousand
Excess Workers' Compensation	Statutory (unlimited)	$2 million per occurrence
Aircraft Liability & Physical Damage	$50 million per occurrence	None
	and scheduled value	
King County International Airport General Liability	$300 million	None
King County International Airport Property Damage	$186 million	$100 thousand per occurrence
Marine Policies (includes King County Ferry District)	$150 million	Varies based on vessel and coverage type
Foreign Liability in General and Automobile	$1 million	$1 thousand
Fiduciary Liability for Employees' Benefit	$20 million	None
Parks Swimming Pools General Liability	$7.5 million	$5 thousand
Crime and Fidelity	$2.5 million	$50 thousand
Flood Insurance	Scheduled Value (property)	$1 thousand
Cyber Liability	$30 million	$1 million per claim
Cedar Hills Pollution	$50 million	$250 thousand
PSERN -- Inland Marine	$20.5 million	$2.5 thousand per occurrence
	$20.5 million EQ	$10 thousand per location
	$20.5 million Flood	$10 thousand per location
NFIP -- Flood Insurance	$250 - $500 thousand	$1-2 thousand

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, 2017, the total claim liability is $65.7 million.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective April 1, 2017, was $2.0 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 2016 and 2017 (in thousands) are shown below:

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2016	$ 73,110	$ 13,463	$ (16,389)	$ 70,184
2017	70,184	11,814	(16,331)	65,667

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, 2017, is $18.1 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2016 and 2017 (in thousands) are shown below:

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2016	$ 21,443	$ 171,225	$ (169,047)	$ 23,621
2017	23,621	205,180	(210,716)	18,085

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 $3.7 million in 2017 and $3.5 million in 2016, recorded in supplies and other expense on the Statements of Revenues, Expenses and Changes in Net Position.

Employee Benefits Program:
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. 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, 2017 (in thousands) is as follows:

	Capital Assets		Capital Leases Payable	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Buildings	$ 194,935	$ —	$ 8,843	$ —
Leasehold improvements	—	4,881	—	2,514
Less depreciation	(37,698)	(2,573)	—	—
Totals	$ 157,237	$ 2,308	$ 8,843	$ 2,514

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, 2017 (in thousands):

	Governmental Activities	Business-type Activities
2018	$ 764	$ 255
2019	764	255
2020	768	255
2021	765	255
2022	767	255
2023-2027	3,818	1,275
2028-2032	3,824	914
2033-2036	3,060	—
Total minimum lease payments	14,530	3,464
Less: Amount representing interest	(5,687)	(950)
Present value of net minimum lease payments	$ 8,843	$ 2,514

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, 2017 for long-term operating expenses for office space, equipment and other operating leases amount to $11.0 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
2018	$ 8,323	$ 6,270	$ 14,593
2019	7,853	5,586	13,439
2020	7,169	4,807	11,976
2021	6,749	4,112	10,861
2022	5,652	3,615	9,267
2023-2027	21,109	16,390	37,499
2028-2032	621	7,060	7,681
2033-2037	—	3,937	3,937
2038-2042	—	3,679	3,679
2043-2047	—	3,679	3,679

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, 2017 (in thousands):

	Governmental Activities	Business-type Activities Airport	Business-type Activities Other
Land	$ 183	$ 14,212	$ 438
Buildings	317	24,691	424
Less: Depreciation	(317)	(13,459)	(124)
Total cost of property under lease	$ 183	$ 25,444	$ 738

Minimum future lease receipts on noncancelable operating leases based on contract amounts and terms as of December 31, 2017 (in thousands):

Year	Governmental Activities	Business-type Activities Airport	Business-type Activities Other	Total
2018	$ 2,272	$ 12,292	$ 203	$ 14,767
2019	2,168	11,963	160	14,291
2020	1,898	11,335	99	13,332
2021	1,063	10,999	67	12,129
2022	806	10,996	17	11,819
2023-2027	3,780	53,813	84	57,677
2028-2032	2,593	39,850	27	42,470
2033-2037	18	18,476	24	18,518
2038-2042	18	18,476	17	18,511
2043-2047	18	15,890	—	15,908

Component Unit - NJB Properties

Capital Lease

NJB Properties' Project Lease Agreement with the County qualified as a capital lease under ASC 840 - Accounting for Leases. The composition of the net investment in capital lease as of December 31, 2017 is shown below, as well as the minimum lease rental payments expected to be received for the next five years and in the aggregate.

Year	Minimum Lease Payment
2018	$ 764
2019	764
2020	767
2021	765
2022	768
thereafter	10,702
	$ 14,530

Net Investment in Capital Lease	2017
Minimum lease payments receivable	$ 14,530
Uncollected income	(5,687)
Net investment in capital lease	$ 8,843

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 $122.9 million reported as landfill closure and post-closure care liability as of December 31, 2017, 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	78.9%	$ 99,408	$ 97,100	2027
Closed	100%	15,284	—	Closed
Custodial	100%	8,190	—	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, 2017, cash and cash equivalents of $38.8 million were held in the Landfill Reserve Fund and $4.3 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 2017 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 idenditied 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, 2017 stands at $46.5 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 $593 thousand at December 31, 2017. 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, 2017.

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. DOE issued a draft a Draft Cleanup Action Plan that for Public Comment in April 2018. If approved King County will begin implementation of the remaining cleanup activities in 2019.

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 $256 thousand at December 31, 2017.

Note 15
Debt

Short-term Debt Instruments and Liquidity

At December 31, 2017, King County has no short-term debt outstanding.

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 three 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 12/31/17
I. GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT					
IA. Limited Tax General Obligation Bonds (LTGO)					
2006 LTGO HUD Section 108 Bonds – Greenbridge Project	9/14/2006	8/1/2024	4.96-5.70%	$ 6,783	$ 1,635
2007C LTGO (Payoff BAN2006A) Bonds	11/1/2007	1/1/2028	4.00-4.50%	10,695	1,030
2007D LTGO (Payoff BAN2006B) Bonds	11/1/2007	1/1/2028	4.00-5.00%	34,630	1,630
2009B2 LTGO Capital Facilities Project Bonds	5/12/2009	6/1/2029	2.00-5.13%	34,810	22,460
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	3,470
2010B LTGO (BABs) (Taxable) Bonds	12/1/2010	12/1/2030	2.85-6.05%	17,355	9,215
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	14,425
2011B LTGO Flood Planning/Payoff BAN2010B Bonds	12/1/2011	12/1/2019	2.00-4.00%	5,725	4,935
2011D LTGO (Maury Island/Open Space Acquisition) Bonds	12/21/2011	12/1/2031	2.00-3.50%	21,895	13,905
2012A LTGO (ABT Project) Bonds	3/29/2012	7/1/2022	3.00-5.00%	65,935	41,540
2012B LTGO (S. Park Bridge) Bonds	5/8/2012	9/1/2032	3.00-5.00%	28,065	23,225
2012C LTGO Refunding 2004B and 2005 Bonds	8/28/2012	1/1/2025	5.00%	54,260	44,180
2012D LTGO Refunding 2002BOP Lease (HMC) Bonds	11/29/2012	12/1/2031	2.00-5.00%	41,810	33,875
2012E LTGO SE District Court Relocation Bonds (Partial)	12/19/2012	12/1/2027	2.00-5.00%	3,000	2,165
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 (a)	41,460	33,020
2013B LTGO Refunding 2005 GHP Lease Bonds	12/19/2013	12/1/2026	3.00-5.00%	42,820	34,190
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	14,620
2015B LTGO (FED TAX-EXEMPT) Bonds	10/13/2015	12/1/2030	2.50-5.00%	27,355	22,795
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	167,950
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	1,220
2017B LTGO Bond Various Purpose (Partial)	8/10/2017	6/1/2037	3.00-5.00%	33,325	33,325
Total Payable From Limited Tax GO Redemption Fund				836,743	653,350
Payable From Internal Service Funds					
2010B LTGO (BABs) (Taxable) Bonds	12/1/2010	12/1/2030	4.58-6.05%	7,125	3,075
2012E LTGO (IT Business Empowerment) Bonds (Partial)	12/19/2012	12/1/2027	2.00-5.00%	22,405	8,240
Total Payable From Internal Service Funds				29,530	11,315
Total Limited Tax General Obligation Debt				866,273	664,665
IB. Limited Tax GO Capital Leases[(a)]					
2006 Project lease agreement - NJB Properties	12/5/2006	12/1/2036	5.00-5.51%	189,720	8,843
Total Limited Tax GO Capital leases				189,720	8,843
IC. 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	5,460
2012 UTGO Refunding 2004 (HMC) and 2004B (HMC) Bonds	8/14/2012	12/1/2023	2.00-5.00%	94,610	69,480
2013 UTGO Refunding 2003 Bonds	7/2/2013	6/1/2019	3.00-5.00%	8,660	2,850
Total Payable From Unlimited Tax GO Bond Redemption Fund				122,840	77,790
TOTAL GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT				1,178,833	751,298

SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 2 OF 2)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/17
II. BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT					
IIA. Limited Tax General Obligation Bonds (LTGO)					
Payable From Enterprise Funds					
2008 LTGO (WQ) Refunding 1998B Bonds	2/12/2008	1/1/2034	3.25-5.25%	$ 236,950	$ 29,615
2009 LTGO (Transit) Refunding 1998A Bonds	2/18/2009	12/1/2019	2.00-4.00%	48,535	10,085
2009B LTGO (WQ) Capital Improvement Projects Bonds	4/8/2009	7/1/2039	5.00-5.25%	300,000	14,380
2010A LTGO Refunding 2001 (Airport) Bonds (Partial)	10/28/2010	6/1/2021	2.00-5.00%	5,110	2,190
2010B LTGO (BABs) (Transit) Taxable Bonds	12/1/2010	12/1/2030	2.85-6.05%	20,555	17,250
2010D LTGO (QECBs) (Transit) Taxable Bonds	12/1/2010	12/1/2020	4.33%	3,000	3,000
2012A LTGO (WQ) Refunding 2005A Bonds	4/18/2012	1/1/2025	2.00-5.00%	68,395	61,640
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	45,745
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	68,410
2014C LTGO & Refunding 2007E (Solid Waste) Bonds	7/30/2014	12/1/2034	2.00-5.00%	25,515	23,500
2015A LTGO (WQ) Refunding 2009B2 Bonds	2/18/2015	7/1/2038	2.00-5.00%	247,825	247,620
2015B LTGO (FED Tax-Exempt) (Solid Waste) Bonds	10/13/2015	12/1/2025	5.00%	60	50
2015D LTGO & Ref2007E (Solid Waste) Bonds	11/5/2015	12/1/2040	3.00-5.00%	50,595	49,045
2017A LTGO (WQ) Refunding 2008 Bonds	10/25/2017	7/1/2033	4.00-5.00%	154,560	154,560
2017A Multi-Modal LTGO (WQ) Refunding 2010A Bonds	10/26/2017	1/1/2040	Variable (b)	50,000	50,000
2017B Multi-Modal LTGO (WQ) Refunding 2010A Bonds	10/26/2017	1/1/2040	Variable (b)	50,000	50,000
2017A LTGO (Solid Waste) Bonds	6/8/2017	6/1/2040	3.25-5.00%	31,230	31,230
2017B LTGO (Solid Waste) Bond Various Purpose	8/10/2017	6/1/2027	4.00-5.00%	135	135
Total Limited Tax GO Bonds Payable From Enterprise Funds				1,539,375	956,595
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
2010 WQ Revenue & Refunding 2001 Bonds	7/19/2010	1/1/2050	2.00-5.00%	334,365	55,755
2011 WQ Revenue (Capital Improvement Projects) Bonds	1/25/2011	1/1/2041	5.00-5.125%	175,000	15,765
2011B WQ Revenue Refunding 2001, 2002A, 2002B, and 04A Bonds	10/5/2011	1/1/2041	1.00-5.00%	494,270	191,785
2011C WQ Revenue Refunding 2001, 2002A, and 2004A Bonds	11/1/2011	1/1/2035	3.00-5.00%	32,445	7,885
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	111,020
2013B WQ Revenue and Refunding 2004B Bonds	10/29/2013	1/1/2044	2.00-5.00%	74,930	61,020
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	472,325
2015B WQ Revenue & Refunding 2006 Bonds	11/17/2015	1/1/2046	4.00-5.00%	93,345	85,220
2015AB WQ Revenue Junior Lien Variable Rate Demand Bonds	11/24/2015	1/1/2046	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	278,975
2016B WQ Revenue & Refg 2006-2, 2010, 2011A, 2011B, 2011C Bonds	10/12/2016	7/1/2049	4.00-5.00%	499,655	496,165
2017A WQ Revenue Refg 2009LTGO, 2010, 2011A, 2011B, 2011C Bonds	12/19/2017	1/1/2050	5.00%	149,485	149,485
2017A WQ Revenue Junior Lien Variable Rate Demand Bonds	12/19/2017	1/1/2048	Variable (c)	50,000	50,000
2000-2017 State of Washington Revolving Loans	Various	Various	0.50-3.10%	235,633	218,043
2000 Public Transportation Park and Ride Capital Leases	3/30/2000	12/31/2031	5.00%	4,722	2,514
Total Revenue Bonds, Capital Leases and Loans Payable From Enterprise Funds				3,923,885	3,095,867
TOTAL BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT				5,463,260	4,052,462
TOTAL LONG-TERM DEBT				$ 6,642,093	$ 4,803,760

(a) Beginning in 2017, NJB Properties, Inc. a component unit of King County went from being blended to being discretely presented for financial reporting. As a result, the NJB Properties lease revenue bonds liability was removed from the County and reported with the component unit. Because of the existing project lease agreement between the two parties, the County retroactively recognized a capital lease liability. Under the lease agreements, the County's obligation to pay rent to NJB Properties 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		General Obligation Capital Leases		Total	
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2018	$ 69,133	$ 32,381	$ 329	$ 435	$ 69,462	$ 32,816
2019	71,795	28,900	344	419	72,139	29,319
2020	66,007	25,741	364	403	66,371	26,144
2021	67,541	22,714	380	386	67,921	23,100
2022	72,095	19,648	400	368	72,495	20,016
2023-2027	217,844	59,586	2,271	1,547	220,115	61,133
2028-2032	134,300	23,702	2,505	1,320	136,805	25,022
2033-2037	43,740	4,317	2,250	809	45,990	5,126
TOTAL	$ 742,455	$ 216,989	$ 8,843	$ 5,687	$ 751,298	$ 222,676

	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**
2018	$ 48,230	$ 42,232	$ 71,358	$ 127,901	$ 119,588	$ 170,133	$ 189,050	$ 202,949
2019	41,510	42,290	79,435	128,485	120,945	170,775	193,084	200,094
2020	36,045	40,618	78,758	125,105	114,803	165,723	181,174	191,867
2021	26,470	38,877	75,084	121,875	101,554	160,752	169,475	183,852
2022	40,355	37,396	77,102	118,755	117,457	156,151	189,952	176,167
2023-2027	218,230	156,508	405,565	541,365	623,795	697,873	843,910	759,006
2028-2032	239,310	102,900	585,354	443,733	824,664	546,633	961,469	571,655
2033-2037	162,555	53,398	525,087	304,680	687,642	358,078	733,632	363,204
2038-2042	143,890	13,243	574,350	189,439	718,240	202,682	718,240	202,682
2043-2047	—	—	547,630	72,417	547,630	72,417	547,630	72,417
2048-2052	—	—	76,144	8,191	76,144	8,191	76,144	8,191
TOTAL	$ 956,595	$ 527,462	$ 3,095,867	$ 2,181,946	$ 4,052,462	$ 2,709,408	$ 4,803,760	$ 2,932,084

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, 2017 is as follows (in thousands):

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Governmental activities:					
General obligation bonds payable:					
General obligation (GO) bonds	$ 779,012	$ 33,325	$ (69,882)	$ 742,455	$ 69,133
Lease revenue bonds	3,635	—	(3,635)	—	—
Unamortized bonds premium and discount	70,255	5,038	(12,046)	63,247	—
Total bonds payable	852,902	38,363	(85,563)	805,702	69,133
Other liabilities:					
General Obligation capital leases[(a)]	14,815	—	(5,972)	8,843	329
Compensated absences liability	102,858	83,975	(80,175)	106,658	9,775
Net pension liability	554,767	270,904	(419,358)	406,313	—
Other postemployment benefits	57,090	1,723	(97)	58,716	—
Estimated claims settlements and other liabilities	169,360	234,831	(245,518)	158,673	52,638
Total other liabilities	898,890	591,433	(751,120)	739,203	62,742
Total Governmental activities long-term liabilities	$ 1,751,792	$ 629,796	$ (836,683)	$ 1,544,905	$ 131,875
Business-type activities:					
Bonds payable:					
GO bonds	$ 992,665	$ 285,925	$ (321,995)	$ 956,595	$ 48,230
Revenue bonds	2,884,890	199,485	(209,065)	2,875,310	55,535
Unamortized bonds premium and discount	369,807	38,026	(29,456)	378,377	—
Total bonds payable	4,247,362	523,436	(560,516)	4,210,282	103,765
Other liabilities:					
Capital leases	2,640	—	(126)	2,514	133
State revolving loans	205,989	26,471	(14,416)	218,044	15,690
Compensated absences liability	68,263	86,670	(86,119)	68,814	11,151
Net pension liability	458,946	212,274	(321,511)	349,709	—
Other postemployment benefits	13,804	856	(408)	14,252	—
Landfill closure and post-closure care liability	126,277	5,112	(8,507)	122,882	13,207
Pollution remediation	47,791	8,742	(9,224)	47,309	6,627
Customer deposits	1,414	1,090	(967)	1,537	897
Total other liabilities	925,124	341,215	(441,278)	825,061	47,705
Total Business-type activities long-term liabilities	$ 5,172,486	$ 864,651	$ (1,001,794)	$ 5,035,343	$ 151,470

Governmental activities estimated claims settlements of $158.7 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.

