OFFICIAL STATEMENT

RATINGS
Moody's: Aa1
S&P: AA+

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

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

$149,485,000
KING COUNTY, WASHINGTON
SEWER REFUNDING REVENUE BONDS, 2017

DATED: Date of Initial Delivery **DUE: As shown on page i**

King County, Washington (the "County"), is issuing its Sewer Refunding Revenue Bonds, 2017 (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"). DTC will act as initial Securities Depository for the Bonds. Each Bond registered in the name of DTC or its nominee will be held fully immobilized in book-entry only form by DTC in accordance with the 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 or its nominee will be deemed to be the Registered Owner, and all references to Registered Owners will mean DTC or its nominee and not the Beneficial Owners.

The Bonds will bear interest payable semiannually on January 1 and July 1, beginning January 1, 2018, to their maturities or prior redemption. The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (currently U.S. Bank National Association) (the "Registrar"). For so long as the Bonds are registered in the name of DTC or its nominee, the Registrar is required to make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to DTC participants for subsequent disbursement to Registered Owners of the Bonds as described in Appendix F—Book-Entry System.

The Bonds are being issued to refund certain bonds of the County payable from revenues of the County's sewer system (as defined herein, the "Sewer System") and to pay the administrative costs of the refunding and the costs of issuing the Bonds.

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

The Bonds are secured by a lien and charge on revenues of the Sewer System (as defined herein, "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 (as such capitalized terms are defined herein). 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 their legality by Foster Pepper PLLC, Seattle, Washington, Bond Counsel, and certain other conditions. The form of legal opinion of Bond Counsel is attached hereto as Appendix B. Certain other legal matters in connection with the preparation of this Official Statement will be passed upon for the County by Pacifica Law Group LLP, Seattle, Washington, as Disclosure Counsel to the County. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington. It is anticipated that the Bonds will be ready for delivery through the facilities of DTC in New York, New York, or to the Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about December 19, 2017.

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

J.P. Morgan

Citigroup **Siebert Cisneros Shank & Co., L.L.C.**

Dated: December 4, 2017

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

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

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

J.P. Morgan Securities LLC, Citigroup Global Markets Inc., 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 without prior notice. 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 County has prepared certain forecasted financial information included in this Official Statement. The prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information but, in the view of the County, was prepared based on reasonable assumptions. However, this prospective financial information is not fact and should not be relied upon as indicative of future results. Readers of this Official Statement are cautioned not to place undue reliance on the forecasted or prospective financial information. No independent accountant (i) has compiled, examined, or performed any procedures with respect to the forecasted or prospective financial information contained in this Official Statement, (ii) has expressed any opinion or any form of assurance on such information or its achievability, or (iii) assumes any responsibility for or any association with the prospective or forecasted financial information.

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

CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers herein are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The County takes no responsibility for the accuracy of such CUSIP numbers.

MATURITY SCHEDULE

$149,485,000
KING COUNTY, WASHINGTON
SEWER REFUNDING REVENUE BONDS, 2017

SERIAL BONDS

Due Dates	Amounts	Interest Rates (%)	Yields (%)	Prices	CUSIP Numbers
January 1, 2018	$ 2,810,000	5.00	1.14	100.127	495289 8B9
July 1, 2018	6,175,000	5.00	1.21	102.008	495289 8C7
July 1, 2019	12,660,000	5.00	1.49	105.300	495289 8D5
July 1, 2020	5,535,000	5.00	1.58	108.459	495289 8E3
July 1, 2021	4,440,000	5.00	1.65	111.451	495289 8F0
July 1, 2030	7,220,000	5.00	2.45	121.561 (1)	495289 8G8
July 1, 2031	7,575,000	5.00	2.51	120.994 (1)	495289 8H6
July 1, 2032	10,540,000	5.00	2.56	120.523 (1)	495289 8J2
July 1, 2033	12,985,000	5.00	2.61	120.055 (1)	495289 8K9
July 1, 2034	11,735,000	5.00	2.66	119.588 (1)	495289 8L7
July 1, 2035	4,155,000	5.00	2.71	119.124 (1)	495289 8M5
July 1, 2036	7,645,000	5.00	2.74	118.847 (1)	495289 8N3
July 1, 2037	8,050,000	5.00	2.77	118.570 (1)	495289 8P8

TERM BONDS

Due Dates	Amounts	Interest Rates (%)	Yields (%)	Prices	CUSIP Numbers
July 1, 2042	$ 24,400,000	5.00	2.83	118.019 (1)	495289 8Q6
July 1, 2049	23,560,000	5.00	2.91	117.289 (1)	495289 8R4

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

KING COUNTY, WASHINGTON
500 FOURTH AVENUE
SEATTLE, WASHINGTON 98104

KING COUNTY EXECUTIVE

Dow Constantine

METROPOLITAN KING COUNTY COUNCIL

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

OTHER ELECTED OFFICIALS

Dan Satterberg	Prosecuting Attorney
John Wilson	Assessor
John Urquhart(1)	Sheriff
Julie Wise	Director of Elections

DIRECTOR OF FINANCE AND BUSINESS OPERATIONS DIVISION
DEPARTMENT OF EXECUTIVE SERVICES

Ken Guy

CLERK OF THE METROPOLITAN KING COUNTY COUNCIL

Melani Pedroza

BOND COUNSEL

Foster Pepper PLLC

DISCLOSURE COUNSEL

Pacifica Law Group LLP

MUNICIPAL ADVISOR TO THE COUNTY

Piper Jaffray & Co.

REGISTRAR

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

(1) Mitzi Johanknecht was elected King County Sheriff in the November 2017 election and will take office in January 2018.

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OFFICIAL STATEMENT

$149,485,000
KING COUNTY, WASHINGTON
SEWER REFUNDING REVENUE BONDS, 2017

INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County, Washington (the "County"), of its Sewer Refunding Revenue Bonds, 2017 (the "Bonds"). The Bonds are issued under and in accordance with the provisions of chapters 35.58, 36.67, 39.46, and 39.53 of the Revised Code of Washington ("RCW") and the County Charter, and are authorized under the provisions of County Ordinance 18587, passed on October 23, 2017 (the "Bond Ordinance"), and Motion 15012 of the Metropolitan King County Council (the "County Council") passed on December 4, 2017 (the "Sale Motion"). A summary of the Bond Ordinance is attached as Appendix A.

Quotations, summaries, and explanations of constitutional provisions, statutes, ordinances, resolutions, motions, and other documents in this Official Statement do not purport to be complete and are qualified by reference to the complete text of such documents, which may be obtained from the Finance and Business Operations Division of the King County Department of Executive Services, 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, 2018, 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.

DTC will act as initial Securities Depository for the Bonds. Individual purchases may be made in book-entry form only, and purchasers will not receive certificates representing their interest in the Bonds purchased. For so long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (the "State"), currently U.S. Bank National Association (the "Registrar"). Principal of and premium, if any, and interest on each Bond registered in the name of DTC are payable in the manner set forth 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.

Interest on each Bond not registered in the name of the Securities Depository is payable by electronic transfer on the interest payment date or by check or draft of the Registrar mailed on the interest payment date to the Registered Owner of the Bond at the address appearing on the Bond Register on the Record Date. "Record Date," for this purpose, means the Registrar's close of business on the 15th day of the month preceding an interest payment date. The County is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of that Registered Owner. Principal of and premium, if any, on each Bond not registered in the name of the Securities Depository are payable upon presentation and surrender of the Bond by the Registered Owner to the Registrar at maturity or upon prior redemption in full.

Redemption of the Bonds

Optional Redemption. The Bonds maturing on and after July 1, 2030, 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, 2027, 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 maturing on July 1, 2042, and July 1, 2049, if not optionally 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:

2042 TERM BONDS

Years	Amounts
2038	$ 6,025,000
2039	6,345,000
2040	6,685,000
2041	2,605,000
2042(1)	2,740,000

2049 TERM BONDS

Years	Amounts
2043	$ 2,880,000
2044	3,030,000
2045	3,190,000
2046	3,350,000
2047	3,520,000
2048	3,700,000
2049(1)	3,890,000

(1) Maturity.

If the County redeems Term Bonds under the optional redemption provisions described above or purchases for cancellation 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 Registrar will select all other Bonds to be redeemed randomly, or in such other manner as the 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 Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner at the address appearing on the Bond Register on the Record Date. "Record Date," for this purpose, means the Registrar's close of business on the date on which the Registrar sends notice of the redemption. 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 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 Registrar will be responsible for any notice that is permitted or required to be given to the Registered Owner of any Bond registered in the name of DTC, except such notice as is required to be given by the Registrar to DTC or its nominee.

For so long as the Bonds are registered in the name of DTC or its nominee, DTC or its nominee will be deemed to be the Registered Owner for all purposes, and all references to Registered Owners will mean DTC or its nominee 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 (or any successor or substitute Securities Depository), 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 of Bonds

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

Refunding or Defeasance of Bonds

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

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

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

For purposes of the Bonds, "Government Obligations" is defined in the Bond Ordinance to mean direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

USE OF PROCEEDS

Purpose

The Bonds are being issued to refund certain bonds of the County (described below under "Refunding Plan") payable from Revenue of the System (as defined in the Bond Ordinance and under "Security and Sources of Payment for the Bonds—Lien and Charge on Revenue of the System" herein) and to pay the administrative 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 will be applied as follows (rounded to the nearest dollar):

SOURCES OF FUNDS		
Par Amount of Bonds	$	149,485,000
Parity Bond Fund Contribution		3,754,322
Reoffering Premium		24,188,355
Total Sources of Funds	$	177,427,677
USES OF FUNDS		
Deposit to Refunding Account	$	176,803,800
Costs of Issuance [(1)]		623,877
Total Uses of Funds	$	177,427,677

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

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 callable Limited Tax General Obligation Bonds (Payable from Sewer Revenues), 2009; 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 purpose of realizing debt service savings.

The following table provides information on the Refunded Bonds.

REFUNDED BONDS

Bond Component	Maturity Date	Interest Rate (%)	Par Amount		Redemption Date	Redemption Price (%)	Current CUSIP Number	Prerefunded CUSIP Number	Unrefunded CUSIP Number
Limited Tax General Obligation Bonds (Payable from Sewer Revenues), 2009									
Serial	1/1/2020	5.000	$ 7,745,000		1/1/2019	100	49474E R70		
Subtotal			$ 7,745,000						
Sewer Revenue and Refunding Bonds, 2010									
Term	1/1/2040	5.000	$ 12,535,000		7/1/2020	100	495289 6G0		
Term	1/1/2045	5.000	15,185,000		7/1/2020	100	495289 6H8		
Term	1/1/2050	5.000	19,385,000		7/1/2020	100	495289 6J4		
Subtotal			$ 47,105,000						
Sewer Revenue Bonds, 2011									
Serial	1/1/2022	5.000	$ 4,345,000		1/1/2021	100	495289 YA2		
	1/1/2028	5.250	2,330,000		1/1/2021	100	495289 6T2		
	1/1/2029	5.250	2,445,000		1/1/2021	100	495289 6U9		
	1/1/2030	5.250	2,570,000		1/1/2021	100	495289 6V7		
	1/1/2031	5.250	2,700,000		1/1/2021	100	495289 6W5		
	1/1/2032	5.250	2,830,000		1/1/2021	100	495289 6X3		
Term	1/1/2034	5.000	6,140,000		1/1/2021	100	495289 6Y1		
Term	1/1/2037	5.125	10,535,000		1/1/2021	100	495289 6Z8		
Term	1/1/2041	5.125	13,695,000		1/1/2021	100	495289 7A2		
Subtotal			$ 47,590,000						
Sewer Revenue and Refunding Bonds, 2011 Series B									
Serial	1/1/2028	5.000	$ 2,505,000	(1)	1/1/2021	100	495289 7R5	495290 AA6	495290 AF5
	1/1/2029	5.000	2,695,000	(1)	1/1/2021	100	495289 7S3	495290 AB4	495290 AG3
	1/1/2030	5.000	2,805,000	(1)	1/1/2021	100	495289 7T1	495290 AC2	495290 AH1
	1/1/2031	5.000	5,515,000	(1)	1/1/2021	100	495289 7U8	495290 AD0	495290 AJ7
Term	1/1/2034	5.000	26,335,000	(1)	1/1/2021	100	495289 7W4	495290 AE8	495290 AK4
Term	1/1/2041	5.000	8,755,000		1/1/2021	100	495289 7V6		
Subtotal			$ 48,610,000						
Sewer Revenue Refunding Bonds, 2011 Series C									
Serial	1/1/2035	5.000	$ 8,600,000		1/1/2021	100	495289 8A1		
Subtotal			$ 8,600,000						
Total			$ 159,650,000						

(1) Partial maturity.

Procedure. The County will enter into a Refunding Trust Agreement with U.S. Bank National Association, as Refunding Trustee, to provide for the refunding of the Refunded Bonds. The Refunding Trust Agreement will create an irrevocable trust fund to be held by the Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. The net proceeds of the Bonds deposited with the Refunding Trustee 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 Refunding Trustee, 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 Refunding Trustee 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.

