OFFICIAL STATEMENT

	RATINGS
	Moody's: Aa2
New Issue	**S&P Global Ratings: AA+**
Book-Entry Only	**(See "Other Bond Information—Ratings.")**

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

$499,655,000

KING COUNTY, WASHINGTON

SEWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016, SERIES B

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

King County, Washington (the "County"), is issuing its Sewer Improvement and Refunding Revenue Bonds, 2016, Series B (the "Bonds"), as fully registered obligations. The Bonds will be issued in the denomination of $5,000 or any integral multiple thereof within a single maturity, and initially will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"). Each Bond registered in the name of DTC or its nominee will be held fully immobilized in book-entry only form by DTC in accordance with the provisions of the Letter of Representations. Purchasers will not receive certificates representing their interest in the Bonds purchased. For so long as the Bonds are registered in the name of DTC or its nominee, DTC will be deemed to be the Registered Owner, and all references to Registered Owners will mean DTC and not the Beneficial Owners.

The Bonds will bear interest payable semiannually on January 1 and July 1, beginning January 1, 2017, to their maturities or prior redemption. The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (the "Bond Registrar"), currently U.S. Bank National Association. For so long as the Bonds are registered in the name of DTC or its nominee, the Bond Registrar is required to make such payments only to DTC, which, in turn, is obligated to remit such payments to DTC participants for subsequent disbursement to Beneficial Owners of the Bonds as described in Appendix F—Book-Entry System.

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

The Bonds are being issued to finance certain capital improvements to the County's sewer system (the "Sewer System"), to refund certain bonds of the County payable from revenues of the Sewer System (the "Revenue of the System"), and to pay the costs of issuing the Bonds and refunding the refunded bonds.

The Bonds are secured by a lien and charge on Revenue of the System superior to all other charges of any kind or nature except Operating and Maintenance Expenses, and of equal lien to any charges heretofore or hereafter made on Revenue of the System for the payment of the principal of and interest on any Parity Bonds. The Bonds are special limited obligations of the County, and are not obligations of the State of Washington (the "State") or any political subdivision thereof other than the County. Neither the full faith and credit nor the taxing power of the County or the State or any political subdivision thereof is pledged to the payment of the Bonds.

The Bonds are offered when, as, and if issued, subject to approval of legality by Foster Pepper PLLC, Seattle, Washington, Bond Counsel, and certain other conditions. The form of legal opinion of Bond Counsel is attached as Appendix B. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, P.C., Seattle, Washington. It is anticipated that the Bonds will be ready for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about October 12, 2016.

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

Dated: September 12, 2016

CITIGROUP

J.P. MORGAN **SIEBERT CISNEROS SHANK & CO., L.L.C.** **DREXEL HAMILTON**

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

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

The County makes no representation regarding the accuracy or completeness of the information provided in Appendix F—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.

Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Drexel Hamilton, LLC, and Siebert, Cisneros, Shank & Co., L.L.C. (collectively, the "Underwriters") have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with this offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time. The public offering prices or prices corresponding to the yields set forth on page i of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Bonds to certain dealers, unit investment trusts, or money market funds at prices lower than the public offering prices or prices corresponding to the yields set forth on page i of this Official Statement.

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

The website of the County or any County department or agency, the State of Washington, or the City of Seattle 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.

The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the County and are provided solely for convenience and reference. The CUSIP number for a specific maturity is subject to change after the issuance of the Bonds. Neither the County nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

MATURITY SCHEDULE

$499,655,000

KING COUNTY, WASHINGTON

SEWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016, SERIES B

SERIAL BONDS

Due July 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2017	$ 3,490,000	5.00%	0.665%	103.105	495289 3V0
2018	1,965,000	5.00%	0.760%	107.228	495289 3W8
2019	2,195,000	5.00%	0.850%	111.131	495289 3X6
2020	2,340,000	5.00%	0.970%	114.685	495289 3Y4
2021	1,560,000	5.00%	1.080%	117.987	495289 3Z1
2022	9,200,000	5.00%	1.180%	121.065	495289 4A5
2023	17,455,000	5.00%	1.350%	123.369	495289 4B3
2024	17,995,000	5.00%	1.460%	125.752	495289 4C1
2025	18,845,000	5.00%	1.560%	127.940	495289 4D9
2026	19,850,000	5.00%	1.670%	129.758	495289 4E7
2027	15,885,000	5.00%	1.780%	128.619 (1)	495289 4F4
2028	16,610,000	5.00%	1.880%	127.594 (1)	495289 4G2
2029	17,455,000	5.00%	1.950%	126.882 (1)	495289 4H0
2030	25,175,000	4.00%	2.210%	115.576 (1)	495289 4J6
2031	29,920,000	4.00%	2.280%	114.916 (1)	495289 4K3
2032	25,950,000	4.00%	2.360%	114.166 (1)	495289 4L1
2033	25,915,000	4.00%	2.410%	113.701 (1)	495289 4M9
2034	30,065,000	4.00%	2.470%	113.145 (1)	495289 4N7
2035	7,070,000	5.00%	2.290%	123.490 (1)	495289 4P2
2036	12,610,000	5.00%	2.330%	123.099 (1)	495289 4Q0

TERM BONDS

Due July 1	Amounts	Interest Rates	Yields	Prices	CUSIP Numbers
2038	$ 29,810,000	5.00%	2.390%	122.513 (1)	495289 4W7
2039	42,595,000	5.00%	2.160%	117.671 (2)	495289 4S6
2041	35,100,000	4.00%	2.750%	110.594 (1)	495289 4V9
2041	8,500,000	5.00%	2.450%	121.932 (1)	495289 4R8
2046	47,410,000	5.00%	2.500%	121.449 (1)	495289 4U1
2049	34,690,000	5.00%	2.530%	121.161 (1)	495289 4T4

(1) Priced to the July 1, 2026, par call date.

(2) Priced to the July 1, 2023, par call date.

KING COUNTY, WASHINGTON
500 FOURTH AVENUE
SEATTLE, WASHINGTON 98104

KING COUNTY EXECUTIVE

Dow Constantine

METROPOLITAN KING COUNTY COUNCIL

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

OTHER ELECTED OFFICIALS

Dan Satterberg	Prosecuting Attorney
John Wilson	Assessor
John Urquhart	Sheriff
Sherril Huff	Director of Elections

DIRECTOR OF FINANCE AND BUSINESS OPERATIONS DIVISION
DEPARTMENT OF EXECUTIVE SERVICES

Ken Guy

CLERK OF THE METROPOLITAN KING COUNTY COUNCIL

Anne Noris

BOND COUNSEL

Foster Pepper PLLC

FINANCIAL ADVISOR TO THE COUNTY

Piper Jaffray & Co.

BOND REGISTRAR

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

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OFFICIAL STATEMENT

$499,655,000
KING COUNTY, WASHINGTON
SEWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2016, SERIES B

INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County, Washington (the "County"), of $499,655,000 aggregate principal amount of its Sewer Improvement and Refunding Revenue Bonds, 2016, Series B (the "Bonds"). The Bonds are issued under and in accordance with the provisions of chapters 35.58, 36.67, 39.46, and 39.53 of the Revised Code of Washington ("RCW") and the County Charter, and are authorized under the provisions of County Ordinance 18111, passed on September 21, 2015 (authorizing the new money bonds), and County Ordinance 18116, passed on September 21, 2015 (authorizing the refunding bonds) (together, the "Bond Ordinance"), and Motion 14731 of the County Council passed on September 12, 2016 (the "Sale Motion"). A summary of the Bond Ordinance is attached as Appendix A.

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

THE BONDS

Description

The Bonds will be fully registered as to both principal and interest and will be in the denomination of $5,000 or any integral multiple thereof within a single maturity. The Bonds initially will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"). See "Book-Entry System."

The Bonds will bear interest payable semiannually on each January 1 and July 1, beginning January 1, 2017, to their maturities or prior redemption. The Bonds will bear interest (computed on the basis of a 360-day year of twelve 30-day months) from their dated date or from the most recent interest payment date for which interest has been paid or duly provided for, whichever is later. The Bonds will mature on the dates and in the years and amounts and bear interest at the rates set forth on page i of this Official Statement.

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

Redemption

Optional Redemption. The Bonds bearing CUSIP number 4952894S6 and maturing on July 1, 2039, are subject to redemption prior to their stated maturities at the option of the County in whole or in part, at any time on or after July 1, 2023, at the price of par plus accrued interest, if any, to the date fixed for redemption. All other Bonds maturing on and after July 1, 2027, are subject to redemption prior to their stated maturities at the option of the County in whole or in part, at any time on or after July 1, 2026, at the price of par plus accrued interest, if any, to the date fixed for redemption.

Mandatory Sinking Fund Redemption of Term Bonds. The County will redeem Term Bonds, if not redeemed as described above or purchased under the provisions described below, at par plus accrued interest on July 1 in the years and amounts as follows:

5% 2038 TERM BONDS

Years	Amounts
2037	$ 13,275,000
2038(1)	16,535,000

5% 2039 TERM BONDS

Years	Amounts
2035	$ 7,690,000
2036	8,085,000
2037	8,495,000
2038	8,935,000
2039(1)	9,390,000

5% 2041 TERM BONDS

Years	Amounts
2039	$ 2,835,000
2040	2,835,000
2041(1)	2,830,000

4% 2041 TERM BONDS

Years	Amounts
2039	$ 14,495,000
2040	15,265,000
2041(1)	5,340,000

5% 2046 TERM BONDS

Years	Amounts
2042	$ 8,560,000
2043	9,000,000
2044	9,460,000
2045	9,940,000
2046(1)	10,450,000

5% 2049 TERM BONDS

Years	Amounts
2047	$ 10,990,000
2048	11,555,000
2049(1)	12,145,000

(1) Maturity.

If the County redeems Term Bonds under the optional redemption provisions described above or purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased, or defeased (irrespective of their redemption or purchase prices) will be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. The County will determine the manner in which the credit is to be allocated.

Partial Redemption. Whenever less than all of the Bonds of a single maturity are to be redeemed, DTC will select the Bonds registered in the name of DTC or its nominee to be redeemed in accordance with the Letter of Representations, and the Bond Registrar will select all other Bonds to be redeemed randomly, or in such other manner as the Bond Registrar determines.

Notice of Redemption. Notice of redemption of each Bond registered in the name of DTC or its nominee is to be given in accordance with the Letter of Representations. Notice of redemption of each other Bond, unless waived by the Registered Owner, is to be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner at the address appearing on the Bond Register as of the 15th day of the month prior to the interest payment date (the "Record Date"). The requirements described in the preceding sentences will be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by any Owner.

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

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

Book-Entry System

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

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

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

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

Purchase

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

Refunding or Defeasance of Bonds

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

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

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

USE OF PROCEEDS

Purpose

The Bonds are being issued to finance certain capital improvements to the County's sewer system (the "Sewer System"), to refund certain bonds of the County (described below under "Refunding Plan") payable from earnings, revenues, and money received by the County from or on account of the operation of the Sewer System (the "Revenue of the System"), and to pay the costs of issuing the Bonds and refunding the Refunded Bonds (defined below).

Sources and Uses of Funds

The proceeds from the sale of the Bonds and other sources of funds will be applied as follows:

SOURCES OF FUNDS	
Par Amount of Bonds	$ 499,655,000
Reoffering Premium	98,230,969
Parity Bond Reserve Account Contribution	2,936,994
Parity Bond Fund Contribution	6,159,797
Total Sources of Funds	$ 606,982,760
USES OF FUNDS	
Deposit to 2016B Construction Subaccount	$ 50,000,000
Deposit to Refunding Escrow	555,599,731
Costs of Issuance(1)	1,383,029
Total Uses of Funds	$ 606,982,760

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

Refunding Plan

A portion of the proceeds from the sale of the Bonds will be used to refund a portion of the County's outstanding Sewer Revenue and Refunding Bonds, 2006 (Second Series); Sewer Revenue and Refunding Bonds, 2010; Sewer Revenue Bonds, 2011; Sewer Revenue and Refunding Bonds, 2011 Series B; and Sewer Revenue Refunding Bonds, 2011 Series C (collectively, the "Refunded Bonds"), for the purposes of realizing debt service savings.

REFUNDED BONDS

Bond Component	Maturity Date	Interest Rate	Par Amount		Redemption Date	Redemption Price	CUSIP Numbers
Sewer Revenue and Refunding Bonds, 2006 (Second Series)							
Serial	1/1/2018	5.000%	$ 4,560,000		1/1/2017	100%	495289 PB0
	1/1/2019	5.000%	3,090,000		1/1/2017	100%	495289 S84
	1/1/2020	5.000%	3,225,000		1/1/2017	100%	495289 S92
	1/1/2021	4.125%	930,000	(1)	1/1/2017	100%	495289 T26
	1/1/2021	5.000%	2,470,000	(1)	1/1/2017	100%	495289 T34
	1/1/2022	5.000%	2,450,000		1/1/2017	100%	495289 T42
	1/1/2023	5.000%	2,580,000		1/1/2017	100%	495289 T59
	1/1/2024	5.000%	6,975,000		1/1/2017	100%	495289 T67
	1/1/2025	5.000%	7,375,000		1/1/2017	100%	495289 T75
	1/1/2026	4.250%	765,000	(1)	1/1/2017	100%	495289 T83
	1/1/2026	5.000%	6,995,000	(1)	1/1/2017	100%	495289 T91
Term	1/1/2031	5.000%	47,555,000		1/1/2017	100%	495289 U24
Term	1/1/2036	4.375%	1,125,000		1/1/2017	100%	495289 PP9
Term	1/1/2036	5.000%	30,800,000		1/1/2017	100%	495289 U32
Subtotal			$ 120,895,000				
Sewer Revenue and Refunding Bonds, 2010							
Term	1/1/2036	4.250%	$ 3,715,000	(2)	7/1/2020	100%	495289 WK2
Term	1/1/2040	5.000%	26,425,000	(2)	7/1/2020	100%	495289 WL0
Term	1/1/2045	5.000%	45,535,000	(2)	7/1/2020	100%	495289 WM8
Term	1/1/2050	5.000%	58,105,000	(2)	7/1/2020	100%	495289 WN6
Subtotal			$ 133,780,000				
Sewer Revenue Bonds, 2011							
Serial	1/1/2023	5.000%	$ 4,560,000		1/1/2021	100%	495289 YB0
	1/1/2024	5.000%	4,790,000		1/1/2021	100%	495289 YC8
	1/1/2025	5.000%	5,030,000		1/1/2021	100%	495289 YD6
	1/1/2026	5.000%	5,280,000		1/1/2021	100%	495289 YE4
	1/1/2027	5.250%	5,545,000		1/1/2021	100%	495289 YF1
	1/1/2028	5.250%	3,490,000	(2)	1/1/2021	100%	495289 YG9
	1/1/2029	5.250%	3,665,000	(2)	1/1/2021	100%	495289 YH7
	1/1/2030	5.250%	3,845,000	(2)	1/1/2021	100%	495289 YJ3
	1/1/2031	5.250%	4,040,000	(2)	1/1/2021	100%	495289 YK0
	1/1/2032	5.250%	4,245,000	(2)	1/1/2021	100%	495289 YL8
Term	1/1/2034	5.000%	9,200,000	(2)	1/1/2021	100%	495289 YM6
Term	1/1/2037	5.125%	15,785,000	(2)	1/1/2021	100%	495289 YN4
Term	1/1/2041	5.125%	28,660,000	(2)	1/1/2021	100%	495289 YP9
Subtotal			$ 98,135,000				

(1) Bifurcated maturity/

(2) Partial maturity.

REFUNDED BONDS (CONTINUED)

Bond Component	Maturity Date	Interest Rate	Par Amount		Redemption Date	Redemption Price	CUSIP Numbers
Sewer Revenue and Refunding Bonds, 2011 Series B							
Serial	1/1/2023	5.000%	$ 3,050,000	(2)	1/1/2021	100%	495289 ZZ6
	1/1/2024	5.000%	6,525,000	(2)	1/1/2021	100%	495289 A34
	1/1/2025	5.000%	6,450,000	(2)	1/1/2021	100%	495289 ZE3
	1/1/2026	5.250%	6,685,000	(2)	1/1/2021	100%	495289 ZY9
	1/1/2027	5.250%	7,045,000	(2)	1/1/2021	100%	495289 ZG8
	1/1/2028	5.000%	4,855,000	(2)	1/1/2021	100%	495289 ZH6
	1/1/2029	5.000%	4,995,000	(2)	1/1/2021	100%	495289 ZJ2
	1/1/2030	5.000%	5,205,000	(2)	1/1/2021	100%	495289 ZK9
	1/1/2031	5.000%	10,240,000	(2)	1/1/2021	100%	495289 ZL7
Term	1/1/2034	5.000%	48,890,000	(2)	1/1/2021	100%	495289 ZN3
Term	1/1/2041	5.000%	18,010,000	(2)	1/1/2021	100%	495289 ZM5
Subtotal			$ 121,950,000				
Sewer Revenue Refunding Bonds, 2011 Series C							
Serial	1/1/2035	5.000%	$ 15,960,000	(2)	1/1/2021	100%	495289 A59
Subtotal			$ 15,960,000				
Total			$ 490,720,000				

(1) Bifurcated maturity/

(2) Partial maturity.

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

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

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are special limited obligations of the County, and are not obligations of the State or any political subdivision thereof other than the County. Neither the full faith and credit nor the taxing power of the County or the State or any political subdivision thereof is pledged to the payment of the Bonds.

Pledge of and Lien on Revenue of the System

The Bonds are secured by a lien and charge on Revenue of the System superior to all other charges of any kind or nature except Operating and Maintenance Expenses, and of equal lien to any charges heretofore or hereafter made on Revenue of the System for the payment of the principal of and interest on any Parity Bonds, including the liens that secure the Parity Lien Obligations, the Junior Lien Obligations, the Multi-Modal LTGO/Sewer Revenue Bonds, the Subordinate Lien Obligations, and the State Revolving Fund ("SRF") Loans and Public Works Trust Fund ("PWTF") Loans, all of which are described below under "Outstanding Sewer System Obligations." For information on the Sewer System, including the sources of Revenue of the System, see "The Sewer System," particularly the information therein under the subheadings "The Participants" and "Sewer Rates." The Bonds are further secured by the Parity Bond Reserve Account.

Flow of Funds

Revenue of the System is required to be deposited into the Revenue Fund and used for the following purposes and in the following order of priority:

(i) to pay all Operating and Maintenance Expenses;

(ii) to make all required debt service payments on the Bonds and other 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 surety bonds or letters of credit for the Parity Bond Reserve Account;

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

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

(vi) to make all 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 any credit enhancements or liquidity facilities for Junior Lien Obligations;

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

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

(ix) to make all 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 all required debt service payments on SRF Loans and PWTF Loans.

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

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

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

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

(iv) for any other lawful purposes of the County related to the Sewer System, which may include repayment of interfund borrowing.

Parity Bond Reserve Account

The Parity Bond Reserve Account of the Parity Bond Fund secures all Parity Bonds, including the Bonds. The Bond Ordinance provides that the County will pay into and maintain in the Parity Bond Reserve Account an amount that will be at least equal to the maximum debt service on the Parity Bonds in any calendar year (as further defined in the Bond Ordinance, the "Reserve Requirement"). The County may substitute Qualified Insurance or a Qualified Letter of Credit for amounts required to be paid into or maintained in the Parity Bond Reserve Account. As of August 29, 2016, the balance of cash and investments in the Parity Bond Reserve Account was $163,428,106, which fully satisfied the Reserve Requirement. Following the issuance of the Bonds, the Reserve Requirement will be reduced by $2,936,994 to $160,491,112 and the excess amount in the Parity Bond Reserve Account will be applied to the Refunding Plan.

In connection with the prior issuance of Parity Bonds, the County obtained debt service reserve surety bonds in the amount of $29,581,039 which, at the time, satisfied the criteria for "Qualified Insurance" under the applicable bond ordinances (the "Surety Bonds"). To satisfy the criteria of Qualified Insurance under the applicable bond ordinances, the provider must be rated in one of the two highest rating categories by Moody's, S&P Global Ratings, and any other rating agency then maintaining a rating on the Parity Bonds. Due to downgrades of the providers by Moody's, the Surety Bonds no longer satisfy the definition for Qualified Insurance, and the County made cash deposits to fully meet the Reserve Requirement. When the 2006 (Second Series) Bonds, 2007 Bonds, 2008 Bonds, and 2009 Bonds are no longer outstanding, the ratings criteria for Qualified Insurance will be based solely on the provider's rating at the time of issuance of the Qualified Insurance. Upon this occurrence, or if the providers are again rated in one of the two highest rating categories, any outstanding Surety Bonds would once again satisfy the criteria for Qualified Insurance. Outstanding Surety Bonds that may satisfy these criteria in the future currently include $24,570,766 from Assured Guaranty (previously Financial Security Assurance Inc.) and $5,010,273 from National Public Finance Guaranty Corporation (previously Financial Guaranty Insurance Company). See Appendix A—Summary of Bond Ordinance.

In the event of a withdrawal from the Parity Bond Reserve Account to pay debt service on the Parity Bonds, any deficiency created in the Parity Bond Reserve Account by reason of such withdrawal is required to be made up from Revenue of the System that is available in accordance with the order of priority described above in "Flow of Funds."

The County will have $5.145 million outstanding 2008 Bonds and 2009 Bonds after January 1, 2017. The County anticipates that it will defease these bonds with cash in January 2017 and at such time, and with the refunding of the 2006 (Second Series) Bonds (see "Use of Proceeds—Refunding Plan"), the Surety Bonds will satisfy the definition for Qualified Insurance. The County anticipates that it will withdraw $29,581,039 of cash from the Parity Bond Reserve Account over three years, beginning in 2017, to pay for capital improvements.

Outstanding Sewer System Obligations

The following table presents information on the outstanding obligations of the County's Sewer System ("Sewer System Obligations") as of October 12, 2016. See the table titled "Scheduled Debt Service on All Obligations of the Sewer System" under "The Sewer System—Debt Service Requirements Payable From Revenues of the Sewer System."

OUTSTANDING SEWER SYSTEM OBLIGATIONS

Sewer System Obligations	Principal Amount of Sewer System Obligations Outstanding	Final Maturity
Parity Bonds[(1)]	$ 2,484,890,000	2052
Parity Lien Obligations (LTGO)[(2)]	652,865,000	2038
Junior Lien Obligations	400,000,000	2043
Multi-Modal LTGO/Sewer Revenue Bonds	100,000,000	2040
SRF Loans and PWTF Loans[(3)]	187,529,840	2036
Total Sewer System Obligations Outstanding	$ 3,825,284,840	

(1) Includes the Bonds and excludes the Refunded Bonds.