(a) Beginning in 2017, NJB Properties, Inc. a component unit of King County went from being blended to being discretely presented for financial reporting. As a result, the NJB Properties lease revenue bonds liability was removed from the County and reported with the component unit. Because of the existing project lease agreement between the two parties, the County retroactively recognized a capital lease liability. Under the lease agreements, the County's obligation to pay rent to NJB Properties is a limited tax general obligation.

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, 2017 (in thousands):

2017 ASSESSED VALUE (2018 TAX YEAR)	$ 534,662,435	
Debt limit of limited tax general obligations for metropolitan functions		
0.75 % of assessed value		$ 4,009,968
Less: Net limited tax general obligation indebtedness for metropolitan functions		(880,080)
LIMITED TAX GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS		$ 3,129,888
Debt limit of limited tax general obligations for general county purposes and metropolitan functions		
1.5 % of assessed value		$ 8,019,937
Less: Net limited tax general obligation indebtedness for general county purposes	$ (643,773)	
Net limited tax general obligation indebtedness for metropolitan functions	(880,080)	
Total net limited tax general obligation indebtedness for general county purposes and metropolitan functions		(1,523,853)
LIMITED TAX GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS		$ 6,496,084
Debt limit of total general obligations for metropolitan functions		
2.5% of assessed value		$ 13,366,561
Less: Net total general obligation indebtedness for metropolitan functions		(880,080)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS		$ 12,486,481
Debt limit of total general obligations for general county purposes		
2.5 % of assessed value		$ 13,366,561
Less: Net unlimited tax general obligation indebtedness for general county purposes	$ (75,683)	
Net limited tax general obligation indebtedness for general county purposes	(643,773)	
Total net general obligation indebtedness for general county purposes		(719,456)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES		$ 12,647,105

Refunding and Defeasing Sewer Revenue Bond and Limited Tax General Obligations (GO) (Payable from Sewer Revenues) Bonds Issues - 2017

Defeasance of of Sewer Revenues Bonds, 2017 - On February 22, 2017, the County defeased $5.1 million of Sewer Revenue Bonds, 2008 and 2009 bonds using excessing funding source from King County Sewer Revenue fund.

Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues) Bonds, 2017 - On October 25, 2017, the County issued $154.6 million in limited tax GO refunding bonds (Payable from Sewer Revenues) series, 2017A with an effective interest cost of 2.5 percent to advance refund $175.6 million of outstanding limited tax GO bond (payable from sewer revenues) series, 2008 bonds, with an effective interest rate of 4.8 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 series 2008 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 $6.6 million. This amount, reported in the statement of net position, is being charged to operations through fiscal year 2034, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $41.2 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 $33.5 million.

Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenues) Bonds, 2017A and Series 2017A. - On October 26, 2017, the County issued $100.0 million in multi-modal limited tax GO refunding bonds (Payable from Sewer Revenues) series, 2017A and 2017B with a variable interest rates to current refund $100.0 million of outstanding multi-modal limited tax GO bonds (Payable from Sewer Revenues) series, 2010A and 2010B bonds, with variable interest rates. As a result, the series 2010A and 2010B 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. This current refunding was undertaken to take advantage of a favorable interest rate restriction and reduce total debt service payments.

Sewer Revenue Refunding Bonds, 2017A - On December 19, 2017, the County issued $149.5 million in Sewer Revenue Refunding Bonds, 2017A with an effective interest cost of 3.6 percent to advance refund $159.7 million of outstanding Sewer Revenue Bonds, series 2009, 2010, 2011A, 2011B and 2011C, with an effective interest rate of 5.0 percent.

The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the series 2009, 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 $11.2 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 advance refunding was undertaken to reduce total debt service payments by $35.8 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 $19.9 million.

Prior Year Refunded and Defeasance of Debt

As of December 31, 2017, King County has 12 refunded and defeased bond issues outstanding, consisting of six limited tax general obligation bonds total $471.0 million and six sewer revenue bonds total $1.2 billion. 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.

Component Unit - NJB Properties

The following tables summarize the scheduled maturity dates of bond principal over the next five years and in the aggregate of the discretely presented component unit NJB Properties as reported in its separately issued financial statements:

(IN THOUSANDS)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/17
Lease Revenue Bonds, 2006 Series A	12/5/2006	12/1/2036	5.00-6.00%	$ 179,285	$ 5
Lease Revenue Bonds, 2006 Series B	12/5/2006	12/1/2036	5.00-6.00%	10,435	8,865
Total Bonds Payable				$ 189,720	$ 8,870

Year	Principal
2018	$ 275
2019	290
2020	310
2021	325
2022	345
Thereafter	7,325
TOTAL	$ 8,870

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	General Fund	$ 340
	Nonmajor Governmental Funds	848
	All Others	301
Behavioral Health Fund	All Others	78
Nonmajor Governmental Funds	General Fund	2,649
	Nonmajor Governmental Funds	920
	All Others	263
Public Transportation Enterprise	General Fund	906
	Nonmajor Governmental Funds	1,802
	All Others	11
Water Quality Enterprise	General Fund	622
	Nonmajor Governmental Funds	1,465
Nonmajor Enterprise Funds	All Others	882
Internal Service Funds	Nonmajor Governmental Funds	15,675
	Public Transportation Enterprise	3,567
	All Others	280
Total interfund balances		$ 30,609

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	$ 4,000
Internal Service Funds	Nonmajor Governmental Funds	13,679
Total advances from/to other funds		$ 17,679

All of these advances consisted of loans made for the purpose of cash flow. None of the advances are scheduled to be repaid in 2018.

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	General Fund	$ 4,500
	Behavioral Health Fund	3,071
	Nonmajor Governmental Funds	76,430
	All Others	357
Behavioral Health Fund	Nonmajor Governmental Funds	2,428
Nonmajor Governmental Funds	General Fund	8,755
	Behavioral Health Fund	2,406
	Nonmajor Governmental Funds	249,339
	Internal Service Funds	1,101
	All Others	471
Public Transportation Enterprise	Nonmajor Governmental Funds	3,724
Water Quality Enterprise	Nonmajor Governmental Funds	741
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	1,235
Internal Service Funds	Nonmajor Governmental Funds	$ 15,989
	All Others	73
Total interfund transfers		$ 370,620

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 2017, the primary government received $14.0 million in building lease and occupancy revenues from HMC. In addition, HMC made $5.0 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 2017, the King County primary government transferred $4.0 million to the CDA. CDA spent $1.3 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 $45 thousand in 2017.

Note 18

Components of Fund Balance, Restatements, Restrictions and Special Item

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. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

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:

- 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;
- Payment of current expense fund legal settlements or judgments in excess of the County's ability to pay from other sources;
- Catastrophic losses in excess of the County's other insurances against such losses; and
- Other emergencies as determined by the County Council.

The Rainy Day Reserve is reported as part of the General Fund. As of December 31, 2017, it had a committed fund balance of $25.1 million.

A summary of governmental fund balances at December 31, 2017, is as follows (in thousands):

	General Fund	Behavioral Health Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Inventory	$ —	$ —	$ 834	$ 834
Prepayments	—	—	7,914	7,914
Youth Sports Facilities Grant Endowment	—	—	2,619	2,619
Total Nonspendable Fund Balance	—	—	11,367	11,367
Restricted for:				
Animal Services	—	—	2,036	2,036
Arts and Culture Development	—	—	413	413
Automated Fingerprint ID System	—	—	27,542	27,542
Behavioral Health	—	57,282	—	57,282
Best Starts For Kids Levy	—	—	71,821	71,821
Building Repair and Replacement	—	—	11,499	11,499
Conservation Futures	—	—	23,952	23,952
Community Services Operating	—	—	753	753
County Road Construction	—	—	18,374	18,374
County Roads Operating	—	—	25,220	25,220
Crime Victim Compensation Program	101	—	—	101
DCHS Administration	—	—	587	587
Developmental Disabilities	—	—	7,785	7,785
Dispute Resolution	33	—	—	33
Drug Enforcement	1,125	—	—	1,125
Emergency Medical Services	—	—	44,205	44,205
Enhanced 911 Emergency Telephone System	—	—	26,928	26,928
Environmental Health	—	—	14,321	14,321
Farmland and Open Space Acquisitions	—	—	1,519	1,519
Facilities Management Division-Parks	—	—	1,703	1,703
Facilities Management Division-Parks Facility Rehabilitation	—	—	9	9
Flood Control District	—	—	71,491	71,491
Grants	—	—	2,596	2,596
Historical Preservation	—	—	138	138
Housing and Community Development	—	—	60,043	60,043
Human Services	—	—	458	458
Information and Telecommunication Capital	—	—	24,272	24,272
Intercounty River Improvement	—	—	15	15
King County Flood Control Operating	—	—	47	47
Law Library	—	—	299	299
Local Hazardous Waste	—	—	16,235	16,235
Major Maintenance	—	—	2,251	2,251
Mental Illness and Drug Dependency	—	—	19,678	19,678
Noxious Weed Control	—	—	1,145	1,145
Open Space King County Bond Funded Subfund	—	—	443	443
Parks Capital	—	—	47,909	47,909
Parks Operating Levy	—	—	17,456	17,456
Parks Trust and Contribution	—	—	5	5
Planning and Permitting	—	—	970	970
Public Health	—	—	25,690	25,690
Puget Sound Emergency Radio Network	—	—	30,907	30,907
Real Property Title Assurance	25	—	—	25
Real Estate Excise Tax Capital	—	—	27,672	27,672
Recorder's Operations and Maintenance	—	—	2,022	2,022
Renton Maintenance Facility	—	—	21,036	21,036
Road Improvement Districts Construction	—	—	2	2
Road Improvement Districts Maintenance	—	—	7	7
Surface Water Capital	—	—	10,572	10,572

A summary of governmental fund balances at December 31, 2017, continues (in thousands) (page 2 of 2):

	General Fund	Behavioral Health Fund	Nonmajor Governmental Funds	Total
Restricted for - continued:				
Surface Water Management	$ —	$ —	$ 9,262	$ 9,262
Treasurer's Operations and Maintenance	—	—	164	164
Urban Restore Habitat Restoration	—	—	350	350
Veterans and Human Services	—	—	1,669	1,669
Veterans' Relief	—	—	275	275
Wheelchair Access	732	—	—	732
Youth Service Facility Construction	—	—	52,361	52,361
Total Restricted Fund Balance	2,016	57,282	726,107	785,405
Committed for:				
Antiprofiteering Program	69	—	—	69
Rainy Day Reserve	25,092	—	—	25,092
Urban Restoration and Habitat	—	—	43	43
Total Committed Fund Balance	25,161	—	43	25,204
Assigned for:				
Capital Projects	5,637	—	—	5,637
Debt Service	—	—	14,817	14,817
General Government	402	—	—	402
Information and Telecommunication Capital	—	—	3,669	3,669
Inmate Welfare	4,634	—	—	4,634
Long Term Leases	—	—	70	70
Major Maintenance Reserve	—	—	13,658	13,658
Mental & Physical Health	6	—	—	6
Public Safety	8,502	—	—	8,502
Regional Justice Projects	—	—	297	297
Transfer of Development Credit Program	—	—	7,519	7,519
Urban Restore Habitat Restoration	—	—	300	300
Youth Amateur Sports	—	—	5,575	5,575
Total Assigned Fund Balance	19,181	—	45,905	65,086
Unassigned for:				
General Fund	98,412	—	—	98,412
Arts and Culture Development	—	—	(3,726)	(3,726)
Building Repair and Replacement	—	—	(960)	(960)
Long-term Leases	—	—	(2,748)	(2,748)
Parks Facility Rehabilitation	—	—	(35)	(35)
Permit and Environmental Review	—	—	(397)	(397)
Risk Abatement	—	—	(10,548)	(10,548)
Total Unassigned Fund Balance	98,412	—	(18,414)	79,998
Total Fund Balance	$ 144,770	$ 57,282	$ 765,008	$ 967,060

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	General Fund	Nonmajor Governmental Funds	Internal Service Funds
Net position/fund balance - January 1, 2017	$ 2,579,801	$ 758,442	$ 125,479	$ 632,963	$ 128,963
GASB Statement 61 & 80 - Reporting Entity Change	5,042	—	—	—	13,061
Other prior period corrections of errors:					
General capital assets	16,206	—	—	—	—
KC Recorder's Office cumulative revenue transfer	(1,972)	(1,972)	(1,972)	—	—
Other nonmajor governmental fund	980	980	—	980	—
Net position/fund balance - January 1, 2017 (Restated)	$ 2,600,057	$ 757,450	$ 123,507	$ 633,943	$ 142,024

Governmental Activities

Reevaluation of component units based on recent GASB guidance resulted in the de-blending of NJB properties previously reported as a blended internal service fund (see note 1, “Reporting Entity Change”). This accounting change resulted in the restatement of prior period net position in governmental activities by $5.0 million and internal service funds by $13.1 million.

Governmental activities general capital assets beginning balances were increased by a net $16.2 million due to expensing work in progress and capitalizing roads-bridges infrastructure in error.

Due to computer system implementation issues and key technical staff turnover in 2012, the County failed to distribute certain recording fees collected in the General Fund to various King County funds and the state of Washington. Two million is the cumulative amount of the error from prior years 2012-16.

Contract reductions in the Flood Control contracts fund and district fund, and, failure to recognize as revenue certain prior year advance grants in the Grants fund resulted in a net increase of $980 thousand in beginning fund balance of nonmajor governmental funds.

Restricted Net Position

Component Unit - Harborview Medical Center (HMC)

Restricted expendable net position - $10.2 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 $2.6 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 - $38.9 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.

Special Item - Governmental Activities

In June 2017, the County exercised its option to refinance the lease revenue bonds held by CDP-King County III, a County blended component unit and lessor for the King Street Center Building that is under lease to the County. Final defeasance of the bonds occurred in June 1, 2017 when title to the property legally transferred to the County. CDP-

King Street III then ceased to be a component unit and its residual assets and liabilities were removed from the County's statements of net position with the resultant change of $6.6 million reported as a special item in the Internal Service Funds activity statements. A related special item is also reported in governmental activities totaling $213 thousand.

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:

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 Wastewater Treatment Division has already performed interim cleanup costing $3.6 million to comply with an agreed order issued by the Washington State Department of Ecology (DOE). WTD had discussions in March 2018 with DOE and stakeholders regarding site conditions and next steps toward final cleanup. It is unclear what final remedy DOE may select. Therefore, we are unable to determine an amount, if any, for which WTD may be responsible.

East Waterway Operable Unit of the Harbor Island Superfund Site - The Port of Seattle has completed a significant removal action in the East Waterway. The City of Seattle, Port of Seattle and King County intend to negotiate the amount, if any, that the City and the County will contribute to defray the Port of Seattle's past cleanup costs at the site. This is an extremely complex negotiation and we are unable to determine an amount that WTD may be responsible for, if any.

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 have agreed with EPA to amend the administrative order 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 WTD will be responsible for the cost of such remediation.

Lower Duwamish Waterway - Possible Natural Resource Damages - King County has participated in discussions with National Oceanic and Atmospheric Administration (NOAA) regarding alleged natural resource damages (NRD) in the Lower Duwamish Waterway and around Harbor Island. These discussions have included NOAA's determination that the County may be a potentially liable party that has contributed to the release of hazardous substances that have injured natural resources. NOAA notified the County in February 2016 that the Natural Resources Trustees will proceed with a NRD assessment and invited the County to participate in the development of the assessment. The County notified NOAA in March 2016 that the County desires to conduct settlement discussions 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.

South Park Landfill Model Toxics Control Act Cleanup - In the 1920s, King County acquired 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, until it was closed in the 1960s. In 2006, the County sold its portion of the closed 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 DOE 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 had 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, WTD had to install a bypass system because this capital project is not completed by the onset of the 2016 wet season. The contractor 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 was 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.The Appeals Court affirmed the trial court's decision that venue is proper in King County and affirmed Snohomish County Superior Court's dismissal of the contractor's second filed suit.