Lien and Charge on Revenue of the System

The Bonds are secured by a statutory 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.

State law provides that the owner of a bond, such as the Bonds, the payment of which is pledged from a special fund, has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under State law, any bond owner may bring an action to compel a county to set aside and pay into the special fund, such as the Parity Bond Fund, the amount that a county is obligated to set aside and pay therein.

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

"Revenue of the System" means all the earnings, revenues, and money received by the County from or on account of the operations of the Sewer System and the income from the investment of money in the 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 Sewer System. For certain purposes described in the summary of the Bond Ordinance attached as Appendix A, deposits from the Rate Stabilization Fund into the Revenue Fund may be included in calculations of "Revenue of the System."

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

The liens on Revenue of the System 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 defined in the Bond Ordinance and described below under "Outstanding Sewer System Obligations," are junior, subordinate, and inferior to the lien and charge on Revenue of the System that secures the Parity Bonds. 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 payment of principal of and interest on the Bonds is further secured by the Parity Bond Reserve Account.

Flow of Funds

So long as any Bond is outstanding, all Revenue of the System is required to be deposited into the Revenue Fund and used and applied in the following order of priority:

(i) to pay all Operating and Maintenance Expenses;

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

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

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

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

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

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

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

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

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

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 together with other funds in the Parity Bond Reserve Account will be at least equal to the maximum Annual Parity Debt Service with respect to any calendar year (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 October 31, 2017, the balance of cash and investments in the Parity Bond Reserve Account was $150,491,113. Money in the Parity Bond Reserve Account, along with all other monies of the Sewer System, currently is held in the Investment Pool described in Appendix D. Investment of a portion of the Parity Bond Reserve Account in the Pool-Plus option described in Appendix D is currently being evaluated.

In connection with the prior issuance of Parity Bonds, the County obtained debt service reserve surety bonds (the "Surety Bonds") in the amount of $29,581,040. The Surety Bonds currently include $24,570,767 from Assured Guaranty Municipal Corp. (previously Financial Security Assurance Inc.) and $5,010,273 from National Public Finance Guaranty Corp. (previously Financial Guaranty Insurance Company).

The total balance of cash and investments and the policy amount of the Surety Bonds in the Parity Bond Reserve Account is $180,072,153. Following the issuance of the Bonds, the Reserve Requirement will be $172,187,763.

PARITY BOND RESERVE ACCOUNT

	Provider	Amount	Rating[1]	Expiration
Surety Bonds	National Public Finance Guaranty Corp.	$ 5,010,273	A3/A	2035
	Assured Guaranty Municipal Corp.	4,880,916	A3/AA	2036
	Assured Guaranty Municipal Corp.	7,189,850	A3/AA	2036
	Assured Guaranty Municipal Corp.	12,500,001	A3/AA	2047
	Subtotal	$ 29,581,040		
Cash and Investments		150,491,113		
Total		$ 180,072,153		

(1) These 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.

In June 2017, the County withdrew $10,000,000 of excess cash from the Parity Bond Reserve Account to pay for Sewer System capital improvements.

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 must 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 has reserved the right to adopt an ordinance supplemental to the Bond Ordinance to:

(i) establish one or more separate Reserve Requirements for one or more series of Parity Bonds, including the Bonds;

(ii) reduce any Reserve Requirement, including the Reserve Requirement for the Bonds, to an amount less than maximum Annual Parity Debt Service in any calendar year, including to zero; and

(iii) establish one or more separate subaccounts within the Parity Bond Reserve Account to secure one or more series of Parity Bonds, including the Bonds, with other series of Parity Bonds not being secured by such separate subaccounts.

The adoption of any such supplemental ordinance may result in the Bonds not being secured by any amounts in the Parity Bond Reserve Account. See Appendix A—Summary of Bond Ordinance.

Outstanding Sewer System Obligations

The following table presents information on the outstanding obligations of the County's Sewer System ("Sewer System Obligations") as of December 4, 2017, including the effect of issuing the Bonds and refunding the Refunded Bonds. See the table titled "Scheduled Debt Service on All Obligations of the Sewer System" under "The Sewer System—Debt Service Requirements Payable From Revenues of the Sewer System."

OUTSTANDING SEWER SYSTEM OBLIGATIONS

Sewer System Obligations	Principal Amount of Sewer System Obligations Outstanding	Final Maturity
Parity Bonds(1)	$ 2,425,310,000	2052
Parity Lien Obligations(2)	602,945,000	2039
Junior Lien Obligations(3)	400,000,000	2046
Multi-Modal LTGO/Sewer Revenue Bonds	100,000,000	2040
SRF Loans and PWTF Loans(4)	220,651,505	2037
Total Sewer System Obligations Outstanding	$ 3,748,906,505	

(1) Excludes the portion of the Refunded Bonds issued as Parity Bonds; includes the Bonds.

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

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

(4) Does not include $30 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 and Business Operations Division

PARITY BONDS. With the issuance of the Bonds, the County has outstanding 16 series of Parity Bonds, which are sewer revenue bonds that are payable from and secured solely by a lien and charge on Revenue of the System. The lien on Revenue of the System that secures the Parity Bonds is subordinate to the payment of Operating and Maintenance Expenses and senior to the liens that secure all other Sewer System Obligations.

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

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

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

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

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

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

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

Although all Variable Rate Bonds have bullet maturities, the financial plans supporting the adopted 2017 and 2018 Sewer Rates provide for the amortization of outstanding Variable Rate Bonds through optional redemptions beginning in 2017 for the Series 2015A and 2015B Junior Lien Bonds and ten years prior to their final maturity dates for the other series of Variable Rate Bonds. 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."

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

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

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

A summary of the relevant Sewer System Obligations and terms of each related credit agreement is shown in the following table. In addition, the County is currently negotiating with State Street Public Lending Corporation for the direct purchase of $50 million in Junior Lien Obligations that are expected to be issued on December 19, 2017. The associated continuing covenant agreement is expected to have a term of three years.

SUMMARY OF CREDIT FACILITIES

Series	Type of Sewer System Obligations	Amount Outstanding as of 10/27/2017	Type of Facility	Provider	Expiration	Term-Out Provision	Maturity
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001 A and B	Junior Lien Obligations	$100,000,000	Letter of Credit	Landesbank Hessen-Thuringen Girozentrale (Helaba)	9/30/2020	Three Years	1/1/2032
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2011	Junior Lien Obligations	$100,000,000	Bondholder's Agreement	U.S. Bank National Association	5/1/2020	Three Years	1/1/2042
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2012	Junior Lien Obligations	$100,000,000	Continuing Covenant Agreement	Wells Fargo Municipal Capital Strategies, LLC	12/2/2019	Three Years	1/1/2043
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2015A and B	Junior Lien Obligations	$100,000,000	Continuing Covenant Agreement	State Street Public Lending Corporation	11/15/2019	Three Years	1/1/2046
Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2017 A and B	Multi-Modal LTGO/Sewer Revenue Bonds	$100,000,000	Continuing Covenant Agreement	State Street Public Lending Corporation	4/5/2021	Three Years	1/1/2040

Agreements With Participants

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

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

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

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

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

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

Rate and Coverage Covenants

The County has covenanted in the Bond Ordinance that, at all times and in any event, rates and charges for sewage disposal service will be sufficient to provide funds adequate to operate and maintain the Sewer System, to make all payments and to establish and maintain all reserves required by the 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 Comprehensive Plan that may be ordered by the County and for the payment of which sewer revenue bonds (or other obligations payable from Revenue of the System) are not issued.

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

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

For any fiscal year, (i) amounts withdrawn from the Revenue Fund and deposited into the Rate Stabilization 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 October 31, 2017, the balance in the Rate Stabilization Fund was $46.25 million. The

Wastewater Treatment Division ("WTD") will evaluate the use of these funds to mitigate future rate increases in connection with its proposal to the County Council in March 2018 for the 2019 monthly sewer rate. See the table titled "Summary of Projected Sewer System Customers, Revenues, and Expenses" under "The Sewer System—Projected Customers, Revenues, and Expenses."

Future Parity Bonds

The Bond Ordinance permits the County to issue Future Parity Bonds such as the Bonds for the purpose of (i) acquiring, constructing, and installing any portion of the Comprehensive Plan, (ii) acquiring, constructing, and installing any necessary renewals or replacements of the Sewer System, or (iii) refunding or purchasing or retiring at or prior to their maturity any outstanding obligations of the County payable from Revenue of the System, and to make payments into the Parity Bond Fund out of the Revenue Fund that will be sufficient to pay the principal of and interest on those additional or refunding Parity Bonds and to maintain required reserves, such payments out of the Revenue Fund to rank equally with the payments out of the Revenue Fund required to be made into the Parity Bond Fund and the accounts therein for the payment of the principal of and interest on outstanding Parity Bonds, but only upon compliance with the conditions below. The County has covenanted that, for as long as Parity Bonds are outstanding, 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. The requirements for issuing Future Parity Bonds are as follows:

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

(ii) Each ordinance providing for the issuance of any Future Parity Bonds that are refunding bonds must require that all money held in any fund or account of the County created for the purpose of paying the principal of and interest on the bonds being refunded either be used to pay the principal of and interest on such bonds or be transferred or paid into the Parity Bond Fund. In addition, each ordinance providing for the issuance of Future Parity Bonds must provide for the payment of the principal thereof and interest thereon out of the Parity Bond Fund. Each such ordinance must further provide that, upon the issuance of any Future Parity Bonds, the County will pay into the Parity Bond Reserve Account an amount that will be sufficient to satisfy the Reserve Requirement then applicable or provide Qualified Insurance or a Qualified Letter of Credit to satisfy the Reserve Requirement.

(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, dated no more than 90 days prior to the date of delivery of such Future Parity Bonds, showing that in his or her professional opinion the "annual income available for debt service on Parity Bonds" for each year during the life of such Future Parity Bonds 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 is to 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 is to be deducted from such revenue the amount expended for Operating and Maintenance Expenses during such period.

(e) For each year following the proposed date of issuance of such 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 is to be determined by and in the sole discretion of a firm of nationally recognized financial consultants selected by the County.

(f) Beginning with the second year following the proposed date of issue of such 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 six 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 is to 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 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 paragraphs (iii) or (iv) 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, (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 a parity certificate of the type described in paragraph (iv) above.

Nothing contained 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, nor does anything in the Bond Ordinance prevent the County from issuing Future Parity Bonds to refund maturing Parity Bonds for the payment of which money is not otherwise available.

THE SEWER SYSTEM

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

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

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

Mark Isaacson, WTD Division Director. Mr. Isaacson was appointed to this position in October 2016, having previously served as Director of the Department's Water and Lands Resources Division ("WLRD") for 11 years and as its Assistant Director for three years. Prior to serving at WLRD, he worked at WTD and began his career with the County in 1993. Mr. Isaacson has an

M.A. in Public Administration from the University of Washington and a Bachelor of Environmental Studies from the University of California at Santa Barbara.

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

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

The Facilities

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

The Participants

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

Municipal Participants. The 34 Municipal Participants (33 cities and sewer districts in King County, south Snohomish County and northern Pierce County, and the Muckleshoot Indian Tribe) contract with the County for sewage treatment services. Pursuant to Ordinance 15757, the Municipal Participants within King County are required to continue as Agency Customers in the absence of a Service Agreement. The division of responsibility between the County and the Municipal Participants and their respective obligations are set forth in the Service Agreements. See "Security and Sources of Payment for the Bonds—Agreements with Participants."

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

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

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

SEWER SYSTEM PARTICIPANTS AS OF DECEMBER 31, 2016

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

NOTES TO TABLE:

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

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

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

Source: King County Wastewater Treatment Division

Sewer Rates

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

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

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

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

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

SEWER RATES FOR RESIDENTIAL CUSTOMERS OR RESIDENTIAL CUSTOMER EQUIVALENTS

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

Source: King County Wastewater Treatment Division

Projected Sewer Rates. The following table shows the County's current Sewer Rate projections for the years 2019 through 2023. The projections are for planning purposes only and subject to County Council approval. See "Financial Policies" and "Projected Customers, Revenues, and Expenses" for further discussion regarding these projections. Under the Service Agreements, the County Council must formally adopt the Sewer Rate each year. The Sewer Rates established by the County Council do not require the approval of the Washington Utilities and Transportation Commission or the Participants or Agency Customers.

PROJECTED SEWER RATES FOR RESIDENTIAL CUSTOMERS OR RESIDENTIAL CUSTOMER EQUIVALENTS

Effective Date (January 1)	Rate ($/month)	Percentage Change
2019	$ 45.85	3.7%
2020	45.85	0.0
2021	46.64	1.7
2022	47.79	2.5
2023	48.71	1.9

Source: King County Wastewater Treatment Division

Sewer System Operating Revenues

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

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

HISTORICAL NEW CAPACITY CHARGE CONNECTIONS

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

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

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

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

Financial Policies

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

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

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

Reserve Policy. In 2001, the County Council established an operating liquidity reserve, equal to $5.0 million plus 10% of annual operating expenses, and an emergency capital reserve equal to $15 million. These policies were reviewed and affirmed by the County Council in 2012. As of October 31, 2017, these reserves were fully funded, with balances of $18.6 million and $15 million, respectively.