(2) Excludes $3,010,000 of Limited Tax General Obligation Bonds (Federally Taxable Qualified Energy Conservation Bonds), Series 2012F (the "QECB Bonds"). While the Sewer System is responsible for paying debt service on the QECB Bonds, the Revenue of the System is not pledged to the payment of these bonds. Debt service payments will be made from Revenue of the System remaining at the bottom of the flow of funds listed above under "Flow of Funds" as another lawful purpose of the County related to the Sewer System.

(3) Does not include $59.7 million in undrawn loan commitments from the Washington State Department of Ecology ("Ecology"). See "The Sewer System—Future Sewer System Financing Plans."

Source: King County Finance, Business and Operations Division

PARITY BONDS. Prior to the issuance of the Bonds and the refunding of the Refunded Bonds, the County has outstanding 18 series of Parity Bonds, which are sewer revenue bonds that are secured by a pledge of and lien 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 of the Sewer System and senior to the liens that secure all other Sewer System Obligations.

PARITY LIEN OBLIGATIONS. The County has outstanding six series of Parity Lien Obligations, which are limited tax general obligation bonds of the County that are additionally secured by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures the Parity Lien Obligations is subordinate to the lien that secures the Parity Bonds, but senior to the liens that secure the Junior Lien

Obligations, the Multi-Modal LTGO/Sewer Revenue Bonds, the Subordinate Lien Obligations, and the SRF Loans and PWTF Loans.

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

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

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

SRF LOANS AND PWTF LOANS. The County has received loans from the State (administered by various State agencies) that are secured solely by a pledge of and lien 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 (which previously also included the Subordinate Lien Obligations that were retired in 2015) has been limited to approximately 15% of total Outstanding Sewer System Obligations.

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

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

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

A summary of the relevant Sewer System Obligations and terms of each related bank agreement is shown in the following table. In addition, the County is currently negotiating with State Street Bank for a remarketing of the Junior Lien Sewer Revenue Bonds, Series 2015A and Series 2015B, which are subject to mandatory tender for purchase by the County in November 2016.

SUMMARY OF CREDIT FACILITIES

Series	Type of Sewer System Obligations	Amount Outstanding as of 9/1/2016	Type of Facility	Provider	Expiration	Term-Out Provision
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001 A and B	Junior Lien Obligations	$100,000,000	Letter of Credit	Landesbank Hessen-Thuringen Girozentrale (Helaba)	9/30/2020	Three Years
Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2010 A and B	Multi-Modal LTGO/Sewer Revenue Bonds	$100,000,000	Standby Bond Purchase Agreement	State Street Bank and Trust Company	11/3/2017	Three Years
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2011	Junior Lien Obligations	$100,000,000	Bondholder's Agreement	U.S. Bank National Association	05/01/2017	Three Years
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2012	Junior Lien Obligations	$100,000,000	Continuing Covenant Agreement	Wells Fargo Municipal Capital Strategies, LLC	12/27/2016	Three Years

Agreements With Participants

Service Agreements. The Service Agreements with the Municipal Participants (described below under "The Sewer System—The Participants") contain provisions that are uniform in effect with respect to the facilities to be provided, delivery and acceptance of sewage, and payment for sewage disposal. The Service Agreements with the non-Municipal Participants, which accounted for approximately 0.48% of the sewage disposal revenues in the year ended December 31, 2015, do not differ substantially from the Service Agreements with the Municipal Participants. The rates set by Municipal Participants for sewer service to their customers are not subject to the jurisdiction of the Washington Utilities and Transportation Commission. Under Washington law, the Municipal Participants have various remedies for the enforcement of delinquent bills, including placing liens on the property of delinquent customers.

The Service Agreements uniformly provide that the County will receive all sewage collected by the Participants (described below under "The Sewer System—The Participants") in the service area of the Sewer System and will treat and dispose of such sewage. In return, the Participants will deliver their sewage to the Sewer System and pay the County for all costs incurred in providing sewage disposal services, including the debt service on all obligations secured by 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 Renton, Tukwila, Pacific, Issaquah, Kirkland, and Carnation, the Alderwood Water & Wastewater District, the Vashon Sewer District, and the Muckleshoot Indian Tribe, which together provided 15.05% of the sewage disposal revenues in the year ended December 31, 2015. The requirement for Municipal Participants within the County to remain customers of the Sewer System beyond the expiration of existing Service Agreements is described below under "Agency Customer Continuation Requirement."

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

Agency Customer Continuation Requirement. By Ordinance 15757, passed on May 7, 2007, the County Council invoked its authority under RCW 35.58.200(3) to require that each current Municipal Participant within the County continue as an "Agency Customer" (a wholesale customer of the Sewer System not subject to a Service Agreement) following expiration of its Service Agreement so long as bonds issued to finance the capital projects in the Regional Wastewater Services Plan ("RWSP"), which include the Bonds, remain outstanding. See "The Sewer System—The Participants." In accordance with RCW 35.58.200(4), Ordinance 15757 also established a monthly sewer rate for Agency Customers, including Municipal Participants within the County, which are required to connect to the Sewer System, and Municipal Participants outside the County and non-Municipal Participants, which are not required to connect to the Sewer System unless a Service Agreement is in effect. Municipal Participants outside the County and Non-Municipal Participants contributed 6.5% of the sewage disposal revenues in the year ending December 31, 2015. The formula for the monthly rate charged Agency Customers under Ordinance 15757 is identical to the formula set forth in the Service Agreements.

Rate and Coverage Covenants

The County has covenanted in the Bond Ordinance to establish, maintain, and collect rates and charges for sewage disposal service for each calendar year that are fair and nondiscriminatory and adequate to provide the County with Revenue of the System sufficient to (i) pay all Operating and Maintenance Expenses during such calendar year, (ii) make required debt service payments on the Bonds and other Parity Bonds and make Payment Agreement Payments under any Parity Payment Agreements, (iii) pay punctually all amounts described in paragraphs (iii) through (x) under "Flow of Funds" due during such calendar year, and (iv) pay any and all amounts that the County is now or may hereafter become obligated by law or contract to pay during such calendar year from the Revenue of the System.

The County has further covenanted in the Bond Ordinance to establish, maintain, and collect rates and charges for sewage disposal service that, together with the interest to be earned on investments of money in the Revenue Fund, Parity Bond Fund, Parity Bond Reserve Account, and Construction Account, will provide in each calendar year Revenue of the System less Operating and Maintenance Expenses ("Net Revenue") in an amount equal to at least 1.15 times the amount required to pay the Annual Parity Debt Service for that calendar year. In addition, the Bond Ordinance requires that rates and charges for sewage disposal service be sufficient to provide funds adequate to operate and maintain the Sewer System, to make all payments and to establish and maintain all reserves required by the Bond Ordinance or any other ordinance authorizing obligations of the County payable from Revenue of the System, to make up any deficit in such payments remaining from prior years, and to pay all costs incurred in the construction or acquisition of any portion of the County's Comprehensive Sewage Disposal Plan that may be ordered by the County and for the payment of which sewer revenue bonds (or other obligations payable from Revenue of the System) are not issued.

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

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

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

July 31, 2016, the balance in the Rate Stabilization Fund was $46.25 million. The County expects to utilize $34.25 million of these funds by the end of 2023 to mitigate sewer rate increases and to maintain a $12 million balance thereafter. See the table titled "Summary of Projected Sewer System Customers, Revenues, and Expenses" under "The Sewer System—Projected Customers, Revenues, and Expenses."

Future Parity Bonds

The Bond Ordinance permits the County to issue Future Parity Bonds such as the Bonds either to finance the construction of additional improvements to the Sewer System or to refund or purchase and retire outstanding Sewer System Obligations. The requirements for issuing Future Parity Bonds are as follows:

(i) There must be no deficiency in the Parity Bond Fund or any account therein.

(ii) The Reserve Requirement must be satisfied upon the issuance of such Future Parity Bonds, either by the deposit of cash into the Parity Bond Reserve Account or by the provision of Qualified Insurance or a Qualified Letter of Credit.

(iii) At the time of the issuance of any Future Parity Bonds, the County must have on file a certificate from a Professional Utility Consultant showing that the "annual income available for debt service on Parity Bonds" for each year during the life of such Future Parity Bonds will be at least equal to 1.25 times the amount required in each such year to pay the Annual Parity Debt Service for such year. Such "annual income available for revenue bond debt service" must be determined as follows for each year following the proposed date of issue of such Future Parity Bonds:

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

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

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

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

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

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

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

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

(v) For the purpose of refunding at or prior to their maturity any outstanding Parity Bonds or other obligations of the County payable from Revenue of the System, the County may at any time issue Future Parity Bonds without complying with the provisions described in paragraphs (iii) or (iv) above; provided, that the County may not issue Future Parity Bonds for such refunding purpose unless the Finance Director certifies that upon the issuance of such Future Parity Bonds (a) total debt service required for all Parity Bonds (including the refunding bonds and not including the bonds to be refunded thereby) will decrease, and (b) the Annual Parity Debt Service for each year that any Parity Bonds (including the refunding bonds and not including the bonds to be refunded thereby) are then outstanding will not be increased by more than $5,000 by reason of the issuance of such Future Parity Bonds.

To satisfy the Future Parity Bonds test applicable to issuance of the Bonds, the County will provide parity certificates of the type described in paragraphs (iv) and (v) above.

THE SEWER SYSTEM

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

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

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

Gunars Sreibers, WTD Acting Division Director. Mr. Sreibers was appointed to this position on March 26, 2016, replacing the previous Division Director, Pam Elardo, who resigned in March 2016 after serving in that position since 2010. Mr. Sreibers has been with the County for 37 years and has had various managerial roles within WTD. In 2007, he became Brightwater Project Section Manager, providing strategic direction to WTD supervisors and managers and serving as the key advisor to the Division Director, Community Council, and State officials engaged in the preparation, development, and completion of the Brightwater Treatment Plant. Mr. Sreibers has a B.S. in Bacteriology and Public Health from Washington State University and an M.S. in Public Health from the University of Hawaii.

WTD is conducting a nation-wide search for a permanent replacement for Mr. Sreibers.

Pam Elardo, P.E., Former WTD Division Director. Ms. Elardo resigned as WTD Division Director in March 2016 to accept the position of Deputy Commissioner of the Bureau of Wastewater Treatment of New York City. She was appointed to the position of WTD Division Director in 2010. She had been with WTD since 2001, supervising the Permitting and Right-of-Way unit during the planning and design of Brightwater, overseeing its Asset Management Program, and serving as Manager of the West Point Treatment Plant. Before working at WTD, she worked with Ecology for 14 years. She is a licensed Professional Engineer and certified Group IV Wastewater Treatment Plant Operator. Ms. Elardo has a B.S. degree in Chemical Engineering from Northwestern University and an M.S. in Civil and Environmental Engineering from the University of Washington.

Sandra Kilroy, WTD Assistant Division Director. Ms. Kilroy was appointed to this position in 2011. She has been with the County for more than 22 years. Prior to her work in WTD, she served as Manager of the Regional Services Section of the Water and Land Resources Division in DNRP. Prior to her career with the County, she was an Environmental Planner with the Puget Sound Water Quality Authority. Ms. Kilroy has a B.S. in Environmental Science and Forestry from the State University of New York and a Master of Marine Affairs from the University of Washington.

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

The Facilities

The Sewer System has been designated by the County as its Water Quality Enterprise. Distributed over a 424-square-mile service area, the Sewer System collected and treated an average of 178 million gallons of sewage per day ("mgd") from approximately 1.7 million residents in 2015. The major wastewater facilities include three secondary treatment plants (West Point in Seattle, South in Renton, and Brightwater in south Snohomish County), 391 miles of conveyance lines, 47 pump stations, and 26 regulator stations. Other facilities include four combined sewer overflow ("CSO") treatment plants, two CSO storage facilities, 38 CSO control locations, and secondary treatment plants on Vashon Island and in Carnation.

The Participants

As the successor to Metro, the County has assumed by operation of law Metro's rights and obligations under its Service Agreements with 34 Municipal Participants and three non-Municipal Participants (each, a "Participant"). The Municipal Participants accounted for approximately 99.52% of the sewage disposal revenues in the year ended December 31, 2015, and the non-Municipal Participants accounted for 0.48%.

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

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

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

Customers and Residential Customer Equivalents. The number of Residential Customers and Residential Customer Equivalents ("RCEs") reported by each Participant as of December 31, 2015, is presented in the following table.

SEWER SYSTEM PARTICIPANTS AS OF DECEMBER 31, 2015

Municipal Participants -- Cities	Single Family Residential Customers	RCE[1]	Total Customers	Percentage of Total (%)
Algona	1,028	336	1,364	0.18
Auburn	12,723	17,836	30,559	4.12
Bellevue	33,489	32,240	65,729	8.86
Black Diamond	776	250	1,026	0.14
Bothell	4,803	2,338	7,141	0.96
Brier (2)	1,537	257	1,794	0.24
Carnation	678	246	924	0.12
Issaquah	5,354	5,682	11,036	1.49
Kent	12,457	24,474	36,931	4.98
Kirkland	9,295	6,017	15,312	2.06
Lake Forest Park	3,425	600	4,025	0.54
Mercer Island	7,087	1,731	8,818	1.19
Pacific	1,520	1,045	2,565	0.35
Redmond	14,482	16,123	30,605	4.12
Renton	15,258	14,041	29,299	3.95
Seattle (3)	143,373	154,954	298,327	40.19
Tukwila	973	7,100	8,073	1.09
Subtotal	268,258	285,270	553,528	74.57
Municipal Participants-Sewer Districts and Tribe				
Alderwood Water & Wastewater District (2)	28,464	15,321	43,785	5.90
Cedar River Water & Sewer District	3,970	1,416	5,386	0.73
Coal Creek Utility District	2,940	943	3,883	0.52
Cross Valley Water District (2)	0	316	316	0.04
Highlands Sewer District	106	0	106	0.01
Lakehaven Utility District	886	8	894	0.12
Muckleshoot Indian Tribe	273	71	344	0.05
NE Sammamish Sewer & Water District	4,653	139	4,792	0.65
Northshore Utility District	19,207	10,586	29,793	4.01
Olympic View Water & Sewer District (2)	202	0	202	0.03
Ronald Wastewater District	15,028	4,766	19,794	2.67
Sammamish Plateau Water & Sewer District	9,729	4,181	13,910	1.87
Skyway Water & Sewer District	3,884	1,435	5,319	0.72
Soos Creek Water & Sewer District	30,730	5,149	35,879	4.83
Valley View Sewer District	6,734	8,132	14,866	2.00
Vashon Sewer District	375	508	883	0.12
Woodinville Water District	2,378	2,651	5,029	0.68
Subtotal	129,559	55,622	185,181	24.95
Non-Municipal Participants and Other Customers	0	3,567	3,567	0.48
Total	**397,817**	**344,459**	**742,276**	**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") for sewage disposal. The Sewer Rate is set by the County at a level that is intended to provide the County with money sufficient, together with other sources of Revenue of the System, to pay all costs of the Sewer System, including debt service on all obligations payable from Revenue of the System, and to satisfy the County's debt service coverage policies. The Service Agreements specify that the Sewer Rate for the next succeeding calendar year must be determined prior to July 1 of each year.

The monthly Sewer Rate is applied to each single family residence ("Residential Customer") and to an RCE value of each 750 cubic feet of water consumption by all other customers such as multifamily, commercial, and industrial properties. Each Participant and Agency Customer is billed monthly an amount based upon the adopted Sewer Rate and the number of Residential Customers at the end of the second previous calendar quarter and the average number of RCEs for multifamily, commercial, and industrial accounts for the four calendar quarters beginning five quarters prior to the current quarter. Monthly billings in the first quarter of 2016, for example, are based on the number of Residential Customers as of September 30, 2015, and the average number of RCEs beginning with the fourth quarter of 2014 through the third quarter of 2015.

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

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

Adopted Sewer Rates. The adopted monthly Sewer Rates for each Residential Customer or RCE for the years 2011 through 2017 are set forth in the following table.

**SEWER RATES FOR
RESIDENTIAL CUSTOMERS OR
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

Source: King County Wastewater Treatment Division

Projected Sewer Rates. The following table shows current Sewer Rate projections for the years 2018 through 2022. The projections are for planning purposes only and are based on rate increases, subject to County Council approval, that would produce Revenue of the System sufficient, together with any planned withdrawals from the Rate Stabilization Fund, to meet the County's debt service coverage policy for all obligations payable from Revenue of the System. This results in a level of coverage that would exceed the County's debt service coverage policy for Parity Bonds and Parity Lien Obligations. See "Financial Policies." Under the Service Agreements, the County Council must formally adopt the Sewer Rate each year. The Sewer Rates established by the County Council do not require the approval of the Washington Utilities and Transportation Commission or the Participants or Agency Customers.

**PROJECTED SEWER RATES
FOR RESIDENTIAL CUSTOMERS
OR RESIDENTIAL CUSTOMER EQUIVALENTS**

Effective Date (January 1)	Rate ($/month)	Percentage Change
2018	$ 44.22	0.0%
2019	46.53	5.2
2020	46.53	0.0
2021	47.73	2.6
2022	48.97	2.6

Source: King County Wastewater Treatment Division

Sewer Operating Revenues

The monthly Sewer Rates described above consistently account for approximately 83% of the total operating revenue.

The next largest single source of operating revenue is the capacity charge, which has been imposed since 1990 on customers who establish new connections to the Sewer System. Annual capacity charge revenues have averaged 14% of total operating revenue between 2011 and 2015. The table below shows the number of new capacity charge connections for the past five years.

HISTORICAL NEW CAPACITY CHARGE CONNECTIONS

Year	Connections
2011	5,855
2012	7,915
2013	7,224
2014	10,767
2015	11,676

Capacity charges are based upon the year that service commences and remain fixed for a term of 15 years. The capacity charge assessed for customers who establish new connections to the Sewer System in 2016 is $58.70 per month, compared to $57.00 for customers who established service in 2015. In June 2016, the County Council adopted a capacity charge of $60.80, a 3.6% increase, for 2017. State law imposes limitations on the calculation of capacity charges, but capacity charges do not require the approval of the Washington State Utilities and Transportation Commission or the Participants or Agency Customers.

The County allows the capacity charge to be prepaid on a discounted basis at the customer's option. From 2005 through 2013, the discount rate was 5.5%. To provide a more stable, long-term revenue stream, the County established new code provisions in 2013 in which an annual discount rate is set that reflects the 15-year mortgage and 10- and 20-year investment rates. These changes became effective on January 1, 2014. The discount rate was 3.3% in 2014 and 3.0% in 2015, and is 2.8% for 2016.

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

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 to pay debt service on both Parity Bonds and Parity Lien Obligations. See "Security and Sources of Payment for the Bonds—Rate and Coverage Covenants." The County Council's policy is to achieve debt service coverage of at least 1.25 times, which is higher than what is required by the bond covenants, on both Parity Bonds and Parity Lien Obligations.

To further strengthen the financial position of the Sewer System, the County established in 2001 the policy of setting Sewer Rates and other charges at a level that would achieve an overall debt service coverage target of at least 1.15 times coverage on all Sewer System Obligations (see "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations"), in addition to continuing to satisfy the existing policy of providing at least 1.25 times coverage on Parity Bonds and Parity Lien Obligations. In proceedings for the adoption of the 2017 Sewer Rate, the County Council was presented with projected Sewer Rates that, after payment of operating expenses and debt service, would fund out of Net Revenue 40% of projected capital expenditures from 2017 through 2022, thereby increasing projected coverage ratios on all Sewer System Obligations to between 1.24 and 1.28 times. These Sewer Rates appear in the table of "Projected Sewer Rates for Residential Customers or Residential Customer Equivalents" and have been used to determine operating revenues from Sewage Disposal Charges in the "Summary of Projected Sewer System Customers, Revenues, and Expenses."

Reserve Policy. In 2001, the County Council established an operating liquidity reserve, equal to $5.0 million plus 10% of annual operating expenses, and an emergency capital reserve equal to $15 million. These policies were reviewed and affirmed by the County Council in 2012. As of August 31, 2016, these reserves were fully funded, with balances of $17.9 million and $15 million, respectively.

Sewer System Interfund Borrowing

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

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

Historical Customers, Revenues, and Expenses

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

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

	2011	2012	2013	2014	2015
Residential Customer and Residential Customer Equivalents (RCEs) (annual average, rounded)	707,300	708,900	718,160	725,844	736,090
Percentage Annual Increase	0.41%	0.23%	1.31%	1.07%	1.41%
Operating Revenues					
Sewage Disposal Charges	$306,407	$307,167	$342,850	$346,591	$371,253
Capacity Charge Revenues	48,693	51,411	58,660	59,533	62,478
Other Operating Revenues	7,830	9,398	10,126	12,444	11,674
Total Operating Revenues	$362,930	$367,976	$411,636	$418,568	$445,405
Operating Expenses	103,995	114,939	117,183	124,201	128,926
Net Operating Revenue	$258,935	$253,037	$294,453	$294,367	$316,479
Interest Income	2,725	1,697	2,682	2,822	2,863
Rate Stabilization (1)	(25,500)	13,900	10,350	18,000	(12,000)
Net Revenue Available for Debt Service	$236,160	$268,634	$307,485	$315,189	$307,342
Debt Service					
Parity Bonds (2)	$132,664	$157,117	$172,959	$175,463	$167,694
Parity Lien Obligations (2)	32,910	38,626	43,064	43,756	40,348
Subordinate Debt Service (3)	12,769	14,087	15,039	16,592	18,318
Total Debt Service	$178,343	$209,830	$231,062	$235,811	$226,360
Debt Service Coverage					
On Parity Bonds	1.78	1.71	1.78	1.80	1.83
On Parity Bonds and Parity Lien Obligations	1.43	1.37	1.42	1.44	1.48
On All Sewer System Obligations	1.32	1.28	1.33	1.34	1.36

NOTES TO TABLE:

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

(2) The amounts for Parity Bonds shown in the table exclude payments from capitalized interest reserves of $23.3 million in 2011 and $7.3 million in 2012, and for Parity Lien Obligations exclude payments from capitalized interest reserves of $6.1 million in 2011.

(3) Subordinate Debt Service consists of debt service on the Variable Rate Bonds, Subordinate Lien Obligations, and SRF Loans and PWTF Loans.

Source: Audited Financial Statements and financial records of the Water Quality Enterprise Fund 2011-2015, Finance and Business Operations Division

Management Discussion of 2015 Sewer System Financial Results

The Sewer System's net operating revenue (excluding depreciation expense) in 2015 was $316.5 million, an increase of $22.1 million from the $294.4 million of net operating revenue in 2014. Total operating revenues increased to $445.4 million from $418.6 million, while operating expenses (excluding depreciation) increased to $128.9 million from $124.2 million.