North Lake Union Site Model Toxics Control Act Cleanup - In the 1970s King County acquired a bulk fueling terminal on the north shore of Lake Union in the vicinity of Gasworks Park and used it as a maintenance base and fuel storage facility. In the early 1990s the upland portion of the site was identified by the DOE as a potential source of environmental contamination under the Model Toxics Control Act. In 1999 the former owner and King County entered into an interim cost-sharing agreement, and also entered into a Consent Decree with DOE for final cleanup actions and over a period of years, performed shallow soil remediation and groundwater remediation required under the Consent Decree. in 2009 King County sold a portion of the site to a developer after the developer entered into a separate Prospective Purchaser Consent Decree (PPCD) for its portion of the site in 2007. During 2014 through 2015 the developer performed the deep soil excavation required under its PPCD and in 2016 DOE declared the developer's cleanup complete and closed out the PPCD. However, under the 1999 Consent Decree, the former owner and King County remain obligated to monitor groundwater on the site and DOE has reserved 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 Metro Transit Division may be responsible.

Transit Wage and Hour Claims - Following audit by the U.S. Department of Labor regarding pre-trip inspection time under the federal Fair Labor Standards Act, the Prosecuting Attorney's Office is working with Transit and the Office of Labor Relations regarding claims by employees represented by ATU Local 587 related to potential state law wage and hour issues. A settlement agreement has been reached by the parties, which is subject to Council approval. Outside counsel has been engaged to assist in this matter.

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. King County filed a motion for summary judgment, which was granted; plaintiffs' claims were dismissed with prejudice and all other claims were dismissed without prejudice. Plaintiffs have appealed and are seeking direct review by the Washington Supreme Court. The Court recently denied review and transferred the appeal to the Court of Appeals, Division II.

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.

Ballot Title Challenge - In 2012 King County voters approved a capital levy to build a new children and family and justice center to replace two existing King County juvenile court buildings. An organization sued King County in Pierce County Superior Court challenging the ballot title for, and taxes collected under, the levy. The organization claims that the ballot title did not inform voters that the project would include a new youth detention center or that levy funds would be collected for nine years. Pierce County Superior Court Judge granted King County's motion for summary judgment. The Judge held that the lawsuit was really a ballot title challenge that should have been brought before the measure was presented to voters and he further held that the County's ballot title met the requirements of the levy lid lift statute. The organization appealed to Division Two. On September 26, 2017, the appellate court upheld the trial court's decision as to the adequacy of the description of the project, but reversed the trial court's decision as to whether the ballot title adequately disclosed the duration of the levy lid lift. On April 4, 2018, the Washington Supreme Court granted King County's petition for review. We expect the case to be heard in early fall 2018. A decision will likely be issued within one year of the argument date.

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 $400.0 million in total commitment. At the end of 2017, there are 13 contingent loan agreements outstanding totaling $155.6 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, 2017 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 $3.0 million for rent on the Cedar Hills landfill site in 2017. 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

Water Quality closed on a $134.5 million loan commitment with the Environmental Protection Agency in April 2018 for the Georgetown Wet Weather Treatment Station. Draws on the loan commitment, scheduled to begin in 2020, is evidenced by the 2018 sewer revenue bonds that was authorized by the King County Council under the Washington Infrastructure Finance Innovation Act.

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, 2017
(IN THOUSANDS)

	2017-2018 BUDGETED AMOUNTS (BIENNIAL)			
	ORIGINAL	**FINAL**	**ACTUAL**	**VARIANCE**
REVENUES				
Taxes:				
Property taxes	$ 691,289	$ 692,641	$ 344,708	$ (347,933)
Retail sales and use taxes	272,782	269,656	134,140	(135,516)
Business and other taxes	21,904	22,353	4,295	(18,058)
Licenses and permits	12,373	14,314	7,783	(6,531)
Intergovernmental revenues	240,600	254,076	21,629	(232,447)
Charges for services	303,501	302,268	258,546	(43,722)
Fines and forfeits	49,308	48,989	25,754	(23,235)
Interest earnings	—	—	10,447	10,447
Miscellaneous revenues	54,062	54,577	17,943	(36,634)
Sale of capital assets	—	158	168	10
Transfers in	4,740	5,879	13,255	7,376
TOTAL REVENUES	1,650,559	1,664,911	838,668	(826,243)
EXPENDITURES				
Current:				
General government	285,993	289,992	188,508	101,484
Law, safety and justice	1,137,264	1,155,067	505,028	650,039
Economic environment	1,175	1,132	503	629
Health and human services	79,156	83,651	38,561	45,090
Debt service:				
Principal	68	68	—	68
Interest and other debt service costs	7	7	99	(92)
Capital outlay	1,787	3,276	1,245	2,031
Transfers out	162,261	172,700	81,401	91,299
TOTAL EXPENDITURES	1,667,711	1,705,893	815,345	890,548
Excess (deficiency) of revenues over (under) expenditures (budgetary basis)	$ (17,152)	$ (40,982)	23,323	$ 64,305
Adjustment from budgetary basis to GAAP basis[(a)]			(2,060)	
Net change in fund balance			21,263	
Fund balance - Beginning balance (Restated)			123,507	
Fund balance - Ending balance			$ 144,770	

[(a)]Elements of adjustment from budgetary basis to GAAP basis:

Adjustments to revenues:	
Recognition of unrealized loss on investments	$ (2,304)
Adjustments to expenditures	(145)
Non-budgeted revenues	389
Adjustment from budgetary basis to GAAP basis	$ (2,060)

BEHAVIORAL HEALTH FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(IN THOUSANDS)

2017-2018 BUDGETED AMOUNTS (BIENNIAL)

	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES				
Taxes:				
Property taxes	$ 6,568	$ 6,568	$ 3,258	$ (3,310)
Business and other taxes	—	—	14	14
Intergovernmental revenues	96,607	36,417	25,589	(10,828)
Charges for services	749,112	539,889	256,419	(283,470)
Interest earnings	938	938	925	(13)
Miscellaneous revenues	1,982	1,982	919	(1,063)
Transfers in	6,143	6,193	5,473	(720)
TOTAL REVENUES	861,350	591,987	292,597	(299,390)
EXPENDITURES				
Current:				
Health and human services	857,917	652,649	307,567	345,082
Transfers out	—	—	443	(443)
TOTAL EXPENDITURES	857,917	652,649	308,010	344,639
Excess (deficiency) of revenues over (under) expenditures (budgetary basis)	$ 3,433	$ (60,662)	(15,413)	$ 45,249
Adjustment from budgetary basis to GAAP basis[a]			(162)	
Net change in fund balance			(15,575)	
Fund balance - Beginning balance			72,857	
Fund balance - Ending balance			$ 57,282	

[a]Elements of adjustment from budgetary basis to GAAP basis:

Adjustments to revenues:	
Recognition of unrealized loss on investments on a GAAP basis	$ (153)
Adjustments to expenditures:	
Non-budgeted transfers out	(9)
Adjustment from budgetary basis to GAAP basis	$ (162)

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)

	2017	2016	2015	
County's proportion of the net pension liability	8.45%	8.90%	8.76%	
County's proportionate share of the net pension liability	$ 400,803	$ 477,872	$ 458,477	
County's covered payroll**	$ 15,426	$ 18,793	$ 22,880	***
County's proportionate share of the net pension liability as a percentage of covered payroll	2598.23%	2542.82%	2003.83%	
Plan fiduciary net position as a percentage of the total pension liability	61.24%	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)

	2017	2016	2015	
County's proportion of the net pension liability	10.14%	10.52%	10.36%	
County's proportionate share of the net pension liability	$ 352,361	$ 529,855	$ 370,294	
County's covered payroll**	$ 995,800	$ 953,254	$ 949,860	***
County's proportionate share of the net pension liability as a percentage of covered payroll	35.38%	55.58%	38.98%	
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%	

*These schedules will be built prospectively until they contain ten years of data.
**Covered payroll is the payroll on which contributions to a pension plan are based.
***Restated

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)

	2017	2016	2015	
County's proportion of the net pension liability	9.92%	11.33%	9.88%	
County's proportionate share of the net pension liability	$ 1,944	$ 4,817	$ 1,803	
County's covered payroll**	$ 35,210	$ 35,577	$ 29,911	***
County's proportionate share of the net pension liability as a percentage of covered payroll	5.52%	13.54%	6.03%	
Plan fiduciary net position as a percentage of the total pension liability	96.26%	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)

	2017	2016	2015	
County's proportion of the net pension (asset)	0.60%	0.60%	0.60%	
County's proportionate share of the net pension (asset)	$ (9,046)	$ (6,180)	$ (7,275)	
County's covered payroll**	$ 194	$ 213	$ 290	***
County's proportionate share of the net pension (asset) as a percentage of covered payroll	-4,662.96%	-2,901.36%	-2,508.65%	
Plan fiduciary net position as a percentage of the total pension liability	135.96%	123.74%	127.36%	

*These schedules will be built prospectively until they contain ten years of data.
**Covered payroll is the payroll on which contributions to a pension plan are based.
***Restated

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)

	2017	2016	2015	
County's proportion of the net pension (asset)	2.91%	3.02%	2.90%	
County's proportionate share of the net pension (asset)	$ (40,429)	$ (17,543)	$ (29,819)	
State's proportionate share of the net pension (asset) associated with King County	(26,225)	(11,437)	(19,716)	
Total	$ (66,654)	$ (28,980)	$ (49,535)	
County's covered payroll**	$ 91,137	$ 87,895	$ 84,358	***
County's proportionate share of the net pension (asset) as a percentage of covered payroll	-44.36%	-19.96%	-35.35%	
Plan fiduciary net position as a percentage of the total pension liability	113.36%	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)

	2017	2016	2015
County's proportion of the net pension liability	0.07%	0.09%	0.11%
County's proportionate share of the net pension liability	$ 914	$ 1,169	$ 1,219
County's covered payroll**	$ 2,429	$ 3,010	$ 3,305
County's proportionate share of the net pension liability as a percentage of covered payroll	37.61%	38.84%	36.88%
Plan fiduciary net position as a percentage of the total pension liability	65.60%	64.03%	67.70%

*These schedules will be built prospectively until they contain ten years of data.
**Covered payroll is the payroll on which contributions to a pension plan are based.
***Restated

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended December 31*
(dollars in thousands)

	2017	2016	2015
Contractually required contribution	$ 1,738	$ 1,901	$ 2,076
Contributions in relation to the contractually required contribution	1,738	1,901	2,076
Contribution deficiency (excess)	$ —	$ —	$ —
Covered payroll**	$ 14,569	$ 17,003	$ 20,440
Contributions as a percentage of covered payroll	11.93%	11.18%	10.16%

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Year Ended December 31*
(dollars in thousands)

	2017	2016	2015
Contractually required contribution	$ 123,333	$ 109,269	$ 95,176
Contributions in relation to the contractually required contribution	123,333	109,269	95,176
Contribution deficiency (excess)	$ —	$ —	$ —
Covered payroll**	$ 1,031,418	$ 977,342	$ 933,304
Contributions as a percentage of covered payroll	11.96%	11.18%	10.20%

Schedule of Contributions
Public Safety Employees' Retirement System (PSERS) Plan 2
Fiscal Year Ended December 31*
(dollars in thousands)

	2017	2016	2015
Contractually required contribution	$ 4,316	$ 3,953	$ 3,677
Contributions in relation to the contractually required contribution	4,316	3,953	3,677
Contribution deficiency (excess)	$ —	$ —	—
Covered payroll**	$ 36,728	$ 34,253	$ 33,102
Contributions as a percentage of covered payroll	11.75%	11.54%	11.11%

Schedule of Contributions
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
Fiscal Year Ended December 31*
(dollars in thousands)

	2017	2016	2015
Contractually required contribution	$ 4,956	$ 4,735	$ 4,505
Contributions in relation to the contractually required contribution	4,956	4,735	4,505
Contribution deficiency (excess)	$ —	$ —	—
Covered payroll**	$ 92,952	$ 90,526	$ 86,131
Contributions as a percentage of covered payroll	5.33%	5.23%	5.23%

Schedule of Contributions
Seattle City Employees' Retirement System (SCERS)
Fiscal Year Ended December 31*
(dollars in thousands)

	2017	2016	2015
Contractually required contribution	$ 371	$ 458	$ 520
Contributions in relation to the contractually required contribution	371	458	520
Contribution deficiency (excess)	$ —	$ —	$ —
Covered payroll**	$ 2,429	$ 3,010	$ 3,305
Contributions as a percentage of covered payroll	15.27%	15.22%	15.73%

Notes:

*These schedules will be built prospectively until they contain ten years of data.
**Covered payroll is the payroll on which contributions to a pension plan are based.

Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions.

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)
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%
2017	12/31/2017	—	121,079	121,079	—%	1,178,142	10.3%

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	294.3	65.0	297.7	64.9	348.2	71.8
Fair	61.4	13.5	32.0	7.0	20.3	4.2
Poor to substandard	97.5	21.5	129.0	28.1	116.7	24.0
Total	453.2	100.0	458.7	100.0	485.2	100.0
Local access roads						
Excellent to good	689.2	67.7	742.0	70.7	867.0	75.6
Fair	134.7	13.2	91.4	8.7	74.2	6.5
Poor to substandard	194.2	19.1	216.5	20.6	205.8	17.9
Total	1,018.1	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	323.3	71.3	315.7	68.8	360.0	74.2
PCI 0 - 39	129.9	28.7	143.0	31.2	125.2	25.8
Total	453.2	100.0	458.7	100.0	485.2	100.0
Local access roads						
PCI 40 - 100	759.4	74.6	786.5	74.9	900.0	78.5
PCI 0 - 39	258.7	25.4	263.4	25.1	247.0	21.5
Total	1,018.1	100.0	1,049.9	100.0	1,147.0	100.0

In the most recent condition assessments, 71.3 percent of the arterial roads in the County and 74.6 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 2017 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).

	2017	2016	2015	2014	2013
Budgeted	$ 72,969	$ 70,969	$ 56,599	$ 50,453	$ 59,110
Expended	59,864	43,820	37,003	36,269	46,782

The amount budgeted in 2017 for road preservation and maintenance was $73.0 million. The amount actually expended was $59.9 million. The 2017 underspending was due to scheduling of contracted work and work to be performed in 2018. 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. Four bridges that do not carry vehicular traffic 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	2017	2016	2015
0 - 20	8	6	5
21 - 30	4	—	2
31 - 49	22	24	20
50 - 100	144	148	150
Totals	178	178	177

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):

	2017	2016	2015	2014	2013
Budgeted	$ 6,605	$ 4,343	$ 5,607	$ 4,727	$ 5,544
Expended	6,221	3,448	3,184	3,345	5,411

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level.

APPENDIX E

KING COUNTY WATER QUALITY ENTERPRISE FUND
2018 AUDITED FINANCIAL STATEMENTS

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

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

December 31, 2018 and 2017

MOSSADAMS

Table of Contents

MOSSADAMS

Report of Independent Auditors

To the Metropolitan King County Council
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the King County Water Quality Enterprise Fund (Water Quality), which comprise the statements of net position as of December 31, 2018 and 2017, 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the County's Proportionate Share of the Net Pension Liability, Schedule of the County's Contributions to the Pension Plan, and Schedule of the County's Changes in Total OPEB Liability and Related Ratios for the Postemployment Health Care 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 Debt Service Coverage Ratios and Supplemental Schedule of Historical Debt Service Coverage Ratios are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Moss Adams LLP

Seattle, Washington
April 30, 2019

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, 2018 and 2017.

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 177 million gallons per day (MGD) in 2018 from approximately 1.8 million residents.

Financial Highlights

During 2018, Water Quality provided sewage treatment services to 760,571 residential customer equivalents (RCE) compared to 756,916 in 2017 and 756,430 in 2016. An RCE is one single-family residence or an equivalent unit of 750 cubic feet of monthly water consumption for all other customers such as multifamily residential, commercial, and industrial properties. The capacity charge program added 12,906 new connections to its customer billing base in 2018. The program added 12,484 and 10,743 new connections in 2017 and 2016, respectively. In 2018, the average flow of the five treatment plants was 177 MGD with a peak daily flow of 482 MGD. Maximum system capacity was 868 MGD in 2018 and 862 MGD in 2017. The average daily flow fluctuated between a peak of 177 MGD in 2018 and 194 MGD in 2017. The annual fluctuation in flows largely depends on the amount of annual precipitation.