Sewer System Interfund Borrowing

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

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

Historical Customers, Revenues, and Expenses

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

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

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

NOTES TO TABLE:

(1) Withdrawals from (deposits into) the Rate Stabilization Fund. See "Security and Sources of Payment for the Bonds—Rate and Coverage Covenants—Rate Stabilization Fund."

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

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

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

Management Discussion of 2016 Sewer System Financial Results

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

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

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

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

Non-Operating Income. In 2016, the Sewer System recorded $133.6 million in non-operating revenues in recognition of favorable rulings by the Washington State Supreme Court that resolved a substantial portion of the litigation arising from the construction of the conveyance system for the Brightwater treatment plant (which began full operation in October 2012). The settlement has been excluded from the 2016 Net Revenue Available for Debt Service appearing in the table titled "Historical Financial Statements" herein. See Appendix C—King County Water Quality Enterprise 2016 Audited Financial Statements, footnote 12, "Commitments and Contingencies," for additional information.

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

West Point Flooding Accident

On February 9, 2017, during heavy rainfall in the Seattle area, the West Point treatment plant was operating at peak hydraulic capacity when a partial interruption of power supply occurred. The ensuing cascade of events caused several elements of the treatment plant to fail, culminating in flooding of the plant and leading to the emergency bypass of the treatment system and the discharge into Puget Sound of an estimated 180 million gallons of stormwater mixed with untreated sewage. Although there were no emergency bypasses after February 16, 2017, WTD was unable to meet the discharge limits required by West Point's National Pollutant Discharge Elimination System ("NPDES") permit until May 11, 2017.

WTD restored the plant's critical mechanical and electrical systems and returned the plant to its full hydraulic and treatment capacity by April 26, 2017. Substantially all work on long-term equipment repair is expected to be completed by the end of 2017. WTD reported to the County Council on November 15, 2017, that total remediation costs are not expected to exceed $30 million. Costs incurred through October 30, 2017, have totaled $18.7 million.

Costs incurred in remediating the damage at West Point come under the terms of the County's property insurance coverage, with a $250,000 deductible and a maximum loss recovery of $500 million per occurrence. WTD is working with its insurance carriers to document and recover costs related to the accident. As of October 30, 2017, WTD had received $12.5 million in advances from its primary insurance carriers. WTD has opened a claim with the Federal Emergency Management Agency ("FEMA") and expects that it will submit to FEMA remediation costs that will not be paid by its insurance carriers. WTD's insurance carriers are currently reviewing the claim, and the amount that will be approved is not known at this time.

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

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

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

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

On September 12, 2017, Ecology issued a Notice of Penalty against WTD in the amount of $361,000 for permit violations stemming from the incident. Ecology also issued an Administrative Order requiring that six corrective actions be implemented by WTD. The estimated cost to implement the corrective actions set forth in the Administrative Order is $1,350,000. Given the remedial actions already taken and planned by WTD, including those set forth in the Administrative Order, the County has filed a Notice of Appeal with the Pollution Control Hearings Board regarding the Notice of Penalty. WTD did not appeal the Administrative Order.

Projected Customers, Revenues, and Expenses

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

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

Estimates for 2017 are based on year-to-date unaudited revenues and expenses through September and WTD's projections for the remainder of the year. RCEs in 2017 and resulting Sewage Disposal Charges are based on actual and expected billings for Municipal Participants other than Seattle and an estimate of Seattle's total RCEs for all of 2017.

Due to its transition to a new billing system, Seattle has been unable to report its actual RCEs beginning with the third quarter of 2016, which, because of the lags in the billing cycle, began impacting WTD's revenues from Seattle starting with the first quarter of 2017. In the absence of reported data, WTD has billed Seattle based on the RCEs it reported in the second quarter of 2016. These bills, when annualized, are approximately 3% less than the Seattle RCE estimate used in the projections. WTD expects that Seattle will be reporting its actual usage before the end of 2017 and that any difference between actual and estimated billings will be settled at that time. If actual billing data are unavailable, WTD will bill Seattle based on WTD's 2017 estimate.

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

The Sewer System is expected to generate net operating revenue of $338.5 million in 2017, an increase of $10.3 million from $328.2 million in 2016. Total operating revenues are projected to increase by $25.9 million, or 5.6%, to $490.4 million in 2017 from $464.5 million in 2016, while operating expenses are projected to increase by $15.6 million, or 11.4%, to $151.9 million in 2017 from $136.3 million in 2016.

Revenues from Sewage Disposal Charges are projected to increase by $20.5 million, or 5.4%, from 2016. Most of the increase ($19.8 million) is due to the 5.2% increase in the monthly Sewer Rate that went into effect on January 1, 2017. The balance of the increase ($0.7 million) reflects projected growth in the number of Customers. A 3.0% increase in the 2017 capacity charge rate for new customers and continued growth in new connections are expected to increase Capacity Charge Revenues by 5.9%, or $4.2 million. The 10.1%, or $1.2 million, projected increase in Other Operating Revenues reflects expected higher revenues primarily from the sale of biomethane at the South Treatment Plant.

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

Interest income is expected to be $5.3 million in 2017, an increase of $0.8 million from 2016 due to the higher expected average interest rate on WTD funds in the Investment Pool (1.10% in 2017, 0.79% in 2016).

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

Net Revenue Available for Debt Service in 2017 excludes $15.3 million in attorneys' fees awarded to WTD by the Washington State Supreme Court in its final ruling on litigation over the construction of the conveyance system for the Brightwater treatment plant. WTD plans to incorporate a total of $144.9 million in Brightwater settlement awards (which include the $15.3 million in attorneys' fees) into the financial plan for financing its capital program that it will submit to the County Council in March 2018 for the adoption of the 2019 monthly sewer rate. See Appendix C—King County Water Quality Enterprise 2016 Audited Financial Statements, footnote 12, "Commitments and Contingencies," for additional information about the settlement and litigation.

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

	2017[2]	2018	2019	2020	2021	2022	2023
Residential Customer and Residential Customer Equivalents (Average for Year, Rounded)	757,610	762,156	766,348	771,099	775,880	780,690	785,530
Percentage Annual Increase	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Operating Revenues							
Sewage Disposal Fees [3]	$ 402,018	$ 404,430	$ 421,621	$ 424,259	$ 434,244	$ 447,705	$ 459,158
Capacity Charge Revenues	75,366	75,623	81,204	87,187	93,513	100,266	104,868
Other Operating Revenues	13,027	13,357	13,758	14,170	14,595	15,033	15,484
Total Operating Revenues	$ 490,411	$ 493,410	$ 516,582	$ 525,615	$ 542,353	$ 563,004	$ 579,511
Operating Expenses [4]	151,897	155,249	161,459	167,917	174,634	182,493	189,784
Net Operating Revenue	$ 338,514	$ 338,161	$ 355,123	$ 357,698	$ 367,719	$ 380,511	$ 389,726
Interest Income [5]	$ 5,344	$ 6,486	$ 8,501	$ 10,714	$ 12,537	$ 13,926	$ 15,835
Rate Stabilization [6]	-	-	-	-	-	-	-
Net Revenue Available for Debt Service	$ 343,859	$ 344,647	$ 363,625	$ 368,412	$ 380,255	$ 394,437	$ 405,561
Debt Service							
Parity Bonds [7]	$ 156,776	$ 158,726	$ 165,808	$ 176,122	$ 185,938	$ 195,039	$ 207,560
Parity Lien Obligations [7]	52,843	49,509	49,475	48,934	51,145	51,126	48,849
Subordinate Debt Service [8]	29,416	52,400	52,205	51,930	51,029	53,997	50,449
Total Debt Service	$ 239,035	$ 260,635	$ 267,488	$ 276,986	$ 288,112	$ 300,161	$ 306,857
Debt Service Coverage [9]							
On Parity Bonds	2.19	2.17	2.19	2.09	2.05	2.02	1.95
On Parity Bonds and Parity Lien Obligations	1.64	1.66	1.69	1.64	1.60	1.60	1.58
On All Sewer System Obligations	1.44	1.32	1.36	1.33	1.32	1.31	1.32

NOTES TO TABLE:

(1) Totals may not add due to rounding. Projections and debt service on Parity Bonds and Parity Lien Obligations are based on debt service prior to the savings generated by the Refunding Plan.

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

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

(4) Operating expenses in 2018 are based on the Sewer System's operating budget, as amended by the County Council, along with $2.0 million of additional operating costs. Operating expenses after 2018 are assumed to increase at an annual rate of 4% through 2023.

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

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

(7) Projections assume the issuance of additional Parity Bonds at a 6% interest rate with 30-year terms as follows: $73 million in 2019, $142 million in 2020, $135 million in 2021, $125 million in 2022 and $172 million in 2023, including an anticipated Water Infrastructure Finance and Innovation Act ("WIFIA") loan. See "Future Sewer System Financing Plans." Does not reflect the savings associated with the refunding of the Refunded Bonds.

(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, $32.5 million of planned optional redemptions of outstanding and additional Variable Rate Bonds. See "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations—Variable Rate Debt."

Projections include the issuance of $50 million of Variable Rate Bonds in late December 2017 and $48 million in 2022. See "Future Sewer System Financing Plans." The projections assume interest rates on Variable Rate Bonds of 1.75% in 2017 and 5.40% thereafter, which is equal to 90% of the assumed long-term rate for additional Parity Bonds. See "Scheduled Debt Service on All Obligations of the Sewer System," footnote 4.

Projections include debt service on $50.5 million of SRF Loan commitments from Ecology to the County, of which $20.5 million has been drawn through the date of this Official Statement. This $50.5 million total comprises executed agreements with Ecology for loan commitments with 20-year terms and rates of 2.7% ($29.5 million) and 2.0% ($21.0 million). See "Future Sewer System Financing Plans."

(9) Operating revenues exclude insurance payments that WTD expects to receive from its carriers for West Point remediation, and claims and expenses exclude West Point remediation costs. If the $12.5 million of insurance claims received as of the date of this Official Statement and the not-to-exceed estimate of $30.0 million of remediation costs were included in the calculation of Net Revenue Available for Debt Service in 2017, debt service coverage on Parity Bonds would be reduced to 2.08x from 2.19x and debt service coverage on all Sewer System Obligations would be reduced to 1.37x from 1.44x. See "West Point Flooding Accident."