Revenues. The $26.8 million increase in operating revenue in 2015 from 2014 was due to the increase in the monthly Sewer Rate, growth in the number of RCEs, and an increase in capacity charge revenue. The monthly Sewer Rate in 2015 was $42.03 per RCE, an increase of 5.6% from the rate in 2014, and generated an additional $19.4 million in revenues. Billable RCEs increased by 10,246, or 1.4%, in 2015 compared to a 1.1% increase in 2014, and resulted in $5.2 million of additional revenues. Capacity charge revenues increased by $2.9 million in 2015. Increased billings of $4.9 million were offset by a one-time, $5.5 million write-off of receivables arising from a billing dispute with a single customer over charges from 2009-2015. Early payoff revenues increased by $3.7 million, with other capacity charge revenues decreasing by $0.2 million.

Expenses. Operating expenses of the Sewer System, excluding depreciation, increased $4.7 million to $128.9 million in 2015, a 3.8% increase. Intergovernmental expenses increased by 8.9%, or $2.8 million, due to increases in surface water management fees, system conversion costs, and increased fleet and geographic information system expenses. Utility and service expenses increased by 4.6%, or $1.3 million, from 2014.

Interest Income. Interest income was $2.8 million in 2015 and 2014. Higher average yields in 2015 (0.56%) compared to 2014 (0.46%) were offset by lower average balances and interest charges on borrowings from the Investment Pool.

Rate Stabilization Fund. During 2015, $12 million was added to the Rate Stabilization Fund to mitigate future Sewer Rate increases. This amount has been deducted from 2015 operating revenues for the purpose of computing debt service coverage ratios.

Debt Service Coverage. The Sewer System achieved a coverage ratio of 1.48x on the combined debt service of Parity Bonds and Parity Lien Obligations in 2015, exceeding the 1.25x minimum coverage target stipulated by the County's adopted financial policies. The debt service coverage ratio of 1.36x on all Sewer System Obligations in 2015 exceeded the 1.15x minimum coverage target stipulated by the County's adopted financial policies.

Projected Customers, Revenues, and Expenses

Certain statements contained in this Official Statement 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," and "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 following table sets forth a summary of the County's projections of the Sewer System's customers, revenues, and expenses for the fiscal years ending December 31, 2016, through December 31, 2022. Notes for this table are provided on the page following the table.

The revenues that are projected in the following table reflect the assumed monthly Sewer Rates presented in the table titled "Projected Sewer Rates for Residential Customers or Residential Customer Equivalents." These projected Sewer Rates are designed to produce Net Revenue sufficient, together with planned withdrawals from the Rate Stabilization Fund, to satisfy the debt service coverage targets stipulated by the County's adopted financial policies and the 40% cash-funding target for the capital improvement plan ("CIP") presented to the County Council in proceedings for the adoption of the 2017 Sewer Rate.

Projections for 2016 are based on year-to-date unaudited revenues and expenses through July and WTD's projections for the remainder of the year. The Sewer System is expected to generate net operating revenue of $302.8 million in 2016, a decrease of $13.7 million from 2015. Total operating revenues are projected to increase to $450.3 million in 2016 from $445.4 million in 2015, while operating expenses are projected to increase to $147.6 million in 2016 from $128.9 million in 2015.

The $4.9 million projected increase in operating revenues for 2016 is due to the growth in RCEs and higher capacity charge revenues. The 0.6% increase in RCEs is expected to increase Sewage Disposal Charge revenues by $2.2 million. A 3.6% increase in the 2016 capacity charge rate and continued growth in new connections are expected to increase capacity charge revenues by $3.7 million.

Operating expenses of the Sewer System, excluding depreciation, are projected to increase $18.6 million to $147.6 million in 2016, a 14.5% increase. Approximately $6.4 million of the $18.6 million represents increases that were planned as part of the original two-year (2015 and 2016) biennium budget. Another $12.2 million represents the deferral of budgeted expenses to the second year (2016) of the biennium and includes non-recurring information system projects and upgrades, additional maintenance projects, the award of $2.0 million of grants to non-profits, local governments, and tribes as part of the WaterWorks Grant program authorized by the County Council, increased succession planning efforts, expanded organizational training, and temporary staffing to address unanticipated workload demands in 2016.

Interest income is expected to be $2.8 million in 2016, unchanged from what it was in 2015. A higher average annual interest rate on the Investment Pool (0.75% in 2016 compared to 0.56% in 2015) is expected to be offset by a lower average investment balance in 2016.

WTD does not expect to make any additions to or withdrawals from the Rate Stabilization Fund in 2016.

The projections in the following table exclude the impact of the $129.6 million in revenues that will be recorded in 2016 as a result of the Brightwater litigation settlement. See "Brightwater Project—Litigation Settlement."

SUMMARY OF PROJECTED SEWER SYSTEM
CUSTOMERS, REVENUES, AND EXPENSES
($ EXPRESSED IN THOUSANDS) (FISCAL YEAR ENDING DECEMBER 31)[1]

	2016[2]	2017	2018	2019	2020	2021	2022
Residential Customer and Residential							
Customer Equivalents (annual average, rounded)	740,504	744,947	748,672	752,789	757,457	762,153	766,878
Percentage Annual Increase	0.6%	0.6%	0.5%	0.6%	0.6%	0.6%	0.6%
Operating Revenues							
Sewage Disposal Charges [3]	$373,481	$395,284	$397,235	$420,316	$422,921	$436,560	$450,647
Capacity Charge Revenues	66,202	70,366	75,623	81,204	87,187	93,513	100,266
Other Operating Revenues	10,656	13,026	13,356	13,757	14,169	14,594	15,032
Total Operating Revenues	$450,339	$478,676	$486,214	$515,276	$524,277	$544,667	$565,945
Operating Expenses [4]	147,557	148,380	153,108	159,193	165,529	172,118	178,971
Net Operating Revenue	$302,782	$330,296	$333,106	$356,083	$358,748	$372,549	$386,974
Interest Income [5]	$ 2,767	$ 2,780	$ 2,542	$ 4,221	$ 6,003	$ 7,596	$ 9,330
Rate Stabilization [6]	-	-	2,500	3,600	7,885	3,000	9,365
Net Revenue Available for Debt Service	$305,549	$333,076	$338,148	$363,906	$372,635	$383,145	$405,670
Debt Service							
Parity Bonds [7]	$162,522	$161,562	$163,475	$174,253	$184,794	$194,325	$205,168
Parity Lien Obligations	54,017	54,236	54,188	54,124	53,554	53,488	53,436
Subordinate Debt Service [8]	35,369	48,345	54,251	54,121	53,190	52,464	53,888
Total Debt Service	$251,908	$264,143	$271,914	$282,497	$291,538	$300,275	$312,492
Debt Service Coverage							
On Parity Bonds	1.88	2.06	2.07	2.09	2.02	1.97	1.98
On Parity Bonds and Parity Lien Obligations	1.41	1.54	1.55	1.59	1.56	1.55	1.57
On All Sewer System Obligations	1.21	1.26	1.24	1.29	1.28	1.28	1.30

NOTES TO TABLE:

(1) Totals may not add due to rounding.

(2) Projections for 2016 are based on unaudited financial statements for the seven months ending July 31, 2016, 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 2017 and 2018 are based on current estimates for the Sewer System's operating budget that will be submitted to the County Council for review on September 26, 2016. Operating expenses after 2018 are assumed to increase at an annual rate of 4% through 2022.

(5) Based on the Investment Pool earning at projected annual rates of 0.75% in 2016, 0.80% in 2017, 0.85% in 2018, 1.22% in 2019, 1.65% in 2020, 2.02% in 2021, and 2.37% in 2022. Projected Investment Pool earnings rates are from the County's Office of Economic and Financial Analysis.

(6) Withdrawals from/(additions to) the Rate Stabilization Fund.

(7) Projections assume the issuance of additional Parity Bonds with 30-year terms as follows: $51 million in 2016 at an assumed rate of 4.0% and, at an assumed rate of 6.0% thereafter, $126 million in 2019, $145 million in 2020, $134 million in 2021, and $146 million in 2022. Does not reflect the savings associated with the refunding of the Refunded Bonds. See "Future Sewer System Financing Plans." Debt service on Parity Bonds in 2016 and 2017 reflects the proposed defeasance of $5.145 million of Parity Bonds discussed under "Security and Sources of Payment for the Bonds—Parity Bond Reserve Account."

(8) Subordinate Debt Service consists of debt service on the Variable Rate Bonds and the SRF Loans and PWTF Loans. Subordinate Debt Service excludes, beginning in 2017, $19.7 million of planned optional redemptions of outstanding and additional Variable Rate Bonds and the remarketing of the 2015 Junior Lien Obligations in 2016. See "Financial Policies—Variable Rate Debt."

Projections include the issuance of $61 million of Variable Rate Bonds in 2018 and $13 million in 2022. See "Future Sewer System Financing Plans." The projections assume interest rates on Variable Rate Bonds of 3.60% in 2016 and 5.40% thereafter, which are equal to 90% of the assumed long-term rate for additional Parity Bonds. See footnote 6 to this table.

Projections include debt service on $126.7 million of SRF Loan commitments from Ecology to the County, of which $47.8 million has been drawn through August 18, 2016. This $126.7 million total is comprised of executed agreements with Ecology for $107.5 million of loan commitments with 20-year terms and rates of 2.7% ($67.5 million) and 2.4% ($40.0 million) and the receipt of a loan commitment for $19.2 million (20-year term, 2.0% interest rate) in July 2016, which is expected to be executed by the end of 2016. See "Future Sewer System Financing Plans."

Source: King County Wastewater Treatment Division

Debt Service Requirements Payable from Revenue of the System

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

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

	Parity Bonds										
Year Ending		The Bonds			Total	Parity Lien	Junior Lien	Multi-Modal	SRF Loans and		
December 31[1]	Oustanding[2]	Principal	Interest	Total	Parity Bonds	Obligations	Obligations[3]	LTGO/Sewer[4]	PWTF Loans[4]	QECB Bonds[5]	Total
2016	$ 148,512,003	$ -	$ 5,104,607	$ 5,104,607	$ 153,616,610	$ 53,163,625	$ 12,755,556	$ 4,500,000	$ 16,209,431	$ 66,220	$ 240,311,442
2017	133,814,762	3,490,000	23,174,250	26,664,250	160,479,012	53,146,050	21,600,000	5,400,000	17,146,371	66,220	257,837,653
2018	135,474,937	1,965,000	23,037,875	25,002,875	160,477,812	53,125,775	21,600,000	5,400,000	17,557,384	66,220	258,227,191
2019	135,348,112	2,195,000	22,933,875	25,128,875	160,476,987	53,090,775	21,600,000	5,400,000	17,564,202	66,220	258,198,184
2020	135,317,812	2,340,000	22,820,500	25,160,500	160,478,312	52,550,775	21,600,000	5,400,000	17,066,611	66,220	257,161,918
2021	136,196,063	1,560,000	22,723,000	24,283,000	160,479,063	52,517,200	21,600,000	5,400,000	16,655,090	66,220	256,717,573
2022	128,827,188	9,200,000	22,454,000	31,654,000	160,481,188	52,498,475	21,600,000	5,400,000	15,602,677	3,076,220	258,658,560
2023	121,237,088	17,455,000	21,787,625	39,242,625	160,479,713	52,462,625	21,600,000	5,400,000	14,607,749	-	254,550,087
2024	121,582,838	17,995,000	20,901,375	38,896,375	160,479,213	52,435,625	21,600,000	5,400,000	14,598,854	-	254,513,692
2025	121,655,088	18,845,000	19,980,375	38,825,375	160,480,463	52,474,625	21,600,000	5,400,000	13,227,601	-	253,182,689
2026	121,614,288	19,850,000	19,013,000	38,863,000	160,477,288	52,437,250	21,600,000	5,400,000	9,977,221	-	249,891,759
2027	126,474,975	15,885,000	18,119,625	34,004,625	160,479,600	52,404,750	21,600,000	5,400,000	9,552,247	-	249,436,597
2028	126,563,475	16,610,000	17,307,250	33,917,250	160,480,725	52,363,250	21,600,000	5,400,000	9,108,501	-	248,952,476
2029	126,570,162	17,455,000	16,455,625	33,910,625	160,480,787	52,398,750	21,600,000	5,400,000	8,146,106	-	248,025,643
2030	119,785,413	25,175,000	15,515,750	40,690,750	160,476,163	39,865,988	21,600,000	5,400,000	8,143,091	-	235,485,242
2031	116,146,838	29,920,000	14,413,850	44,333,850	160,480,688	52,974,013	121,600,000	5,400,000	6,999,626	-	347,454,327
2032	121,244,662	25,950,000	13,296,450	39,246,450	160,491,112	52,922,188	16,200,000	5,400,000	6,931,577	-	241,944,877
2033	122,304,713	25,915,000	12,259,150	38,174,150	160,478,863	44,912,525	16,200,000	5,400,000	6,928,876	-	233,920,264
2034	119,274,988	30,065,000	11,139,550	41,204,550	160,479,538	19,892,600	16,200,000	5,400,000	4,611,028	-	206,583,166
2035	110,820,606	14,760,000	10,169,250	24,929,250	135,749,856	19,916,225	16,200,000	5,400,000	3,531,004	-	180,797,085
2036	104,695,719	20,695,000	9,282,875	29,977,875	134,673,594	19,950,725	16,200,000	5,400,000	1,257,195	-	177,481,514
2037	104,760,819	21,770,000	8,221,250	29,991,250	134,752,069	19,970,400	16,200,000	5,400,000	411,053	-	176,733,522
2038	102,084,188	25,470,000	7,040,250	32,510,250	134,594,438	19,997,100	16,200,000	5,400,000	-	-	176,191,538
2039	102,071,551	26,720,000	5,807,975	32,527,975	134,599,526	-	16,200,000	105,400,000	-	-	256,199,526
2040	102,059,900	18,100,000	4,836,275	22,936,275	124,996,175	-	16,200,000	-	-	-	141,196,175
2041	96,903,950	8,170,000	4,282,550	12,452,550	109,356,500	-	116,200,000	-	-	-	225,556,500
2042	74,558,650	8,560,000	3,891,000	12,451,000	87,009,650	-	110,800,000	-	-	-	197,809,650
2043	74,399,800	9,000,000	3,452,000	12,452,000	86,851,800	-	5,400,000	-	-	-	92,251,800
2044	71,138,700	9,460,000	2,990,500	12,450,500	83,589,200	-	5,400,000	-	-	-	88,989,200
2045	71,088,350	9,940,000	2,505,500	12,445,500	83,533,850	-	105,400,000	-	-	-	188,933,850
2046	67,084,000	10,450,000	1,995,750	12,445,750	79,529,750	-	-	-	-	-	79,529,750
2047	43,819,125	10,990,000	1,459,750	12,449,750	56,268,875	-	-	-	-	-	56,268,875
2048	14,838,000	11,555,000	896,125	12,451,125	27,289,125	-	-	-	-	-	27,289,125
2049	14,838,750	12,145,000	303,625	12,448,625	27,287,375	-	-	-	-	-	27,287,375
2050	10,358,000	-	-	-	10,358,000	-	-	-	-	-	10,358,000
2051	10,358,250	-	-	-	10,358,250	-	-	-	-	-	10,358,250
Total	$3,593,823,765	$ 499,655,000	$ 409,572,407	$ 909,227,407	$4,503,051,172	$1,027,471,314	$ 925,755,556	$ 228,700,000	$235,833,495	$ 3,473,540	$6,924,285,077

NOTES TO TABLE:

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

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

(3) The projections include actual interest on the 2015 Junior Lien Obligations in 2016 and assume interest rates on Variable Rate Bonds of 3.60% in 2016 and 5.40% thereafter, which are equal to 90% of the assumed long-term rate for additional Parity Bonds. The Junior Lien Obligations have bullet maturities in 2032, 2040, 2042, 2043, and 2046. The Junior Lien Obligations with the 2046 bullet maturity additionally have a mandatory tender in November 2016. The Multi-Modal LTGO/Sewer Bonds have a bullet maturity in 2042. Projections exclude planned optional redemptions of Variable Rate Bonds prior to their final maturity date. See "Financial Policies—Variable Rate Debt."

(4) Excludes debt service on $79.0 million of outstanding loan commitments from Ecology that are expected to be drawn upon through 2018. See "The Sewer System—Future Sewer System Financing Plans."

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

Regional Wastewater Services Plan

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

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

The Conveyance System Improvement ("CSI") program has focused 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 to the treatment facilities. The County routinely updates the CSI program plan. The most recent update was completed in 2007 and resulted in the initiation of seven capital projects to increase capacity in the segments of the conveyance system. The next update is currently underway and will be completed in 2017. This update will identify capital projects needed in the upcoming decades to maintain capacity in the conveyance facilities as the population grows and development occurs in the service area.

Brightwater Project

Overview. The largest component of the RWSP is the Brightwater treatment and collection system, which is located in unincorporated Snohomish County east of State Highway SR-9, just north of the City of Woodinville. The treatment plant is able to treat an average of 36 mgd of wastewater, with a peak flow capacity of 100 mgd.

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

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

Litigation Settlement. In 2010, the County initiated litigation against Vinci Construction Grands Projets/Parsons RCI/Frontier-Kemper ("VPFK"), the contractor originally responsible for the mining of the two central tunnel conveyance segments. The County prevailed in its lawsuit against VPFK and was awarded $144 million in damages and attorneys' fees in early 2013. VPFK and the performance bond surety providers (the "Sureties") appealed the trial court judgment to the Washington State Court of Appeals, which affirmed the $144 million award to the County in a ruling issued November 9, 2015, and awarded the County an additional $640,270 in legal fees. On November 30, 2015, VPFK asked the Washington State Court of Appeals for reconsideration of its ruling. The motion for reconsideration was denied on December 29, 2015.

On January 28, 2016, VPFK and the Sureties separately petitioned the Washington State Supreme Court for review. On September 7, the Supreme Court issued an order denying VPFK's Petition for Review, upholding the 2013 judgment against the contractor in the amount of $129,578,522, which amount will be incorporated into WTD's financial plan. The Supreme Court granted the Sureties' Petition for Review, which puts at issue the judgment against the Sureties for attorneys' fees in the amount of $14,720,387 and the additional attorneys' fees awarded after the Court of Appeals decision in the amount of $640,270. The attorneys' fees amounts totaling $15,360,657 will continue to be held by WTD until the Supreme Court's final decision.

Combined Sewer Overflow Projects

CSOs are untreated discharges of wastewater and stormwater into water bodies during heavy rainfall events when combined sewers are full. Combined sewers, which carry both wastewater and stormwater, exist in many parts of older cities across the nation, including Seattle. Stormwater can cause extreme variations in wastewater flows, resulting in the need for large wastewater facilities and in challenges to the treatment process. To avoid sewer backups into homes, businesses, and streets 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 Seattle. Based on agreements made at the start of the regional system in 1958, both the County and Seattle are responsible for CSOs and are working to control them under long-term CSO control plans.

The County currently has 38 CSO control facilities, two CSO storage facilities, and four CSO treatment facilities which control overflows of stormwater mixed with sewage that still occur in older parts of Seattle during heavy rains. Past investments conducted in concert with Seattle have resulted in a reduction in CSOs from a baseline of 2.3 billion gallons based on data from 1980 to 1983 to 1.2 billion gallons in 2014 and 1.5 billion gallons in 2015.

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

Critical milestones outlined in the consent decree have to date been met. Two projects (Hanford No. 1 and Brandon/Michigan) are now in the final design phase, with expenditures totaling $36.1 million through July 2016. The County has submitted the facility plans to EPA for these two projects, and the consent decree requires that facility plans be submitted for the other seven projects through 2026.

The County and Seattle have negotiated a joint agreement to implement a project that will control County overflows at its 3rd Avenue West and 11th Avenue Northwest locations (see Figure 1) and four of the overflow locations designated in Seattle's consent decree. Seattle will serve as lead agency for design and construction of a 2.7-mile, approximately 14-foot-diameter storage tunnel (the "Joint Project") that will capture and control an estimated 15.25 million gallons of stormwater mixed with sewage from the six CSO sites during a storm event. The Joint Project is being pursued to reduce community and environmental impacts in the project area and provide operational efficiencies.

The County's 35% financial share of the Joint Project has an estimated capital cost of $133 million through 2024. These costs have been reflected in the table titled "Capital Improvement Plan—Projected Expenditures" in place of the costs for the 3rd Avenue West and 11th Avenue Northwest projects. The joint agreement was approved by the Seattle City Council last December and by the County Council on July 18, 2016. County approval included a $14.2 million supplemental appropriation to cover initial costs for the current biennium.

The County has submitted to EPA and Ecology a "Request for Administrative Change" to the 2013 King County CSO Consent Decree to designate the Joint Project with Seattle as the project that will control the County's 3rd Avenue West and 11th Avenue Northwest CSO basins. Approval from EPA and Ecology is expected in September. Because this is considered an administrative change, approval from the U.S. Department of Justice is not required. The approval letter, when received, will be recorded with the Court as part of the consent decree.

Figure 1 below shows the approximate locations of the nine CSO control projects included in the Long-Term Control Plan as well as the four "Beach" CSO projects, consisting of North Beach, South Magnolia, Murray, and Barton, which were underway prior to the Long-Term Control Plan development.