In 2018, resource recovery delivered 129,568 tons compared to 117,195 tons in 2017 of Loop® biosolids to customers for use in forest management, agriculture, and composting. Approximately 76.9 million gallons compared to 108 million gallons in 2017 of Class A reclaimed water was distributed for irrigation, urinals/toilets, municipal purposes, and wetland enhancement and about 669 million gallons of filtered, treated wastewater compared to 621 million gallons in 2017 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 2.5 million therms of natural gas to Puget Sound Energy from the South Treatment Plant in 2018 and 2.4 million therms in 2017. Congressional action under the Energy Independence Security Act and subsequent rule-making by the Environmental Protection Agency (EPA) created an opportunity for Water Quality to monetize the environmental benefit of its biofuel through the generation and sale of environmental attributes called RINS (Renewable Identification Numbers). In November 2016, King County entered an agreement with IGI Resources, Inc., for the sale of bio-methane from South Plant and the corresponding RINS. In 2018, RINS revenues were $4.4 million from which $762 thousand was paid for operational costs to fulfill the administrative and operations requirements of the contract and to improve the operation of the biogas system. In 2017, RINS revenue totaled $5.6 million from which $785 thousand was paid for operational and administrative costs and improvement of the operation of the biogas system. West Point Treatment Plant sold Seattle City Light 10.9 million kilowatt hours of electricity generated from digester gas in 2018 and 10.9 million kilowatt hours in 2017.

Financial Highlights (continued)

The Industrial Pretreatment Program conducted 297 inspections and took 1,777 compliance samples in 2018 compared to 339 inspections and 1,735 compliance samples taken in 2017. The program currently tracks 551 facilities with discharge authorization permits and 109 significant industrial users compared to 585 facilities with discharge authorization permits and 111 significant industrial users in 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 improvements to the regional Conveyance system and CSO control projects. Total capital program expenditures were $225.6 million in 2018 and $192.0 million in 2017.

Water Quality currently has 39 CSO locations plus four CSO treatment facilities. Past investments conducted in concert with the City of Seattle have resulted in a significant reduction in combined sewer overflows from a baseline of 2.3 billion gallons per year in years 1980–1983 to an average of 1 billion gallons per year at present.

In 2012, the EPA entered 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). The Plan amended the original total of 21 CSO projects to 13 projects that will control 18 CSO locations. By 2018, five projects were either completed or operational and under monitoring for compliance. At present, four of the remaining nine projects are underway, including a joint project with the City of Seattle to control two King County CSO locations.

The EPA and Washington State Department of Ecology (DOE) will monitor Water Quality's progress with CSO control and work closely with the enterprise going forward to meet CSO control requirements. In accordance with the county's National Pollutant Discharge Elimination System (NPDES) permit for the West Point Treatment Plant and the consent decree, a review of the CSO Program was submitted to the DOE as part of the West Point permit renewal, stating no changes to the Plan. The next update to the Plan is due to the DOE and EPA in 2024 as part of the next West Point NPDES permit renewal.

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 the treatment system and the discharge into Puget Sound of an estimated 180 million gallons of stormwater mixed with untreated sewage. Water Quality was able to restore primary treatment to the plant on February 28, 2017. On May 8, 2017, secondary treatment and full regulatory compliance was restored.

Financial Highlights (continued)

Water Quality incurred $23.8 million in operating and capital costs to remediate damage at West Point in 2017 and 2018. In December 2018, it reached a final settlement of $22.5 million with its insurer for the damage that was sustained from the flood. Of this amount, $12.5 million was advanced in 2017 and was recorded as other nonoperating revenue. Netted against this advance were an asset impairment loss of $1.6 million and recovery costs of $10.0 million, resulting in a net gain of $883 thousand. The balance of the settlement has been recorded as other nonoperating income in 2018. Water Quality incurred and capitalized an additional $4.5 million in 2018 and $10.0 million in 2017 in capital assets to remediate the flood damage at West Point.

The DOE issued a Notice of Penalty against Water Quality in September 2017 in the amount of $361 thousand for permit violations stemming from the incident and an Administrative Order requiring that six corrective actions be implemented. In June 2018, Water Quality reached a settlement to pay a penalty of $74 thousand and to contribute $287 thousand for ecological studies and restoration projects to be completed by the end of 2022.

In April of 2016, the Magnolia CSO Control Facility entered service and functioned until a pipeline leak was detected on November 2, 2016. An extensive analysis was undertaken by Water Quality project management in conjunction with the project contractor to determine the root cause of the leak and a corrective course of action. The work continued until December, 2017 when the project team decided on a plan to destroy the existing pipe and replace it with a continuous pipeline. Water Quality determined the original pipeline a total loss and impairment in accordance with governmental accounting standards. The storage tank and other components of this project remain intact and depreciation for them continued since the expected life of the facility remains as originally capitalized. The carrying value of the fully retired pipeline was $9.6 million in 2017. The costs associated with replacing the pipeline are still being determined and will be capitalized in 2019. Water Quality has filed a claim against the contractor's insurance policy to recover its costs related to the loss of the failed pipeline and its replacement.

Water Quality operating revenues increased by 1.4 percent, or $6.9 million, to $509.5 million in 2018 from $502.6 million in 2017 while operating expenses before depreciation and amortization decreased by 1.1 percent, or $1.6 million, to $139.5 million in 2018 from $141.1 million in 2017. The decrease in operating expenses before depreciation and amortization are due primarily to an actuarial pension expense reduction.

The monthly sewer rate stayed the same at $44.22 in 2018 and 2017. In 2017, it increased to $44.22 from $42.03 per RCE in 2016. The capacity charge rate increased to $62.60 per RCE in 2018 from $60.80 per RCE in 2017. Capacity charge revenues increased 5.1 percent, or $4.2 million, to $86.8 million in 2018 from $82.6 million in 2017. The RCE's billed for sewer treatment services increased to 760,571 in 2018 from 756,916 (based on sewer revenues that include sewer agency prior year adjustments) in 2017. The County allows the capacity charge to be prepaid on a discounted basis at the customer's option. The discount rate reflects the 15-year mortgage and 10- and 20-year investment rates and was 2.9 percent in 2018 and 2017. In June, 2018, the County Council adopted a capacity charge of $64.50, and a sewer rate of $45.33 per RCE for 2019, reflecting a 2.5 and 3.0 percent increase, respectively, from 2018.

Financial Highlights (continued)

The rate stabilization reserve, as mandated by the Metropolitan King County Council as part of its rate setting activities, permits Water Quality to set aside a portion of current revenue for future periods in order to moderate the impact of rate increases over time. The rate stabilization reserve was unchanged at $46.3 million in 2018 and 2017. Future deposits to the rate stabilization reserve will decrease operating revenues and debt service coverage in the year of the deposit. Withdrawals will have the opposite effect of increasing operating revenues and debt service coverage in the year the rate stabilization reserve is reduced.

In January of 2018, Water Quality voluntarily redeemed $920 thousand of principal on its Junior Lien Sewer Revenue bonds, Series 2015A and 2015B. In October 2018, Water Quality purchased and deposited U.S. Treasury securities in an irrevocable escrow to defease $135.8 million of outstanding 2010, 2011B, and 2012 Sewer Revenue and Refunding bonds. Substantially all of the funding for the escrow came from the $144.9 million Brightwater judgement awarded to the County in 2016. In November 2018, Water Quality issued $124.5 million in Sewer Revenue Bonds, Series 2018B, to fund its capital program. In December 2018, Water Quality remarketed two Junior Lien Variable Sewer Revenue Bonds, Series 2011 and 2012 at $100.0 million each. These were remarketed at fixed rates of 2.5 and 2.6 percent respectively, and are subject to mandatory repurchase in June, 2020 and March, 2021, respectively. Water Quality received $27.8 million in low interest state loans in 2018 at rates between 1.7 and 2.7 percent.

The County made history on April 19, 2018, when Water Quality became the nation's first utility to receive a loan from the EPA'S newly created Water Infrastructure Finance and Innovation Act (WIFIA) program – the first major federal assistance program for municipal utilities in almost 20 years. The $134.5 million loan for the Georgetown Wet Weather Treatment Station locks in a 3.1 percent interest rate through the 2051 final maturity date of the loan. Draws on this loan will reimburse Water Quality for costs incurred on the Georgetown project and must be made no later than one year after substantial completion of the project, which is currently scheduled for January of 2022. No draws were taken on this loan in 2018. The WIFIA Loan will be evidenced by the County issuing a sewer revenue bond to the EPA.

Water Quality issued $149.5 million in Sewer Refunding Revenue Bonds in 2017, which resulted in $35.8 million in savings over the lives of the refunded issues or $19.9 million in present value of debt service savings. 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. In December 2017, Water Quality issued $50.0 million in Junior Lien Sewer Revenue Bonds, Series 2017, to fund its capital program. In October 2017, Water Quality issued $154.6 million in Limited Tax General Obligation Refunding Bonds which resulted in $41.2 million in savings over the life of the refunded issue or $33.5 million in present value of debt service savings. On October 26, 2017, Water Quality issued $100.0 million in Multi-Modal Limited Tax General Obligation Refunding Bonds to refund all outstanding 2010 Multi-Modal, Series A and B debt. Water Quality received $26.5 million in low interest state loans in 2017 at rates of 2.4 and 2.7 percent.

Financial Highlights (continued)

The results of operations for 2018 and 2017 produced a debt service coverage ratio on senior lien debt of 1.72 and 1.70, respectively, exceeding the coverage covenant requirement of 1.15 in both years. The total debt coverage ratio of 1.49 in 2018 and 1.51 in 2017 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.

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. In accordance with implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, 2017 beginning net position and financial statements were restated. For more detailed information on the restatements, refer to Note 13 in the financial statements.

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 $403.6 million provided 79.2 percent of operating revenues in 2018 and $401.7 million provided 79.9 percent of operating revenues in 2017. 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 2018 and 2017, 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.

Overview of the Financial Statements (continued)

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

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

Financial Analysis of the Statement of Net Position

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2018	2017 (As Restated)	2016
Current assets	$ 297.9	$ 438.7	$ 458.1
Noncurrent assets	310.9	242.4	217.1
Capital assets	4,096.1	4,077.8	4,081.5
Other	121.0	120.2	113.3
Total assets	4,825.9	4,879.1	4,870.0
Deferred outflows of resources	210.0	233.6	247.5
Total assets and deferred outflows of resources	5,035.9	5,112.7	5,117.5
Current liabilities	212.4	216.0	214.5
Noncurrent liabilities	4,019.4	4,146.0	4,216.1
Total liabilities	4,231.8	4,362.0	4,430.6
Deferred inflows of resources	58.4	54.1	47.5
Total liabilities and deferred inflows of resources	4,290.2	4,416.1	4,478.1
Net position - net investment in capital assets	353.1	180.7	154.2
Net position - restricted	237.8	235.9	202.4
Net positon - unrestricted	154.8	280.0	282.8
Total net position	$ 745.7	$ 696.6	$ 639.4

Net position serves as a useful indicator of Water Quality's financial position. As of December 31, 2018 and 2017, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $745.7 million and $696.6 million, respectively.

Financial Analysis of the Statement of Net Position (continued)

Of the total Water Quality assets and deferred outflows of resources, 81.3 percent or $4,096.1 million were invested in capital assets such as treatment plants, pumping and regulator stations, interceptors, and other equipment at year-end 2018. Net investment in capital assets increased by 95.4 percent or $172.4 million primarily due to new bond proceeds. For the year-end 2017, 79.8 percent or $4,077.8 million were invested in capital assets. Water Quality uses its capital assets to provide wholesale wastewater collection and treatment services in King, Pierce, and Snohomish counties. Current operating and debt service requirements are met by operating and non-operating revenues composed of monthly sewage treatment charges, a capacity charge for new customers, other special-handling charges, miscellaneous operating revenues, and investment earnings.

The net position increased by 7.0 percent or $49.1 million in 2018 to $745.7 million from $696.6 million in 2017. Changes in net position are largely due to increased sewage disposal, capacity charge and other operating revenues. Restricted net position increased by 0.8 percent or $1.9 million in 2018 to $237.8 million from $235.9 million in 2017. The unrestricted net position decreased by $125.2 million in 2018 to $154.8 million from $280.0 million in 2017. This reduction reflects the use of substantially all of the $144.9 million Brightwater judgement awarded to the County in 2016 to fund an escrow for the defeasance of debt.

In 2017, the net position increased by 8.9 percent or $57.2 million to $696.6 million from $639.4 million in 2016. Water Quality also prevailed in a July 6, 2017 judgement by the Supreme Court which released a total of $15.4 million in attorney's fees related to the Brightwater litigation settlement between Vinci, Parsons, Frontier-Kemper (VPFK) and King County. Restricted net position increased by 16.6 percent or $33.5 million in 2017 to $235.9 million from $202.4 million in 2016. The unrestricted net position decreased by $2.8 million in 2017 to $280.0 from $282.8 million in 2016.

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

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2018	2017 (Restated)	2016
Sewage treatment fees	$ 403.6	$ 401.7	$ 381.5
Capacity charge revenue	86.8	82.6	71.2
Other revenue	19.1	18.3	11.8
Operating revenues	509.5	502.6	464.5
Operating expenses	318.1	318.1	315.0
Operating income	191.4	184.5	149.5
Nonoperating (expenses)	(142.6)	(126.1)	(13.4)
Grant revenues	0.3	-	0.1
Change in net position	49.1	58.4	136.2
Net position beginning of year	696.6	638.2	503.2
Net positon end of year	$ 745.7	$ 696.6	$ 639.4

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 2018, operating revenues increased by 1.4 percent or $6.9 million to $509.5 million from $502.6 million in 2017. Operating expenses stayed the same at $318.1 million in 2018 and 2017.

In 2017, operating revenues increased by 8.2 percent or $38.1 million to $502.6 million from $464.5 million in 2016. Operating expenses increased by 1.0 percent or $3.1 million to $318.1 million in 2017 from $315.0 million in 2016.

Operating Revenues

In 2018, sewage disposal fee revenue increased by $1.9 million, 0.5 percent, to $403.6 million from $401.7 million in 2017 because of an increased number of RCE's. Water Quality charged a monthly sewage treatment rate of $44.22 per RCE in both 2018 and 2017, and $42.03 in 2016. In 2017, sewage disposal revenues increased by 5.3 percent, or $20.2 million, to $401.7 million from $381.5 million in 2016.

Financial Analysis of the Statement of Revenues, Expenses, and Changes in Net Position (continued)

Operating Revenues (continued)

A 3.0 percent increase in the 2018 capacity charge rate for new customers and continued growth in new connections contributed to a 5.1 percent, or $4.2 million, increase in overall capacity charge revenue of $86.8 million. In 2017, capacity charge revenue increased by 16.0 percent to $82.6 million from $71.2 million in 2016. Capacity charge early payoffs accounted for 25.5 percent of the 2018 capacity charge revenue compared to 28.6 percent in 2017 and 25.4 percent in 2016.

Other operating revenues totaling $19.1 million in 2018 increased $800 thousand, or 4.4 percent, due primarily to high strength surcharges in industrial waste. In 2017, other operating revenue increased 55.1 percent, or 6.5 million to $18.3 million from $11.8 million in 2016 due to the sale of bio-methane credits (RINS).

Operating Expenses

In 2018, operating expenses, excluding depreciation, fell 1.1 percent or $1.6 million to $139.5 million compared to a 1.7 percent increase, or $141.1 million in 2017. The decrease in operating expenses is due primarily to an actuarial pension expense reduction.

Utility and Service costs increased 5.3 percent, or $1.9 million from $36.1 million in 2017 to $38.0 million in 2018. Increases in capital contract services and electricity were offset by a reduction in consultant service costs. Utility and Service costs in 2017 increased 13.2 percent or $4.2 million from $31.9 million to $36.1 million. Electricity costs in 2018 rose by 3.5 percent, or $494 thousand, to $14.7 million from $14.2 million in 2017. In 2018, Water Quality continued to sell its methane rather than use it to generate electricity at South Treatment Plant. In 2017, electricity costs increased by 1.4 percent or $220 thousand to $14.2 million. Chemical costs increased $394 thousand or 4.9 percent in 2018 from $8.1 million to $8.5 million. These essential operational costs are subject to market price fluctuation. In 2017, chemical costs stayed the same at $8.1 million from 2016.

Intragovernmental expenses rose slightly by $276 thousand, or 0.5 percent, to $39.4 million from $39.2 million in 2017. In 2017, intragovernmental expenses grew 9.4 percent or $3.4 million, to $39.2 million from $35.8 million in 2016. Contributors to the intragovernmental increase were additional services, such as water testing, provided by the Water Land and Resource Division.

Financial Analysis of the Statement of Revenues, Expenses, and Changes in Net Position (continued)

Non-operating Revenues and Expenses

Non-operating expenses (net) increased by $16.5 million to $142.6 million in 2018 from $126.1 million in 2017. The main contributors to this net increase were higher interest expense for variable rate debt and legal costs related to environmental remediation offset by increased investment earnings and a $10.1 million insurance recovery in 2017 on the West Point treatment plant flood event. In 2017, non-operating expenses (net) increased by $112.7 million to $126.1 million from $13.4 million in 2016. The main contributor to the non-operating expense increase (net) in 2016 was the release of $129.6 million in restricted funds related to the VPFK legal action on the Brightwater project. Subsequently in 2017, the drop in non-operating expense (net) corresponds to the 2016 decision. In 2017, an additional $15.4 million of disputed VPFK legal fees were settled in a July 6, 2017 Supreme Court decision, and were added to non-operating expense (net). Impaired asset costs totaling $9.6 million for Magnolia CSO project, and net 2017 West Point flood event costs are included in the 2017 non-operating expense (see Financial Highlights for additional information).