Source: King County Wastewater Treatment Division

Debt Service Requirements Payable from Revenue of the System

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

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

	Parity Bonds									
Year Ending		The Bonds			Parity Lien	Junior Lien	Multi-Modal	SRF Loans and		
December 31[1]	Outstanding[2]	Principal	Interest	Total	Obligations[3]	Obligations[4]	LTGO/Sewer[4]	PWTF Loans[5]	QECB Bonds[6]	Total
2017	$ 152,947,401	$ 2,810,000	$ 249,142	$ 3,059,142	$ 52,649,475	$ 7,000,000	$ 1,750,000	$ 18,562,403	$ 66,220	$ 236,034,640
2018	151,068,687	6,175,000	7,179,375	13,354,375	49,121,300	21,600,000	5,400,000	20,470,147	66,220	261,080,729
2019	152,819,262	12,660,000	6,708,500	19,368,500	41,342,550	21,600,000	5,400,000	20,603,167	66,220	261,199,699
2020	152,820,587	5,535,000	6,253,625	11,788,625	48,934,300	21,600,000	5,400,000	20,105,351	66,220	260,715,083
2021	148,476,338	4,440,000	6,004,250	10,444,250	51,144,975	21,600,000	5,400,000	19,693,596	66,220	256,825,379
2022	153,040,713	-	5,893,250	5,893,250	51,126,250	21,600,000	5,400,000	18,640,945	3,076,220	258,777,378
2023	153,039,238	-	5,893,250	5,893,250	48,849,025	21,600,000	5,400,000	17,645,773		252,427,286
2024	153,038,738	-	5,893,250	5,893,250	48,822,025	21,600,000	5,400,000	17,636,620		252,390,633
2025	153,039,988	-	5,893,250	5,893,250	48,860,025	21,600,000	5,400,000	16,265,107		251,058,370
2026	153,036,813	-	5,893,250	5,893,250	48,821,150	21,600,000	5,400,000	13,014,466	-	247,765,679
2027	148,204,125	-	5,893,250	5,893,250	48,786,525	21,600,000	5,400,000	12,589,217	-	242,473,117
2028	148,147,825	-	5,893,250	5,893,250	48,746,325	21,600,000	5,400,000	12,148,862	-	241,936,262
2029	148,176,000	-	5,893,250	5,893,250	48,781,900	21,600,000	5,400,000	11,186,147	-	241,037,297
2030	145,606,550	7,220,000	5,712,750	12,932,750	48,712,176	21,600,000	5,400,000	11,182,809	-	245,434,285
2031	145,623,575	7,575,000	5,342,875	12,917,875	49,355,351	121,600,000	5,400,000	10,039,010	-	344,935,811
2032	142,727,075	10,540,000	4,890,000	15,430,000	49,306,326	16,200,000	5,400,000	9,970,621	-	239,034,022
2033	140,558,075	12,985,000	4,301,875	17,286,875	41,295,050	16,200,000	5,400,000	9,967,570	-	230,707,570
2034	142,934,750	11,735,000	3,683,875	15,418,875	19,892,600	16,200,000	5,400,000	7,649,366	-	207,495,591
2035	127,223,225	4,155,000	3,286,625	7,441,625	19,916,225	16,200,000	5,400,000	6,568,974	-	182,750,049
2036	122,517,350	7,645,000	2,991,625	10,636,625	19,950,725	16,200,000	5,400,000	4,233,772	-	178,938,472
2037	122,579,950	8,050,000	2,599,250	10,649,250	19,970,400	16,200,000	5,400,000	683,822	-	175,483,422
2038	125,134,200	6,025,000	2,247,375	8,272,375	19,997,100	16,200,000	5,400,000	-	-	175,003,675
2039	125,127,401	6,345,000	1,938,125	8,283,125	-	16,200,000	105,400,000	-	-	255,010,526
2040	115,510,125	6,685,000	1,612,375	8,297,375	-	16,200,000	-	-	-	140,007,500
2041	104,880,500	2,605,000	1,380,125	3,985,125	-	116,200,000	-	-	-	225,065,625
2042	82,532,900	2,740,000	1,246,500	3,986,500	-	110,800,000	-	-	-	197,319,400
2043	82,376,550	2,880,000	1,106,000	3,986,000	-	5,400,000	-	-	-	91,762,550
2044	79,112,950	3,030,000	958,250	3,988,250	-	5,400,000	-	-	-	88,501,200
2045	79,054,600	3,190,000	802,750	3,992,750	-	105,400,000	-	-	-	188,447,350
2046	75,051,000	3,350,000	639,250	3,989,250	-	-	-	-	-	79,040,250
2047	51,794,375	3,520,000	467,500	3,987,500	-	-	-	-	-	55,781,875
2048	22,812,875	3,700,000	287,000	3,987,000	-	-	-	-	-	26,799,875
2049	22,809,125	3,890,000	97,250	3,987,250	-	-	-	-	-	26,796,375
2050	10,358,000	-	-	-	-	-	-	-	-	10,358,000
2051	10,358,250	-	-	-	-	-	-	-	-	10,358,250
Total	$4,044,539,118	$ 149,485,000	$ 119,132,267	$ 268,617,267	$ 924,381,778	$ 898,400,000	$ 220,550,000	$ 278,857,745	$ 3,407,320	$6,638,753,227

NOTES TO TABLE:

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

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

(3) Excludes the portion of the Refunded Bonds issued as Parity Lien Obligations. See "Use of Proceeds—Refunding Plan."

(4) The projections assume interest rates on Variable Rate Bonds of 1.75% in 2017 and 5.40% thereafter, which is equal to 90% of the assumed long-term rate for additional Parity Bonds. The Junior Lien Obligations have bullet maturities in 2032, 2040, 2042, 2043, and 2046. The Multi-Modal LTGO/Sewer Bonds have a bullet maturity in 2042. Projections exclude planned optional redemptions of Variable Rate Bonds prior to their final maturity dates and debt service on the Junior Lien Obligations expected to be issued on December 19, 2017. See "Financial Policies—Variable Rate Debt" and "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations—Summary of Credit Facilities."

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

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

Regional Wastewater Services Plan

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

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

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

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

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

Combined Sewer Overflow Projects

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

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

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

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

On July 27, 2016, the County and Seattle signed a Joint Project Agreement ("JPA") to implement a project to control County overflows at its 3rd Avenue West and 11th Avenue Northwest locations (see Figure 1) and four of Seattle's overflow locations designated in its consent decree. Seattle will serve as lead agency for design and construction of a 2.7-mile, approximately 18-foot, 10-inch-diameter storage tunnel (the "Joint Project") to capture and store a minimum of 15.24 million gallons of stormwater mixed with sewage from the six CSO sites during a storm event. The Joint Project is expected to reduce the total of uncontrolled current CSO discharges by approximately 50 million gallons and eliminate an average of 130 CSO events per year. The Joint Project is being implemented to reduce community and environmental impacts in the project area and provide operational efficiencies.

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

The current estimate for the County's 35% financial share of the agreed shared elements of the Joint Project's total cost is $142.5 million through 2025. This is an increase of $8.8 million over the baselined cost estimate in the JPA and the $133.7 million in costs that have been included in the table titled "Capital Improvement Plan—Projected Expenditures." These additional costs will be incorporated into the updated six-year capital improvement program that will be presented with the 2019 monthly sewer rate proposal, to be submitted to the County Council in March 2018. The County's estimated expenditures are $3.2 million in 2017 and $5.3 million in 2018.

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

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

FIGURE 1: CURRENT AND FUTURE PROJECTS OF THE CSO SYSTEM

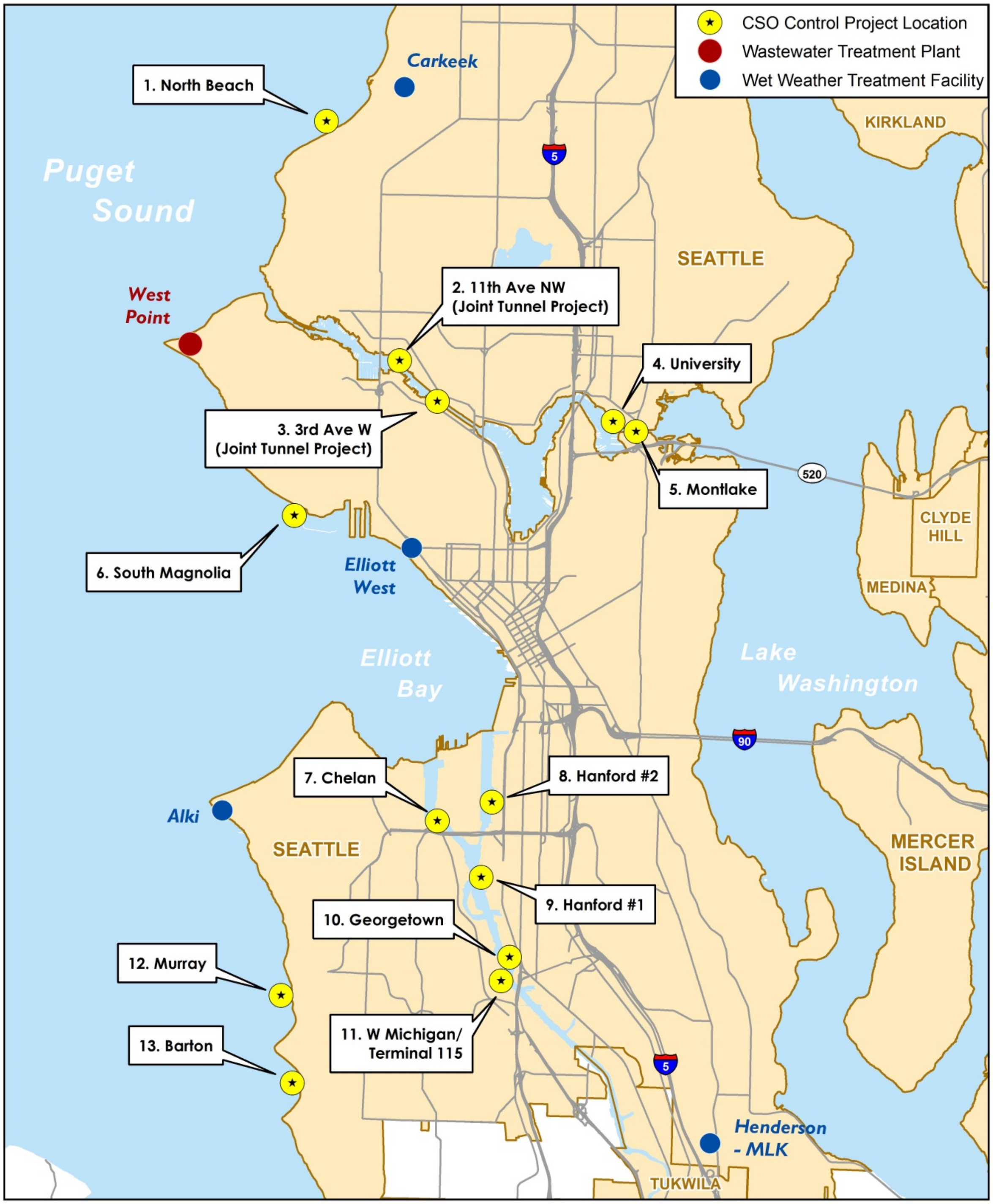

Diagram is not to scale.

Source: King County Wastewater Treatment Division

Capital Improvement Plan

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

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

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

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

Note: totals may not add due to rounding.

Source: King County Wastewater Treatment Division

Future Sewer System Financing Plans

The current financial plan for the Sewer System projects that approximately 43% of the CIP will be funded from Net Revenue from 2018 through 2023. It also anticipates the issuance of approximately $803 million of additional debt to fund the CIP: $648 million of additional Parity Bonds, $98 million of additional variable rate Junior Lien Obligations, and $57 million from executed loan commitments with Ecology (of which $26.4 million has been drawn upon in 2017). Offsetting this anticipated issuance of $803 million of additional debt are scheduled principal payments on outstanding obligations of $638 million.

In July 2017, the EPA invited WTD to submit a formal application for up to $128.6 million of assistance for the Georgetown CSO project from the EPA's newly launched WIFIA loan program. WTD has submitted its application to the EPA; however, EPA's terms and conditions for its WIFIA loan are not known at this time. Should WTD and the EPA complete and close the transaction, proceeds from the WIFIA loan could be available to pay Georgetown CSO project costs beginning the second half of 2018 or early 2019. Subject to County Council approval, the WIFIA loan would be issued as Parity Bonds. The WIFIA loan is included with, and is not in addition to, the approximately $648 million of Parity Bonds that are expected to be issued to fund the CIP.

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

Environmental Regulation

Federal Clean Water Act. The Clean Water Act requires that discharges of pollutants be permitted under the NPDES program administered by EPA, which has delegated to Ecology authority to administer NPDES permits in Washington.

Ecology renewed the West Point treatment plant NPDES permit in 2014 and the South treatment plant NPDES and reclaimed water permits in 2015. The NPDES and reclaimed water permits for the Carnation treatment plant were combined and renewed in 2013. The permit for the Vashon treatment plant was renewed in January 2017. These permits cover the treatment plants and their conveyance systems for a period of five years and expire in January 2020 for West Point, July 2020 for the South treatment plant, December 2018 for the Carnation treatment plant, and February 2022 for the Vashon treatment plant. All secondary treatment effluent limits and general requirements remained the same as in the previous permits. Some additional data requirements were added for the CSO Treatment facilities, and two studies requirements were added for the Elliott West CSO Treatment facility. All such sampling and reporting continue to be performed on time and in full.

The NPDES and reclaimed water permits for Brightwater expired in July 2016 and have been administratively extended. Application for the renewal of the Brightwater NPDES permit was made in 2015 and the renewal process is underway. Under Ecology's administrative rules, current permits are extended until such time as the renewal process is completed.

Except for West Point, all five of the wastewater treatment plants have met their permit effluent limits in 2017. In addition to what was described under "West Point Flooding Accident," West Point had two other exceptions for exceeding the weekly average limit for effluent total suspended solids concentration. In late October 2017, a failed flap gate located at a relief point in the collection system allowed salt water to enter the collection system at high tide levels, which impacted West Point's operations and performance. Actions have been initiated that are expected to prevent further salt water intrusion.

Except for Brightwater, all four treatment plants met their permit limits in 2012 through 2016. Brightwater, which began discharging into Puget Sound in November 2012, was in compliance with its permit levels in 2012, 2013, and 2015, but had one permit exception lasting several hours in 2014 pertaining to the minimum pH level in its effluent and one exception in 2016 when effluent chlorine levels exceeded the permitted maximum for the week of October 9.

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

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

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

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

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

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

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

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

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

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

Earthquakes and Climate Change

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

Sewer System, and the County does not now and does not plan to maintain earthquake insurance sufficient to replace all components of the Sewer System.

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

Strategic Climate Action Plan

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

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

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

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

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

KING COUNTY

General

As a general purpose government, the County provides roads, solid waste disposal, flood control, certain airport facilities, public health and other human services, park and recreation facilities, courts, law enforcement, agricultural services, property tax assessment and collection, fire inspection, planning, zoning, animal control, and criminal detention and rehabilitative services. In addition, with its assumption of 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 or by intergovernmental contract.

Organization of the County

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

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

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

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

County's Budget Process

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

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

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

Finance and Business Operations Division

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

Auditing

Legal compliance and fiscal audits of all County agencies are conducted by examiners from the State Auditor's office. The County is audited annually. The most recent State Auditor's Report is for the year ended December 31, 2016, and is incorporated into the County's Comprehensive Annual Financial Report ("CAFR") for 2016.