FIGURE 1: CURRENT AND FUTURE PROJECTS OF THE CSO SYSTEM

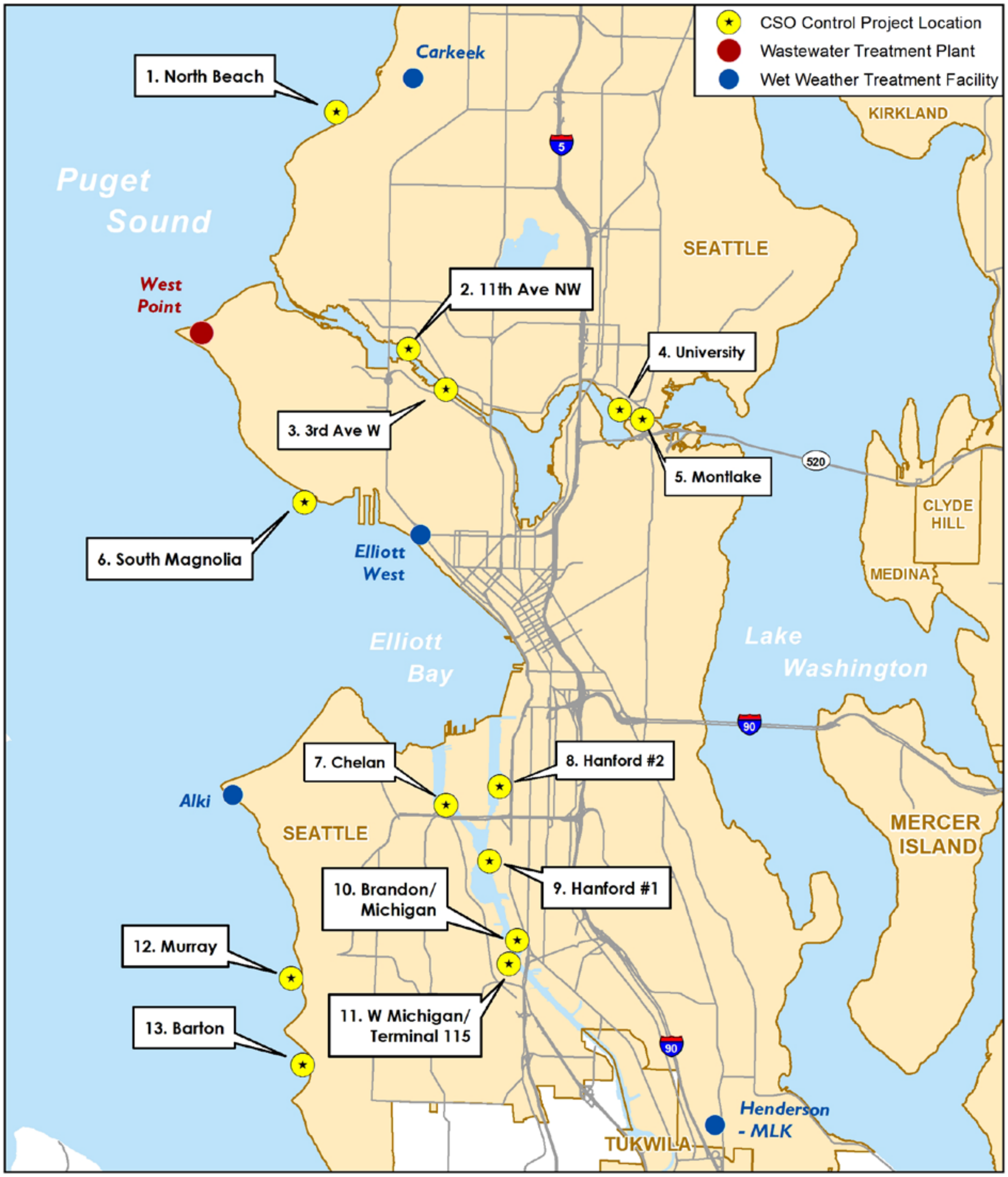

Diagram is not to scale.

Source: King County Wastewater Treatment Division

Capital Improvement Plan

As shown in the following table, the Sewer System's CIP for the period 2016-2022 is comprised of three distinct elements. In addition to CSO control projects and other RWSP 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.

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

	Regional Wastewater Services Plan		Other Improvements and	
Year	**CSO**	**Other RWSP[2]**	**Asset Management**	**Total**
2016	$ 58,537	$ 40,757	$ 76,680	$ 175,975
2017	51,301	41,053	71,554	163,909
2018	56,613	49,886	78,970	185,469
2019	82,466	61,408	77,138	221,012
2020	111,966	50,501	65,444	227,911
2021	102,871	59,321	57,014	219,205
2022	120,643	69,171	49,203	239,017
Total	$ 584,396	$ 372,098	$ 476,004	$ 1,432,498

(1) Expenditures in 2016-2022 are in nominal dollars. For determining revenue requirements, the figures shown for capital expenditures during the period 2016-2022 are adjusted assuming 85% of projected budget expenditures occur in this period.

(2) Includes conveyance system improvements that expand system capacity.

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 through 2022 anticipates the issuance of approximately $603 million of additional Parity Bonds and approximately $73 million of additional variable rate Junior Lien Obligations for new money purposes from 2016 through 2022 to provide continued funding for the CIP. Scheduled principal payments on Parity Bonds and Parity Lien Obligations for this period prior to the issuance of the Bonds total $544 million. Another $79 million of the CIP is expected to be funded from loan commitments from Ecology that the County has executed and not yet drawn upon ($60 million) or expects to execute by the end of 2016 ($19 million). The balance of the CIP through 2022 is expected to be funded from Net Revenue.

The County Council authorized the issuance of up to $350 million in Parity Bonds and Parity Lien Obligations for new money purposes through October 10, 2017. Including the Bonds, $114.495 million has been issued to date. The Bond Ordinance authorizes the issuance of Parity Bonds and Parity Lien Obligations to refund outstanding obligations of the County payable from Revenue of the System through December 31, 2017. In proceedings accompanying the adoption of the 2017 Sewer Rate, the County Council was presented with projected Sewer Rates that would finance from Net Revenue 40% of projected capital expenditures over the six-year period beginning in 2017, compared to 27% in rate proceedings in previous years.

Environmental Regulation

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

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

Ecology is in the process of renewing the Vashon treatment plant NPDES permit. A draft permit is expected to be available for public comment in September 2016. No significant changes to the Vashon permit are expected. The NPDES and reclaimed water permits for Brightwater expired in July 2016 and have been administratively extended. Application for the renewal of the Brightwater NPDES permit was made in 2015 and the renewal process is underway. Under Ecology's administrative rules, current permits are extended until such time as the renewal process is completed. The NPDES and reclaimed water permits for the Carnation treatment plant were combined and renewed in 2013 and will expire in December 2018.

All five of the wastewater treatment plants are currently meeting permit effluent limits.

Nutrient Removal Standards. The reduction of nutrient discharges from all point and non-point sources has been identified as a major policy initiative by 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. Ecology is currently undertaking two studies investigating whether nitrogen loading from wastewater and other sources of nutrients is affecting Puget Sound waters. If these studies indicate 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. Ecology is also currently analyzing the technical and financial feasibility of requiring nutrient removal at all treatment plants in the State. These evaluations and studies will require a significant period of time before conclusions can be drawn or regulations promulgated.

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

In 2001, EPA listed the Lower Duwamish Waterway south of downtown Seattle as a Superfund site. More than 140 Potentially Responsible Parties ("PRPs") have been notified by EPA that they may have liability for clean-up actions in the Lower Duwamish Waterway. The County, Seattle, the Port of Seattle, and the Boeing Company (collectively, the "Respondents"), which are four of the PRPs, signed an Administrative Order on Consent ("AOC") with EPA and Ecology to perform a remedial investigation and feasibility study along the Lower Duwamish Waterway.

Under the AOC, the Respondents were responsible for conducting and paying for studies known as the Duwamish Remedial Investigation and Feasibility Study. These studies have been completed, and EPA issued the draft Proposed Clean-Up Plan in 2013. In 2014, EPA issued a Record of Decision delineating the full extent of clean-up actions that PRPs will be required to perform. The final clean-up is estimated to cost approximately $395 million (2011 dollars). The scheduled 17-year duration comprises seven years of active clean-up and ten or more years of monitoring.

The Record of Decision does not specify the allocation of these total costs to the individual PRPs. The County entered into a liability allocation process with a number of other parties to attempt to reach agreement on what shares of the past and future clean-up costs various parties will pay. That process is ongoing. The County and the other three respondents signed amendments to the AOC to conduct predesign studies needed before clean-up design can begin in order to keep work going until the allocation is completed. Further information regarding existing and potential environmental remediation liabilities is contained in Appendix C—King County Water Quality Enterprise Fund 2015 Audited Financial Statements—Note 7.

The Natural Resource Trustees released a Lower Duwamish River Natural Resource Damage Assessment Programmatic Restoration Plan and Programmatic Environmental Impact Statement in 2009, which estimated natural resource damages in the Lower Duwamish and began discussions with landowners and dischargers along the river. The County settled a natural resource damages claim for the Lower Duwamish and Elliott Bay in 1990, and that settlement will enter into any subsequent estimates of residual liability the County may have.

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

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

Revisions to State Water Quality Standards. On September 15, 2015, EPA published in the Federal Register a proposed rule that would revise the current human health water quality criteria applicable to the State. The proposed rule is intended to set levels that will adequately protect State residents from exposure to toxic pollutants. The proposed criteria include a significant revision to the fish consumption rate term in the equation used to calculate water quality standards. As proposed, these criteria would increase the strictness of human health water quality standards. If any federal or new State water quality standards are adopted, the Sewer System's secondary and CSO treatment facilities must operate in compliance with all standards that apply to those discharges.

EPA accepted comments on the proposed rule through November 13, 2015. EPA stated that, if the State submits final criteria for its review, it will act upon the State's submission prior to any final action on EPA criteria and that if it approves criteria submitted by the State, the corresponding federal criteria will not be finalized. Ecology adopted and submitted its rule to EPA on August 1, 2016. Under the Clean Water Act, EPA has 60 days to approve, or 90 days to disapprove, Ecology's rule. The County is evaluating Ecology's rule and will evaluate the final rule approved by EPA as to its potential effects of any proposed changes on effluent discharges.

Strategic Climate Action Plan

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

In furtherance of the SCAP, in February 2015, the County required WTD to achieve carbon neutrality in its operations by 2025. WTD has estimated that in 2012, 70% of its GHG emissions were already being offset through the application of biosolids as a soil amendment on farms and forests (which stores carbon in the soil, promotes plant growth that further removes carbon from the atmosphere, and replaces commercial fertilizer that is fossil-fuel intensive to produce) and through the capture of methane gas in anaerobic digesters that is produced at three of WTD's regional treatment plants for use or sale as renewable energy. The fuel mix of WTD's energy suppliers has a significant impact on the quantity of WTD's GHG emissions. Based on emissions data from its energy suppliers, WTD estimates that 90% of its GHG emissions were offset in 2013 and 92% in 2014.

The proposed 2017-2018 budget includes $1.25 million for SCAP-related operating improvements that are expected to reduce the amount of materials entering the waste stream during project construction and demolition, achieve green building targets, and improve the fuel efficiency of the biosolids truck fleet. Proposed capital spending includes $2.15 million to develop and analyze proposals for capital projects designed to help achieve SCAP mandates to reduce energy use and GHG emissions. Additional operating and capital costs that may be incurred after 2018 to achieve carbon neutrality by 2025 cannot be determined at this time.

WTD is developing processes to evaluate the energy savings and GHG emission reductions from changes in its operations and its capital improvement program and is identifying programs and projects that are needed to achieve carbon neutrality by 2025. While 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.

Earthquakes and Climate Change

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

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

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 Metro in 1994, the County provides transit and wastewater treatment services (collectively, the "metropolitan functions"). Certain of these services are provided on a County-wide basis and certain others only to unincorporated areas.

Organization of the County

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

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

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

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

County's Budget Process

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

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

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

Finance and Business Operations Division

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

Auditing

The financial statements of the Water Quality Enterprise as of and for the fiscal year ended December 31, 2015, included herein as Appendix C, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing herein. The Water Quality Enterprise has not requested that Moss Adams LLP provide permission for inclusion of its report on the audited financial statements in this Official Statement, and Moss Adams LLP has not performed, since the date of its report included herein, 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.

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, 2015, and is incorporated into the County's 2015 Comprehensive Annual Financial Report.

The County's Comprehensive Annual Financial Report in its entirety may be accessed on the internet at the following link:

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

or obtained from the Financial Management Section at the King County Finance and Business Operations Division, 500 Fourth Avenue, Room 600, Seattle, Washington 98104.

King County Investment Pool

The Investment Pool invests cash reserves for all County agencies and approximately 100 special purpose districts and other public entities such as fire, school, sewer, and water districts. It is one of the largest investment pools in the State, with an average asset balance of more than $5.0 billion during 2015. Assets of County agencies in 2015 comprised between 40% and 45% of the Investment Pool.

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

The County has commissioned an outside financial consultant, Public Financial Management ("PFM"), to conduct quarterly reviews of all assets in the Investment Pool. In its most recent assessment, as of June 30, 2016, PFM concluded that "the County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality." The most recent portfolio review can be obtained at the following website:

www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx

County Employees

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

COUNTY EMPLOYEES

Year	Full-time	Part-time
2011	13,314	870
2012	13,293	828
2013	13,540	894
2014	13,319	866
2015	13,614	929

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

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

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

Retirement Programs

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

NUMBER OF EMPLOYEES AS OF DECEMBER 31, 2015	RETIREMENT SYSTEM
45	Seattle City Employees Retirement System ("SCERS")
735	State of Washington—Law Enforcement Officers and Fire Fighters Retirement System ("LEOFF")
361	State of Washington—Public Safety Employees Retirement System ("PSERS")
11,943	State of Washington—Public Employees Retirement System ("PERS")

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

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

Substantially all full-time and qualifying part-time employees of the County participate in one of the retirement plans listed in the table titled "Overview of Retirement Plans" below. PERS, PSERS, and LEOFF are State-wide governmental retirement systems administered by the State's

Department of Retirement Systems ("WSDRS"). SCERS is a retirement plan administered by Seattle in accordance with Seattle Municipal Code Chapter 4.36. County employees who are former employees of Seattle Transit are covered by SCERS, as are King County Health Department employees.

OVERVIEW OF RETIREMENT PLANS

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

Source: State Department of Retirement Systems and SCERS

In 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 and SCERS are subject to GASB 67; the County is subject to GASB 68. GASB 67 was effective in Fiscal Year 2014; GASB 68 was effective in Fiscal Year 2015.

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

ACTUARIAL ASSUMPTIONS FOR FUNDING CALCULATIONS

	WSDRS-Administered Plans	SCERS
Investment return	7.80% (1)	7.50%
General salary increases	3.75%	4.00%
Consumer Price Index increase	3.00%	3.25%
Annual growth in membership	0.95% (2)	0.50%

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

(2) Assumed rate of 1.25% for LEOFF.

Source: 2014 Actuarial Valuation from the Office of the State Actuary and SCERS January 1, 2016, Actuarial Valuation

The County's employer and employee contribution rates and contribution amounts for all systems for the fiscal year ended December 31, 2015, and current contribution rates for 2016 are shown in the table below:

COUNTY CONTRIBUTION RATES AND AMOUNTS
(dollar amounts in thousands)

	PERS Plan 1	PERS Plan 2	PERS Plan 3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	SCERS
2015							
Average Employer Contribution Rate	10.20% (1)(5)	10.20% (1)(5)	10.20% (1)(5)	0.18% (1)(2)	5.23% (1)(2)	11.04% (1)(5)	15.73%
Average Employee Contribution Rate	6.00% (3)	5.46% (3)(5)	Varies (3)(4)	0.00%	8.41%	6.48% (5)	10.03%
Employer Contribution Amount	$2,085	$80,594	$14,535	$ -	$4,505	$3,677	$520
Employee Contribution Amount	1,263	43,898	9,972	-	7,244	2,161	347
Total Contribution Amount	$3,348	$124,492	$24,507	$ -	$11,749	$5,838	$867
2016 (Current)							
Employer Contribution Rate	11.18% (1)	11.18% (1)	11.18% (1)	0.18% (1)(2)	5.23% (1)(2)	11.54% (1)	15.23%
Employee Contribution Rate	6.00% (3)	6.12% (3)	Varies (3)(4)	0.00%	8.41%	6.59%	10.03%

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

(2) The State contributed an additional 3.36%.

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

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

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

Sources: King County, WSDRS, and SCERS

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

To calculate the funded status, the WSDRS-administered plans compare the Actuarial Value of Assets ("AVA") to the Entry Age Normal ("EAN") liabilities. The EAN cost method projects future benefits under the plans, using salary growth and other assumptions, and applies the service that has been earned as of the valuation date to determine accrued liabilities. The AVA is calculated using a methodology that smooths the effect of short-term volatility in the Market Value of Assets ("MVA") by deferring a portion of the annual investment gains or losses over a period of up to eight years. This helps limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in the MVA. Additional information on this measure is provided in the 2014 Actuarial Valuation Report (published September 2015), which can be found on the Office of the State Actuary's website at

www.osa.leg.wa.gov/Actuarial_Services/Publications/Valuations.htm.

SCERS. To calculate the funded status of the SCERS plan, the assets are valued using a five-year smoothing method based on the difference between the expected market value and the actual market value of the assets in each year. The actuarial liabilities include the actuarial present value of all future benefits expected to be paid with respect to each member. For an active member, this value includes a measure of both benefits already earned and future benefits to be earned. Additional information on this measure is provided in the January 1, 2016, Actuarial Valuation Report (published June 17, 2016), which can be found on the SCERS website at

www.seattle.gov/retirement/Actuarial_Reports.htm.

Retirement System Funded Status. Information regarding the funded status from the most recent actuarial report for each system is shown in the following table:

RETIREMENT SYSTEM FUNDED STATUS(1)
(dollar amounts in millions

	Administered by	Most Recent Actuarial Valuation Report	Actuarial Accrued Liability(a)	Actuarial Valuation of Assets(b)(2)	UAAL(3) (a-b)	Funded Ratio (b/a)	Plan Status
PERS - Plan 1	WSDRS	As of 6/30/2013	$ 12,884	$ 8,053	$ 4,831	63%	Closed in 1977
PERS - Plan 2/3	WSDRS	As of 6/30/2013	23,798	24,335	(537)	102%	Open
PSERS - Plan 2	WSDRS	As of 6/30/2013	180	224	(44)	124%	Open
LEOFF - Plan 1	WSDRS	As of 6/30/2013	4,410	5,516	(1,107)	125%	Closed in 1977
LEOFF - Plan 2	WSDRS	As of 6/30/2013	6,859	7,862	(1,003)	115%	Open
SCERS	City of Seattle	As of 1/1/2016	3,605	2,397	1,208	67%	Open

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

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

(3) Unfunded actuarial accrued liability.

Sources: 2014 Actuarial Valuation from the Office of the State Actuary and SCERS January 1, 2016, Actuarial Valuation

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

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

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

HISTORICAL ONE-YEAR INVESTMENT RETURNS ON RETIREMENT FUNDS

Year	WSDRS-Adminstered Plans[1]	SCERS[2]
2005	13.1%	8.1%
2006	16.7%	13.9%
2007	21.3%	7.3%
2008	-1.2%	-26.8%
2009	-22.8%	10.8%
2010	13.2%	13.2%
2011	21.1%	0.0%
2012	1.4%	14.0%
2013	12.4%	15.5%
2014	18.9% [3]	5.7%
2015	4.9%	0.1%

(1) As of June 30.

(2) As of December 31.

(3) Restated.

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

AGGREGATE PENSION AMOUNTS—ALL PLANS, 2015
(in thousands)

Pension liabilities	$38,885
Deferred outflows of resources	4,987
Deferred inflows of resources	6,984
Pension expense/expenditures	4,190

For more information on employee retirement plans, see the County's Water Quality Enterprise Fund 2015 Audited Financial Statements attached as Appendix C and the County's 2015 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, 2015, 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, 2015, the County’s annual OPEB cost (expense), which is calculated based on the annual required contribution of the County, was $11.5 million and the County’s net OPEB obligation was $65.3 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 the County’s 2015 Comprehensive Annual Financial Report.

Risk Management and Insurance

The County has a separate division that is responsible for claims handling, insurance, and loss control programs. The County has implemented a program of self-insurance to cover general and automobile liability, Health Department professional malpractice, police professionals, and public officials’ errors and omissions. The County has excess liability coverage that currently provides $92.5 million in limits above a $7.5 million per occurrence self-insured retention for Transit and $6.5 million per occurrence self-insured retention for the above exposures.

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

COVERAGE	LIMITS
Combined Property Damage and Extra Expense for covered County property (includes $100 million earthquake and $250 million flood; terrorism is included in overall limit)	$500 million
Airport Liability	$300 million
Airport Property Damage and Extra Expense for covered airport property (includes $50 million earthquake and $100 million flood)	$160 million
Airport Property Damage Terrorism for covered airport property	$250 million
Fiduciary Liability	$20 million
Employee Dishonesty	$2.5 million
Aviation (Police Helicopter) Program	$50 million
Excess Workers' Compensation	Statutory above $2,500,000 deductible per occurrence
Marine Liability	$150 million
Cyber Liability	$30 million

The cash balance in the Insurance Fund was $109.8 million as of December 31, 2015. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2015, was $88.6 million.

For additional information, see the County's 2015 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.

INITIATIVES AND REFERENDA

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

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

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

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

LEGAL AND TAX INFORMATION

Litigation

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

The County is party to litigation in its normal course of business. See Appendix C—King County Water Quality Enterprise Fund 2015 Audited Financial Statements—Note 12. The County and its agencies are also party to litigation involving tort claims. Information provided under "King County—Risk Management and Insurance" 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.

Approval of Counsel

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

Certain legal matters will be passed upon for the Underwriters by Stradling Yocca Carlson & Rauth, P.C., Seattle, Washington, Underwriters' Counsel, and any opinion of such firm will be rendered solely to the Underwriters, will be limited in scope, and cannot be relied upon by investors without the written consent of such law firm.

Potential Conflicts of Interest

The fees of Bond Counsel, the Underwriters, Underwriters' Counsel, and the Financial Advisor are contingent upon the sale of the Bonds. From time to time, Bond Counsel may serve as counsel to the Underwriters and to the Financial Advisor with respect to transactions other than the issuance of the Bonds. From time to time, Underwriters' Counsel serves as bond counsel and special counsel to the County and as special counsel to the Financial Advisor on matters unrelated to the Bonds.

Limitations on Remedies and Municipal Bankruptcy

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

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

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

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

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

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

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

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

Tax Exemption

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

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

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

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

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

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

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

Certain Other Federal Tax Consequences

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

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

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

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

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

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

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

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission Rule 15c2–12 under the Securities Exchange Act of 1934, as the same may be amended from time to time

(“Rule 15c2-12”), the County will enter into the following written undertaking for the benefit of the owners and Beneficial Owners of the Bonds.

Financial Statements/Operating Data

The County agrees to provide or cause to be provided to the MSRB the following annual financial information and operating data for the prior fiscal year (commencing in 2017 for the fiscal year ending December 31, 2016):

(i) annual financial statements, which may or may not be audited, of the County’s Water Quality Enterprise prepared in accordance with the Budget Accounting and Reporting System (“BARS”) prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statutes) and generally of the type attached as Appendix C;

(ii) the amount of outstanding Parity Bonds; and

(iii) information regarding customers, revenues and expenses of the Sewer System, as set forth in the table titled “Historical Financial Statements.”