Capital Assets

At December 31, 2018, Water Quality's investment in capital assets, net of accumulated depreciation, was $4,096.1 million, reflecting an increase of $18.3 million or 0.4 percent less than the balance of $4,077.8 million at December 31, 2017. Capital assets net decrease from December 31, 2016 to December 31, 2017 was $3.7 million or 0.1 percent.

Large 2018 construction project expenditures include:

- $33.1 million for Georgetown Wet Weather Treatment Station
- $26.3 million for Sunset and Heathfield Pump Stations and Forcemain Upgrade
- $17.9 million for Magnolia CSO Control Improvements
- $12.2 million for Pacific Pump Station and Auburn West Interceptor (Kent Auburn Phase B)
- $7.3 million for North Mercer Island and Enatai Interceptor Upgrade

Large 2017 construction project expenditures include:

- $37.7 million for North Creek Interceptor
- $13.6 million for Kent-Auburn Pacific Pump Station and Interceptors
- $11.9 million for Georgetown Wet Weather Treatment Station
- $11.0 million for West Point Treatment Plant
- $10.4 million for Hanford Conveyance and Storage Tank

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

Debt Administration

In January of 2018, Water Quality voluntarily redeemed $920 thousand of principal on its Junior Lien Sewer Revenue bonds, Series 2015A and 2015B. This is part of a financial practice whereby variable rate debt will be amortized so that each issue will be retired by its stated maturity date.

In April of 2018, Water Quality entered into a WIFIA loan agreement with the EPA for $134.5 million at a 3.1 percent interest rate. Draws on this loan will reimburse costs on the Georgetown Wet Weather Treatment Station through of January, 2023. No draws were taken on the loan in 2018.

On October 25, 2018, Water Quality purchased and deposited Treasury securities in an irrevocable escrow to defease $135.8 of outstanding Sewer Revenue and Refunding Bonds, Series 2010, 2011B and 2012. The escrow was funded using the bulk of the $144.9 million Brightwater judgement awarded in 2016. On November 5, 2018 Water Quality sold $124.5 million of sewer revenue bonds with an average life of 7.9 years at an average rate of 5.0 percent and an effective rate of 3.0 percent. This debt issue provided $142.0 million of proceeds for the capital program.

On December 3, 2018, Water Quality remarketed $100.0 million of Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011 with an average life of 2 years at an average rate of 2.5 percent and an effective rate of 2.6 percent. Additionally, Water Quality remarketed $100.0 million of Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012 with an average life of 3 years at an average rate of 2.6 percent and an effective rate of 2.7 percent. On the mandatory repurchase dates of December 1, 2020 and December 1, 2021, respectively, Water Quality may effect a conversion of the Series to another authorized interest rate mode. Maturity dates on both remain at January 1, 2042 and January 1, 2043, respectively.

On February 22, 2017, Water Quality deposited cash in an irrevocable escrow to defease $5.1 million in Sewer Revenue Bonds, Series 2008 and 2009. With the defeasance of this debt, 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 became effective.

Water Quality issued $154.6 million of limited tax general obligation refunding bonds in October, 2017 with an average life of 9.6 years at an average rate of 4.3 percent and an effective rate of 2.6 percent and $149.5 million of sewer refunding revenue bonds in December, 2017 with an average life of 15.9 years at an average rate of 5.0 percent and an effective rate of 3.6 percent. On October 26, 2017, Water Quality issued $100.0 million in multi-modal limited tax general obligation refunding bonds to refund all outstanding 2010 Multi-Modal, Series A and B. On December 19, 2017 Water Quality issued $50.0 million in Junior Lien Sewer Revenue Bonds, Series 2017 which was used for new capital construction.
Water Quality received $27.8 million in low-interest loans from the State of Washington in 2018 and $26.5 million in 2017. The new loans carry below-market rates between 1.7 percent and 2.7 percent with repayment terms of 20 years.

Debt Administration (continued)

Water Quality has $2.8 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2018 and had $2.9 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2017. 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 2018, Water Quality has $676.6 million of general obligation bonds and variable rate general obligation bonds outstanding and had $706.0 million of general obligation bonds and variable rate general obligation bonds outstanding at the end of 2017. While the full faith and credit of King County guarantees repayment of principal and interest on general obligation bonds, they are paid from sewage treatment fees and other income.

King County Sewer Enterprise parity revenue bonds received ratings of AA+ from Standard and Poor's (S&P) Global Ratings and Aa1 from Moody's Investors Service for the sewer revenue bonds issued in November, 2018. The remarketing of junior lien variable rate demand bonds received ratings of Aa2 and AA by Moody's Investors Service and S&P Global Ratings, respectively. In 2017, Water Quality's bond ratings on its limited tax general obligation bonds were AAA and Aaa by Standard and Poor's and Moody's Investors, respectively. Moody's also raised its rating in 2017 for sewer revenue bonds from Aa2 to Aa1 and raised its rating of junior lien sewer revenue bonds to Aa2 from Aa3.

At the time of the issuance of the sewer revenue bonds in December 2018, Water Quality's bond ratings were:

Moody's Investors Service	Standard & Poor's
Aa1	AA+

As required by bond covenant, Water Quality maintains a bond reserve account, which is funded by cash, Treasury securities investment and surety bond policies. At December 31, 2018, the cash and investment balance in the reserve account was $150.5 million and with a surety bond balance of $29.6 million, totaled $180.1 million. This balance exceeded the reserve account requirement of maximum annual debt service on the parity bonds by $8.5 million. In June 2017, excess funds in the reserve account of $10.0 million were transferred to the construction fund to pay for capital improvements. At December 31, 2018 and 2017, respectively, the rate stabilization, liquidity, and asset management financial policy reserves totaled $81.1 million.

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

Debt Service Coverage Ratios

	Year Ended December 31,	
	2018	2017
Parity and parity lien debt	1.72	1.70
Total debt	1.49	1.51

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, 2018 and 2017. 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, 2018	December 31, 2017 (As Restated)
CURRENT ASSETS		
Cash and cash equivalents	$ 240,584	$ 366,227
Restricted cash and cash equivalents	2,757	2,481
Accounts receivable, net	42,131	57,767
Due from other funds	2,498	2,087
Inventory of supplies	9,545	9,531
Prepayments	368	579
	297,883	438,672
NONCURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	295,889	242,406
Investments	15,038	-
	310,927	242,406
Capital assets		
Building and land improvements	2,147,297	2,114,776
Artwork	6,045	6,045
Infrastructure and right of way	2,420,740	2,297,081
Plant in service and other equipment	1,173,465	1,145,510
Less accumulated depreciation	(2,282,831)	(2,134,638)
	3,464,716	3,428,774
Land and easements	264,335	259,657
Construction work in progress	367,025	389,354
	4,096,076	4,077,785
Other noncurrent		
Regulatory assets, net of amortization	117,791	116,750
Other assets	3,251	3,488
	121,042	120,238
Total assets	4,825,928	4,879,101
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows on refunding	205,124	227,851
Deferred outflows on other postemployment benefits	41	-
Deferred outflows on pension	4,797	5,767
Total deferred outflows of resources	209,962	233,618
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 5,035,890	$ 5,112,719

Statements of Net Position (continued) (in thousands)

	December 31, 2018	December 31, 2017 (As Restated)
CURRENT LIABILITIES		
Accounts payable	$ 29,177	$ 33,472
Retainage payable	2,757	2,481
Due to other funds	37	25
Interest payable	67,307	66,590
Wages and benefits payable	3,430	3,080
Compensated absences	735	669
Taxes payable	36	16
Unearned revenue	2,475	2,325
State loans payable	16,538	15,690
General obligation bonds payable	21,760	29,340
Revenue bonds payable	63,170	55,535
Environmental remediation costs	4,825	6,627
Deposits and other liabilities	193	210
	212,440	216,060
NONCURRENT LIABILITIES		
Compensated absences	10,341	10,596
Other postemployment benefits	1,533	1,652
Net pension liability	17,200	35,112
State loans payable, net	212,936	202,354
General obligation bonds payable, net	725,138	755,018
Revenue bonds payable, net	3,009,327	3,100,316
Environmental remediation costs	41,729	39,833
Other liabilities	1,131	1,145
	4,019,335	4,146,026
Total liabilities	4,231,775	4,362,086
DEFERRED INFLOWS OF RESOURCES		
Regulatory credits - rate stabilization	46,250	46,250
Deferred inflows on other postemployment benefits	119	-
Deferred inflows on pension	12,012	7,825
Total deferred inflows of resources	58,381	54,075
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,290,156	4,416,161
NET POSITION		
Net investments in capital assets	353,122	180,727
Restricted for		
Debt service	163,364	162,103
Regulatory assets and environmental liabilities	74,488	73,777
Unrestricted	154,760	279,951
Total net position	$ 745,734	$ 696,558

See accompanying notes.

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

	Years Ended December 31, 2018	Years Ended December 31, 2017 (As Restated)
OPERATING REVENUES		
Sewage disposal fees	$ 403,589	$ 401,650
Other operating revenues	105,961	100,923
Total operating revenues	509,550	502,573
OPERATING EXPENSES		
Sewage treatment, disposal, and transmission	101,681	102,680
General and administrative	37,904	38,441
Environmental related amortization	2,818	4,242
Depreciation and amortization	175,699	172,779
Total operating expenses	318,102	318,142
OPERATING INCOME	191,448	184,431
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	9,969	4,386
Interest expense	(142,283)	(127,874)
Loss on disposal and impairment of capital assets	(8,714)	(4,250)
Loss on extinguishment of debt	(1,786)	(263)
Other	269	1,932
Total nonoperating expenses	(142,545)	(126,069)
INCOME BEFORE GRANTS	48,903	58,362
Capital grants	273	-
CHANGE IN NET POSITION	49,176	58,362
NET POSITION		
Beginning of year (restated)	696,558	638,196
End of year	$ 745,734	$ 696,558

See accompanying notes.

Statements of Cash Flows (in thousands)

	Years Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 541,476	$ 490,717
Cash received from other funds - interfund services	1,816	1,683
Cash payments to suppliers for goods and services	(56,354)	(51,479)
Cash payments to other funds - interfund services	(39,437)	(39,174)
Cash payments for employee services	(58,161)	(54,953)
Other receipts	5	12,500
Other payments	(12,449)	(22,661)
Net cash provided by operating activities	376,896	336,633
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(982)	(741)
Assistance to other agencies	(494)	(425)
Net cash used in noncapital financing activities	(1,476)	(1,166)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital and other utility assets	(212,376)	(175,138)
Proceeds from disposal of capital assets	430	62
Principal paid on capital debt	(102,207)	(86,944)
Interest paid on capital debt	(153,484)	(157,869)
Proceeds of new bond issuance	142,037	50,000
Proceeds of state loans	27,843	26,471
Cash payments for bond defeasance	(144,199)	(5,394)
Capital grants received	15	-
Net cash used in capital and related financing activities	(441,941)	(348,812)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	9,637	4,386
Investment purchases	(15,000)	-
Net cash provided (used) in investing activities	(5,363)	4,386
NET DECREASE IN CASH AND CASH EQUIVALENTS	(71,884)	(8,959)
CASH AND CASH EQUIVALENTS		
Beginning of year	611,114	620,073
End of year	$ 539,230	$ 611,114

See accompanying notes.

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

	Years Ended December 31, 2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 191,448	$ 184,431
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	175,699	172,779
Other nonoperating revenue and expense	9,036	22,358
Changes in assets		
Accounts receivable	15,636	(13,011)
Due from other funds	-	(92)
Inventory of supplies	(14)	(771)
Prepayments	211	(265)
Other assets	(805)	(6,963)
Changes in deferred outflows of resources		
Deferred outflows on other postemployment benefits	(41)	-
Deferred outflows on pension	969	4,082
Changes in liabilities		
Accounts payable	(2,107)	3,393
Retainage payable	163	82
Due to other funds	12	9
Taxes payable	20	2
Unearned revenue	150	(269)
Wages and benefits payable	331	134
Compensated absences	(188)	(208)
Other postemployment benefits	(118)	(1,094)
Net pension liability	(17,912)	(16,457)
Other liabilities	99	(18,115)
Changes in deferred inflows of resources		
Deferred inflows on other postemployment benefits	119	-
Deferred inflows on pension	4,188	6,608
Total adjustments	185,448	152,202
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 376,896	$ 336,633

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Water Quality reported capital grants on account of $258 thousand at 2018 year-end and no capital grant in 2017.

Water Quality issued bonds in 2017 to refund debt issued from 2008 to 2011. The $356.4 million of bond proceeds and $6.5 million of cash payments by Water Quality were placed in escrow for the defeasance of $335.3 million of outstanding bond principal and $30.5 million of interest.

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 2018 and in 2017.

Water Quality purchases goods and services from other County agencies, including reimbursement of the County's general fund for a share of general government. Expenses incurred in doing business with other County agencies amounted to $39.4 million and $39.2 million in 2018 and 2017, respectively.

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

a. **Cash and cash equivalents** – Water Quality considers as cash and cash equivalents surplus balances held with the King County Treasurer in the King County Investment Pool (the Pool) except the amounts invested through the Pool-Plus program, cash with escrow agents or held in trust, and petty cash. Water Quality records its investments in the Pool-Plus program at fair value. Unrealized gain or loss on Water Quality's proportionate share of the pooled investments and individual investments is reported as a component of investment earnings.

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, 2018 and 2017, Water Quality's allowance for doubtful accounts was $997 thousand and $890 thousand, 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

Prior to the implementation of GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in 2018, Water Quality capitalized certain interest income and expense related to borrowings until the assets were ready for their intended use. The amount capitalized was the difference between the interest revenue and interest expense associated with the applicable tax free borrowings. Total interest expense incurred was $149.0 million during 2017, of which $13.2 million was capitalized.

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

Note 1 – Operations and Accounting Policies (continued)

Water Quality annually reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairment was identified in 2018. During 2017, Water Quality recognized an asset impairment of $11.2 million due to damage caused by West Point Treatment Plant flooding in February 2017 and Magnolia CSO control facility pipeline failure in November 2016. The construction to fully replace the pipeline took place primarily in 2018, with completion expected in mid-2019. The other assets at the facility, with a total 2018 year-end carrying amount of $30.8 million, remain idle until the new pipeline enters service.

g. **Compensated absences** – Employees earn vacation based upon their date of hire and years of service. Employees hired prior to January 1, 2018 have a maximum vacation accrual of 480 hours, while those hired January 1, 2018 or after have a maximum vacation accrual of 320 hours unless the employee's collective bargaining unit agreement specifies a different maximum. Unused vacation at retirement or normal termination is considered vested and payable to the employee, up to the employee's maximum accrual. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. If the employee is leaving their employment due to death or retirement, they are paid for 35 percent of the value of unused sick leave with no maximum. Vacation pay 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, 2018 and 2017.

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 and postemployment benefits other than pensions (OPEB) accounting. Deferred inflows of resources include certain amounts related to pension and OPEB accounting and rate stabilization.

Note 1 – Operations and Accounting Policies (continued)

j. **Operating and nonoperating revenues and expenses** – Operating revenues result from exchange transactions of Water Quality's activities. Expenses associated with providing wastewater treatment services and operating Water Quality's treatment facilities are considered operating. Nonoperating revenues result from nonexchange transactions such as operating subsidies and investment earnings.

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

k. **Debt-related amortization** – Bond premiums, discounts and refunding losses and gains are amortized over the life of the bonds using the outstanding principal balance method.

l. **Capital grant revenues** – Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, grant revenues are reported separately from operating and nonoperating revenues as capital grant revenues. Water Quality reported capital grant revenues of $273 thousand for the year ended December 31, 2018.

m. **Net position** – Resources set aside for debt service and other obligations, net of related liabilities, are classified as restricted net position on the statements of net position as their use is limited by externally-imposed restrictions. Net investments in capital assets are reported as a separate component of net position and consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets. Any net position not subject to classification as restricted or invested in capital assets is reported as unrestricted.

n. **Net position flow assumption** – Sometimes Water Quality will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to be reported as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It's the County's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

o. **Use of estimates** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Specific estimates have been made in the areas of allowance for uncollectible accounts, environmental remediation costs, useful lives of capital assets, pension and other postemployment benefits liabilities and related deferred outflows and inflows of resources, and future interest rates. Actual results could differ from these estimates.