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

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

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

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

King County Investment Pool

The Investment Pool invests cash reserves for all County agencies and approximately 100 other public entities such as fire, school, sewer, and water districts. It is one of the largest investment pools in the State, with an average asset balance of more than $5.7 billion during 2016. Assets of County agencies in 2016 comprised between 40% and 45% of the Investment Pool.

The Executive Finance Committee establishes the County's investment policy and oversees the portfolio to ensure that specific holdings comply with both the investment policy and State law. The Investment Pool is allowed to invest only in certain types of highly-rated securities, including certificates of deposit, U.S. Treasury obligations, federal agency obligations, municipal obligations, repurchase agreements, bankers' acceptances, corporate notes, and commercial paper. A summary of the current investment policy is attached as Appendix 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 September 30, 2017, PFM concluded that "the County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality." The most recent portfolio review can be obtained at the following website:

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

County Employees

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

COUNTY EMPLOYEES

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

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

The County's Office of Labor Relations negotiates, implements, and administers 79 collective bargaining agreements with 33 unions covering the terms of employment for the County's approximately 12,000 represented employees. A two-year coalition agreement with a coalition of County unions from January 1, 2015, through December 31, 2016, covered the majority of labor contracts and a total of 5,370 employees (approximately 45% of total employees). The agreement called for a fixed cost-of-living wage increase of 2% in 2015 and 2.25% in 2016. A majority of other unions not part of the coalition agreed to those same terms. Agreements reached that did not match the coalition terms included the Police Officer Guild, which called for a 2% increase in both 2015 and 2016; the King County Corrections Guild, which called for a 2% increase in 2015 and a 2.5% increase in 2016; and the Amalgamated Transit Union, the largest union in the County, representing approximately 3,700 employees, which called for a 1.48%

increase in 2015 and a 1.05% increase in 2016. All ratified agreements are submitted to the County Council for adoption.

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

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

Retirement Programs

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

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

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

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

OVERVIEW OF RETIREMENT PLANS

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

Source: State Department of Retirement Systems

In addition to these programs, approximately 36 County employees who were employees of Seattle's Health Department and Seattle Transit, both of which were taken over by the County, participate in the Seattle City Employees Retirement System Plan 1.

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

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

ACTUARIAL ASSUMPTIONS FOR FUNDING CALCULATIONS

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

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

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

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

COUNTY CONTRIBUTION RATES AND AMOUNTS

	PERS Plan 1	PERS Plan 2	PERS Plan 3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2
2016						
Employer Contribution Rate (%)	11.18 (1)	11.18 (1)	11.18 (1)	0.18 (1)	5.23 (1)(2)	11.54 (1)
Employee Contribution Rate (%)	6.00 (3)	6.12 (3)	Varies (3)(4)	0.00	8.41	6.59
Employer Contribution Amount ($000)	1,901	92,157	17,068	-	4,735	3,953
Employee Contribution Amount ($000)	1,030	50,707	10,710	-	7,613	2,257
Total Contribution Amount ($000)	2,931	142,864	27,778	-	12,348	6,210
2017 (Current)						
Employer Contribution Rate (%)	12.70 (1)(5)	12.70 (1)(5)	12.70 (1)(5)	0.18 (1)	5.43 (1)(2)(5)	11.94 (1)(6)
Employee Contribution Rate (%)	6.00 (3)(5)	7.38 (3)(5)	Varies (3)(4)	0.00	8.75 (5)	6.93 (6)

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

(2) The State contributed an additional 3.36% in 2016 and 3.50% in 2017.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The table below shows historical investment returns for retirement funds held in the WSDRS-administered plans.

HISTORICAL ONE-YEAR INVESTMENT RETURNS ON RETIREMENT FUNDS

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

(1) As of June 30.

Source: Washington State Investment Board

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

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

Net pension liabilities	$1,013,713
Net pension assets	23,723
Deferred outflows of resources	188,243
Deferred inflows of resources	23,554
Pension expense/expenditures	113,892

Source: 2016 CAFR

For more information on employee retirement plans, see the County's Water Quality Enterprise Fund 2016 Audited Financial Statements attached as Appendix C and the County's 2016 Comprehensive Annual Financial Report.

Other Post-Employment Benefits

The King County Health Plan (the "Health Plan") is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees and employees. LEOFF Plan 1 retirees are not required to contribute to the Health Plan. Entry into LEOFF Plan 1 is now closed. All other retirees are required to pay the COBRA rate associated with the elected plan. The County's liability for other post-employment benefits ("OPEB") is limited to the direct Health Plan subsidy associated with LEOFF Plan 1 retirees and the implicit rate subsidy for other Health Plan retiree participants, which is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. For the fiscal year ended December 31, 2016, the County contributed an actuarially estimated $5.9 million to the Health Plan. The County's contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to prefund benefits. For the fiscal year ended December 31, 2016, the County's annual OPEB cost (expense), which is calculated based on the annual required contribution of the County, was $11.5 million and the County's net OPEB obligation was $70.9 million. The Health Plan liability is based on a computed annual required contribution that includes the current period's service cost and an amount to amortize unfunded accrued liabilities.

For additional information regarding the County's OPEB liability, see the County's 2016 Comprehensive Annual Financial Report.

Risk Management and Insurance

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

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

INSURANCE POLICIES

COVERAGE	LIMITS
Combined Property Damage and Extra Expense for covered County property (includes $100 million earthquake and $250 million flood; terrorism is included in overall limit)	$750 million (1)
Airport Liability	$300 million
Airport Property Damage and Extra Expense for covered airport property (includes $50 million earthquake and $100 million flood)	$160 million
Airport Property Damage Terrorism for covered airport property	$250 million
Fiduciary Liability	$20 million
Employee Dishonesty	$2.5 million
Aviation (Police Helicopter) Program	$50 million
Excess Workers' Compensation	Statutory above $2,500,000 deductible per occurrence
Marine Liability	$150 million
Cyber Liability	$30 million

(1) As of July 1, 2017.

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

For additional information, see the County's 2016 Comprehensive Annual Financial Report.

Emergency Management and Preparedness

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

OTHER CONSIDERATIONS

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

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

Federal Budget and Sequestration

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

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

Sanctuary Jurisdiction Impact

On January 25, 2017, President Trump signed an executive order (the "Order") directing the United States Attorney General and the Secretary of Homeland Security to ensure that "sanctuary jurisdictions"—used therein to mean state and local jurisdictions that willfully refuse to comply with 8 U.S.C. Section 1373 ("Section 1373") by restricting government officials or entities from communicating immigration status to the Immigration and Naturalization Service—will not be eligible to receive federal grants except as deemed necessary for law enforcement purposes. Subsequent actions, including grant conditions noted below, make clear that the definition of "sanctuary jurisdiction" is broader than the initial executive order and includes other practices. Several jurisdictions, including the City of Seattle (located within the County) and the City of San Francisco, have filed lawsuits in federal court challenging the constitutionality of the Order. On April 25, 2017, the court in the San Francisco litigation granted a nationwide preliminary injunction that enjoins enforcement of the Order. On July 20, 2017, the court denied the U.S. government's motions for reconsideration and for dismissal. An appeal of this decision is currently pending before the U.S. Court of Appeals for the Ninth

Circuit. On September 15, 2017, the United States District Court for the Northern District of Illinois granted the City of Chicago's motion for a nationwide preliminary injunction blocking implementation of U.S. Department of Justice ("DOJ") grant conditions (announced in July 2017) focused on certain sanctuary city practices. These conditions were only applicable to one category of DOJ grants, the Byrne Justice Assistance Grants ("JAG"). Philadelphia commenced a companion lawsuit in the U.S. District Court for the Eastern District of Pennsylvania, and also moved for a preliminary injunction regarding the grant conditions.

At this time, it is unclear how, whether, or when actions might be taken to reduce federal funding received by any state or local jurisdiction pursuant to the Order, and whether a particular jurisdiction such as the County would be considered a sanctuary jurisdiction for these purposes. The County submitted its Byrne JAG application at the end of August 2017, along with certification from the Civil Chief for the Prosecuting Attorney's Office that the County complies with Section 1373. The County considers itself in compliance with Section 1373. On November 15, 2017, the Department of Justice, Office of Justice Programs, sent the County a letter expressing concern over the County's compliance with Section 1373. The letter concerns Byrne JAG funding, from which the County received a total of $203,065 in fiscal year 2016. The County intends to respond to the letter by the December 8, 2017 deadline. Federal grants received by the County that are administered by DOJ or the Department of Homeland Security comprise a small percentage of the County's total federal grants. In general, the County expects that it would have the flexibility to respond to any direct reductions or eliminations of federal funding pursuant to the Order. If such reductions were to be implemented, any projects or programs previously supported by federal funding could, if necessary, be resized and/or deferred. Alternatively, funding from other sources could be redirected to those projects or programs. Although the County cannot predict at this time whether reductions in federal funding may occur or what form such reductions may take, the County expects that it would be able to redirect funding or reduce expenditures in a manner that would not affect the County's ability to pay debt service on the Bonds.

INITIATIVES AND REFERENDA

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

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

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

Under the County Charter, County voters may initiate County legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the County Council from becoming law. The referendum period for the Bond Ordinance has elapsed, and no referendum petition was filed. The County Charter also permits legislation to be proposed by cities in the County, provided that at least one half of the cities in the County support the proposal.

LEGAL AND TAX INFORMATION

Litigation

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

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

Approval of Counsel

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

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

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, Disclosure Counsel, the Underwriters, Underwriters' Counsel, and the Municipal 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 Municipal Advisor with respect to transactions other than the issuance of the Bonds. From time to time, Disclosure Counsel serves as counsel to the Underwriters and to the Municipal Advisor with respect to transactions other than the issuance of the Bonds. From time to time, Underwriters' Counsel serves as counsel to the County and as counsel to the Municipal 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 Revenue of the System is fully enforceable if a bankruptcy court determines that Revenue of the System is considered "special revenues" under Chapter 9 and that the pledge (in the form of a lien and charge) of Revenue of the System pursuant to the Bond Ordinance is valid and binding under Chapter 9.

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

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

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

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

Tax Exemption

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

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

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

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

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

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

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

Certain Other Federal Tax Consequences

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

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

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

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

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

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

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

CONTINUING DISCLOSURE UNDERTAKING

Annual Disclosure Report. The County agrees to provide or cause to be provided to the Municipal Securities Rulemaking Board ("MSRB") the following annual financial information and operating data for the prior fiscal year (collectively, the "Annual Financial Information"), commencing in 2018 for the fiscal year ended December 31, 2017:

(i) annual financial statements 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, Revenue of the System, Operating and Maintenance Expenses, and debt service coverage, generally as set forth in the table titled "Historical Financial Statements."

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

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

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

The annual financial statements provided as part of the Annual Financial Information described above may or may not be audited, except that if and when audited financial statements are otherwise prepared and available to the County, they will be provided to the MSRB.

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

(i) principal and interest payment delinquencies;

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

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

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

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

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

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

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

(ix) defeasances;

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

(xi) rating changes;

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

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

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

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

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

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

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

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

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

OTHER BOND INFORMATION

Ratings

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

Municipal Advisor

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

Underwriters of the Bonds

The purchase contract between the County and J.P. Morgan Securities LLC ("JPMS"), on behalf of itself and the other Underwriters, provides that the Underwriters will purchase all of the Bonds, if any are purchased, at a price of $173,357,000.99 with an underwriter's discount of $316,353.96. 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.

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

Official Statement

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

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

KING COUNTY, WASHINGTON

By: /s/ Ken Guy

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

APPENDIX A

SUMMARY OF BOND ORDINANCE

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SUMMARY OF THE BOND ORDINANCE

Ordinance 18587 of the County (the "Bond Ordinance"), passed by the County Council on October 23, 2017, 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 first authorized series issued under 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., 1420 Fifth Avenue, Suite 1425, Seattle, Washington 98101, or to the Finance and Business Operations Division of the County.

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

Certain Definitions

"Accreted Value" means for any 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.

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

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

1. The interest due on 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 (the "assumed RBI rate") that is 90% of the average Bond Buyer Revenue Bond Index or comparable index during the fiscal quarter preceding the quarter in which the calculation is made; provided, that for purposes of determining actual compliance in any past calendar year with the rate covenant made

in 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 this ordinance to principal of Parity Bonds will 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 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 on 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.

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

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

"Construction Account" means the "Second Water Quality Construction Account," as previously designated by 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.

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

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

"Finance Director" means the director of the Finance and Business Operations Division of the Department of Executive Services of the County or any other County officer who succeeds to the duties delegated (as of the date of the Bond Ordinance) to that office, or the designee of such officer.

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

"Government Obligations" means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"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 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 such bonds.

"Multi-Modal LTGO/Sewer Revenue Bonds" means the County's Multi-Modal Limited Tax General Obligation Refunding Bonds (Payable from Sewer Revenue), Series 2017A and Series 2017B, 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**
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	2/7/2016	281,535,000
2016B Bonds	18111	10/12/16	499,655,000

"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 limited tax general obligation bonds that are additionally secured by a lien on Revenue of the System and any other future obligations 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
Series 2017	18116	10/25/2017	154,560,000

"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.