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

The annual information and operating data described above will be provided on or before the end of seven months after the end of the County’s fiscal year. The County’s fiscal year currently ends on December 31. The County may adjust its fiscal year by providing written notice to the MSRB. In lieu of providing the annual financial information and operating data, the County may make specific reference to other documents available to the public on the MSRB’s internet web site 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 audited annual financial statements of the County’s Water Quality Enterprise prepared in accordance with BARS when and if available.

The County agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information and operating data described above on or prior to the date set forth above.

Specified Events

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

(i) principal and interest payment delinquencies;

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

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

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

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

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

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

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

(ix) defeasances;

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

(xi) rating changes;

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

(xiii) the consummation of a merger, consolidation or acquisition involving the County or an obligated person or the sale of all or substantially all of the assets of the County or an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

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

Solely for purposes of disclosure and not intending to modify the undertaking, the County advises with reference to item (iii) that the Parity Bond Reserve Account is the debt service reserve for the Bonds.

Additional Information About the Undertaking

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, with an approving opinion of nationally recognized bond counsel and in accordance with Rule 15c2-12.

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

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

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

OTHER BOND INFORMATION

Ratings

The Bonds have been rated "Aa2" and "AA+" by Moody's Investors Service and S&P Global Ratings, respectively. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

Financial Advisor

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

Underwriters of the Bonds

The purchase contract between the County and Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Drexel Hamilton, LLC, and Siebert Cisneros Shank & Co., L.L.C. (collectively, the "Underwriters") provides that the Underwriters will purchase all of the Bonds at a price of $596,881,438.99 with an underwriter's discount of $1,004,530.41. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices or prices corresponding to the yields set forth on page i of this Official Statement, and such prices may be changed from time to time by the Underwriters. After the initial public offering, the public offering prices and yields may be varied from time to time.

Citigroup Global Markets Inc., an Underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, 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.

Siebert Cisneros Shank & Co., L.L.C. ("Siebert Cisneros Shank"), one of the Underwriters of the Bonds, has entered into an agreement with Muriel Siebert & Co. for the retail distribution of certain securities offerings at the original issue prices. Pursuant to this distribution agreement, if applicable to the Bonds, Muriel Siebert & Co. will purchase Bonds at the original issue price less the selling concession with respect to any Bonds that Muriel Siebert & Co. sells. Siebert Cisneros Shank will share a portion of its underwriting compensation with Muriel Siebert & Co., if applicable.

Official Statement

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

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

KING COUNTY, WASHINGTON

By: /s/ Ken Guy

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

APPENDIX A

SUMMARY OF BOND ORDINANCE

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SUMMARY OF THE BOND ORDINANCE

Ordinance 18111 of the County, passed by the County Council on September 21, 2015, authorizes the issuance of not to exceed $350,000,000 in Parity Bonds or Parity Lien Obligations to pay for costs of improvements to the Sewer System. Ordinance 18116 of the County, also passed by the County Council on September 21, 2015, authorizes the issuance of Parity Bonds or Parity Lien Obligations to refund outstanding County bonds payable from Revenue of the System. The Bonds are the second authorized series issued under Ordinance 18111 and the third authorized series issued under Ordinance 18116 (together, the "Bond Ordinance").

Certain provisions of the Bond Ordinance are summarized herein. Please refer to the Bond Ordinance for full and complete statements of those provisions and for other provisions relating to the Bonds. Copies of the Bond Ordinance are available on request to Piper Jaffray & Co., Seattle-Northwest Division, 1420 Fifth Avenue, Suite 4300, Seattle, Washington 98101, or to the Finance 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 Parity Bonds that are Capital Appreciation Bonds, as of any date of calculation, the sum of the amounts set forth in the ordinance, resolution or motion authorizing such bonds as the amounts representing the initial principal amount of such bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, as provided in the ordinance, resolution or motion authorizing the issuance of such bonds; provided, that if such calculation is not made as of a compounding date, such amount will be determined by straight-line interpolation as of the immediately preceding and the immediately succeeding compounding dates.

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

1. The interest due for all outstanding Parity Bonds and Parity Lien Obligations (i) on all interest payment dates (other than January 1) in such calendar year, and (ii) on January 1 of the next succeeding year, and any Payment Agreement Payments due on such dates in respect of any Parity Payment Agreements and Parity Lien Obligation Payment Agreements, minus any Payment Agreement Receipts due in such period in respect of any Parity Payment Agreements and Parity Lien Obligation Payment Agreements. For purposes of calculating the amounts required to pay interest on Parity Bonds or Parity Lien Obligations, capitalized interest and accrued interest paid to the County upon the issuance of Parity Bonds or Parity Lien Obligations will be excluded. The amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds or Variable Rate Parity Lien Obligations will be calculated on the assumption that the interest rate on those bonds 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 covenant made in the Bond

Ordinance, the actual amount of interest paid on any issue of Variable Rate Parity Bonds or Parity Lien Obligations will be taken into account.

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

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

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

From and after the date when no Parity Lien Obligations designated as Series 2008 Bonds or Series 2009 Bonds remain outstanding, for purposes of satisfying the rate covenant in the Bond Ordinance applicable to Parity Lien Obligations and the tests for the issuance of additional Parity Lien Obligations in the Bond Ordinance, Annual Debt Service for any Fiscal Year or calendar year will exclude any Debt Service Offsets.

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

1. The interest due for all outstanding Parity Bonds (i) on all interest payment dates (other than January 1) in such calendar year, and (ii) on January 1 of the next succeeding year, and any Payment Agreement Payments due on such dates in respect of Parity Payment Agreements, minus any Payment Agreement Receipts due in such period in respect of such Parity Payment Agreements. For purposes of calculating the amounts required to pay interest on Parity Bonds, capitalized interest and accrued interest paid to the County upon the issuance of Parity Bonds will be excluded. The amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds will be calculated on the assumption that the interest rate on those bonds 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 covenant made in the Bond Ordinance, the actual amount of interest paid on any issue of Variable Rate Parity Bonds will be taken into account.

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

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

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

From and after such time as no Parity Bonds designated as 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, for purposes of calculating the Reserve Requirement and satisfying the rate covenant in the Bond Ordinance applicable to Parity Bonds and the tests for the issuance of Future Parity Bonds in the Bond Ordinance, Annual Parity Debt Service for any Fiscal Year or calendar year will exclude any Debt Service Offsets.

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

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

"Comprehensive Plan" means the County's comprehensive water pollution abatement plan defined in Section 28.82.150 of the King County Code as the Comprehensive Sewage Disposal Plan, and all amendments thereto, together with any amendments thereafter approved by ordinance of the County.

"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 includes any substitute therefor in accordance with the provisions of the ordinance providing for the issuance of Parity Bonds supported by a Credit Facility, or (ii) from Fitch, Moody's and S&P not lower, when issued, than the credit rating of any series of Parity Lien Obligations, to provide support for a series of Parity Lien Obligations (including Variable Rate Parity Lien Obligations), and includes any substitute therefor in accordance with the provisions of the ordinance providing for the issuance of Parity Lien Obligations supported by a Credit Facility.

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

"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 Parity Bonds.

"Junior Lien Obligations" means the County's (i) Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, (ii) Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011, (iii) Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, (iv) Junior Lien Sewer Revenue Bonds, Series 2015A and Series 2015B, and (v) any other revenue bonds or revenue obligations having a lien on Revenue of the System equal to the lien thereon of such bonds.

"Multi-Modal LTGO/Sewer Revenue Bonds" means the County's Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2010A and Series 2010B, and any additional limited tax general obligation bonds of the County payable from Revenue of the System and having the same lien on Revenue of the System as those 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 for the purpose of paying and securing the payment of the Parity Bonds.

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

"Parity Bonds" means the Bonds, any Future Parity Bonds, and the following outstanding sewer revenue bonds of the County:

Designation	Ordinance	Date of Issue	Original Principal
2006 (2nd) Bonds	15385	11/30/2006	$193,435,000
2007 Bonds	15758	6/26/2007	250,000,000
2008 Bonds	16133	8/14/2008	350,000,000
2009 Bonds	16133	8/12/2009	250,000,000
2010 Bonds	16868	7/29/2010	334,365,000
2011 Bonds	16868	1/25/2011	175,000,000
2011B Bonds	17111	10/5/2011	494,270,000
2011C Bonds	17111	11/1/2011	32,445,000
2012 Bonds	17111	4/18/2012	104,445,000
2012B Bonds	17111	8/2/2012	64,260,000
2012C Bonds	17111	9/19/2012	65,415,000
2013A Bonds	17111	4/9/2013	122,895,000
2013B Bonds	17599	10/29/2013	74,930,000
2014A Bond	17599	7/18/2014	75,000,000
2014B Bonds	17599	8/12/2014	192,460,000
2015A Bonds	17599	2/18/2015	474,025,000
2015B Bonds	18111	11/17/2015	93,345,000
2016A Bonds	18116	2/17/2016	281,535,000

"Parity Bonds" also includes any Parity Payment Agreements and parity reimbursement agreements entered into with the provider of a Credit Facility securing any Parity Bonds.

"Parity Lien Obligation Bond Fund" means the "Water Quality Limited Tax General Obligation Bond Redemption Fund" established to provide for payment of Parity Lien Obligations.

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

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

"Parity Lien Obligations" means the following outstanding sewer revenue bonds of the County and any other sewer revenue obligations thereafter issued on a parity therewith:

Designation	Ordinance	Date of Issue	Original Principal
Series 2008	15779	2/21/2008	$236,950,000
Series 2009	16133	4/8/2009	300,000,000
Series 2012	17111	4/18/2012	68,395,000
Series 2012B	17111	8/2/2012	41,725,000
Series 2012C	17111	9/19/2012	53,405,000
Series 2015A	17599	2/18/2015	247,825,000

"Parity Lien Obligations" also 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.

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

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

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

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

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

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

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

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

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

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

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

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

"Revenue 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 does not include any money collected pursuant to the Service Agreements applicable to administrative costs of the County other than costs of administration of the System. For certain purposes described in the Bond Ordinance, deposits from the Rate Stabilization Fund into the Revenue Fund may be included in calculations of "Revenue of the System."

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

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

"SRF Loans" means loans to the County by the State Department of Ecology pursuant to loan agreements in effect as of the date of the Bond Ordinance and any loans and loan agreements thereafter 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.

"Subordinate Lien Obligations" means 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 to the lien thereon of the Multi-Modal LTGO/Sewer Revenue Lien Obligations and senior to all other revenue obligations that may be issued by the County with a lien on Revenue of the System.

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

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

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

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

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

Revenue–Priority of Payment

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

Covenants and Representations

Rate Covenants. The rate covenants applicable to the Bonds are described in "Security and Sources of Payment for the Bonds—Rate Covenants."

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

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

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

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

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

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

In accordance with RCW 35.58.200(3), the County will 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.

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

Due Authorization. By all necessary official action, 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 Bond Ordinance and the consummation by it of all other transactions necessary to effectuate the Bond 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.

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

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

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

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

Tax Covenants. The County covenants not to take any action, or knowingly omit to take any action within its control, that if taken or omitted would cause the interest on the Bonds to be includable in gross income, as defined in Section 61 of the Code, for federal income tax purposes. If the County does not quality for an exception to the requirements of Section 148(f) of the Code relating to the payment of arbitrage rebate to the United States with respect to the Bonds, the County will take all necessary steps to comply with the requirement that certain amounts earned by the County on the investment of the "gross proceeds" of the Bonds (within the meaning of the Code) be rebated.

Future Parity Bonds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Subordinate Obligations. Nothing in the Bond Ordinance prevents the County from issuing revenue bonds that are a charge on Revenue of the System and money in the Revenue Fund junior or inferior to the payments required to be made therefrom into the Parity Bond Fund and any account therein.

Additional Parity Lien Obligations

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

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

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

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

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

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

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

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

(vi) Beginning with the second year following the proposed date of issue of such Parity Lien Obligations and for each year thereafter the Professional Utility

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

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

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

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

Subordinate Obligations. Nothing in the Bond Ordinance prohibits the County from authorizing and issuing bonds, notes or other evidences of indebtedness for any purpose of the County related to the System payable in whole or in part from Revenue of the System and secured by a lien on Revenue of the System that is junior, subordinate and inferior to the lien of any Parity Lien Obligations.

Reimbursement Obligations

If the County elects to secure any Bonds with a Credit Facility, the County may contract with the entity providing the Credit Facility that the reimbursement obligation, if any, to that entity will be a Parity Bond.

Payment Agreements

General. To the extent and for the purposes permitted by State law, the County may enter into Payment Agreements, subject to the conditions described below. "Payment Agreements" include agreements providing for an exchange of payments based on interest rates (known as interest rate swaps) or providing for ceilings or floors on such payments. Each Payment Agreement must set forth the manner in which the Payment Agreement Payments and the Payment Agreement Receipts will be calculated and a schedule of payment dates. Each Payment Agreement must be authorized by ordinance, and the County must give notice to Moody's and S&P prior to entering into a Payment Agreement.

Calculation of Debt Service with Respect to Payment Agreements. For purposes of determining compliance with the rate covenant and the test for issuing Future Parity Bonds or additional Parity Lien Obligations, the Bond Ordinance provides that debt service on Parity Bonds with respect to which a Parity Payment Agreement is in force will be calculated to reflect the net economic effect on the County intended to be produced by the terms of such Parity Bonds and Parity Payment Agreement and that debt service on Parity Lien Obligations with respect to which a Parity Lien Obligation Payment Agreement is in force will be calculated to reflect the net economic effect on the County intended to be produced by the terms of such Parity Lien Obligation Bonds and Parity Lien Obligation Payment Agreement. In calculating such amounts, the County will be guided by the following requirements.

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.

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

- 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.

- 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.

Termination Payments. The County's authorizations of Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, and Subordinate Lien Obligations do not provide for termination payments with respect to any Payment Agreement to have a lien on Revenue of the System senior to the lien thereon of such Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, or Subordinate Lien Obligations. Therefore any termination payments with respect to a Payment Agreement would have a lien position junior to the lien on Revenue of the System of all such Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, and Subordinate Lien Obligations.

Trustee for Owners of Parity Bonds

Upon the occurrence of any "event of default" described below, the registered owners of a majority in principal amount of the outstanding Parity Bonds may appoint a Trustee, notification thereof being given to the County. Any Trustee must be a bank or trust company organized under the laws of the State or the State of New York or a national banking association. The fees and expenses of a Trustee must be borne by the owners of the Parity Bonds and not by the County. The bank or trust company acting as a Trustee may be removed at any time and a successor Trustee may be appointed by the registered owners of a majority in principal amount of the outstanding Parity Bonds.

The Trustee so appointed, and each successor thereto, will be a trustee for the registered owners of all the Parity Bonds and is empowered to exercise all rights and powers conferred in the Bond Ordinance on the Trustee.

The Trustee is not responsible for recitals in any ordinance or in the Parity Bonds, or for the validity of any Parity Bonds, nor is the Trustee responsible for insuring the System or for collecting any insurance money or for the title to any property of the System.

Events of Default; Powers and Duties of Trustee

The occurrence of one or more of the following is an "event of default" with respect to the Bonds:

- Default in the payment of principal of or interest on any Parity Bonds when the same becomes due; or

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

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

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

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

Any money collected by the Trustee at any time as described above is to be applied, first, to the payment of its charges, expenses, advances and compensation and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys, and, second, toward payment of the amount then due and unpaid upon the Parity Bonds, ratably and without preference or priority of any kind not expressly provided in the Bond Ordinance, according to the amounts due and payable upon the Parity Bonds at the date fixed by the Trustee for the distribution of such money.

Supplemental Ordinances

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

- To add to the covenants and agreements of the County in the Bond Ordinance such other covenants and agreements thereafter to be observed that will not adversely affect the interests of the registered owners of any Parity Bonds, or to surrender any right or power therein reserved to or conferred upon the County.

- To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision in the Bond Ordinance or any ordinance authorizing Parity Bonds in regard to matters or questions arising under such ordinances as the County Council may deem necessary or desirable and not inconsistent with such ordinances and that will not adversely affect the interest of the registered owners of Parity Bonds.

With Bondowner Consent. From and after such time as no Parity Bonds designated as 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, with the consent of the registered owners of not less than 51% in aggregate principal amount of all Parity Bonds at the time outstanding, the County Council may adopt an ordinance or ordinances supplemental to the Bond Ordinance for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Bond Ordinance or of any supplemental ordinance applicable to Parity Bonds, except as described below.

No supplemental ordinance entered into pursuant to these provisions may:

- Extend the fixed maturity of any Parity 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, without the consent of the registered owner of each bond so affected; or

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

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APPENDIX B

FORM OF BOND COUNSEL OPINION

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[FORM OF BOND COUNSEL OPINION]

[Closing Date]

King County, Washington

Re: King County, Washington
Sewer Improvement and Refunding Revenue Bonds, 2016, Series B

We have served as bond counsel to King County, Washington (the "County"), in connection with the issuance of the above-referenced bonds (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the County pursuant to Ordinances 18111 and 18116, each passed by the Metropolitan King County Council (the "County Council") on September 21, 2015, and Motion 14731 passed by the County Council on September 12, 2016 (collectively, the "Bond Legislation"), to finance certain capital improvements to the Sewer System, to refund certain bonds of the County payable from revenues of the Sewer System, and to pay the administrative costs of the refunding and the costs of issuing the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bonds and the Bond Legislation for the definitions of capitalized terms used and not otherwise defined herein.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the County is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The County has covenanted in the Bond Legislation to comply with those requirements, but if the County fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the County's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchasers thereof and full payment therefor, it is our opinion that under existing law:

1. The County is a duly organized and legally existing corporate body politic under the laws of the State of Washington.

2. The Bonds have been duly authorized and executed by the County and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the ordinances and motions of the County relating thereto.

3. The Bonds constitute valid and binding obligations of the County payable solely out of the Revenue of the System to be paid into a special fund of the County known as the "Water Quality Revenue Bond Account" (the "Parity Bond Fund"), enforceable in accordance with their terms, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

4. The County has irrevocably bound itself to set aside and pay into the Parity Bond Fund and accounts therein out of Revenue of the System amounts sufficient to pay the principal of and interest on the Bonds as the same become due.

5. The County has pledged that the payments to be made from Revenue of the System into the Parity Bond Fund and accounts therein have a lien and charge on Revenue of the System superior to all other charges of any kind or nature except Operating and Maintenance Expenses, and equal in rank to the lien and charge upon Revenue of the System of the amounts required to pay and secure the payment of the principal of and interest on the outstanding Parity Bonds and any Future Parity Bonds.

6. The Bonds are not general obligations of the County.

7. Assuming compliance by the County after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

APPENDIX C

KING COUNTY WATER QUALITY ENTERPRISE FUND
2015 AUDITED FINANCIAL STATEMENTS

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Report of Independent Auditors
and Financial Statements with
Required Supplementary Information
and Other Information for

King County Water Quality Enterprise Fund

(An Enterprise Fund of King County, Washington)

December 31, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Metropolitan King County Council
Seattle, Washington

Report on Financial Statements

We have audited the accompanying financial statements of the King County Water Quality Enterprise Fund (Water Quality), which comprise the statements of net position as of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Notes 1 and 14 of the financial statements, in 2015 Water Quality adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The financial statements have been retroactively restated for all periods presented for this change. 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, the Schedule of the County's Proportionate Share of the Net Pension Liability, Schedule of Contributions, and Schedule of Funding Progress for the Plan be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on Water Quality's financial statements. The Supplemental Schedule of Net Revenues Available for Debt Service is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental schedule has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Moss Adams LLP

Seattle, Washington
May 16, 2016

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, 2015 and 2014.

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 26 regulator stations. Other facilities include four combined sewer overflow (CSO) treatment plants and 38 CSO control locations. The sewer system collected and treated an average of 178 million gallons per day in 2015 from approximately 1.7 million residents.

FINANCIAL HIGHLIGHTS

During 2015, Water Quality provided sewage treatment services to 736,090 residential customer equivalents (RCE) compared to 725,844 in 2014 and 718,160 in 2013. 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 11,676 new connections to its customer billing base in 2015. The program added 10,767 and 7,224 new connections in 2014 and 2013, respectively. In 2015, the average flow of the five treatment plants was 178 million gallons per day (MGD) with a peak daily flow of 556 MGD. Maximum system capacity remained at 895 MGD in 2015 and 2014. The average daily flow fluctuated between a peak of 186 MGD in 2014 and a low of 178 MGD in 2015. The annual fluctuation in flows largely depends on the amount of annual precipitation.

In 2015, Resource Recovery delivered 114,957 tons compared to 119,325 tons in 2014 of Loop® biosolids to customers for use in forest management, agriculture, and composting. Approximately 86 million gallons compared to 75 million gallons in 2014 of Class A reclaimed water was distributed for irrigation, urinals/toilets, municipal purposes, and wetland enhancement and about 762 million gallons of filtered, treated wastewater 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 1.8 million therms of natural gas to Puget Sound Energy from the South Treatment Plant, and produced 18 million kilowatt hours of electricity from digester gas at the West Point Treatment Plant, which was sold to Seattle City Light. In 2014, Water Quality sold 1.9 million therms of natural gas to Puget Sound Energy and 16.9 million kilowatt hours of electricity produced from digester gas.

FINANCIAL HIGHLIGHTS (CONTINUED)

The Industrial Pretreatment Program conducted 356 inspections and took 1,570 compliance samples in 2015 compared to 347 inspections and 1,700 compliance samples taken in 2014. The program currently tracks 483 facilities with discharge authorization permits and 116 significant industrial users.

Water Quality currently has 38 combined sewer overflow facilities plus 4 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 800 million gallons per year at present.

In 2012, the Environmental Protection Agency (EPA) entered into a consent decree with Water Quality to reduce CSO overflows to meet regulator's standards for discharges or treatment by 2030. The consent decree is based on Water Quality's 2012 Amended Long-term CSO Control Plan. The Plan identified 14 additional CSO control projects, five of which are currently underway. A joint project with the City of Seattle is being developed that will address two of the remaining nine projects.

The consent decree includes an option to develop an integrated plan which may result in lower costs to complete the Plan. The EPA and Washington Department of Ecology will monitor Water Quality's progress with CSO control and work closely with the enterprise going forward to meet CSO control requirements. In accordance with the county's National Pollutant Discharge Elimination System permit for the West Point Treatment Plant and the consent decree, an update to the Plan is underway and will be completed by 2018.

In 1999, the Metropolitan King County Council adopted the Regional Wastewater Services Plan (RWSP) to construct additional capacity, protect public health and provide for future projected population growth in its service area through 2030. Major RWSP projects include the building of the Brightwater Treatment Plant, improvements to the regional Conveyance system, and construction of 21 CSO control projects. The RWSP also includes projects to control infiltration and inflow into the Conveyance system, process additional biosolids, and produce additional reclaimed water. Total capital program expenditures were $154.6 million in 2015 and $155.4 million in 2014.