Note 1 – Operations and Accounting Policies (continued)

p. **Reclassification** – Certain reclassifications have been made to the prior year statements to conform to the current year presentation

New accounting standards – The following GASB pronouncements were implemented during the current year.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued in June 2015. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Water Quality implemented this statement in 2018 and restated prior financial statements to comply with the requirements.

GASB Statement No. 85, *Omnibus 2017*, was issued in March 2017. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The statement was adopted by Water Quality in 2018 with no impact on its financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued in May 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Water Quality implemented this statement in 2018 and made reporting changes to comply with the requirements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued in June 2018. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period and the objectives are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement was early implemented in 2018 with no material impact on Water Quality's capital assets reporting.

Note 2 – Deposits and Investments in King County Investment Pool

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

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

The Pool is administered by the King County Treasury Operations Section and is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC), which serves the role of the County Finance Committee as defined in RCW 36.48.070

The County has deposit and investment policies addressing risks that have the potential to result in losses of deposits and investments. The deposits that are not covered by the Federal Deposit Insurance Corporation (FDIC) are collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC) at no less than fifty percent. Effective June 7, 2018, resolution 2018-1 adopted by Commission on June 1, 2018, allowed “all well capitalized public depositaries may collateralize uninsured public deposits at no less than fifty percent.” The PDPC is a statutory authority established under Chapter 39.58 RCW that governs public depositaries and provides that “all public funds deposited in public depositaries, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter.” It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositaries within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance.

The custodial credit risk for deposits is the risk that Water Quality’s deposits may not be returned to it in the event of a bank failure.

Assessing Water Quality’s risk exposure, Water Quality’s cash and cash equivalents balance of $539.2 million and $611.1 million were fully invested in the Pool as of December 31, 2018 and 2017, respectively. The County had demand deposits of $29.1 million as of December 31, 2018, of which $6.9 million was exposed to custodial credit risk as uninsured and uncollateralized. As of December 31, 2017, the County had demand deposits of $38.1 million, of which $18.0 million was exposed to custodial credit risk as uninsured and uncollateralized.

The EFC adopted the Pool-Plus program which allows County agencies or districts to invest funds beyond the maximum maturity limit established for the Pool. This policy provides an investment option that allows a participant in the Pool to combine a portfolio of individual long-term securities in the same fund that is invested in the Pool. The pooling of the long-term portfolio with the Pool provides the ability to invest at durations longer than the Pool while maintaining access to the liquidity of the Pool. The Pool-Plus program allows qualifying funds to invest over longer durations recognizing there are: (1) potential risks such as increased price volatility and the possibility of selling securities before maturity to pay unexpected expenditures could result in a loss of principal; (2) benefits from reducing reinvestment risk which improves the predictability of future budget revenue; (3) and potential rewards such as increased earnings.

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

The Pool is used for the liquidity portion of the portfolio while the following investment types are used for the longer term investments:

- U.S. treasuries or securities with full faith and credit of the U.S. government backing them.

- Senior debt obligations issued by U.S. agencies, instrumentalities, or government-sponsored enterprises such as Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC). While these agencies have credit ratings equivalent to the U.S. government, they are not explicitly guaranteed by the U.S. government. Financial market participants view them as having an "implied guarantee" because these agencies were chartered by Congress.

Water Quality participated in the Pool-Plus program starting in 2018 and recorded Individual Investments at fair value of $15.0 million as of December 31, 2018. The following schedule shows the types of investments, the average interest rate, and the effective duration limits of the Pool-Plus program at December 31, 2018 (dollars in thousands):

	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
Investment type				
U.S. Treasury notes	$ 15,038	$ 15,321	2.45%	4.160

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

Credit risk – **investments** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of December 31, 2018, the Pool was not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in in U.S. Treasury securities, U.S. Federal agency securities and mortgage-backed securities, municipal securities and corporate notes (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

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

The Pool's policies limit the maximum amount that can be invested in various securities. At 2018 and 2017 year-end the Pool was in compliance. The Pool's actual composition, as of December 31, 2018 and 2017, is as follows (in thousands):

	2018		2017	
	Total	Allocation Percentage	Total	Allocation Percentage
Investment type				
Repurchase agreements	$ 366,000	4.91%	$ 296,000	4.30%
Commercial paper	576,197	7.73%	386,989	5.62%
U.S. Agency discount notes	73,880	0.99%	478,950	6.96%
Supranational discount notes	49,927	0.67%	-	-
Corporate notes	964,179	12.93%	1,019,747	14.81%
Corporate notes floating rate	99,948	1.34%	-	-
U.S. Treasury notes	2,873,869	38.53%	2,486,956	36.12%
U.S. Agency notes	648,763	8.70%	1,418,257	20.60%
U.S. Agency collateralized mortgage obligations	4,031	0.05%	4,922	0.07%
Supranational coupon notes	1,212,097	16.25%	377,600	5.48%
State treasurer's investment pool	589,306	7.90%	415,634	6.04%
	$ 7,458,197	100.00%	$ 6,885,055	100.00%

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

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 2018 year-end the Pool had concentrations greater than 5.0 percent of the total investment pool portfolio in the following issuers: International Bank Recon, 7.3 percent, and Bank of Montreal, 5.4 percent.

The issues with concentrations greater than 5.0 percent of the pool portfolio at 2017 year-end were as follows Federal Farm Credit Bank, 9.7 percent, Federal Home Loan Mortgage Corporation, 8.6 percent, Wells Fargo Bank, 5.7 percent, and Federal National Mortgage Association, 5.6 percent.

Interest rate risk – investments – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The policy limit for the Pool's maximum effective duration is 1.5 years, and 40 percent of the Pool's total value in securities must have a maturity of 12 months or fewer. Securities in the portfolio cannot have an average life greater than five years at purchase. The combined effective duration of the liquidity and core portfolios was 0.943 years and 1.022 years at December 31, 2018 and 2017, respectively.

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

All securities are reported at fair value. Fair value reports are prepared monthly and distributed to all Pool participants. The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period.

Fair value hierarchy – The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of inputs in valuing the County's investments as of December 31, 2018 and 2017.

KING COUNTY INVESTMENT POOL

		Fair Value Measurement Using		
Investments by Fair Value Level	Fair Value 12/31/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Commercial paper	$ 576,197	$ -	$ 576,197	$ -
U.S. agency discount notes	73,880	-	73,880	-
Corporate notes	964,179	-	964,179	-
Corporate notes floating rate	99,948	-	99,948	-
U.S. treasury notes	2,873,869	2,873,869	-	-
U.S. agency notes	648,763	-	648,763	-
Supranational discount notes	49,927	-	49,927	-
U.S. agency collateralized mortgage obligations	4,031	-	4,031	-
Supranational coupon notes	1,212,097	-	1,212,097	-
Subtotal	6,502,891	$ 2,873,869	$ 3,629,022	$ -
Investments Measured at Amortized Cost (Not Subject to Fair Value Hierarchy)				
Repurchase agreements	366,000			
State treasurer's investment pool	589,306			
Subtotal	955,306			
Total investment in Investment Pool	$ 7,458,197			

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

KING COUNTY INVESTMENT POOL

		Fair Value Measurement Using		
Investments by Fair Value Level	Fair Value 12/31/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Commercial paper	$ 386,989	$ -	$ 386,989	$ -
U.S. agency discount notes	478,950	-	478,950	-
Corporate notes	1,019,747	-	1,019,747	-
U.S. treasury notes	2,486,956	2,486,956	-	-
U.S. agency notes	1,418,257	-	1,418,257	-
U.S. agency collateralized mortgage obligations	4,922	-	4,922	-
Supranational coupon notes	377,600	-	377,600	-
Subtotal	6,173,421	$ 2,486,956	$ 3,686,465	$ -
Investments Measured at Amortized Cost (Not Subject to Fair Value Hierarchy)				
Repurchase agreements	296,000			
State treasurer's investment pool	415,634			
Subtotal	711,634			
Total investment in Investment Pool	$ 6,885,055			

U.S. Treasury notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

Commercial Paper, U.S. Agency Discount Notes, Corporate Notes, U.S. Agency Notes, U.S. Agency Collateralized Mortgage Obligations and Supranational Coupon Notes are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Interactive Data also monitors market indicators, industry and economic events and corroborating market data and are classified in Level 2 of the fair value hierarchy.

State Treasurer’s Investment Pool and Repurchase Agreement are overnight securities and are recorded at amortized cost.

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 cash and cash equivalents of $298.6 million and investments of $15.0 million at December 31, 2018 and cash and cash equivalents of $244.9 million at December 31, 2017, 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 $2.8 million and $2.5 million at December 31, 2018 and 2017, respectively. The details of cash and cash equivalents and restricted assets as of December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Unrestricted cash and cash equivalents		
Operating funds	$ 42,064	$ 36,738
Construction funds	31,764	169,291
Bond funds	131,912	125,393
Policy reserves	34,844	34,805
Total unrestricted cash and cash equivalents	240,584	366,227
Restricted cash and cash equivalents		
Bond reserves	$ 135,454	$ 150,491
SRF loan reserves	12,873	11,612
Bond proceeds committed to construction	101,312	34,053
Retainage	2,757	2,481
Rate stabilization reserve	46,250	46,250
Total restricted cash and cash equivalents	298,646	244,887
Total cash and cash equivalents	539,230	611,114
Restricted investments		
Bond reserves	15,038	-
Total restricted assets - cash and cash equivalents and investments	$ 313,684	$ 244,887

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.

Note 4 – Risk Management (continued)

During 2018 and 2017, Water Quality claims paid by the Insurance Fund of King County were $52 thousand and $248 thousand, respectively. In the past three years there was no occurrence that resulted in payment in excess of the self-insured retention of $6.5 million.

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

Water Quality retains all risk associated with environmental claims.

Note 5 – Long-Term Liabilities and Notes Payable

Sewer revenue bonds – As of December 31, 2018, bonds outstanding include $2,807.5 million of serial and term bonds maturing from January 1, 2019 through January 1, 2052, bearing interest at stated rates of 1.0 percent to 5.0 percent per annum.

In January of 2018, the County voluntarily redeemed $920 thousand of principal on its Junior Lien Sewer Revenue bonds, Series 2015A and Series 2015B.

On October 25, 2018, the County purchased Treasury securities at a cost of $144.2 million and placed them in an escrow to pay interest and redeem at their earliest redemption dates of $135.8 million of outstanding Sewer Revenue and Refunding Bonds, Series 2010, 2011B and 2012. Under the terms of the authorizing ordinances, these bonds have been defeased and are no longer secured by a pledge of the revenue of the sewer system. The defeasance of these bonds will reduce future principal and interest payments by $193.6 million through 2032. Substantially all of the funding for the escrow came from the judgement awarded to Water Quality in 2016 relating to the construction of the conveyance tunnels for its Brightwater treatment plant. Water Quality undertook the defeasance in order to reduce a portion of the debt that it had incurred as a result of the additional costs that led to the litigation and subsequent judgement.

On November 5, 2018, the County issued $124.5 million in sewer revenue bonds, Series 2018B with an effective interest cost of 3.0 percent and an average coupon interest rate of 5.0 percent.

In December 2018, the County remarketed two Junior Lien Variable Sewer Revenue Bonds, Series 2011 and 2012 at $100.0 million each. These were remarketed at a fixed rate of 2.5 and 2.6 percent, respectively, and are subject to mandatory repurchase in December 2020 and December 2021, respectively. The bonds maturity dates of January 1, 2042 and January 1, 2043, respectively, remain the same.

Note 5 – Long-Term Liabilities and Notes Payable (continued)

On February 22, 2017, Water Quality purchased Treasury securities at a cost of $5.4 million and placed them in an escrow to pay interest and principal through their stated maturity dates on $5.1 million of outstanding Sewer Revenue Bonds, Series 2008 and 2009. Under the terms of the authorizing ordinances, these bonds were defeased and are no longer secured by a pledge of the revenue of the sewer system. The defeasance of these bonds reduced principal and interest payments by $5.5 million through 2018. Funding for the escrow came from Water Quality's unrestricted cash balances. Upon the defeasance of these bonds, new bond ordinance covenants became effective which allowed Water Quality to re-instate $29.6 million of surety bonds as qualified investments in lieu of cash in the Bond Reserve.

On December 19, 2017, the County issued $149.5 million in sewer revenue bonds, Series 2017, with an effective interest cost of 3.6 percent to advance refund $159.7 million of outstanding 2010, 2011-A, 2011-B, and 2011-C sewer revenue bonds and 2009 general obligation bonds with an average coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the refunded debt by $11.2 million. This advance refunding was undertaken to reduce total debt service payments by $35.8 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 $19.9 million.

On December 19, 2017, the County issued $50.0 million in junior lien sewer revenue bonds, Series 2017, with a one-month variable interest rate. On April 2, 2018 the King County council approved a January 1, 2048 maturity date for the bonds, correcting a January 1, 2040 date from the December 2017 sale motion.

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, 2018
2001A-B Junior Lien Variable	1/1/32	(variable)	$ 100,000	$ 100,000
2010	1/1/50	2.00-5.00%	334,365	43,900
2011	1/1/41	5.00-5.125%	175,000	12,050
2011 Series B	1/1/41	1.00-5.00%	494,270	61,560
2011 Series C	1/1/35	3.00-5.00%	32,445	7,885
2011 Sewer Junior Lien Variable	1/1/42	(variable)	100,000	100,000
2012A Refunding	1/1/52	5.00%	104,445	89,785
2012B Refunding	1/1/35	4.00-5.00%	64,260	64,260
2012C Refunding	1/4/33	2.50-5.00%	65,415	62,775
2012 Sewer Junior Lien Variable	1/1/43	(variable)	100,000	100,000
2013A Refunding	1/1/35	2.00-5.00%	122,895	107,375
2013B Revenue and Refunding	1/1/44	2.00-5.00%	74,930	58,970
2014A Refunding	1/1/47	5.00%	75,000	75,000
2014B Refunding	7/1/35	1.00-5.00%	192,460	187,250
2015 Sewer Junior Lien Variable	1/1/46	(variable)	100,000	99,080
2015A Refunding	7/1/47	3.00-5.00%	474,025	471,420
2015B Refunding	1/1/46	4.00-5.00%	93,345	80,730
2016A Refunding	7/1/41	4.00-5.00%	281,535	276,315
2016B Refunding	7/1/49	4.00-5.00%	499,655	494,200
2017A Refunding	7/1/49	5.00%	149,485	140,500
2017B Sewer Junior Lien Variable	1/1/48	(variable)	50,000	50,000
2018B Sewer Revenue	7/1/32	5.00%	124,455	124,455
			$ 3,807,985	$ 2,807,510

General obligation bonds – As of December 31, 2018, bonds outstanding include $676.6 million of serial and term bonds maturing January 1, 2019 through 2040, bearing interest at stated rates of 2.0 percent to 5.3 percent per annum.

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

On October 25, 2017, the County issued $154.6 million in general obligation refunding bonds, Series 2017, with an effective interest cost of 2.6 percent to advance refund $175.6 million of 2008 general obligation bonds, with an average coupon interest rate of 4.3 percent. The reacquisition price exceeded the net carrying amount of the refunded debt by $6.6 million. This advance refunding was undertaken to reduce total debt service payments by $41.2 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 $33.5 million.

Note 5 – Long-Term Liabilities and Notes Payable (continued)

On October 26, 2017, the County issued $100.0 million in multi-modal general obligation refunding bonds, Series 2017A and Series 2017B, with a one-month variable rate, maturing on January 1, 2040. The bonds refunded all outstanding 2010 Series A and B debt.

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2018
2008 LTGO	1/1/34	3.25-5.25%	$ 236,950	$ 21,020
2009B LTGO	7/1/39	5.00-5.25%	300,000	7,370
2012A LTGO	1/1/25	2.00-5.00%	68,395	55,215
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	247,510
2017A LTGO	1/1/34	4.00-5.00%	154,560	147,360
2017A-B Multi-Modal LTGO	1/1/40	(variable)	100,000	100,000
			$ 1,205,870	$ 676,615

Prior year refunded and defeasance of debt – As of December 31, 2018, Water Quality had outstanding refunded and defeased general obligation bonds and sewer revenue bonds in the amount of $1.1 billion. Prior to 2018, Water Quality defeased these bonds by placing proceeds of the refunding bonds and/or existing cash from Water Quality in irrevocable trust accounts to provide for future debt service payments on the defeased bonds. The liability for the defeased bonds has been removed from Water Quality's financial statements.

State loans – Water Quality has received loans from the Washington State Department of Ecology under the Water Pollution Control State Revolving Fund Loan Program and the Washington Public Works Trust Fund. The loans require either semi-annual or annual payments of principal and interest from 2019 through 2037 and bear interest at stated rates from 0.0 percent to 3.1 percent. As of December 31, 2018, the balance due on all state loans is $229.5 million. Water Quality maintains separate cash reserves of $12.9 million as of December 31, 2018. These reserves are treated as restricted, being required under the Revolving Fund Loan Program.