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

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

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

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

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

“Public Works Trust Fund Loans” means loans to the County by the State Department of Commerce under the Public Works Trust Fund loan program pursuant to loan agreements in effect as of the date of 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 any unconditional municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States or by a service corporation acting on behalf of one or more such insurance companies, which insurance company or service corporation, as of the time of issuance of such policy or surety bond, is then rated in one of the two highest rating categories by Moody’s, S&P, and any other rating agency then maintaining a rating on the Parity Bonds and maintains a policy owner’s surplus in excess of $500,000,000.

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

“Rate Stabilization Fund” means the fund of that name previously created by the County and continued pursuant to the Bond Ordinance.

“Record Date” means, with respect to a Bond (unless otherwise provided in the Sale Motion), the Registrar’s close of business on the 15th day of the month preceding an interest payment date. With respect to redemption of a Bond prior to its maturity, “Record Date” means the Registrar’s close of business on the date on which the Registrar sends notice of the redemption.

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

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

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

"Revenue Fund" means the "Water Quality Operating Account" as previously designated by the County.

"Revenue of the System" means all the earnings, revenues and money received by the County from or on account of the operations of the System and the income from the investment of money in the Revenue Fund or any account within such fund, but 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."

"Sale Motion" means, with respect to each series of the Bonds, the motion of the Council approving a bond purchase contract for the purchase of the Bonds and ratifying the sale of the Bonds, all in accordance with the Bond Ordinance.

"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 and inferior to the lien thereon of the Multi-Modal LTGO/Sewer Revenue Lien Obligations and, to the extent provided in the Bond Ordinance, 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 and Coverage 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, except as expressly provided in the Bond Ordinance, 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. The County reserves the right to issue to issue additional or refunding Parity Bonds (including Variable Rate Parity Bonds), which bonds will rank on a parity with the outstanding Parity Bonds, for the purposes and subject to the requirements described in "Security and Sources of Payment for the Bonds—Future Parity Bonds."

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, which may include interest rate swaps, subject to the conditions described below. 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. Prior to entering into a Payment Agreement, the County Council must adopt an ordinance authorizing such agreement, 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. 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 by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners or by their attorneys-in-fact duly authorized and delivered to the Trustee, notification thereof being given to the County. Any 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, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners or by their attorneys-in-fact duly authorized.

The Trustee so appointed, and each successor thereto, is declared in the Bond Ordinance to 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, 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 Parity Lien Obligations, as applicable, 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 or Parity Lien Obligations 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 or Parity Lien Obligations, as applicable.

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

- 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.

Amendments Deemed Approved by Parity Bondowners. The Registered Owners from time to time of the Bonds, by taking and holding the same, will be deemed to have consented to the adoption of an ordinance or ordinances supplemental to this ordinance to amend the definition of Reserve Requirement. Such supplemental ordinance or ordinances may:

- Establish one or more separate Reserve Requirements for one or more series of Parity Bonds, including the Bonds;

- Reduce any Reserve Requirement, including the Reserve Requirement for the Bonds, to an amount less than maximum Annual Parity Debt Service in any calendar year, including to zero; and

- Establish one or more separate subaccounts within the Parity Bond Reserve Account to secure one or more series of Parity Bonds, including the Bonds, with other series of Parity Bonds not being secured by such separate subaccounts.

The adoption of any such supplemental ordinance or ordinances may result in the Bonds not being secured by any amounts in the Parity Bond Reserve Account.

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
$149,485,000 Sewer Refunding Revenue Bonds, 2017

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

The Bonds are issued by the County pursuant to Ordinance 18587, passed by the Metropolitan King County Council (the "County Council") on October 23, 2017, and Motion 15012, passed by the County Council on December 4, 2017 (collectively, the "Bond Legislation"), to refund certain bonds of the County payable from Revenue of the 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"), 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.

Respectfully submitted,

APPENDIX C

KING COUNTY WATER QUALITY ENTERPRISE
2016 AUDITED FINANCIAL STATEMENTS

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

King County Water Quality Enterprise Fund

(An Enterprise Fund of King County, Washington)

December 31, 2016 and 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

REPORT OF INDEPENDENT AUDITORS

To the Metropolitan King County Council
Seattle, Washington

Report on Financial Statements

We have audited the accompanying financial statements of the King County Water Quality Enterprise Fund (Water Quality), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the King County Water Quality Enterprise Fund as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the County's Proportionate Share of the Net Pension Liability, Schedule of Contributions, and Schedule of Funding Progress for the Plan be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Moss Adams LLP

Seattle, Washington
April 28, 2017

The management of King County Water Quality Enterprise Fund (Water Quality) presents to readers of its financial statements this narrative overview and analysis of its activities and financial performance for the fiscal years ended December 31, 2016 and 2015.

THE SEWER SYSTEM

Water Quality provides regional wastewater treatment services to Western Washington in King County, part of Snohomish County, and part of Pierce County with a service area encompassing over 424 square miles. The major wastewater treatment facilities include three secondary treatment plants at West Point in Seattle, South Plant in Renton and the Brightwater Treatment Plant located near Woodinville and two smaller secondary treatment plants at Vashon Island and Carnation, 391 miles of interceptors, 47 pump stations, and 25 regulator stations. Other facilities include four combined sewer overflow (CSO) treatment plants and 39 CSO control locations. The sewer system collected and treated an average of 188 million gallons per day (MGD) in 2016 from approximately 1.7 million residents.

FINANCIAL HIGHLIGHTS

During 2016, Water Quality provided sewage treatment services to 756,430 (based on sewer revenues that include sewer agency prior year adjustments) residential customer equivalents (RCE) compared to 736,090 in 2015 and 725,844 in 2014. An RCE is one single-family residence or an equivalent unit of 750 cubic feet of monthly water consumption for all other customers such as multifamily residential, commercial, and industrial properties. The capacity charge program added 10,743 new connections to its customer billing base in 2016. The program added 11,676 and 10,767 new connections in 2015 and 2014, respectively. In 2016, the average flow of the five treatment plants was 188 MGD with a peak daily flow of 505 MGD. Maximum system capacity was 862 MGD in 2016 and 895 MGD in 2015. The average daily flow fluctuated between a peak of 188 MGD in 2016 and a low of 178 MGD in 2015. The annual fluctuation in flows largely depends on the amount of annual precipitation.

In 2016, Resource Recovery delivered 122,194 tons compared to 114,957 tons in 2015 of Loop® biosolids to customers for use in forest management, agriculture, and composting. Approximately 83 million gallons compared to 86 million gallons in 2015 of Class A reclaimed water was distributed for irrigation, urinals/toilets, municipal purposes, and wetland enhancement and about 711 million gallons of filtered, treated wastewater compared to 762 million gallons in 2015 were used for internal treatment plant processes. The permitted capacity for the South Plant reclaimed water facility is a filter feed loading of 1.3 MGD and the Brightwater permitted reclaimed water treatment capacity is 21 MGD. Water Quality sold 211 thousand therms of natural gas to Puget Sound Energy from the South Treatment Plant in 2016 and 1.8 million therms in 2015. The reduction in sales of natural gas in 2016 was the result of using gas internally to generate electricity for South Plant operations. West Point Treatment Plant sold Seattle City Light 18 million kilowatt hours of electricity generated from digester gas in 2016 and 2015.

FINANCIAL HIGHLIGHTS (CONTINUED)

The Industrial Pretreatment Program conducted 309 inspections and took 1,500 compliance samples in 2016 compared to 356 inspections and 1,570 compliance samples taken in 2015. The program currently tracks 552 facilities with discharge authorization permits and 114 significant industrial users compared to 483 facilities with discharge authorization permits and 116 significant industrial users in 2015.

Water Quality currently has 39 combined sewer overflow (CSO) locations plus four CSO treatment facilities. Past investments conducted in concert with the City of Seattle have resulted in a significant reduction in combined sewer overflows from a baseline of 2.3 billion gallons per year in years 1980-1983 to an average of 1 billion gallons per year at present.

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

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

On February 9, 2017, the West Point Treatment Plant received catastrophic damage from a massive inflow of combined stormwater and sewage when a power surge disabled pumps and a critical overflow valve malfunctioned resulting in flooding the plant. It also resulted in engagement of the emergency bypass function routing untreated flow volumes past the treatment processes of the plant and directly into Puget Sound. Water Quality management reported the incident to the DOE immediately and continue to update the agency on operational conditions and permit compliance. The loss comes under the terms of insurance coverage with a $250 thousand deductible and a maximum loss recovery of $250 million per occurrence. Water Quality management is working with insurance carriers to document and recover costs related to the incident. Restoration of primary and secondary treatment back to normal operation is Water Quality's top priority and is anticipated by April 30, 2017.

In 1999, the Metropolitan King County Council adopted the Regional Wastewater Services Plan (RWSP) to construct additional capacity, protect public health and provide for future projected population growth in its service area through 2030. Major RWSP projects include the building of the Brightwater Treatment Plant, improvements to the regional Conveyance system, and construction of 21 CSO control projects. The RWSP also includes projects to control infiltration and inflow into the Conveyance system, process additional biosolids, and produce additional reclaimed water. Total capital program expenditures were $167.5 million in 2016 and $154.6 million in 2015.

FINANCIAL HIGHLIGHTS (CONTINUED)

Water Quality operating revenues increased by 7.2 percent to $464.5 million in 2016 from $433.4 million in 2015 while operating expenses before depreciation and amortization increased by 9.0 percent to $138.7 million in 2016 from $127.2 million in 2015.

The monthly sewer rate stayed the same at $42.03 per RCE in 2016. In 2015, it increased to $42.03 from $39.79 in 2014. The capacity charge rate increased to $58.70 per RCE in 2016 from $57.00 in 2015. Capacity charge revenues increased 13.9 percent to $71.2 million in 2016 from $62.5 million in 2015. The RCE's billed for sewer treatment services increased to 756,430 (based on sewer revenues that include sewer agency prior year adjustments) in 2016 from 736,090 in 2015. The rate stabilization reserve was unchanged at $46.3 million in 2016 and increased to $46.3 million in 2015 due to a deposit of $12.0 million made during the year. Future deposits to the rate stabilization reserve will decrease operating revenues and debt service coverage in the year of the deposit. Withdrawals will have the opposite effect of increasing operating revenues and debt service coverage in the year the rate stabilization reserve is reduced.

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

Water Quality issued $781.2 million in Sewer Revenue and Refunding Bonds in 2016, which provided $50.0 million for new construction. This resulted in $168.9 million in savings over the lives of the refunded issues or $113.5 million in present value of debt service savings. In November 2016 Water Quality remarketed $100 million in 2015 Junior Lien Sewer Revenue Bonds, and changed the interest rate mode to a one-month variable rate from a one-year fixed rate. Water Quality received $39.1 million in low interest state loans in 2016 at rates between 0.5 and 2.72 percent. In 2015 Water Quality issued $567.3 million of Sewer Revenue and Refunding Bonds, including $80.0 million for new construction, and $247.8 million in LTGO refunding bonds which resulted in $163.4 million in savings over the lives of the refunded issues or $90.5 million in present value of debt service savings. Water Quality received $31.6 million in low interest state loans in 2015.

The results of operations for 2016 and 2015 produced a debt service coverage ratio on senior lien debt of 1.55 and 1.48, respectively, exceeding the coverage covenant requirement of 1.15 in both years. The total debt coverage ratio of 1.41 in 2016 and 1.36 in 2015 exceeded the 1.15 policy minimum in both years.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

The two most recent years' operating and non-operating revenues and expenses of Water Quality are accounted for in the statements of revenues, expenses and changes in net position. The statements illustrate the current and prior period results of operations and recovery of costs by receipt of fees, and are instrumental in demonstrating Water Quality's continued creditworthiness. All changes in net position are reported as soon as the underlying event occurs, irrespective of the timing of related cash flows. The receipt of monthly sewage treatment charges provides the principal support for Water Quality's activities. Sewage treatment charges of $381.5 million provided 82.1 percent of operating revenues in 2016 and $359.3 million (net of the rate stabilization transfer) provided 82.9 percent of operating revenues in 2015. Water Quality is a wholesale provider of sewage treatment services to 34 municipal and 3 non-municipal participants in King, Pierce, and Snohomish counties. The receipt of the monthly payments is governed by service agreements, the majority of which expire in July 2036.

The statements of cash flows report cash receipts, cash payments, and net changes in cash derived from operations, financing, and investment activities. From the statements, the reader can discern Water Quality's sources and applications of cash during 2016 and 2015, reasons for differences between operating cash flows and operating income, and the effect on the statements of net position from investing, capital, and financing activities.