Water Quality operating revenues decreased by 0.6 percent to $433.4 million in 2015 from $435.8 million in 2014 while operating expenses before depreciation and amortization increased by 4.3 percent to $127.2 million in 2015 from $122.0 million in 2014.

FINANCIAL HIGHLIGHTS (CONTINUED)

The monthly sewer rate increased to $42.03 per RCE in 2015. In 2014, it remained unchanged from 2013 at $39.79. The capacity charge rate increased to $57.00 per RCE in 2015 from $55.35 in 2014. Capacity charge revenues increased 4.9 percent to $62.5 million in 2015 from $59.6 million in 2014. The RCE's billed for sewer treatment services increased to 736,090 in 2015 from 725,844 in 2014. The rate stabilization reserve increased to $46.3 million in 2015 from $34.3 million in 2014. This increase of $12 million in the reserve balance decreases operating revenues for the year and has been included in the calculation of debt service coverage for 2015. Future deposits to the rate stabilization reserve will decrease operating revenues and debt service coverage in the year of the deposit. Withdrawals will have the opposite effect of increasing operating revenues and debt service coverage in the year the rate stabilization reserve is reduced.

The rate stabilization reserve, as mandated by the Metropolitan King County Council as part of its rate setting activities, requires Water Quality to set aside a portion of current revenue for future periods in order to moderate the impact of rate increases over time.

Water Quality issued $567.3 million in Sewer Revenue and Refunding Bonds in 2015, which provided $80.0 million for new construction, including $3.5 million in reserves and accrued interest from refunded bonds. The enterprise issued $247.8 million in LTGO refunding bonds. This resulted in $163.4 million in savings over the lives of the refunded issues or $90.5 million in present value of debt service savings. In November, 2015 Water Quality issued $100 million in Junior Lien Sewer Revenue Bonds to redeem its Commercial Paper program and $31.6 million in low interest state loans at rates between 0.5 and 2.72 percent. This compares to $267.5 million of Sewer Revenue and Refunding Bonds issued in 2014, including $5.3 million for new construction and $22.3 million in low interest state loans.

The results of operations for 2015 and 2014 produced a debt service coverage ratio on senior lien debt of 1.48 and 1.44, respectively, exceeding the coverage covenant requirement of 1.15 in both years. The total debt coverage ratio of 1.36 in 2015 and 1.33 in 2014 exceeded the 1.15 policy minimum in both years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Water Quality's basic financial statements. The basic financial statements are comprised of the comparative statements of net position; statements of revenues, expenses and changes in net position; statements of cash flows; and the notes to the financial statements, which explain certain elements of the financial statements in greater detail.

REQUIRED FINANCIAL STATEMENTS

Water Quality's financial statements provide information with respect to all of its activities using accounting methods similar to those used by private-sector companies. The statements provide both long-term and short-term information about Water Quality's financial status.

The comparative statement of net position presents information on all of Water Quality's assets, liabilities and deferred inflows/outflows of resources, with the difference presented as net position as of each year-end. Over time, the statements demonstrate Water Quality's financial health by providing a basis for the reader to evaluate capital structure, liquidity, and financial flexibility.

The two most recent years' operating and non-operating revenues and expenses of Water Quality are accounted for in the statements of revenues, expenses and changes in net position. The statements illustrate the current and prior period results of operations and recovery of costs by receipt of fees, and are instrumental in demonstrating Water Quality's continued creditworthiness. All changes in net position are reported as soon as the underlying event occurs, irrespective of the timing of related cash flows. The receipt of monthly sewage treatment charges provides the principal support for Water Quality's activities. Sewage treatment charges of $359.2 million (net of the rate stabilization transfer) provided 82.9 percent of operating revenues in 2015 and $364.6 million provided 83.7 percent of operating revenues in 2014. 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 2015 and 2014, reasons for differences between operating cash flows and operating income, and the effect on the statements of net position from investing, capital, and financing activities.

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

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

FINANCIAL ANALYSIS OF THE STATEMENTS OF NET POSITION

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2015	2014 (As Restated)	2013
Current assets	$ 431.8	$ 407.5	$ 457.9
Noncurrent assets	245.2	216.8	236.0
Capital assets	4,106.5	4,122.9	4,128.4
Other	110.4	97.8	95.9
Total assets	4,893.9	4,845.0	4,918.2
Deferred outflows of resources	184.9	104.0	92.0
Total assets and deferred outflows of resources	5,078.8	4,949.0	5,010.2
Current liabilities	456.5	434.9	435.6
Noncurrent liabilities	4,065.9	3,951.9	3,962.4
Total liabilities	4,522.4	4,386.8	4,398.0
Deferred inflows of resources	53.2	49.6	52.3
Total liabilities and deferred inflows of resources	4,575.6	4,436.4	4,450.3
Net position-net investment in capital assets	191.1	210.4	206.9
Net position-restricted	201.6	205.3	203.3
Net positon-unrestricted	110.5	96.9	149.7
Total net position	$ 503.2	$ 512.6	$ 559.9

Net position serves as a useful indicator of Water Quality's financial position. As of December 31, 2015 and 2014, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $503.2 million and $512.6 million, respectively.

Of the total Water Quality assets and deferred outflows of resources, 80.9 percent or $4,106.5 million were invested in capital assets such as treatment plants, pumping and regulator stations, interceptors, and other equipment at year-end 2015. For the year-end 2014, 83.3 percent or $4,122.9 million were invested in capital assets. Water Quality uses its capital assets to provide wholesale wastewater collection and treatment services in King, Pierce, and Snohomish counties. Current operating and debt service requirements are met by operating and non-operating revenues composed of monthly sewage treatment charges, a capacity charge for new customers, other special-handling charges, miscellaneous operating revenues, and investment earnings.

FINANCIAL ANALYSIS OF THE STATEMENTS OF NET POSITION (CONTINUED)

The net position decreased by 1.8 percent or $9.4 million in 2015 to $503.2 million from $512.6 million in 2014. This change includes a $42.5 million restatement to the net position at 2014 year-end in accordance with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. For more information see Notes 1, 9 and 14 in the Notes to Financial Statements section. Restricted net position decreased by 1.8 percent or $3.7 million in 2015 to $201.6 million from $205.3 million in 2014. The unrestricted net position increased by $13.6 million in 2015 to $110.5 million from $96.9 million in 2014.

The net position decreased by 8.4 percent or $47.3 million in 2014 from $559.9 million in 2013. The restricted net position increased by $2.0 million in 2014 from $203.3 million in 2013. The unrestricted net position decreased by $52.8 million in 2014 from $149.7 million in 2013.

FINANCIAL ANALYSIS OF THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2015	2014 (As Restated)	2013
Sewage treatment fees	$ 371.3	$ 346.6	$ 342.9
Rate stabilization	(12.0)	18.0	10.4
Capacity charge revenue	62.5	59.5	58.8
Other revenue	11.6	11.7	9.9
Operating revenues	433.4	435.8	422.0
Operating expenses	301.0	288.6	278.2
Operating income	132.4	147.2	143.8
Non operating (expenses)	(142.6)	(149.8)	(145.3)
Grant revenues	0.8	-	0.3
Change in net position	(9.4)	(2.6)	(1.2)
Net position beginning of year (restated)	512.6	515.2	561.1
Net positon end of year	$ 503.2	$ 512.6	$ 559.9

FINANCIAL ANALYSIS OF THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)

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

During 2015, operating revenues decreased by 0.6 percent or $2.4 million to $433.4 million from $435.8 million in 2014. Operating expenses increased by 4.3 percent or $12.4 million to $301.0 million in 2015 from $288.6 million in 2014.

In 2014, operating revenues increased by 3.3 percent or $13.8 million to $435.8 million from $422.0 million in 2013. Operating expenses increased by 3.7 percent or $10.4 million from $278.2 million in 2013.

The operating revenues and expenses were driven by:

- Water Quality collected a monthly sewage treatment charge of $42.03 per RCE in 2015 and $39.79 in 2014 and 2013. Sewer disposal revenues before rate stabilization increased by 7.1 percent or $24.7 million in 2015 to $371.3 million. An increase in RCE's and the 2015 rate increase were the main contributors. Sewer disposal revenues before rate stabilization increased by 1.0 percent or $3.6 million to $346.6 million in 2014 from $343.0 million in 2013.

- Sewer treatment charges, net of rate stabilization reserve, decreased by $5.4 million in 2015 or 1.5 percent to $359.2 million from $364.6 million in 2014. The decrease is due to the rate stabilization reserve increase of $12 million.

- Other operating revenues, including capacity charges for new customers and other treatment charges, increased by 4.1 percent or $2.9 million in 2015 to $74.1 million from $71.2 million in 2014. These revenues increased by 3.6 percent or $2.5 million in 2014 to $71.2 million from $68.7 million in 2013. Capacity charge early payoff revenues were 28.6 percent or $17.9 million of total capacity charge revenues in 2015, while in 2014, capacity charge early payoff revenues were 23.5 percent or $14.0 million of the annual total. Actual new capacity charge connections were 11,676 in 2015 and 10,767 in 2014.

- Net non-operating revenues and expenses decreased by 4.8 percent or $7.2 million to $142.6 million in 2015 from $149.8 million in 2014. The main contributors to changes in the numbers were decreased interest and amortization expense resulting from bond refunding. Net non-operating revenues and expenses increased by 3.1 percent or $4.5 million to $149.8 million in 2014 from $145.3 million in 2013.

- Capital Grant revenues received from federal and state agencies increased by $766 thousand in 2015 from zero in 2014. No capital grant revenues were received from federal and state agencies in 2014 reflecting a decrease of $300 thousand from 2013. Low interest loans have largely replaced grants as the primary method of state agency support in recent years.

FINANCIAL ANALYSIS OF THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)

- Chemical expenses increased slightly by 2.9 percent or about $236 thousand in 2015 to $7.2 million. Chemical expenses decreased by 7.6 percent or about $573 thousand in 2014 to $7.0 million.

- Utility and Service expenses increased by 4.6 percent or $1.3 million to $29.9 million for 2015 from $28.6 million in 2014. Utility and Service expenses increased by 1.8 percent or $517 thousand to $28.6 million for 2014 from $28.1 million in 2013. Electricity expense increased by 3.0 percent or $445 thousand to $13.9 million in 2015 after increasing by 5.4 percent or $689 thousand to $13.5 million in 2014. Electricity usage was driven up in 2015 due to notably warmer than normal wastewater temperatures causing the need for increased aeration. New capital facilities went into service as well, requiring additional electricity for enhanced HVAC/odor control and larger pumps.

- Intergovernmental expenses increased by 8.9 percent or $2.8 million in 2015 to $34.4 million from $31.6 million in 2014. Intergovernmental expenses fell by 5.1 percent or $1.7 million in 2014 to $31.6 million from $33.3 million in 2013. In general, contributors to increases here are reflected in increased surface water management fees as well as central charges relating to support of the 2012 Oracle system conversion, increased Fleet and GIS efforts.

CAPITAL ASSETS

At December 31, 2015, Water Quality's investment in capital assets, net of accumulated depreciation, was $4,106.5 million, reflecting a decrease of $16.4 million or 0.4 percent less than the balance at December 31, 2014. This decrease represents plant in service retirements and an increase in depreciation from Brightwater Treatment Plant and Conveyance capitalizations. Capital assets net decrease from December 31, 2013 to December 31, 2014 was $5.5 million or 0.13 percent.

Large 2015 construction project expenditures include:

- $16.5 million for North Creek Interceptor
- $12.4 million for Fremont Siphon Replacement
- $11.9 million for Magnolia CSO Control & Improvements
- $9.7 million for Murray CSO Control & Improvements
- $8.1 million for Georgetown Wet Weather Treatment Station

Large 2014 construction project expenditures include:

- $20.9 million for Magnolia CSO Control & Improvements
- $11.3 million for Murray CSO Control & Improvements
- $9.1 million for West Point Dewatering & Energy Improvements
- $8.2 million for West Point Influent Screen Improvements
- $7.5 million for North Beach CSO Control & Improvements

For more detailed information on capital assets, refer to Note 6 in the financial statements.

DEBT ADMINISTRATION

Water Quality issued $474.0 million of sewer revenue refunding bonds and $247.8 million of LTGO refunding bonds in February 2015 with an average life of 21.6 years at an average rate of 4.5 percent and an effective rate of 3.6 percent, and $93.3 million of sewer improvement and refunding revenue bonds in November 2015 with an average life of 14.6 years at an average rate of 4.1 percent and effective rate of 3.4 percent. In November 2015, Water Quality issued $100.0 million in Junior Lien Sewer Revenue Bonds at a rate of 2.0 percent and an effective rate of 0.5 percent for 1 year. This issue redeemed Water Quality's Commercial Paper debt and will be remarketed on the Long-Term Rate Purchase Date of November 16, 2016.

Water Quality issued $75.0 million of sewer revenue and refunding bonds in June 2014 with an average life of 30.6 years at a rate of 5.0 percent and an effective rate of 4.2 percent, and $192.5 million of revenue refunding bonds in August 2014 with an average life of 14.5 years at an average rate of 4.1 percent and effective rate of 3.4 percent.

Water Quality received $31.6 million in low-interest loans from the State of Washington in 2015 and $22.3 million in 2014. The new loans carry below-market rates between 0.5 percent and 2.72 percent with repayment terms up to 20 years.

Water Quality has $2.9 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2015 and had $2.8 billion outstanding at the end of 2014. 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 2015, Water Quality has $765.4 million of general obligation bonds and variable rate general obligation bonds outstanding and had $780.0 million of general obligation bonds and variable rate general obligation bonds outstanding at the end of 2014. While the full faith and credit of King County guarantees repayment of principal and interest on general obligation bonds, they are paid from sewage treatment fees and other income.

King County received ratings of AAA from Standard and Poor's and Aa1 from Moody's Investors Service for the limited tax general obligation bond issued in February 2015. Junior Lien Sewer Revenue Bonds issued in November 2015 were rated MIG 1 and SP-1+ by Moody's Investors Service and Standard & Poor's Rating Services, respectively. At the time of the issuance of the sewer revenue bonds in 2015 and 2014, Water Quality's bond ratings were:

Moody's Investor's Service	Standard & Poor's
Aa2	AA+

DEBT ADMINISTRATION (CONTINUED)

As required by bond covenant, Water Quality maintains a bond reserve account, which is funded by cash balances. At December 31, 2015, the cash balance in the reserve account was $166.1 million, including $1.4 million of Junior Lien bonds maturing in November, 2016, and $174.1 million at the end of 2014. In addition to bond covenant reserves, Water Quality also maintains financial policy reserves. At December 31, 2015 and 2014, the rate stabilization, liquidity, and asset management financial policy reserves totaled $79.1 million and $66.7 million, respectively.

For more detailed information on debt, refer to the notes to the financial statements.

DEBT SERVICE COVERAGE RATIOS

	FY 2015	FY 2014
Parity Debt	1.48	1.44
Total Debt	1.36	1.33

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 achieve 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, 2015 and 2014. 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, 2015	December 31, 2014 (As Restated)
CURRENT ASSETS		
Cash and cash equivalents	$ 230,349	$ 204,064
Restricted cash and cash equivalents	149,403	146,651
Accounts receivable, net	37,018	44,081
Due from other funds	1,224	1,150
Due from other governments, net	5,014	3,782
Inventory of supplies	8,425	7,672
Prepayments	385	85
	431,818	407,485
NONCURRENT ASSETS		
Cash and cash equivalents	245,177	216,868
Capital assets		
Building and land improvements	2,009,486	1,939,307
Artwork	5,645	5,572
Infrastructure and right of way	2,245,766	2,266,997
Plant in service and other equipment	1,107,256	1,074,386
Less accumulated depreciation	(1,849,992)	(1,700,893)
	3,518,161	3,585,369
Land and easements	268,398	254,713
Construction work in progress	319,960	282,785
	4,106,519	4,122,867
Other noncurrent		
Prepayments	81	425
Regulatory assets - environmental remediation	74,616	63,303
Other utility assets, net of amortization	31,816	29,835
Other assets	3,963	4,200
	110,476	97,763
Total assets	4,893,990	4,844,983
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows on refunding	179,878	101,942
Deferred outflows on pension	4,987	2,087
Total deferred outflows of resources	184,865	104,029
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 5,078,855	$ 4,949,012

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF NET POSITION (CONTINUED)
(In Thousands)

	December 31, 2015	December 31, 2014 (As Restated)
CURRENT LIABILITIES		
Accounts payable	$ 37,599	$ 27,283
Retainage payable	2,766	2,352
Due to other funds	111	-
Interest payable	76,438	79,115
Wages and benefits payable	3,222	2,210
Compensated absences	642	565
Taxes payable	12	17
Unearned revenue	2,067	1,628
Notes payable	-	100,000
State loans payable	12,121	11,133
General obligation bonds payable	9,520	9,000
Revenue bonds payable	156,910	51,615
Environmental remediation costs	8,477	5,632
Deposit and other liability	146,637	144,299
	456,522	434,849
NONCURRENT LIABILITIES		
Compensated absences	10,623	10,919
Other post-employment benefits	1,467	1,351
Net pension liability	38,885	29,193
State loans payable, net	167,267	147,920
General obligation bonds payable, net	828,715	806,567
Revenue bonds payable, net	2,975,124	2,916,797
Environmental remediation costs	43,821	39,168
	4,065,902	3,951,915
Total liabilities	4,522,424	4,386,764
DEFERRED INFLOWS OF RESOURCES		
Regulatory credits - rate stabilization	46,250	34,250
Deferred inflows on pension	6,984	15,368
Total deferred inflows of resources	53,234	49,618
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,575,658	4,436,382
NET POSITION		
Net investments in capital assets	191,080	210,360
Restricted for:		
Debt service	175,332	182,618
Regulatory assets and environmental liabilities	26,281	22,704
Unrestricted	110,504	96,948
Total net position	$ 503,197	$ 512,630

See accompanying notes.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(In Thousands)

	Years Ended December 31, 2015	2014 (As Restated)
OPERATING REVENUES		
Sewage disposal fees	$ 359,253	$ 364,591
Other operating revenues	74,153	71,197
Total operating revenues	433,406	435,788
OPERATING EXPENSES		
Sewage treatment, disposal, and transmission	89,715	100,473
General and administrative	37,496	21,541
Environmental related amortization	2,954	2,581
Depreciation and amortization	170,787	163,976
Total operating expenses	300,952	288,571
OPERATING INCOME	132,454	147,217
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	2,231	3,856
Interest expense	(139,980)	(150,007)
Loss on disposal and impairment of capital assets	(5,280)	(3,001)
Other	376	(677)
Total nonoperating expenses	(142,653)	(149,829)
LOSS BEFORE GRANTS AND CONTRIBUTIONS	(10,199)	(2,612)
CAPITAL GRANT REVENUES	766	-
CHANGE IN NET POSITION	(9,433)	(2,612)
NET POSITION		
Beginning of year (restated)	512,630	515,242
End of year	$ 503,197	$ 512,630

See accompanying notes.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 454,391	$ 414,909
Cash payments to suppliers for goods and services	(83,417)	(79,950)
Cash payments for employee services	(49,017)	(48,703)
Settlement receipts	2,338	-
Other payments	(6,531)	(5,957)
Net cash provided by operating activities	317,764	280,299
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grant and subsidy received	-	65
Transfers out	(115)	(173)
Assistance to other agencies	(710)	(17)
Net cash used in noncapital financing activities	(825)	(125)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital and other utility assets	(137,674)	(154,085)
Proceeds from disposal of capital assets	24	23
Principal paid on capital debt	(71,843)	(67,331)
Interest paid on capital debt	(161,183)	(169,072)
Proceeds of new bond issuance	76,523	5,275
Proceeds of state loans	31,563	22,343
Capital grants received	766	-
Net cash used in capital and related financing activities	(261,824)	(362,847)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	2,231	3,856
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57,346	(78,817)
CASH AND CASH EQUIVALENTS		
Beginning of year	567,583	646,400
End of year	$ 624,929	$ 567,583

See accompanying notes.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31, 2015	2014 (As Restated)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 132,454	$ 147,217
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	170,787	163,976
Other nonoperating revenue and expense	1,458	1,646
Changes in assets		
Accounts receivable	7,063	(7,859)
Due from other funds	25	2,892
Inventory of supplies	(753)	(420)
Prepayments	(316)	(40)
Other assets	(5,113)	(3,476)
Changes in deferred outflows of resources		
Deferred outflows on pension	(2,900)	(42)
Changes in liabilities		
Accounts payable	(2,820)	(2,783)
Retainage payable	12	(17)
Due to other funds	111	(5)
Taxes payable	(5)	10
Unearned revenue	440	300
Wages and benefits payable	244	(1,523)
Compensated absences	(220)	172
Other post-employment benefits	116	156
Net pension liability	9,691	(17,513)
Other liabilities	3,874	240
Changes in deferred inflows of resources		
Rate stabilization	12,000	(18,000)
Deferred inflows on pension	(8,384)	15,368
Total adjustments	185,310	133,082
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 317,764	$ 280,299

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Water Quality issued bonds in 2015 to refund debt issued from 1995 to 2010. The $851.1 million bond proceeds were placed in escrow for the defeasance of $752.3 million of outstanding revenue and LTGO bond principal and $124.3 million of interest. There were $100.0 million of junior lien bonds issued to redeem the 1995 commercial paper program.

Water Quality issued bonds in 2014 to refund debt issued from 2004 to 2008. The $295.1 million proceeds were placed in escrow for the defeasance and purchase of $270.9 million of outstanding bond principal and $22.8 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 2015 and in 2014.

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 $34.4 million and $31.6 million in 2015 and 2014, respectively.

Significant Accounting Policies – Water Quality is accounted for using the flow of economic resources measurement focus similar to that of a private enterprise organized for profit. Water Quality's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Water Quality, regardless of the timing of cash flows, applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

a. **Cash and Cash Equivalents** – Water Quality considers as cash and cash equivalents all balances held with the King County Treasurer in the King County Investment Pool (the Pool), cash with escrow agents or held in trust, and petty cash. Unrealized gain or loss on Water Quality's proportionate share of the Pool is reported as a component of investment earnings.

b. **Receivables and Allowance for Doubtful Accounts** – Receivables include charges for services rendered by Water Quality or intergovernmental grants. All unbilled service receivables are recorded at year-end. The provisions for estimated uncollectible receivables are reviewed and updated at year-end. These provisions are estimated based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2015 and 2014, Water Quality's allowance for doubtful accounts was $6.4 million and $886 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

Water Quality capitalizes certain interest income and expense related to borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax free borrowings. Total interest incurred was $154.0 million and $165.5 million, respectively, during the years ended December 31, 2015 and 2014, respectively, of which $11.3 million and $11.5 million, respectively, was capitalized.