Note 5 – Long-Term Liabilities and Notes Payable (continued)

At December 31, 2018, 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 1,2019	$ 64,840	$ 121,011	$ 21,760	$ 32,617	$ 16,538	$ 4,999	$ 261,765
January 1,2020	62,675	120,264	22,900	31,706	17,130	4,674	259,349
January 1,2021	60,910	117,346	15,800	30,556	17,047	4,343	246,002
January 1,2022	69,690	114,522	29,885	29,497	16,326	4,009	263,929
January 1,2023	68,750	111,408	37,485	28,048	15,657	3,681	265,029
January 1, 2024-2027	346,130	507,242	155,055	117,248	66,482	13,599	1,205,756
January 1, 2028-2032	540,005	409,909	189,555	75,971	54,207	6,511	1,276,158
January 1, 2033-2037	495,765	282,034	104,175	39,504	26,088	1,023	948,589
January 1, 2038-2042	594,655	171,190	100,000	5,400	-	-	871,245
January 1, 2043-2047	451,320	67,790	-	-	-	-	519,110
January 1, 2048-2052	52,770	4,587	-	-	-	-	57,357
	$ 2,807,510	$ 2,027,303	$ 676,615	$ 390,547	$ 229,475	$ 42,839	$ 6,174,289

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. Interest payments on the Junior Lien Variable Sewer Revenue Bonds, Series 2011 and 2012, are based on the stated amount of interest that will be paid through their mandatory purchase dates and at the 5.4 percent rate thereafter.

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, 2011, 2012, 2015 Series A and Series B, Series 2017, and Series 2017 A and B do not have liquidity facilities.

Financial policy reserves – In addition to bond reserves related to Sewer Revenue Bonds, Water Quality maintains liquidity and asset management reserves totaling $34.8 million at December 31, 2018.

Compliance with bond resolutions – With respect to the year ended December 31, 2018, 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, 2018 and 2017 was as follows (in thousands):

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Bonds payable	$ 3,581,265	$ 324,455	$ (421,595)	$ 3,484,125	$ 84,930
Bond premiums and discounts	358,944	6,512	(30,186)	335,270	-
Total bonds payable	3,940,209	330,967	(451,781)	3,819,395	84,930
State loans	218,044	27,843	(16,413)	229,474	16,538
Compensated absences	11,265	10,934	(11,123)	11,076	735
Other post-employment benefits	1,652	635	(754)	1,533	-
Net pension liability	35,112	19,675	(37,587)	17,200	-
Environmental remediation	46,460	9,658	(9,564)	46,554	4,825
Other liabilities	1,355	174	(210)	1,319	188
Total long-term liabilities	$ 4,254,097	$ 399,886	$ (527,432)	$ 4,126,551	$ 107,216

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017	Due Within One Year
Bonds payable	$ 3,640,765	$ 454,045	$ (513,545)	$ 3,581,265	$ 84,875
Bond premiums and discounts	352,151	33,776	(26,983)	358,944	-
Total bonds payable	3,992,916	487,821	(540,528)	3,940,209	84,875
State loans	205,989	26,472	(14,417)	218,044	15,690
Compensated absences	11,473	10,332	(10,540)	11,265	669
Other post-employment benefits *	2,746	671	(1,765)	1,652	-
Net pension liability	51,568	26,846	(43,302)	35,112	-
Environmental remediation	46,877	8,665	(9,082)	46,460	6,627
Other liabilities **	1,558	-	(203)	1,355	210
Total long-term liabilities	$ 4,313,127	$ 560,807	$ (619,837)	$ 4,254,097	$ 108,071

* In 2017, OPEB beginning balance was restated from $1,583 thousand to $2,746 thousand, resulting from Water Quality's implementation of GASB Statement No. 75.

** In 2017, beginning balances of other liabilities, $1,558 thousand, were reclassified from current liabilities to non-current liabilities due to payment agreements.

Note 6 – Changes in Capital Assets

Changes in capital assets for the years ended December 31, 2018 and 2017, are shown in the following table (in thousands):

	Balance January 1, 2018	Increases	Decreases	Balance December 31, 2018
Land	$ 244,275	$ 5,322	$ (831)	$ 248,766
Easements	15,382	187	-	15,569
Construction work in progress	389,354	214,930	(237,259)	367,025
Total nondepreciable assets	649,011	220,439	(238,090)	631,360
Buildings	2,002,571	29,228	(8,680)	2,023,119
Improvements other than building	112,205	11,991	(17)	124,179
Artwork	6,045	-	-	6,045
Right of way	7,635	-	-	7,635
Infrastructure	2,289,446	128,852	(5,193)	2,413,105
Equipment	1,109,879	42,003	(14,049)	1,137,833
Software development	35,631	-	-	35,631
Total depreciable assets	5,563,412	212,074	(27,939)	5,747,547
Accumulated depreciation and amortization				
Building	(758,399)	(52,915)	3,518	(807,796)
Improvements other than building	(32,187)	(4,249)	16	(36,420)
Artwork	(1,284)	(206)	-	(1,490)
Right of way	(1,363)	(218)	-	(1,581)
Infrastructure	(622,772)	(49,628)	2,980	(669,420)
Equipment	(683,902)	(59,918)	13,327	(730,493)
Software development	(34,731)	(900)	-	(35,631)
Total depreciation and amortization	(2,134,638)	(168,034)	19,841	(2,282,831)
Depreciable assets - net	3,428,774	44,040	(8,098)	3,464,716
Total capital assets - net	$ 4,077,785	$ 264,479	$ (246,188)	$ 4,096,076

Note 6 – Changes in Capital Assets (continued)

	Balance January 1, 2017	Increases	Decreases	Balance December 31, 2017
Land	$ 240,759	$ 3,557	$ (41)	$ 244,275
Easements	15,289	93	-	15,382
Construction work in progress	331,948	167,697	(110,291)	389,354
Total nondepreciable assets	587,996	171,347	(110,332)	649,011
Buildings	1,980,048	25,396	(2,873)	2,002,571
Improvements other than building	102,781	9,626	(202)	112,205
Artwork	5,700	405	(60)	6,045
Right of way	7,635	-	-	7,635
Infrastructure	2,260,787	43,144	(14,485)	2,289,446
Equipment	1,110,978	37,617	(38,716)	1,109,879
Software development	35,631	-	-	35,631
Total depreciable assets	5,503,560	116,188	(56,336)	5,563,412
Accumulated depreciation and amortization				
Building	(706,833)	(53,136)	1,570	(758,399)
Improvements other than building	(28,577)	(3,698)	88	(32,187)
Artwork	(1,079)	(205)	-	(1,284)
Right of way	(1,145)	(218)	-	(1,363)
Infrastructure	(578,134)	(47,881)	3,243	(622,772)
Equipment	(661,414)	(58,314)	35,826	(683,902)
Software development	(32,830)	(1,901)	-	(34,731)
Total depreciation and amortization	(2,010,012)	(165,353)	40,727	(2,134,638)
Depreciable assets - net	3,493,548	(49,165)	(15,609)	3,428,774
Total capital assets - net	$ 4,081,544	$ 122,182	$ (125,941)	$ 4,077,785

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 are capitalized and amortized over 30 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, 2018, stands at $46.6 million and $46.5 million in 2017.

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 and amortized over 30 years 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 2017 and remains unchanged in 2018.

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.

Strategic planning costs – In 2016, the Council approved the application of regulatory accounting to treat strategic planning costs as regulatory assets to allow for cost recovery through future rate increases. The portion of regulatory asset costs that have been accrued is amortized over a 7- to 10-year recovery period.

Note 9 – Employee Benefit Plans

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the County elected to use June 30, 2018 and 2017, respectively, as the measurement date for reporting net pension liability at 2018 and 2017 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 2018 and 2017 (in thousands):

	Aggregate Pension Amounts—All Plans	
	2018	2017
Pension liabilities	$ 17,200	$ 35,112
Deferred outflows of resources	4,797	5,767
Deferred inflows of resources	12,012	7,825
Pension expense	(4,501)	1,837

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 2018 and 2017 were as follows:

PERS Plan 1

	Employer	Employee
Actual contribution rates		
January - August 2018	12.70%	6.00%
September - December 2018	12.83%	6.00%
January - June 2017	11.18%	6.00%
July - December 2017	12.70%	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
2018	$ 26
2017	58

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 2018 and 2017 were as follows:

PERS Plan 2/3		
	Employer	Employee
Actual contribution rates		
January - August 2018	12.70%	7.38%
September - December 2018	12.83%	7.41%
2018 Employee PERS Plan 3		Varies
January - June 2017	11.18%	6.12%
July - December 2017	12.70%	7.38%
2017 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
2018	$ 8,227
2017	7,546

Actuarial assumptions – The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.50% salary inflation.
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.4%.

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.

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.

- Lowered the assumed general salary growth from 3.75% to 3.50% for all plans.

- Lowered assumed inflation from 3.00% to 2.75% for all plans.

- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.

- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount rate – The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 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 7.4 percent was used to determine the total liability.

Long-term expected rate of return – The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2018, 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	7.00%	4.90%
Real estate	18.00%	5.80%
Global equity	32.00%	6.30%
Private equity	23.00%	9.30%
	100.00%	

Sensitivity of NPL – The table below presents Water Quality's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what Water Quality's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate (in thousands).

Year	Pension Plan	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
2018	PERS 1	$ 8,547	$ 6,955	$ 5,576
2018	PERS 2/3	46,861	10,245	(19,776)

Year	Pension Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
2017	PERS 1	$ 16,503	$ 13,547	$ 10,987
2017	PERS 2/3	58,097	21,565	(8,368)

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.

Note 9 – Employee Benefit Plans (continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2018 and 2017, Water Quality reported a total pension liability of $17.2 million and $35.1 million, respectively, for its proportionate share of the net pension liabilities as follows (in thousands):

	Liability	
	2018	2017
PERS 1	$ 6,955	$ 13,547
PERS 2/3	10,245	21,565

At June 30, Water Quality's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.29%	0.16%	(0.13%)
PERS 2/3	0.62%	0.60%	(0.02%)

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.36%	0.29%	(0.07%)
PERS 2/3	0.64%	0.62%	(0.02%)

Employer contribution transmittals received and processed by the DRS for its fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1.

The collective net pension liability was measured as of June 30, 2018 and 2017, respectively, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2017 and 2016, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

Pension expense – For the year ended December 31, 2018 and 2017, Water Quality recognized pension expense as follows (in thousands):

	Pension Expense	
	2018	2017
PERS 1	$ (6,391)	$ (4,509)
PERS 2/3	1,890	6,346
Total	$ (4,501)	$ 1,837

Note 9 – Employee Benefit Plans (continued)

Deferred outflows of resources and deferred inflows of resources – At December 31, 2018 and 2017, Water Quality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

PERS 1	2018 Deferred Outflows of Resources	2018 Deferred Inflows of Resources	2017 Deferred Outflows of Resources	2017 Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments.	$ -	$ 276	$ -	$ 505
Contributions subsequent to the measurement date.	549	-	953	-
Total	$ 549	$ 276	$ 953	$ 505

PERS 2/3	2018 Deferred Outflows of Resources	2018 Deferred Inflows of Resources	2017 Deferred Outflows of Resources	2017 Deferred Inflows of Resources
Difference between expected and actual experience.	$ 1,256	$ 1,794	$ 2,186	$ 710
Net difference between projected and actual investment earnings on pension plan investments.	-	6,287	-	5,749
Changes of assumptions	120	2,915	229	-
Changes in proportion and differences between contributions and proportionate share of contributions.	423	740	23	861
Contributions subsequent to the measurement date.	2,449	-	2,376	-
Total	$ 4,248	$ 11,736	$ 4,814	$ 7,320

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 years ended December 31, 2018 and 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

	2018	
Year Ending December 31,	PERS 1	PERS 2/3
2019	$ 12	$ (1,043)
2020	(60)	(2,141)
2021	(181)	(3,912)
2022	(47)	(1,489)
2023	-	(591)
Thereafter	-	(761)

	2017	
Year Ending December 31,	PERS 1	PERS 2/3
2018	$ (342)	$ (2,416)
2019	108	485
2020	(25)	(635)
2021	(246)	(2,449)
2022	-	58
Thereafter	-	75

Note 10 – Other Post-Employment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards for recognizing and measuring other postemployment benefits (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The following table represents Water Quality's allocated OPEB amounts subject to the requirements of GASB Statement No. 75 for the year 2018 (in thousands):

	OPEB Amounts 2018
OPEB liabilities	$ 1,533
Deferred outflows of resources	41
Deferred inflows of resources	119
OPEB expense	50

Note 10 – Other Post-Employment Benefits (continued)

Plan description – The County administers a single-employer defined-benefit postemployment healthcare plan (the Plan). The Plan provides healthcare insurance for eligible retirees and their spouses and children through the County's health insurance plan, which covers retired members. The plan provides healthcare insurance benefits and prescription coverage. The plan offers dental and vision benefits, but the retiree premiums are assumed to cover the full cost of those benefits.

As a self-insurer, the County establishes a monthly premium rate for insurance benefits each budget year. Eligible retirees may continue to receive insurance benefits by contributing 100% of the Consolidated Omnibus Budget Reconciliation Act or COBRA rate for these benefits. The program provides the same level of healthcare benefits to retirees as the active group plan. LEOFF1 retirees are not required to contribute as the County pays 100% of their medical costs. The County pays benefits as they come due.

Employees covered by benefit terms – At December 31, 2018 (the census date), the benefit terms covered the following employees:

Category	Count
Inactive employees, spouses, or beneficiaries currently receiving benefit payments	450
Inactive employees entitled to but not yet receiving benefit payment	-
Active employees	14,378
Total	14,828

Net OPEB liability – The County's net OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018.

Actuarial assumptions – The total OPEB liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation: 2.50%.
- Salary increases: 3.00%.
- Healthcare cost trend rates: 7.00% in the first year, trending down to 3.84% over 56 years.
- Mortality rates were based on tables from the Society of Actuaries.
- Discount rate: The discount rate used to measure the total OPEB liability is 3.75%. The County's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

Note 10 – Other Post-Employment Benefits (continued)

Changes in total OPEB liability – Water Quality's allocated changes in the total OPEB liability for the year ended December 31, 2018, was as follows (in thousands):

	2018
Total OPEB liability - beginning of year	$ 1,652
Service cost	29
Interest	57
Difference between expected and actual experience	46
Change of assumptions	(133)
Benefit payments	(72)
Implicit rate subsidy fulfilled	(19)
Other changes	(27)
Net changes	(119)
Total OPEB liability - end of year	$ 1,533

Sensitivity of the net OPEB lability to changes in the discount rate – The table below presents Water Quality's proportionate share of the net OPEB liability as well as what Water Quality's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.75%) or one percentage point higher (4.75%) than the current rate (in thousands).

Year	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
2018	$ 1,676	$ 1,533	$ 1,407

Sensitivity of the net OPEB lability to changes in the healthcare cost trend rates – The table below presents Water Quality's proportionate share of the net OPEB liability as well as what Water Quality's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.00%) or one percentage point higher (8.00%) than current healthcare cost trend rates rate (in thousands).

Year	1% Decrease (6.00% Decreasing to 2.84%)	Trend Rate (7.00% Decreasing to 3.84%)	1% Increase (8.00% Decreasing to 4.84%%)
2018	$ 1,396	$ 1,533	$ 1,691

Note 10 – Other Post-Employment Benefits (continued)

Deferred outflows of resources and deferred inflows of resources – At December 31, 2018, Water Quality reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience.	$ 41	$ -
Changes of assumptions	-	119
Total	$ 41	$ 119

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (in thousands):

Year Ending December 31,	Amount
2019	$ (9)
2020	(9)
2021	(9)
2022	(9)
2023	(10)
Thereafter	(32)

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 intra-county activity with other County agencies.

Interfund balances – The balances result from the time lag between the dates when interfund goods and services were provided or reimbursable expenditures incurred and when interfund payments were made, Water Quality reported total due from other funds of $2.5 million and due to other funds of $37 thousand at December 31, 2018. Water Quality reported total due from other funds of $2.1 million and due to other funds of $25 thousand at December 31, 2017.

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 2018 and 2017, the transfers from Water Quality to other funds were $982 thousand and $741 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 $242.9 million on active construction contracts as of December 31, 2018.

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

- An administrative order issued by the Environmental Protection Agency (EPA) that required King County, the City of Seattle, Boeing, and the Port of Seattle to conduct studies to determine the nature and extent of contamination in the Lower Duwamish Waterway. The County and the other three parties have agreed with EPA to amend the administrative order on a number of occasions to conduct additional studies, and have most recently negotiated a further amendment to design the remedy for one portion of the river. EPA issued a Record of Decision (ROD) in the latter part of 2014. The ROD contains EPA's final plan for cleanup of the Lower Duwamish Waterway. The County and a number of other parties are participating in an alternative dispute resolution process, called an allocation, to determine shares of liability for the costs of the cleanup. If parties that participate in the allocation accept their allotted shares, they then expect to enter into a settlement agreement and to negotiate a consent decree with EPA to implement the cleanup. Due to the fact that the parties do not yet know their respective shares of cleanup costs and no consent decree has been negotiated with EPA, the County is unable to determine the schedule or cost of any required remediation. In addition, the County is unable to determine the extent to which the County and Water Quality will be responsible for the cost of such remediation.

- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. Water Quality has performed interim cleanup costing $3.6 million to comply with a formal agreement with the Washington State Department of Ecology (DOE). Water Quality recently has had discussions with DOE and stakeholders regarding site conditions and next steps toward final cleanup. The County is unable to determine an amount, if any, for which Water Quality may be responsible.

- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The City of Seattle, Port of Seattle and the County intend to negotiate the amount, if any, that the City and the County will contribute. This is an extremely complex negotiation for which the County is unable to determine an amount that Water Quality may be responsible for, if any. The parties have also agreed to share the cost of a supplemental investigation and feasibility study (RI/FS) required by the EPA. The supplemental RI/FS is now complete and awaiting final approval from EPA. A three-way agreement with the Port, the City and the County allocates to Water Quality a one-third pro rata share of the study costs although the costs may be reallocated among the parties or with other Potentially Responsible Parties (PRP) who may agree to participate in the study. The parties may also seek contribution from other PRP for the cost of the study. The EPA will not determine if, or the nature of, any additional remediation until the study is completed and approved. The County and three other PRP have negotiated a memorandum of agreements to implement a search for other responsible parties.

Note 12 – Commitments and Contingencies (continued)

- A claim submitted by the County against a contractor and its performance bond surety over the project to repair and replace two miles of pipeline serving the rapidly developing area in the vicinity of Canyon Park. Pursuant to an agreement with DOE, Water Quality had to install a bypass system because the capital project was not completed by the onset of the 2016 wet season. The contractor submitted a request for change order of approximately $1.5 million based on its assertion that the contract dewatering and open-faced shield tunneling specifications were defective. The contractor also asserted that it was constructively suspended and stopped tunneling. Water Quality found the contractor in default, terminated the contract, made demand upon the performance bond surety, and procured a $20.0 million completion contract. Water Quality's additional costs to complete the project and to repair consequential damages amounted to approximately $28.0 million. In December 2016, the County initiated a suit in King County Superior Court to recover the additional costs to complete the project from the contractor and its insurance company. The trial date expected to be set in June of 2020.

Note 13 – Restatements of Beginning Balances

Due to Water Quality's adoption of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, the 2017 financial statements and its net position as of January 1, 2017, were restated to conform to the reporting requirements.

Revised balances are shown in the following schedule (in thousands):

	As Previously Reported	Effect of Restatement	As Restated
STATEMENT OF NET POSITION			
NONCURRENT LIABILITIES			
Other post-employment benefits	$ 1,631	$ 21	$ 1,652
NET POSITION - end of year	696,579	(21)	696,558
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING EXPENSES			
General and administrative	39,583	(1,142)	38,441
NET POSITION - beginning of year	639,359	(1,163)	638,196

Note 14 – Subsequent Event

On January 2, 2019, Water Quality redeemed $1.7 million of the outstanding principal of Junior Lien Variable Rate Sewer Revenue bond, Series 2015A and 2015B (the Bonds). The amount of this redemption was applied in equal amounts of $835 thousand to each series of the Bonds.

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)

	2018	2017	2016	2015
County's proportion of the net pension liability	8.56%	8.45%	8.90%	8.76%
County's proportionate share of the net pension liability	$ 382,129	$ 400,803	$ 477,872	$ 458,477
Covered payroll	$ 13,346	$ 15,426	$ 18,793	$ 22,880
County's proportionate share of the net pension liability as a percentage of covered payroll	2863.25%	2598.23%	2542.82%	2243.04%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

* This schedule is to be built 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)

	2018	2017	2016	2015
County's proportion of the net pension liability	10.29%	10.14%	10.52%	10.36%
County's proportionate share of the net pension liability	$ 175,728	$ 352,361	$ 529,855	$ 370,294
Covered payroll	$ 1,072,968	$ 995,800	$ 953,254	$ 949,860
County's proportionate share of the net pension liability as a percentage of covered payroll	16.38%	35.38%	55.58%	39.68%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

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

Schedule of the County's Contributions
Public Employees' Retirement System (PERS) Plan 1
For the Year Ended December 31*
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 1,448	$ 1,738	$ 1,901	$ 2,076
Contributions in relation to the contractually required contributions	1,448	1,738	1,901	2,076
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 11,362	$ 14,569	$ 17,003	$ 20,440
Contributions as a percentage of covered payroll	12.74%	11.93%	11.18%	10.16%

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

Schedule of the County's Contributions
Public Employees' Retirement System (PERS) Plan 2/3
For the Year Ended December 31*
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 140,712	$ 123,333	$ 109,269	$ 95,176
Contributions in relation to the contractually required contributions	140,712	123,333	109,269	95,176
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 1,103,984	$ 1,031,418	$ 977,342	$ 933,304
Contributions as a percentage of covered payroll	12.75%	11.96%	11.18%	10.20%

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

Notes to Pension Required Supplementary Information

The assumption changes that were used to measure the June 30, 2018, total pension liability include the lowering of the valuation interest rate to 7.50 percent, the assumed inflation to 2.75 percent, the assumed general salary growth to 3.50 percent, and the discount rate to 7.40 percent. Additional actuarial method and assumption information is located in Note 9 to the Financial Statements.

The Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 the Revised Code of Washington (RCW). Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2017, and ending June 30, 2019, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. This is the second of three biennia over which this increase is expected to be phased-in for PERS 1, PERS 2/3, and other pension plans. For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC, except the CRC reflect the adopted contribution rates for the time period shown, which might differ from the contribution rates produced for the ADC.

	2018
Total OPEB liability - beginning of year	$ 118,120
Service cost	2,092
Interest	4,147
Changes of benefit terms	-
Differences between expected and actual experience	3,332
Changes of assumptions	(9,652)
Benefit payments	(5,244)
Implicit rate subsidy fulfilled	(1,383)
Other changes	-
Net change in total OPEB liability	(6,708)
Total OPEB liability - end of year	$ 111,412
Covered-employee payroll	$ 1,217,867
Total OPEB liability as a percentage of covered payroll	9.15%

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

Notes to OPEB Required Supplementary Information

The plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.

Other Information

Supplemental Schedule of Debt Service Coverage Ratios (Unaudited)
Year Ended December 31, 2018

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)	1.72

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)	1.49

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)	1.37

In 2001, Water Quality issued an additional tier of revenue bonds. The bond covenants of the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, require that sewage disposal rates provide net revenue equal to at least 1.10 times the annual debt service requirements for all junior lien obligations after payment of senior lien requirements. All of Water Quality Junior Lien Variable Rate Sewer Revenue Bonds and Multi-Modal Limited Tax General Obligation Revenue Bonds incorporate the identical requirement stated in the 2001 bond covenant requirements. In 2018, short-term interest rates rose to 2.07 percent in 2018 from 1.73 percent in 2017.

Coverage (1.10 required by covenant)	13.36

King County Water Quality Enterprise Fund
Supplemental Information
Supplemental Schedule of Historical Debt Service Coverage Ratios (Unaudited)

DEBT SERVICE COVERAGE FOR THE WATER QUALITY ENTERPRISE
LAST TEN FISCAL YEARS
(dollars in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Residential Customer and Residential Customer Equivalents (RCEs) (annual average, rounded)	703,795	704,400	707,300	708,900	718,160	725,844	736,090	756,430	756,916	760,571
Percentage Annual Change	-0.43%	0.09%	0.41%	0.23%	1.31%	1.07%	1.41%	2.76%	0.06%	0.48%
Operating Revenues										
Sewage disposal fees	$ 271,558	$ 269,498	$ 306,430	$ 307,143	$ 342,850	$ 346,591	$ 371,253	$ 381,513	$ 401,650	$ 403,589
Rate stabilization	(15,398)	(15,814)	(25,523)	13,923	10,350	18,000	(12,000)	-	-	-
Capacity charge revenues	40,827	41,363	48,693	51,411	58,660	59,522	62,479	71,200	82,615	86,836
Other operating revenues	9,869	9,778	7,830	9,398	10,126	11,675	11,674	11,828	18,308	19,125
Total Operating Revenues	306,856	304,825	337,430	381,875	421,986	435,788	433,406	464,541	502,573	509,550
Operating and Maintenance Expenses [1]	103,118	103,682	103,995	114,939	117,183	122,014	127,211	138,698	142,263	139,585
Add: GAAP adjustment [2]	-	-	-	-	-	2,187	1,715	(2,377)	5,936	13,004
Net Operating and Maintenance Expenses	103,118	103,682	103,995	114,939	117,183	124,201	128,926	136,321	148,199	152,589
Net Operating Revenue	203,738	201,143	233,435	266,936	304,803	311,587	304,480	328,220	354,374	356,961
Interest Income [3]	5,613	3,426	2,725	1,697	2,682	2,822	2,863	4,549	6,055	8,956
Net Revenue Available for Debt Service	209,351	204,569	236,160	268,633	307,485	314,409	307,343	332,769	360,429	365,917
Debt Service										
Parity Bonds	118,925	118,817	132,664	157,117	172,959	175,463	167,694	160,957	159,761	163,967
Parity Lien Obligations	26,042	26,838	32,910	38,626	43,064	42,876	40,348	53,164	52,650	49,121
Subordinate Debt Service	12,150	12,182	12,769	14,087	15,039	17,477	18,318	21,316	26,277	33,139
Total Debt Service	$ 157,117	$ 157,837	$ 178,343	$ 209,830	$ 231,062	$ 235,816	$ 226,360	$ 235,437	$ 238,688	$ 246,227
Debt Service Coverage										
On Parity Bonds	1.76	1.72	1.78	1.71	1.78	1.79	1.83	2.07	2.26	2.23
On Parity Bonds and Parity Lien Obligations	1.44	1.40	1.43	1.42	1.36	1.44	1.48	1.55	1.70	1.72
On All Sewer System Obligations	1.33	1.30	1.32	1.28	1.33	1.33	1.36	1.41	1.51	1.49

1) 2014 operating expenses were restated as part of GASB Statements 68 and 71 implementation.
2) Non-cash GAAP adjustments consist of pension, other post-employment benefits and compensated absence accruals.
3) Interest Income excludes unrealized gains in the GASB Statement 31 market valuation adjustment.

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APPENDIX F

SUMMARY OF KING COUNTY'S INVESTMENT POLICY

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SUMMARY OF KING COUNTY'S INVESTMENT POLICY

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

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

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

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

The Investment Pool must maintain an effective duration of 1.5 years or less and 40% of its total value must be held in securities that mature within one year. As of March 31, 2019, the Investment Pool had a balance of $7.1 billion and an effective duration of 0.91 years, and 58.0% of the portfolio had a maturity of one year or less.

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

(i) up to 100% of the portfolio in U.S. Treasury or U.S. Agency securities;

(ii) up to 25% of the portfolio in certificates of deposit ("CDs") with institutions that are public depositaries in the State of Washington with a maximum of 5% per issuer across investment types;

(iii) up to 25% of the portfolio in bankers' acceptances with a maximum of 5% per issuer across investment types;

(iv) up to 100% of the portfolio in repurchase agreements, with a maximum of 25% exposure to any one repo counterparty, provided that the underlying security must be a U.S. Treasury or U.S. Agency and all underlying securities are held by a third party;

(v) up to 25% in commercial paper and corporate notes with a maximum of 5% per issuer across investment types;

(vi) up to 20% in general obligation municipal bonds with a maximum of 5% per issuer;

(vii) up to 25% in mortgage-backed securities issued by agencies of the U.S. Government which pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test that banks use to determine lowest risk securities; and

(viii) up to 25% in the State's Local Government Investment Pool.

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

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

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

The investment policy also includes a policy adopted by the Committee to address the circumstances under which County agencies or districts can invest funds beyond the maximum maturity limits established for the Investment Pool. This policy provides the "Pool-Plus" investment option which allows a participant in the Investment Pool to request the County to combine a portfolio of individual long-term securities in the same fund that is invested in the Investment Pool. Under the Pool-Plus option, the Investment Pool will be used for the liquidity portion of the portfolio, while the following investment types may be used for the longer term investments: U.S. Treasuries or securities with the full faith and credit of the U.S. Government backing them and senior debt obligations issued by U.S. agencies, instrumentalities or government-sponsored enterprises such as the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Farm Credit Bank. and the Federal Home Loan Mortgage Corporation.

APPENDIX G

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.

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
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	2,105,000	686,800
2017 (2)	7,310,300	2,153,700	713,700
2018 (2)	7,427,570	2,190,200	730,400

(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

	2013	2014	2015	2016	2017
Seattle MD	$ 60,219	$ 65,033	$ 68,094	$ 69,786	$ 75,078
King County	66,073	71,882	75,518	77,213	83,383
State of Washington	47,814	50,890	53,064	54,579	57,896
U.S.	44,493	46,494	48,451	49,246	51,640

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**
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
2017	4,356	1,735,074,421	14,285	2,174,576,693	3,909,651,114
2018	4,352	1,701,845,032	14,176	1,665,018,681	3,366,863,713
2018(1)	1,610	609,593,036	3,844	528,381,662	1,137,974,698
2019(1)	1,221	482,637,552	4,522	667,870,417	1,150,507,969

(1) Through April.

Source: U.S. Bureau of the Census

Retail Activity

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

KING COUNTY AND THE CITY OF SEATTLE
TAXABLE RETAIL SALES

Year	King County	City of Seattle
2014	$ 49,638,174,066	$ 19,995,171,842
2015	54,890,159,770	22,407,443,037
2016	59,530,882,870	24,287,539,378
2017	62,910,608,935	26,005,147,210
2018	69,018,354,390	28,292,069,881

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 as of May 1, 2018 (except where noted).

PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	Employees
The Boeing Company	65,800[(1)]
Joint Base Lewis-McChord	54,000
Amazon.com Inc.	50,000
Microsoft Corp.	46,300[(1)]
Navy Region Northwest	45,900
University of Washington	45,000
Providence Health & Services	43,100
Safeway Inc. and Albertsons LLC	21,500[(1)]
Wal-Mart Stores, Inc.	20,000
Costco Wholesale Corp.	17,600[)]
MultiCare Health System	16,300
Fred Meyer Stores	15,500[(1)]
King County Government	14,700[(2)]
Starbucks Corp.	14,000[(1)]
City of Seattle	13,700[(3)]
Swedish Medical Center	13,300
CHI Franciscan Health System	12,400
Seattle Public Schools	11,400
Nordstrom Inc.	10,200
PeaceHealth	9,300

(1) Latest information available is for 2017.

(2) Source: King County.

(3) Source: City of Seattle.

Source: Puget Sound Business Journal, 2018

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT[(1)]

	Annual Average				
	2014	**2015**	**2016**	**2017**	**2018**
Civilian Labor Force	1,158,195	1,178,040	1,204,361	1,234,122	1,258,687
Total Employment	1,103,941	1,127,580	1,156,940	1,189,342	1,215,220
Total Unemployment	54,254	50,460	47,421	44,780	43,467
Percent of Labor Force	4.7%	4.3%	3.9%	3.6%	3.5%

NAICS INDUSTRY	**2014**	**2015**	**2016**	**2017**	**2018**
Total Nonfarm	1,270,975	1,445,300	1,434,233	1,398,225	1,357,433
Total Private	1,101,442	1,269,675	1,255,700	1,216,892	1,179,242
Goods Producing	168,642	184,875	182,083	178,150	177,692
Mining and Logging	458	500	500	533	525
Construction	60,683	79,075	78,325	74,342	71,217
Manufacturing	107,475	105,275	103,250	103,283	105,967
Service Providing	1,102,333	1,260,425	1,252,150	1,220,075	1,179,742
Trade, Transportation, and Utilities	235,775	274,500	275,308	268,325	254,142
Information	85,925	112,925	110,517	102,817	96,200
Financial Activities	68,808	74,875	73,608	71,450	70,642
Professional and Business Services	207,700	235,750	233,783	227,792	222,750
Educational and Health Services	164,225	191,625	185,750	179,142	174,042
Leisure and Hospitality	124,575	145,925	145,458	140,775	135,683
Other Services	45,792	49,200	49,192	48,442	48,092
Government	169,533	175,625	178,533	181,333	178,192
Workers in Labor/Management Disputes	0	0	0	0	0

	Apr. 2019
Civilian Labor Force	1,276,231
Total Employment	1,240,125
Total Unemployment	36,106
Percent of Labor Force	2.8%

(1) Columns may not add to totals due to rounding.
Source: Washington State Employment Security Department

APPENDIX H

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

The following information has been provided by the Depository Trust Company, New York, New York ("DTC"). The County makes no representation regarding the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

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

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.