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

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

FINANCIAL ANALYSIS OF THE STATEMENT OF NET POSITION

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2016	2015	2014
Current assets	$ 458.1	$ 431.8	$ 407.5
Noncurrent assets	217.1	245.2	216.8
Capital assets	4,081.5	4,106.5	4,122.9
Other	113.3	110.4	97.8
Total assets	4,870.0	4,893.9	4,845.0
Deferred outflows of resources	247.5	184.9	104.0
Total assets and deferred outflows of resources	5,117.5	5,078.8	4,949.0
Current liabilities	214.5	456.5	434.9
Noncurrent liabilities	4,216.1	4,065.9	3,951.9
Total liabilities	4,430.6	4,522.4	4,386.8
Deferred inflows of resources	47.5	53.2	49.6
Total liabilities and deferred inflows of resources	4,478.1	4,575.6	4,436.4
Net position-net investment in capital assets	154.2	191.1	210.4
Net position-restricted	202.4	201.6	205.3
Net positon-unrestricted	282.8	110.5	96.9
Total net position	$ 639.4	$ 503.2	$ 512.6

Net position serves as a useful indicator of Water Quality's financial position. As of December 31, 2016 and 2015, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $639.4 million and $503.2 million, respectively.

Of the total Water Quality assets and deferred outflows of resources, 79.8 percent or $4,081.5 million were invested in capital assets such as treatment plants, pumping and regulator stations, interceptors, and other equipment at year-end 2016. For the year-end 2015, 80.9 percent or $4,106.5 million were invested in capital assets. Water Quality uses its capital assets to provide wholesale wastewater collection and treatment services in King, Pierce, and Snohomish counties. Current operating and debt service requirements are met by operating and non-operating revenues composed of monthly sewage treatment charges, a capacity charge for new customers, other special-handling charges, miscellaneous operating revenues, and investment earnings.

FINANCIAL ANALYSIS OF THE STATEMENT OF NET POSITION (CONTINUED)

The net position increased by 27.1 percent or $136.2 million in 2016 to $639.4 million from $503.2 million in 2015. This change is primarily due to the release of restricted funds held in reserve and the recognition of the settlement income from the 2013 litigation settlement between Vinci, Parsons, Frontier-Kemper (VPFK) and King County. On September 7, 2016, the Supreme Court issued an order denying VPFK's Petition for Review and thus, released $129.6 million of the disputed $144.3 million. Restricted net position increased by 0.4 percent or $799 thousand in 2016 to $202.4 million from $201.6 million in 2015. The unrestricted net position increased by $172.3 million in 2016 to $282.8 million from $110.5 million in 2015.

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

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

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2016	2015	2014
Sewage treatment fees	$ 381.5	$ 371.3	$ 346.6
Rate stabilization	-	(12.0)	18.0
Capacity charge revenue	71.2	62.5	59.5
Other revenue	11.8	11.6	11.7
Operating revenues	464.5	433.4	435.8
Operating expenses	315.0	301.0	288.6
Operating income	149.5	132.4	147.2
Non operating (expenses)	(13.4)	(142.6)	(149.8)
Grant revenues	0.1	0.8	-
Change in net position	136.2	(9.4)	(2.6)
Net position beginning of year (restated)	503.2	512.6	515.2
Net positon end of year	$ 639.4	$ 503.2	$ 512.6

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

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

During 2016, operating revenues increased by 7.2 percent or $31.1 million to $464.5 million from $433.4 million in 2015. Operating expenses increased by 4.7 percent or $14.0 million to $315.0 million in 2016 from $301.0 million in 2015.

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

The operating revenues and expenses were driven by:

- Water Quality collected a monthly sewage treatment charge of $42.03 per RCE in 2016, $42.03 in 2015 and $39.79 in 2014. Sewer disposal revenues increased by 2.7 percent or $10.2 million in 2016 to $381.5 million from $371.3 million in 2015. Growth in RCE's contributed to this increase. In 2015, sewer disposal revenues before rate stabilization increased by 7.1 percent or $24.7 million to $371.3 million from $346.6 million in 2014.

- Other operating revenues, including capacity charges for new customers and other treatment charges, increased by 12.0 percent or $8.9 million in 2016 to $83.0 million from $74.1 million in 2015. These revenues increased by 4.1 percent or $2.9 million in 2015 to $74.1 million from $71.2 million in 2014. Capacity charge early payoff revenues were 25.4 percent or $18.1 million of total capacity charge revenues in 2016, while in 2015, capacity charge early payoff revenues were 28.6 percent or $17.9 million of the annual total. Actual new capacity charge connections were 10,743 in 2016 and 11,676 in 2015. The increase in capacity charge revenue resulted from concerted efforts in collection of past due accounts and a prior year billing adjustment.

- Chemical expenses increased by 12.5 percent or about $903 thousand in 2016 to $8.1 million. Price surges as well as increased demand for various chemicals were the main reasons for this jump. Chemical expenses increased by 2.9 percent or about $236 thousand in 2015 to $7.2 million.

- Utility and Service expenses increased by 6.7 percent or $2.0 million to $31.9 million for 2016 from $29.9 million in 2015. Utility and Service expenses increased by 4.6 percent or $1.3 million to $29.9 million for 2015 from $28.6 million in 2014. Electricity expense increased by 1.0 percent or $129 thousand to $14.0 million in 2016 after increasing by 3.0 percent or $445 thousand to $13.9 million in 2015. In 2016 Water Quality used methane gas to produce electricity for its Cogen system at South Treatment Plant generating about 29% of all the electricity used at South Plant.

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

- Intergovernmental expenses increased by 4.1 percent or $1.4 million in 2016 to $35.8 million from $34.4 million in 2015. Contributors to increases here are reflected in increased surface water management fees which includes environmental lab testing and other costs associated with increased overhead. Intergovernmental expenses rose by 8.9 percent or $2.8 million in 2015 to $34.4 million from $31.6 million in 2014.

Net non-operating revenues and expenses decreased by 90.6 percent or $129.2 million to $13.4 million in 2016 from $142.6 million in 2015. The main contributor to the non-operating revenue increase was the release of $129.6 million in restricted funds held pending final decision on the VPFK legal action. Interest earnings were up slightly as well. Contributors to non-operating expenses were capital asset retirements and debt amortization. Net non-operating revenues and expenses decreased by 4.8 percent or $7.2 million to $142.6 million in 2015 from $149.8 million in 2014.

CAPITAL ASSETS

At December 31, 2016, Water Quality's investment in capital assets, net of accumulated depreciation, was $4,081.5 million, reflecting a decrease of $25.0 million or 0.6 percent less than the balance of $4,106.5 at December 31, 2015. This decrease represents plant in service retirements and added depreciation from completed project capitalizations. Capital assets net decrease from December 31, 2014 to December 31, 2015 was $16.4 million or 0.4 percent.

Large 2016 construction project expenditures include:

- $16.7 million for Georgetown Wet Weather Treatment Station
- $16.3 million for North Creek Interceptor
- $13.7 million for Fremont Siphon Replacement
- $10.9 million for Joint Ship Canal CSO
- $8.9 million for Hanford Conveyance & Storage Tank

Large 2015 construction project expenditures include:

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

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

DEBT ADMINISTRATION

Water Quality issued $281.5 million of sewer revenue refunding bonds in February 2016 with an average life of 18.4 years at an average rate of 4.1 percent and an effective rate of 3.3 percent, and $499.7 million of sewer improvement and refunding revenue bonds in October 2016 with an average life of 17.6 years at an average rate of 4.7 percent and effective rate of 3.2 percent. In November 2016, Water Quality remarketed $100.0 million in Junior Lien Sewer Revenue Bonds changing their interest rate mode to a monthly variable rate from a one-year fixed rate.

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

Water Quality received $39.1 million in low-interest loans from the State of Washington in 2016 and $31.6 million in 2015. The new loans carry below-market rates between 0.5 percent and 2.72 percent with repayment terms up to 20 years.

Water Quality has $2.9 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2016 and had $2.9 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2015. Revenue bonds are repaid from and secured by a pledge of earnings, revenues and money received by Water Quality from or on account of operation of the sewer system, including receipts from sewage treatment fees, and other income of Water Quality. Revenue bonds are not guaranteed by the full faith and credit of King County.

At the end of 2016, Water Quality has $755.9 million of general obligation bonds and variable rate general obligation bonds outstanding and had $765.4 million of general obligation bonds and variable rate general obligation bonds outstanding at the end of 2015. While the full faith and credit of King County guarantees repayment of principal and interest on general obligation bonds, they are paid from sewage treatment fees and other income.

King County received ratings of AAA from Standard and Poor's and Aa1 from Moody's Investors Service for the limited tax general obligation bond issued in February 2015. On February 15, 2017, Moody's Investors Service raised its rating of King County limited tax general obligation bonds to Aaa. At the time of the issuance of the sewer revenue bonds in 2016 and 2015, Water Quality's bond ratings were:

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

DEBT ADMINISTRATION (CONTINUED)

As required by bond covenant, Water Quality maintains a bond reserve account, which is funded by cash balances. At December 31, 2016, the cash balance in the reserve account was $160.5 million and $166.1 million at the end of 2015 including $1.4 million of Junior Lien bonds maturing in November, 2016. In addition to bond covenant reserves, Water Quality also maintains financial policy reserves. At December 31, 2016 and 2015, respectively, the rate stabilization, liquidity, and asset management financial policy reserves totaled $79.9 million and $79.1 million.

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

Debt Service Coverage Ratios

	Year Ended December 31,	
	2016	2015
Parity Debt	1.55	1.48
Total Debt	1.41	1.36

Two debt service coverage ratios closely monitored by bond rating agencies are coverage on parity debt and coverage on total debt. By bond ordinance, Water Quality sets sewer rates at a level adequate to provide net revenue equal to at least 1.15 times the annual debt service requirement on parity debt. Water Quality has an adopted policy to equal or exceed a ratio of at least 1.25 on parity debt or 0.10 above the ratio required by bond ordinance. Since 2001, Water Quality established a minimum coverage policy of 1.15 on total debt to further strengthen coverage performance.

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of Water Quality's financial condition as of the years ended December 31, 2016 and 2015. Questions concerning this report or requests for additional information should be addressed to Cheryl Lee, Chief Accountant for King County, 500 Fourth Avenue, Room 653, Seattle, WA 98104.

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

	December 31, 2016	December 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 383,232	$ 230,349
Restricted cash and cash equivalents	19,748	149,403
Accounts receivable, net	44,755	37,018
Due from other funds	1,292	1,224
Due from other governments, net	-	5,014
Inventory of supplies	8,760	8,425
Prepayments	315	385
	458,102	431,818
NONCURRENT ASSETS		
Cash and cash equivalents	217,093	245,177
Capital assets		
Building and land improvements	2,082,829	2,009,486
Artwork	5,700	5,645
Infrastructure and right of way	2,268,422	2,245,766
Plant in service and other equipment	1,146,609	1,107,256
Less accumulated depreciation	(2,010,012)	(1,849,992)
	3,493,548	3,518,161
Land and easements	256,048	268,398
Construction work in progress	331,948	319,960
	4,081,544	4,106,519
Other noncurrent		
Prepayments	2	81
Regulatory and other utility assets, net of amortization	109,550	106,432
Other assets	3,725	3,963
	113,277	110,476
Total assets	4,870,016	4,893,990
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows on refunding	237,604	179,878
Deferred outflows on pension	9,849	4,987
Total deferred outflows of resources	247,453	184,865
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 5,117,469	$ 5,078,855

See accompanying notes.

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

	December 31, 2016	December 31, 2015
CURRENT LIABILITIES		
Accounts payable	$ 26,767	$ 37,599
Retainage payable	2,049	2,766
Due to other funds	16	111
Interest payable	68,116	76,438
Wages and benefits payable	2,983	3,222
Compensated absences	608	642
Taxes payable	14	12
Unearned revenue	2,594	2,067
State loans payable	13,565	12,121
General obligation bonds payable	21,105	9,520
Revenue bonds payable	52,015	156,910
Environmental remediation costs	6,928	8,477
Deposits and other liabilities	17,698	146,637
	214,458	456,522
NONCURRENT LIABILITIES		
Compensated absences	10,865	10,623
Other post-employment benefits	1,583	1,467
Net pension liability	51,568	38,885
State loans payable, net	192,424	167,267
General obligation bonds payable, net	801,363	828,715
Revenue bonds payable, net	3,118,433	2,975,124
Environmental remediation costs	39,949	43,821
	4,216,185	4,065,902
Total liabilities	4,430,643	4,522,424
DEFERRED INFLOWS OF RESOURCES		
Regulatory credits - rate stabilization	46,250	46,250
Deferred inflows on pension	1,217	6,984
Total deferred inflows of resources	47,467	53,234
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,478,110	4,575,658
NET POSITION		
Net investments in capital assets	154,183	191,080
Restricted for:		
Debt service	170,843	175,332
Regulatory assets and environmental liabilities	31,568	26,281
Unrestricted	282,765	110,504
Total net position	$ 639,359	$ 503,197

See accompanying notes.