Repairs and maintenance are expensed as incurred; major renewals, replacements, and betterments are capitalized.

Water Quality annually reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable.

Note 1 – Operations and Accounting Policies (Continued)

g. **Compensated Absences** – Employees earn vacation based upon their date of hire and years of service. They may accumulate a maximum of 480 hours or as bargained for by represented employees. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees or their beneficiaries are paid 35 percent of the accrued unused sick leave upon retirement or death. No amounts are paid for unused sick leave upon termination. Vacation pay and a portion of sick leave liabilities, including payroll taxes, are accrued.

Water Quality accrues estimated excess compensation liabilities to the Washington State Department of Retirement Systems based on an employee's accrued vacation and sick leave. An excess compensation liability is incurred when an employee whose retirement benefits are based in part on excess compensation receives a termination or severance payment defined by the State as excess compensation. This includes, but is not limited to, a cash-out of unused annual leave in excess of 240 hours and a cash-out of any other form of leave.

h. **Rebatable Arbitrage** – Water Quality's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exceptions rules are met. The liability is recognized during the period the excess interest is earned. Water Quality has no liability as of December 31, 2015 and 2014.

i. **Deferred Outflows and Inflows of Resources** – Deferred outflows of resources represent consumption of resources that is applicable to future reporting periods and deferred inflows of resources represent acquisition of resources that is applicable to future reporting periods. Deferred outflows of resources include deferred losses on the refunding of bonds and certain amounts related to pension accounting. Deferred inflows of resources include certain amounts related to pension accounting and rate stabilization.

j. **Operating and Nonoperating Revenues and Expenses** – Operating revenues result from exchange transactions of Water Quality's activities. Expenses associated with providing wastewater treatment services and operating Water Quality's treatment facilities are considered operating. Nonoperating revenues result from nonexchange transactions such as operating subsidies and investment earnings.

Water Quality provides water treatment services to cities and sewer districts and recognizes revenue when such service is provided. Additionally, the capacity charge revenue is generated from new connections to the sewer system. Both water treatment service and capacity charge rates are authorized by ordinances passed by the King County Council. Water treatment service and capacity charge revenues are recorded through cycle billings rendered to customers monthly. Water Quality accrues and records unbilled water service and capacity charge revenues in the financial statements for services provided from the date of the last billing to year end.

Note 1 – Operations and Accounting Policies (Continued)

k. **Debt-related Amortization** – Bond premiums, discounts and refunding losses and gains are amortized over the life of the bonds using the outstanding principal balance method.

l. **Capital Grant Revenues** – Pursuant to GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, grant revenues are reported separately from operating and nonoperating revenues as capital grant revenues. Water Quality received capital grant revenues of $766 thousand for the year ended December 31, 2015.

m. **Net Position** – Resources set aside for debt services and other obligations, net of related liabilities, are classified as restricted net position on the statements of net position as their use is limited by externally-imposed restrictions. Net investments in capital assets are reported as a separate component of net position and consists of capital assets, net of accumulate depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets. Any net position not subject to classification as restricted or invested in capital assets are reported as unrestricted.

n. **Use of Estimates** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Specific estimates have been made in the areas of allowance for uncollectible accounts, environmental remediation costs, useful lives of capital assets, pension liability and related deferred outflow and inflow of resources, and future interest rates. Actual results could differ from these estimates.

o. **Reclassification** – Certain reclassifications have been made to the prior year statements to conform to the current year presentation.

New Accounting Standards – The following GASB pronouncements were implemented during the current year.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, was issued in June 2012. The standard requires governmental employers with employees participating in defined benefit pension plans that are administered through trusts or equivalent arrangements to report their proportionate share of the net pension liability (or net assets, if the plan net position exceeds the total pension liability) on the face of their accrual based financial statements. The statement is effective for periods beginning after June 15, 2014. It was implemented in 2015 by Water Quality.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, addresses an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. It was adopted in 2015 by Water Quality.

Note 2 – Deposits and Investments

The King County Treasurer is the custodian of Water Quality's cash. Water Quality's cash on deposit with the King County Treasurer is pooled with cash from other County funds and other jurisdictions and are either deposited in the County's bank account or invested by the County. The King County Investment Pool (the Pool) functions essentially as a demand deposit account where Water Quality receives an allocation of its proportionate share of pooled earnings as interest.

The Pool is administered by the King County Treasury Operations Section and is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC), which serves the role of the County Finance Committee as defined in RCW 36.48.070.

The County has deposit and investment policies addressing risks that have the potential to result in losses of deposits and investments. All deposits not insured by the Federal Depository Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC), a statutory authority established under chapter 39.58 RCW that governs public depositaries and provides that "All public funds deposited in public depositaries, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in the chapter." Effective July 1, 2009, all public depositaries were required to pledge securities at 100% of their public deposits not covered by FDIC insurance. The PDPC constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositaries within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance. The custodial credit risk for deposits is the risk that Water Quality's deposits may not be returned to it in the event of a bank failure.

Assessing Water Quality's risk exposure, Water Quality's cash and cash equivalents balance of $624.9 million and $567.6 million were fully invested in the Pool as of December 31, 2015 and 2014, respectively. The County had demand deposits of $30.7 million and $104.1 million as of December 31, 2015 and 2014, respectively, in fully insured and collateralized depository accounts at U.S. Bank and other banks under FDIC and PDPC as set out above.

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, 2015, the Pool was not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (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 (Continued)

The Pool's policies limit the maximum amount that can be invested in various securities. At 2015 and 2014 year-end the Pool was in compliance. The Pool's actual composition, as of December 31, 2015 and 2014, is as follows (in thousands):

	2015		2014	
Investment Type	Fair Value	Allocation Percentage	Fair Value	Allocation Percentage
Repurchase agreements	$ 175,000	2.83%	$ 144,000	2.75%
Commercial paper	221,744	3.59%	164,989	3.15%
U.S. agency discount notes	1,120,318	18.15%	559,230	10.67%
Bank notes	732,896	11.87%	169,536	3.23%
Bank notes floating rate	59,952	0.97%	-	0.00%
U.S. treasury notes	2,274,494	36.84%	1,839,864	35.11%
U.S. agency notes	1,250,334	20.25%	1,798,259	34.31%
U.S. agency collateralized mortgage obligations	7,212	0.12%	8,629	0.16%
State treasurer's investment pool	332,121	5.38%	556,391	10.62%
	$ 6,174,071	100.00%	$ 5,240,898	100.00%

Custodial Credit Risk – Investments – Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. County policy mandates that all security transactions, including repurchase agreements, are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party custodian banks. Exempt from the DVP policy are Certificates of Deposits (CDs) and funds placed with the State of Washington Local Government Investment Pool.

Concentration of Credit Risk – Investments – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issue. At 2015 year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issuers: Federal Home Loan Mortgage Corporation, 5.3 percent, Federal National Mortgage Association, 6.5 percent, Federal Home Loan Bank, 10.9 percent, and Federal Farm Credit Bank, 15.8 percent.

The issues with concentrations greater than 5 percent of the pool portfolio at 2014 year-end were as follows: Federal Home Loan Mortgage Corporation, 11.3 percent, Federal National Mortgage Association, 13.1 percent, Federal Home Loan Bank, 13.6 percent, Federal Farm Credit Bank, 7.1 percent and Wells Fargo Bank, 5.0 percent.

Note 2 – Deposits and Investments (Continued)

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 0.936 years and 1.261 years at December 31, 2015 and 2014, respectively.

All securities are reported at fair value. Fair value reports are prepared monthly and distributed to all Pool participants. The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period.

Note 3 – Restricted Assets

A significant portion of Water Quality's assets is restricted as to use by legal and contractual provisions and by fiscal management policy. Restricted assets comprise $394.6 million at December 31, 2015 and $363.5 million at December 31, 2014 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 $2.4 million at December 31, 2015 and 2014, respectively. The details of restricted and unrestricted cash and cash equivalents as of December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Unrestricted cash and cash equivalents		
Operating funds	$ 19,920	$ 21,411
Construction funds	40,787	11,417
Bond funds	136,749	138,816
Policy reserves	32,893	32,420
Total unrestricted cash and cash equivalents	230,349	204,064
Restricted cash and cash equivalents		
Bond reserves	166,128	174,094
SRF loan reserves	9,204	8,524
Bond proceeds committed to construction	23,595	-
Retainage	2,766	2,352
Rate stabilization reserve	46,250	34,250
Legally restricted funds	146,637	144,299
Total restricted cash and cash equivalents	394,580	363,519
Total cash and cash equivalents	$ 624,929	$ 567,583

Note 4 – Risk Management

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

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

During 2015 and 2014, Water Quality claims paid by the Insurance Fund of King County were $130 thousand and $1.5 million, respectively. In the past three years there was no occurrence that resulted in payment in excess of the self-insured retention of $7.5 million.

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, 2015, bonds outstanding include $2,930.2 million of serial and term bonds maturing from January 1, 2016 through January 1, 2052, bearing interest at stated rates of 1.00 percent to 5.75 percent per annum.

On February 18, 2015, the County issued $474.0 million in sewer revenue bonds, Series A, with an effective interest cost of 3.6 percent to advance refund $475.3 million of outstanding 2007, 2008, and 2009 sewer revenue bonds with an average coupon interest rate of 5.2 percent. The reacquisition price exceeded the net carrying amount of the old debt by $54.3 million. This advance refunding was undertaken to reduce total debt service payments by $127.7 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $65.6 million.

Note 5 – Long-Term Liabilities and Notes Payable (Continued)

On November 17, 2015, the County issued $93.3 million in sewer revenue bonds, Series B, with an effective interest cost of 3.4 percent, to currently refund $24.1 million of outstanding 2006 sewer revenue bonds with a coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the old debt by $409 thousand. This current refunding was undertaken to reduce total debt service payments by $3.8 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $3.4 million.

On November 24, 2015, the County issued $100.0 million in junior lien sewer revenue bonds, Series A and B, maturing on January 1, 2046 to redeem all of its outstanding notes payable from its commercial paper program. The bonds bear interest at a rate of 2.0 percent through November 16, 2016, at which time they are subject to mandatory purchase by the County after which they may be remarketed in weekly or other Interest Rate Modes. The bonds are classified as a current liability as of December 31, 2015.

On July 8, 2014, the County issued $75.0 million in sewer revenue refunding bonds, 2014A, with an effective interest cost of 4.2 percent to purchase $75.0 million of outstanding sewer revenue bonds, 2007, with an average coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the old debt by $3.5 million. The transaction resulted in an economic gain of $5.3 million, the difference between the present values of the old and new debt service payments and the difference between the issue price of the 2014A bond and the purchase price of the 2007 bond.

On August 12, 2014, the County issued $192.5 million in sewer revenue bonds, 2014B, with an effective interest cost of 3.4 percent to advance refund $195.9 million of outstanding 2004B, 2006-1, 2006-2, 2007 and 2008 sewer revenue bonds with an average coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the old debt by $15.8 million. This advance refunding was undertaken to reduce total debt service payments by $32.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $20.1 million.

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. As of December 31, 2015, Water Quality is in compliance with the combined amount required for the reserve and surety policies.

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, 2015
2001A-B Junior Lien Variable	1/1/32	(variable)	$ 100,000	$ 100,000
2006 Refunding	1/1/36	5.00%	124,070	-
2006 (2nd Series) Refunding	1/1/36	3.50-5.00%	193,435	127,035
2007	1/1/47	5.00%	250,000	3,585
2008	1/1/48	5.00-5.75%	350,000	5,550
2009	1/1/42	4.00-5.25%	250,000	215,480
2010	1/1/50	2.00-5.00%	334,365	315,985
2011	1/1/41	5.00-5.125%	175,000	168,495
2011 Series B	1/1/41	1.00-5.00%	494,270	408,615
2011 Series C	1/1/35	3.00-5.00%	32,445	32,445
2011 Sewer Junior Lien Variable	1/1/42	(variable)	100,000	100,000
2012A Refunding	1/1/52	5.00%	104,445	104,445
2012B Refunding	1/1/35	4.00-5.00%	64,260	64,260
2012C Refunding	1/4/33	2.50-5.00%	65,415	65,415
2012 Sewer Junior Lien Variable	1/1/43	(variable)	100,000	100,000
2013A Refunding	1/1/35	2.00-5.00%	122,895	117,560
2013B Revenue and Refunding	1/1/44	2.00-5.00%	74,930	68,135
2014A Refunding	1/1/47	5.00%	75,000	75,000
2014B Refunding	7/1/35	1.00-5.00%	192,460	190,790
2015 Sewer Junior Lien Variable	11/16/16	2.00%	100,000	100,000
2015A Refunding	7/1/47	3.00-5.00%	474,025	474,025
2015B Refunding	1/1/46	4.00-5.00%	93,345	93,345
			$ 3,870,360	$ 2,930,165

General Obligation Bonds – As of December 31, 2015, bonds outstanding include $765.4 million of serial and term bonds maturing January 1, 2016 through 2040, bearing interest at stated rates of 2.00 percent to 5.25 percent per annum.

Certain serial bonds cannot be redeemed prior to maturity; other bonds may be redeemed after the lapse of specific periods of time.

On February 18, 2015, the County issued $247.8 million in general obligation refunding bonds, Series A, with an effective interest cost of 3.3 percent to advance refund $252.9 million of 2009 general obligation bonds, with an average coupon interest rate of 5.1 percent. The reacquisition price exceeded the net carrying amount of the old debt by $36.6 million. This advance refunding was undertaken to reduce total debt service payments by $31.9 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $21.5 million.

Note 5 – Long-Term Liabilities and Notes Payable (Continued)

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2015
2008 LTGO	1/1/34	3.25-5.25%	$ 236,950	$ 216,540
2009B LTGO	7/1/39	5.00-5.25%	300,000	35,135
2010A-B Multi-Modal LTGO	1/1/40	(variable)	100,000	100,000
2012A LTGO	1/1/25	2.00-5.00%	68,395	67,755
2012B LTGO	1/1/29	5.00%	41,725	41,725
2012C LTGO	1/1/34	5.00%	53,405	53,405
2012F LTGO	12/1/22	2.20%	3,010	3,010
2015A LTGO	7/1/38	2.00-5.00%	247,825	247,825
			$ 1,051,310	$ 765,395

State Loans – Water Quality has received loans from the Washington Department of Ecology under the Water Pollution Control State Revolving Fund Loan Program and the Washington Public Works Trust Fund. The loans require annual payments of principal and interest from 2016 through 2036 and bear interest at stated rates from 0.0 percent to 3.1 percent. As of December 31, 2015, the balance due on all state loans is $179.4 million. Water Quality maintains separate cash reserves of $9.2 million as of December 31, 2015. These reserves are treated as restricted, being required under the Revolving Fund Loan Program.

At December 31, 2015, 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, 2016	$ 156,910	$ 130,957	$ 9,520	$ 36,771	$ 12,121	$ 3,593	$ 349,872
January 1, 2017	45,965	128,244	21,105	36,033	12,944	3,376	247,667
January 1, 2018	51,785	126,062	22,140	34,952	13,160	3,145	251,244
January 1, 2019	52,690	123,684	23,225	33,820	13,437	2,909	249,765
January 1, 2020	54,980	121,183	32,160	32,632	13,178	2,671	256,804
January 1, 2021–2025	302,500	564,385	144,485	142,052	58,726	9,877	1,222,025
January 1, 2026–2030	388,050	478,761	180,600	102,198	33,835	4,861	1,188,305
January 1, 2031–2035	606,230	354,415	175,780	56,561	21,553	1,222	1,215,761
January 1, 2036–2040	448,415	231,278	156,380	26,896	434	1	863,404
January 1, 2041–2045	588,235	109,894	-	-	-	-	698,129
January 1, 2046–2050	215,145	26,331	-	-	-	-	241,476
January 1, 2051–2052	19,260	975	-	-	-	-	20,235
	$ 2,930,165	$ 2,396,169	$ 765,395	$ 501,915	$ 179,388	$ 31,655	$ 6,804,687

Note 5 – Long-Term Liabilities and Notes Payable (Continued)

The future annualized interest payments for the variable rate revenue bonds are based on an interest rate of 4.5 percent in 2015 and 5.40 percent thereafter, which represents 90 percent of the long-term interest rate assumed by the County for financial planning purposes.

Commercial Paper (Notes Payable) – On November 24, 2015, Water Quality redeemed all of its outstanding commercial paper from the proceeds of the junior lien sewer revenue bonds, 2015 Series A and B, thereby ending the program. Water Quality initiated the commercial paper program in December 1995, with the ability to issue up to $100.0 million. The program was supported by an annually renewable line of credit that expired on November 30, 2015. The commercial paper had maturities ranging between 61 and 92 days and was classified as a current liability of Water Quality's operating fund as of December 31, 2014. Changes in short-term note payables for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
Commercial paper	$ 100,000	$ 621,280	$ (721,280)	$ -

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014
Commercial paper	$ 100,000	$ 411,110	$ (411,110)	$ 100,000

Variable Rate General Obligation and Revenue Bonds – The variable rate bonds, 2001 Series A and Series B revenue bonds are supported by a periodically renewable letter of credit that expires September 30, 2020. The variable rate bonds, 2010 Series A and Series B general obligation bonds are supported by a Standby Bond Purchase Agreement that expires November 3, 2017. The variable rate bonds, 2011, 2012 and fixed rate 2015 Series A and Series B Sewer Jr Lien do not have liquidity facilities.

Financial Policy Reserves – In addition to bond reserves related to Sewer Revenue Bonds, Water Quality maintains liquidity and asset management reserves totaling $32.9 million at December 31, 2015.

Compliance with Bond Resolutions – With respect to the year ended December 31, 2015, 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, 2015 and 2014 was as follows (in thousands):

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Bonds payable	$ 3,593,310	$ 915,195	$ (812,945)	$ 3,695,560	$ 166,430
Bond premiums and discounts	190,669	103,237	(19,197)	274,709	-
Total bonds payable	3,783,979	1,018,432	(832,142)	3,970,269	166,430
State loans	159,053	31,563	(11,228)	179,388	12,121
Compensated absences	11,484	10,208	(10,427)	11,265	642
Other post-employment benefits	1,351	190	(74)	1,467	-
Net pension liability	29,193	25,796	(16,104)	38,885	-
Environmental remediation	44,800	13,241	(5,743)	52,298	8,477
Total long-term liabilities	$ 4,029,860	$ 1,099,430	$ (875,718)	$ 4,253,572	$ 187,670

	Balance January 1, 2014 (As Restated)	Additions	Reductions	Balance December 31, 2014 (As Restated)	Due Within One Year
Bonds payable	$ 3,654,340	$ 267,460	$ (328,490)	$ 3,593,310	$ 60,615
Bond premiums and discounts	177,554	33,209	(20,094)	190,669	-
Total bonds payable	3,831,894	300,669	(348,584)	3,783,979	60,615
State loans	146,672	22,343	(9,962)	159,053	11,133
Compensated absences	11,312	10,465	(10,293)	11,484	565
Other post-employment benefits	1,195	219	(63)	1,351	-
Net pension liability	46,706	21,820	(39,333)	29,193	-
Environmental remediation	44,560	5,180	(4,940)	44,800	5,632
Total long-term liabilities	$ 4,082,339	$ 360,696	$ (413,175)	$ 4,029,860	$ 77,945

Note 6 – Changes in Capital Assets

Changes in capital assets for the years ended December 31, 2015 and 2014 are shown in the following table (in thousands):

	Balance January 1, 2015	Increases	Decreases	Balance December 31, 2015
Land	$ 242,993	$ 10,542	$ -	$ 253,535
Easements	11,720	3,143	-	14,863
Construction work in progress	282,785	138,085	(100,910)	319,960
Total nondepreciable assets	537,498	151,770	(100,910)	588,358
Buildings	1,871,986	45,676	(2,422)	1,915,240
Improvements other than building	67,321	26,925	-	94,246
Artwork	5,572	73	-	5,645
Right of way	7,635	-	-	7,635
Infrastructure	2,259,362	-	(21,231)	2,238,131
Equipment	1,038,783	46,142	(13,283)	1,071,642
Software development	35,603	11	-	35,614
Total depreciable assets	5,286,262	118,827	(36,936)	5,368,153
Accumulated depreciation and amortization				
Building	(606,698)	(50,901)	2,025	(655,574)
Improvements other than building	(23,263)	(2,730)	-	(25,993)
Artwork	(668)	(206)	-	(874)
Right of way	(709)	(218)	-	(927)
Infrastructure	(483,397)	(47,367)	114	(530,650)
Equipment	(560,247)	(58,569)	12,716	(606,100)
Software development	(25,911)	(3,963)	-	(29,874)
Total depreciation and amortization	(1,700,893)	(163,954)	14,855	(1,849,992)
Depreciable assets - net	3,585,369	(45,127)	(22,081)	3,518,161
Total capital assets - net	$ 4,122,867	$ 106,643	$ (122,991)	$ 4,106,519

Note 6 – Changes in Capital Assets (Continued)

	Balance January 1, 2014	Increases	Decreases	Balance December 31, 2014
Land	$ 240,391	$ 2,602	$ -	$ 242,993
Easements	11,469	251	-	11,720
Construction work in progress	316,142	141,595	(174,952)	282,785
Total nondepreciable assets	568,002	144,448	(174,952)	537,498
Building	1,829,718	42,268	-	1,871,986
Improvements other than building	65,593	1,728	-	67,321
Artwork	5,579	52	(59)	5,572
Right of way	7,635	-	-	7,635
Infrastructure	2,146,454	112,908	-	2,259,362
Equipment	1,047,837	24,772	(33,826)	1,038,783
Software development	33,308	2,295	-	35,603
Total depreciable assets	5,136,124	184,023	(33,885)	5,286,262
Accumulated depreciation and amortization				
Building	(557,275)	(49,423)	-	(606,698)
Improvements other than building	(20,830)	(2,433)	-	(23,263)
Artwork	(512)	(156)	-	(668)
Right of way	(491)	(218)	-	(709)
Infrastructure	(437,331)	(46,066)	-	(483,397)
Equipment	(536,948)	(55,549)	32,250	(560,247)
Software development	(22,380)	(3,531)	-	(25,911)
Total depreciation and amortization	(1,575,767)	(157,376)	32,250	(1,700,893)
Depreciable assets - net	3,560,357	26,647	(1,635)	3,585,369
Total capital assets - net	$ 4,128,359	$ 171,095	$ (176,587)	$ 4,122,867

Note 7 – Environmental Remediation

Water Quality operations are subject to rules and regulations enacted by the Washington State Department of Ecology (DOE) and the U.S. Environmental Protection Agency (EPA).

Water Quality follows GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations (GASB 49), which mandates the disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB 49 establishes five events, any one of which obligates Water Quality to record a liability for pollution remediation expenditures. Liabilities are related to ongoing projects, which include the sediment management of aquatic habitats along Elliot Bay and the clean-up of certain sites along the Lower Duwamish Waterway (LDW). Environmental remediation costs that incurred prior to implementation of GASB 49 were capitalized and amortized over 40 years.

Note 7 – Environmental Remediation (Continued)

The Sediment Management Project has been approved by the Metropolitan King County Council as a self-obligated 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 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, 2015 stands at $52.3 million and $44.8 million in 2014.

The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

The methodology for estimating liabilities continues to be based on Water Quality engineering analysis, program experience and cost estimates for the remediation activities scheduled to be undertaken in future years as programmed under Water Quality's Regional Wastewater Services Plan. Certain costs were developed by consulting engineers. Costs were estimated using the expected cash flow method set out by GASB 49. For the LDW project, a weighted average method is used to calculate the liability. The Sediment Management Plan does not employ weighted average cost estimation because the remaining work is well-defined and negates the utility of multiple estimates. The cost estimates continue to be re-measured as succeeding benchmarks are reached or when cost assumptions are modified. All pollution remediation obligations are being deferred as permitted by regulatory accounting standards (see Note 8 – Regulatory Assets and Credits).

Note 8 – Regulatory Assets and Credits

The King County Council has taken various regulatory actions resulting in differences between the recognition of revenues for rate-making purposes and their treatment under generally accepted accounting principles for nonregulated entities. Changes to these balances and their inclusion in rates may occur only at the direction of the Council.

Rate Stabilization – In 2005, the Council established a Rate Stabilization Reserve. This action created a deferred inflow of resource which deferred operating revenue to be set aside in a reserve and recognized in subsequent years to maintain stable sewer rates. The reserve was $34.3 million in 2014 and increased by $12.0 million to $46.3 million in 2015.

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 seven years.

Note 9 – Employee Benefit Plans

The County implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension, for the year 2015. In accordance with the statement, the County elected to use June 30, 2015 as the measurement date for reporting net pension liability.

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 (in thousands):

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	38,885
Deferred outflows of resources	$	4,987
Deferred inflows of resources	$	6,984
Pension expense/expenditures	$	4,190

Pension Plans – Substantially all full-time and qualifying part-time employees of Water Quality participate in one of the following retirement plans: Public Employees' Retirement System (PERS) Plan 1, 2 and 3.

PERS is administered by the Washington State Department of Retirement Systems (DRS) under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all statewide public retirement systems.

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

Note 9 – Employee Benefit Plans (Continued)

The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-838

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 2015 were as follows:

PERS Plan 1

Actual contribution rates:	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

Note 9 – Employee Benefit Plans (Continued)

Water Quality's actual contributions to the plan were as follows for the years ended December 31 (in thousands):

	PERS Plan 1
2015	$ 78
2014	$ 88

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Note 9 – Employee Benefit Plans (Continued)

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual contribution rates:	Employer 2/3	Employee 2
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%
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
2015	$ 5,705
2014	$ 5,020

Actuarial Assumptions – The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Note 9 – Employee Benefit Plans (Continued)

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

Discount Rate – The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return – The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Note 9 – Employee Benefit Plans (Continued)

Estimated Rates of Return by Asset Class – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20.00%	1.70%
Tangible assets	5.00%	4.40%
Real estate	15.00%	5.80%
Global equity	37.00%	6.60%
Private equity	23.00%	9.60%
	100.00%	

Sensitivity of NPL – The table below presents Water Quality's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what Water Quality's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate (in thousands).

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 20,644	$ 16,956	$ 13,785
PERS 2/3	$ 64,119	$ 21,929	$ (10,376)

Pension Plan Fiduciary Net Position – Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, Water Quality reported a total pension liability of $38.9 million for its proportionate share of the net pension liabilities as follows (in thousands):

	Liability
PERS 1	$ 16,956
PERS 2/3	$ 21,929

Note 9 – Employee Benefit Plans (Continued)

At June 30, Water Quality's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.33%	0.32%	-0.01%
PERS 2/3	0.62%	0.61%	-0.01%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense – For the year ended December 31, 2015, Water Quality recognized pension expense as follows (in thousands):

	Pension Expense
PERS 1	$ (945)
PERS 2/3	5,135
Total	$ 4,190

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2015, Water Quality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments.	$ -	$ 928
Contributions subsequent to the measurement date.	901	-
Total	$ 901	$ 928

Note 9 – Employee Benefit Plans (Continued)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience.	$ 2,331	$ -
Net difference between projected and actual investment earnings on pension plan investments.	35	5,854
Changes in proportion and differences between contributions and proportionate share of contributions.	-	202
Contributions subsequent to the measurement date.	1,720	-
Total	$ 4,086	$ 6,056

Deferred outflows of resources related to pensions resulting from Water Quality's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year Ending December 31,	PERS 1	PERS 2/3
2016	$ (360)	$ (1,649)
2017	$ (360)	$ (1,649)
2018	$ (360)	$ (1,649)
2019	$ 152	$ 1,257

Note 10 – Other Post-Employment Benefits

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension, requires the County to accrue other post-employment benefits (OPEB) expenses related to its post-retirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded accrued liabilities. The liability is included in noncurrent liabilities on the statements of net position for Water Quality.

Plan Description – The King County Health Plan (the Health Plan) is a single-employer defined benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible employees. The Health Plan's actuary is Healthcare Actuaries and it does not issue a separate stand-alone financial report.

Note 10 – Other Post-Employment Benefits (Continued)

Funding Policy – Law Enforcement Officers' and Fire Fighters' Retirement System Plan (LEOFF) 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan. Water Quality contributed an estimated $74 thousand and $63 thousand to the Health Plan during both 2015 and 2014, respectively. The contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to advance fund the cost of benefits.

Annual OPEB and Net OPEB Obligation – The basis of the County's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, the actuary projects will cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Water Quality's allocated annual OPEB costs, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Normal cost - Unit Credit Method	$ 165	$ 193
Amortization of unfunded actuarial accrued liability (UAAL)	32	32
Annual Required Contribution (ARC)	197	225
Interest on net OPEB obligation	5	4
Adjustment to annual required contribution	(12)	(10)
Annual OPEB cost (expense)	190	219
Contributions made	(74)	(63)
Increase in net OPEB obligation	116	156
Net OPEB obligation - beginning of year	1,351	1,195
Net OPEB obligation - end of year	$ 1,467	$ 1,351

Water Quality's allocated annual OPEB costs, the percentage of annual OPEB costs contributed to the Health Plan, and the net OPEB obligation were as follows (in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	$ 190	38.9%	$ 1,467
12/31/2014	$ 219	29.0%	$ 1,351
12/31/2013	$ 219	29.2%	$ 1,195

Note 10 – Other Post-Employment Benefits (Continued)

Actuarial Methods and Assumptions – The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the County and members of the Health Plan) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and Members of the Health Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2015 valuation used the projected unit credit actuarial cost method. The actuarial assumptions included a 2.5 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 7.0 percent for KingCare medical, 9.0 percent for KingCare pharmacy, and 7.0 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 3.8 percent after 59 years and 7 years for medical and pharmacy, respectively. The Medicare Premium trend rate is 6.0 percent, for all years. All trend rates include a 3.0 percent inflation assumption. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 22 years.

Note 11 – Interfund Balances and Transfers

Water Quality is an enterprise fund of the County and reports in its financial statements interfund balances and transfers as a result of intracounty activity with other County agencies.

Interfund Balances – The balances result from the time lag between the dates when interfund goods and services were provided or reimbursable expenditures incurred and when interfund payments were made, Water Quality reported total due from other funds of $1.2 million and due to other funds of $111 thousand at December 31, 2015. Water Quality had $1.2 million due from other funds at December 31, 2014.

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 2015 and 2014, the transfers from Water Quality to other funds were $115 thousand and $173 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 $70.9 million on active construction contracts as of December 31, 2015.

Note 12 – Commitments and Contingencies (Continued)

Contingencies and Claims – The following litigation, or potential litigation, may involve claims for material damages against the King County Water Quality Enterprise Fund for which Water Quality is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- An administrative order issued by the Environmental Protection Agency (EPA) that required King County, the City of Seattle, Boeing, and the Port of Seattle to conduct studies to determine the nature and extent of contamination in the Lower Duwamish Waterway. The County and the other three parties recently agreed with EPA to amend the administrative order and to conduct additional studies pursuant to the amendment. The Feasibility Study, which discusses the remediation alternatives, has been issued in final form by EPA. EPA issued a Record of Decision (ROD) in the latter part of 2014. The ROD contains EPA's final plan for cleanup of the Lower Duwamish Waterway. King County and a number of other parties are participating in an alternative dispute resolution process, called an allocation, to determine shares of liability for the costs of the cleanup. If parties that participate in the allocation accept their allotted shares, they then expect to enter into a settlement agreement and to negotiate a consent decree with EPA to implement the cleanup. Due to the fact that the parties do yet know their respective shares of cleanup costs and no consent decree has been negotiated with EPA, the County is unable to determine the schedule or cost of any required remediation. In addition, the County is unable to determine the extent to which King County and the Wastewater Treatment Division (WTD) or Water Quality will be responsible for the cost of such remediation.

- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. Water Quality has already performed interim cleanup costing $3.6 million to comply with a formal agreement with the Washington State Department of Ecology (DOE). There are no current plans underway for additional cleanup; however, under WAC 173-204, monitoring will be implemented at the site. DOE has reserved the right to require additional or different remedial actions at the site. The County is unable to determine an amount, if any, for which Water Quality may be responsible.

- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The City of Seattle, Port of Seattle and King County intend to negotiate the amount, if any, that the City and the County will contribute. This is an extremely complex negotiation for which the County is unable to determine an amount that Water Quality may be responsible for, if any. The parties have also agreed to share the cost of a supplemental investigation and feasibility study required by the EPA. The agreement states that Water Quality has only a one-third pro rata share of the study costs although that portion may still be reallocated among the parties or with other Potentially Responsible Parties (PRP) who may agree to participate in the study. The parties may also seek contribution from other PRP's for the cost of the study. The EPA will not determine if, or the nature of, any additional remediation until the study is completed by the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the study has been completed.

Note 12 – Commitments and Contingencies (Continued)

- Water Quality has undertaken a capital project to replace a major sewer pipe running under the Ship Canal between Fremont and Queen Anne. The contractor has submitted a claim to perform the south shaft excavation for the exit shaft for the tunnel boring machine that will bore under the Ship Canal from Fremont across the canal to Queen Anne, in the vicinity of Seattle Pacific University and the King County Laboratory. The amount the contractor claims for itself and the subcontractor is $1.4 million.

- A series of requests for change orders and claims for damages from the prime contractor for the Brightwater Treatment Plant central conveyance system alleging differing site conditions and defective specifications. The County vigorously defended against the claims and filed suit alleging contract default by the contractor for failure to complete the contract work within time limits. The County received a jury verdict of $155 million on December 21, 2012. The contractor received a verdict of $26.2 million. Rulings on post-trial motions were issued on April 19, 2013, leaving in place the verdict amounts. The rulings also awarded the County additional $14.7 million for its legal costs. While the contractor has paid the net judgment amount, it continued to appeal the judgment to the Court of Appeals who affirmed the superior court decision. On January 28, 2016, the contractor petitioned the Washington Supreme Court for review of the defective specification ruling, and the surety defendants petitioned for review of the attorney fees award. The County answered the petition advocating denial of review because the trial court rulings on both issues are consistent with Washington precedent.

- A claim submitted by a contractor against Water Quality over the project to repair and replace two miles of pipeline serving the rapidly developing area in the vicinity of Canyon Park. The project is subject to an agreement with DOE that mandates a bypass system be constructed if this capital project is not completed by the onset of the 2016 wet season. The contractor has submitted a request for change order based on its assertion that the design of the rammed pipe alignment is defective. The amount claimed for costs for additional work at this time is approximately $1.5 million.

Note 13 – Subsequent Event

In February 2016, Water Quality issued $281.5 million of sewer revenue refunding bonds, 2016 series A, to advance refund $278.8 million of outstanding 2007, 2008, 2009 and 2010 sewer revenue bonds with an average coupon interest rate of 5.1 percent. This advance refunding was undertaken to reduce total debt service payments by $65.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $39.6 million.

Note 14 – Restatement of Beginning Balances

Due to Water Quality's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, the 2014 financial statements and its net position as of January 1, 2014 were restated to conform with 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			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of pension	$ -	$ 2,087	$ 2,087
NONCURRENT LIABILITIES			
Net pension liability	$ -	$ (29,193)	$ (29,193)
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows on pension	$ -	$ (15,368)	$ (15,368)
NET POSITION - December 31, 2014	$ 555,104	$ (42,474)	$ 512,630
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING EXPENSES			
General and administrative	$ 23,728	$ (2,187)	$ 21,541
NET POSITION			
Beginning of the year	$ 559,903	$ (44,661)	$ 515,242

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)

		2015
County's proportion of the net pension liability/(asset)		8.76%
County's proportionate share of the net pension liability/(asset)	$	458,477
County's covered-employee payroll	$	20,440
County's proportionate share of the net pension liability/(asset) as a percentage of covered-employee payroll		2243.04%
Plan fiduciary net position as a percentage of the total pension liability/(asset)		59.10%

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

Schedule of the County's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30*
(dollars in thousands)

		2015
County's proportion of the net pension liability/(asset)		10.36%
County's proportionate share of the net pension liability/(asset)	$	370,294
County's covered-employee payroll	$	933,304
County's proportionate share of the net pension liability/(asset) as a percentage of covered-employee payroll		39.68%
Plan fiduciary net position as a percentage of the total pension liability/(asset)		89.20%

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

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Year Ended December 31, 2015
(dollars in thousands)

Contractually required contribution	$	2,076
Contributions in relation to the contractually required contribution		2,076
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	20,440
Contributions as a percentage of covered-employee payroll		10.16%

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

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Year Ended December 31, 2015
(dollars in thousands)

Contractually required contribution	$	95,176
Contributions in relation to the contractually required contribution		95,176
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	933,304
Contributions as a percentage of covered-employee payroll		10.20%

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

Schedule of Funding Progress for the Plan
(in thousands)

Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) ÷ c)
2013	12/31/2013	$ -	$ 167,420	$ 167,420	0.0%	$ 1,000,353	16.7%
2014	12/31/2014	$ -	$ 167,420	$ 167,420	0.0%	$ 1,073,511	15.6%
2015	12/31/2015	$ -	$ 167,417	$ 167,417	0.0%	$ 1,076,068	15.6%

OTHER INFORMATION

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)	1.48

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)	1.36

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)	1.28

In 2001, Water Quality issued an additional tier of revenue bonds. The bond covenants of the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, require that sewage disposal rates provide net revenue equal to at least 1.10 times the annual debt service requirements for all Junior Lien obligations after payment of senior lien requirements. In 2010, Water Quality issued Multi-Modal Limited Tax General Obligation Sewer Revenue Bonds, series 2010A and 2010B which incorporate the identical requirement as Junior Lien obligations. In 2011 and 2012, Water Quality issued $100M of Junior Lien Variable Rate Demand Sewer Revenue Bonds which incorporate the identical requirement as Junior Lien obligations. In 2015, Water Quality issued $100M of Junior Lien Fixed Rate Sewer Revenue Bonds which incorporate the identical requirement as Junior Lien obligations.

Coverage (1.10 required by covenant)	36.33

APPENDIX D

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 June 30, 2016, the Investment Pool had a balance of $6.2 billion and an effective duration of 0.91 years, and 61% 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 with a maximum of 5% per issuer across investment types;

(vi) up to 20% in general obligation municipal bonds with a maximum of 5% per issuer;

(vii) up to 25% in mortgage-backed securities issued by agencies of the U.S. Government which pass the Federal Financial Institutions Examination Council (“FFIEC”) suitability test that banks use to determine lowest risk securities;

(viii) up to 20% in bank corporate notes with a maximum of 5% per issuer across investment types; and

(ix) up to 25% in the State’s Local Government Investment Pool.

The combined total of repurchase agreements greater than overnight, bankers’ acceptances, CDs, commercial paper, and bank corporate notes must not exceed 50% of Investment Pool assets. The County currently does not purchase structured notes or inverse floating rate notes, and has no intention of doing so in the near future.

The County’s entire investment policy is located on the County’s website at the following link:

www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx

APPENDIX E

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 twelfth most populated county in the United States. Of the State's population, nearly 30% reside in King County, and of the County's population, 32% live in the City of Seattle ("Seattle"). Seattle is the largest city in the Pacific Northwest, the County seat, and the center of the County's economic activity. Bellevue is the State's fifth largest city and the second largest in the County, and is the center of the County's eastside business and residential area.

Population

Historical and current population figures for the State of Washington, the County, the two largest cities in the County, and the unincorporated areas of the County are given below.

POPULATION

Year	Washington	King County	Seattle	Bellevue	Unincorporated King County
1980 (1)	4,130,163	1,269,749	493,846	73,903	503,100
1990 (1)	4,866,692	1,507,319	516,259	86,874	NA
2000 (1)	5,894,121	1,737,034	563,374	109,827	349,773
2010 (1)	6,724,540	1,931,249	608,660	122,363	325,000
2012 (2)	6,817,770	1,957,000	616,500	124,600	255,720
2013 (2)	6,882,400	1,981,900	626,600	132,100	253,100
2014 (2)	6,968,170	2,017,250	640,500	134,400	252,050
2015(2)	7,061,410	2,052,800	662,400	135,000	253,280
2016(2)	7,183,700	2,105,000	686,800	139,400	245,920

(1) Source: U.S. Department of Commerce, Bureau of Census
(2) Source: State of Washington, Office of Financial Management

Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division ("MD") (the cities of Seattle, Bellevue, and Everett), the County, the State, and the United States.

PER CAPITA INCOME

	2010	2011	2012	2013	2014
Seattle MD	$ 52,926	$ 55,637	$ 59,903	$ 59,824	$ 62,481
King County	57,930	60,876	66,138	65,990	68,877
State of Washington	42,821	44,800	47,344	47,468	49,610
United States	40,277	42,453	44,266	44,438	46,049

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Construction

The table below lists the value of housing construction for which building permits have been issued by entities within King County. The value of public construction is not included in this table.

RESIDENTIAL BUILDING PERMIT VALUES

	New Single Family Units		New Multi-Family Units		
Year	**Number**	**Value**	**Number**	**Value**	**Total Value**
2010	2,532	$ 694,969,240	3,425	$ 325,068,029	$ 1,020,037,269
2011	2,765	785,840,283	3,378	431,699,572	1,217,539,855
2012	3,864	1,133,343,731	7,750	1,118,023,021	2,251,366,752
2013	4,419	1,419,065,243	7,858	1,053,237,846	2,472,303,089
2014	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
2015(1)	2,374	913,911,487	9,061	1,317,288,406	2,231,199,893
2016(1)	2,749	1,037,054,946	6,212	788,295,596	1,825,350,542

(1) Estimated through July.

Source: U.S. Bureau of the Census

Retail Activity

The following table presents taxable retail sales in King County and Seattle.

KING COUNTY AND SEATTLE
TAXABLE RETAIL SALES

Year	King County	Seattle
2011	$ 40,846,119,020	$ 15,751,585,858
2012	43,506,804,227	17,162,539,275
2013	46,601,198,766	18,258,200,683
2014	49,638,174,066	19,995,171,842
2015	54,890,159,770	22,407,443,037
2015(1)	12,088,335,636	5,009,892,962
2016(1)	13,378,793,026	5,480,078,811

Source: State Department of Revenue

Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data in 2015.

PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	Employees
The Boeing Company	80,100
Joint Base Lewis-McChord	60,000
Microsoft Corp.	41,700
Navy Region Northwest	37,700
University of Washington	34,700
Amazon.com Inc.	24,000
Wal-Mart Stores, Inc.	18,100(1)
Providence Health & Services	17,600
Fred Meyer Stores	15,900
Costco Wholesale Corp.	14,900
King County Government	14,500(2)
City of Seattle	13,300(3)
Starbucks Corp.	12,400(1)
Franciscan Health System	11,800
Swedish Health Services	11,600
MultiCare Health System	10,900

(1) Includes part-time and seasonal employment figures.

(2) Source: King County. Figure includes temporary workers.

(3) Source: City of Seattle. Figure includes temporary workers.

Source: Puget Sound Business Journal Book of Lists, 2016 (rounded)

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT[1]

	2011	2012	2013	2014	2015
Civilian Labor Force	1,115,790	1,122,920	1,137,392	1,158,219	1,177,297
Total Employment	1,025,070	1,051,504	1,081,201	1,104,926	1,124,990
Total Unemployment	90,720	71,416	56,191	53,293	52,307
Percent of Labor Force	8.1%	6.4%	4.9%	4.6%	4.4%

NAICS INDUSTRY	2011	2012	2013	2014	2015
Total Nonfarm	1,167,008	1,193,833	1,234,058	1,273,492	1,313,475
Total Private	1,002,083	1,028,400	1,066,817	1,103,958	1,139,325
Goods Producing	148,942	154,283	162,508	168,300	174,042
Mining and Logging	525	425	458	458	567
Construction	48,258	50,625	55,883	60,667	66,308
Manufacturing	100,192	103,225	106,167	107,150	107,167
Service Providing	1,018,067	1,039,550	1,071,550	1,105,192	1,139,433
Trade, Transportation, and Utilities	210,850	216,167	225,167	235,792	244,667
Information	80,183	81,017	82,617	86,058	89,400
Financial Activities	67,083	66,642	67,733	68,083	69,025
Professional and Business Services	184,567	192,525	201,042	207,433	216,083
Educational and Health Services	157,008	159,275	162,633	167,925	169,950
Leisure and Hospitality	111,075	114,850	120,575	124,575	129,675
Other Services	42,375	43,642	44,542	45,792	46,483
Government	164,925	165,433	167,242	169,533	174,150
Workers in Labor/Management Disputes	0	0	0	0	0

	July 2016
Civilian Labor Force	1,206,103
Total Employment	1,152,655
Total Unemployment	53,488
Percent of Labor Force	4.4%

(1) Columns may not add to totals due to rounding.

Source: State Employment Security Department

APPENDIX F

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The County makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered obligations, registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Bond Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the County or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the County or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.