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

	Years Ended December 31, 2016	Years Ended December 31, 2015
OPERATING REVENUES		
Sewage disposal fees	$ 381,513	$ 359,253
Other operating revenues	83,028	74,153
Total operating revenues	464,541	433,406
OPERATING EXPENSES		
Sewage treatment, disposal, and transmission	95,429	89,715
General and administrative	43,269	37,496
Environmental related amortization	3,707	2,954
Depreciation and amortization	172,598	170,787
Total operating expenses	315,003	300,952
OPERATING INCOME	149,538	132,454
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	4,019	2,231
Interest expense	(131,042)	(139,980)
Loss on disposal and impairment of capital assets	(19,100)	(5,280)
Other	132,697	376
Total nonoperating expenses	(13,426)	(142,653)
GAIN (LOSS) BEFORE GRANTS	136,112	(10,199)
CAPITAL GRANT REVENUES	50	766
CHANGE IN NET POSITION	136,162	(9,433)
NET POSITION		
Beginning of year	503,197	512,630
End of year	$ 639,359	$ 503,197

See accompanying notes.

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

	Years Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 462,654	$ 454,391
Cash payments to suppliers for goods and services	(78,905)	(83,417)
Cash payments for employee services	(51,658)	(49,017)
Settlement receipts	-	2,338
Other payments	(8,995)	(6,531)
Net cash provided by operating activities	323,096	317,764
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(150)	(115)
Assistance to other agencies	(948)	(710)
Net cash used in noncapital financing activities	(1,098)	(825)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital and other utility assets	(171,138)	(137,674)
Proceeds from disposal of capital assets	72	24
Principal paid on capital debt	(78,980)	(71,843)
Interest paid on capital debt	(170,028)	(161,183)
Proceeds of new bond issuance	50,000	76,523
Proceeds of state loans	39,151	31,563
Capital grants received	50	766
Net cash used in capital and related financing activities	(330,873)	(261,824)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	4,019	2,231
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,856)	57,346
CASH AND CASH EQUIVALENTS		
Beginning of year	624,929	567,583
End of year	$ 620,073	$ 624,929

See accompanying notes.

(In Thousands)

	Years Ended December 31, 2016	Years Ended December 31, 2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 149,538	$ 132,454
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	172,598	170,787
Other nonoperating revenue and expense	134,379	1,458
Changes in assets		
Accounts receivable	(7,738)	7,063
Due from other funds	(118)	25
Inventory of supplies	(335)	(753)
Prepayments	59	(316)
Other assets	135	(5,113)
Changes in deferred outflows of resources		
Deferred outflows on pension	(4,862)	(2,900)
Changes in liabilities		
Accounts payable	5,744	(2,820)
Retainage payable	18	12
Due to other funds	(95)	111
Taxes payable	2	(5)
Unearned revenue	527	440
Wages and benefits payable	364	244
Compensated absences	208	(220)
Other post-employment benefits	116	116
Net pension liability	12,683	9,691
Other liabilities	(134,360)	3,874
Changes in deferred inflows of resources		
Rate stabilization	-	12,000
Deferred inflows on pension	(5,767)	(8,384)
Total adjustments	173,558	185,310
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 323,096	$ 317,764

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Water Quality issued bonds in 2016 to refund debt issued from 2006 to 2011. The $870.9 million of bond proceeds were placed in escrow for the defeasance of $769.5 million of outstanding revenue bond principal and $130.6 million of interest. The $100.0 million of fixed rate junior lien bonds issued in 2015 were remarketed in 2016 to junior lien variable rate demand sewer revenue bonds.

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

See accompanying notes.

Note 1 – Operations and Accounting Policies

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

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

Water Quality has long-term sewage disposal agreements with the cities and sewer districts that operate sewage collection systems within its service area. The monthly sewage disposal charge to the contracting cities and districts is based on Water Quality's estimated annual monetary requirements, including operating costs and debt service. Revenues from Water Quality's largest customer, the City of Seattle (Seattle Public Utilities), represent approximately 40 percent of total sewage disposal fees in 2016 and in 2015.

Water Quality purchases goods and services from other County agencies, including reimbursement of the County's general fund for a share of general government. Expenses incurred in doing business with other County agencies amounted to $35.8 million and $34.4 million in 2016 and 2015, respectively.

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

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

b. **Receivables and allowance for doubtful accounts** – Receivables include charges for services rendered by Water Quality or intergovernmental grants. All unbilled service receivables are recorded at year-end. The provisions for estimated uncollectible receivables are reviewed and updated at year-end. These provisions are estimated based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2016 and 2015, Water Quality's allowance for doubtful accounts was $815 thousand and $6.4 million, respectively.

Note 1 – Operations and Accounting Policies (continued)

c. **Due From and To Other Funds, Interfund Loans and Advances** – Due from and to other funds consists of current receivables and payables from or to other funds within the County. They typically arise from interfund goods and service transactions and reimbursements.

Interfund loans receivable and payable or advances from and to other funds represent authorized short-term and long-term, respectively, lending and borrowing arrangements within the County.

d. **Inventory of Supplies** – Inventory is recorded at the lower of cost or market using the weighted-average cost method. Materials and supplies are expensed as consumed. Inventory is written off in the year that it is determined obsolete.

e. **Restricted Assets** – In accordance with Water Quality's bond resolutions, state law, King County codes, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes, including bond and state loan reserves.

f. **Capital Assets** – Capital assets are stated at cost, less accumulated depreciation and amortization. Water Quality's capitalization threshold is: equipment at $5 thousand; software and intangible assets at $500 thousand, and buildings and improvements at $100 thousand. Provision for depreciation and amortization are made on a straight-line basis over the estimated useful lives of Water Quality's capital assets as follows:

Description	Estimated Useful Life
Buildings and improvements other than building	10–75 years
Cars, vans, and trucks	5–10 years
Data processing equipment	3–10 years
Heavy equipment	5–25 years
Sewer lines	20–50 years
Shop equipment	5–20 years
Software	3–10 years
Intangibles	35 years

Water Quality capitalizes certain interest income and expense related to borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax free borrowings. Total interest expense incurred was $150.2 million and $154.0 million during the years ended December 31, 2016 and 2015, of which $12.1 million and $11.3 million, respectively, was capitalized.

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

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

Note 1 – Operations and Accounting Policies (continued)

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

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

h. **Rebatable Arbitrage** – Water Quality's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exceptions rules are met. The liability is recognized during the period the excess interest is earned. Water Quality has no liability as of December 31, 2016 and 2015.

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

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

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

Note 1 – Operations and Accounting Policies (continued)

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

l. **Capital Grant Revenues** – Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, grant revenues are reported separately from operating and nonoperating revenues as capital grant revenues. Water Quality received capital grant revenues of $50 thousand and $766 thousand for the year ended December 31, 2016 and 2015, respectively.

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

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

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

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

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The statement is effective for periods beginning after June 15, 2015. It was implemented in 2016 by Water Quality.

GASB Statement No. 76, *The Hierarchy of GAAP for Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for periods beginning after June 15, 2015. It was adopted in 2016 by Water Quality.

Note 1 – Operations and Accounting Policies (continued)

GASB Statement No. 77, *Tax Abatement Disclosure*, defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The statement was adopted in 2016 and had no impact on Water Quality's financial statements.

Note 2 – Deposits in King County Investment Pool

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

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

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

Assessing Water Quality's risk exposure, Water Quality's cash and cash equivalents balance of $620.1 million and $624.9 million were fully invested in the Pool as of December 31, 2016 and 2015, respectively. The County had demand deposits of $149.0 million and $30.7 million as of December 31, 2016 and 2015, respectively, in fully insured and collateralized depository accounts at U.S. Bank and other banks under FDIC and PDPC as set out above.

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

Credit Risk – Investments – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of December 31, 2016, the Pool was not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities and corporate notes (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

The Pool's policies limit the maximum amount that can be invested in various securities. At 2016 and 2015 year-end the Pool was in compliance. The Pool's actual composition, as of December 31, 2016 and 2015, is as follows (in thousands):

	2016		2015	
Investment Type	Total	Allocation Percentage	Total	Allocation Percentage
Repurchase agreements	$ 100,000	1.65%	$ 175,000	2.83%
Commercial paper	249,505	4.12%	221,744	3.59%
U.S. agency discount notes	440,879	7.29%	1,120,318	18.15%
Bank notes	-	-	732,896	11.87%
Bank notes floating rate	-	-	59,952	0.97%
Corporate notes	959,115	15.85%	-	-
U.S. treasury notes	2,456,511	40.60%	2,274,494	36.84%
U.S. agency notes	1,203,362	19.89%	1,250,334	20.25%
U.S. agency collateralized mortgage obligations	6,070	0.10%	7,212	0.12%
State treasurer's investment pool	634,558	10.50%	332,121	5.38%
	$ 6,050,000	100.00%	$ 6,174,071	100.00%

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

Concentration of Credit Risk – Investments – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issue. At 2016 year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issuers: Federal Home Loan Mortgage Corporation, 5.7 percent, Federal National Mortgage Association, 7.5 percent, Federal Home Loan Bank, 5.2 percent, and Federal Farm Credit Bank, 8.9 percent.

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

The issues with concentrations greater than 5 percent of the pool portfolio at 2015 year-end were as follows: Federal Home Loan Mortgage Corporation, 5.3 percent, Federal National Mortgage Association, 6.5 percent, Federal Home Loan Bank, 10.9 percent, and Federal Farm Credit Bank, 15.8 percent.

Interest Rate Risk – Investments – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The policy limit for the Pool's maximum effective duration is 1.5 years, and 40 percent of the Pool's total value in securities must have a maturity of 12 months or fewer. Securities in the portfolio cannot have an average life greater than five years at purchase. The combined effective duration of the liquidity and core portfolios was 1.122 years and 0.936 years at December 31, 2016 and 2015, respectively.

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

Fair Value Hierarchy

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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

The following is a summary of inputs in valuing the County's investments as of December 31, 2016 and 2015.

KING COUNTY INVESTMENT POOL

		Fair Value Measurement Using		
Investments by fair value level	**Fair Value 12/31/2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Commercial paper	$ 249,505	$ -	$ 249,505	$ -
U.S. agency discount notes	440,879	-	440,879	-
Corporate notes	959,115	-	959,115	-
U.S. treasury notes	2,456,511	2,456,511	-	-
U.S. agency notes	1,203,362	-	1,203,362	-
U.S. agency collateralized Mortgage obligations	6,070	-	6,070	-
Subtotal	$ 5,315,442	$2,456,511	$ 2,858,931	$ -
Investments measured at amortized cost (not subject to fair value hierarchy)				
Repurchase agreements	100,000			
State treasurer's investment pool	634,558			
Subtotal	734,558			
Total investment in Investment Pool	$ 6,050,000			

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

KING COUNTY INVESTMENT POOL

		Fair Value Measurement Using		
Investments by fair value level	**Fair Value 12/31/2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Commercial paper	$ 221,744	$ -	$ 221,744	$ -
U.S. agency discount notes	1,120,318	-	1,120,318	-
Corporate notes	732,896	-	732,896	-
Bank notes floating rate	59,952	-	59,952	-
U.S. treasury notes	2,274,494	2,274,494	-	-
U.S. agency notes	1,250,334	-	1,250,334	-
U.S. agency collateralized Mortgage obligations	7,212	-	7,212	-
Subtotal	$ 5,666,950	$2,274,494	$ 3,392,456	$ -
Investments measured at amortized cost (not subject to fair value hierarchy)				
Repurchase agreements	175,000			
State treasurer's investment pool	332,121			
Subtotal	507,121			
Total investment in Investment Pool	$ 6,174,071			

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

Commercial Paper, U.S. Agency Discount Notes, Corporate Notes, U.S. Agency Notes and U.S. Agency Collateralized Mortgage Obligations are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

State Treasurer's Investment Pool and Repurchase Agreement are overnight securities and are not subject to GASB Statement No. 72, *Fair Value Measurement and Application*.

Note 3 – Restricted Assets

A significant portion of Water Quality's assets are restricted as to use by legal and contractual provisions and by fiscal management policy. Restricted assets comprise $236.8 million at December 31, 2016 and $394.6 million at December 31, 2015 to comply with bond covenants and other requirements.

Liability amounts payable from restricted assets primarily consist of escrow and in-house retainage payables. These amounted to $2.0 million and $2.8 million at December 31, 2016 and 2015, respectively. The details of restricted and unrestricted cash and cash equivalents as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Unrestricted cash and cash equivalents		
Operating funds	$ 23,702	$ 19,920
Construction funds	197,355	40,787
Bond funds	128,543	136,749
Policy reserves	33,632	32,893
Total unrestricted cash and cash equivalents	383,232	230,349
Restricted cash and cash equivalents		
Bond reserves	160,491	166,128
SRF loan reserves	10,352	9,204
Bond proceeds committed to construction	-	23,595
Retainage	2,049	2,766
Rate stabilization reserve	46,250	46,250
Legally restricted funds	17,699	146,637
Total restricted cash and cash equivalents	236,841	394,580
Total cash and cash equivalents	$ 620,073	$ 624,929

Note 4 – Risk Management

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

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

During 2016 and 2015, Water Quality claims paid by the Insurance Fund of King County were $154 thousand and $130 thousand, respectively. In the past three years there was no occurrence that resulted in payment in excess of the self-insured retention of $7.5 million.

Note 4 – Risk Management (continued)

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments, for paying claim settlements, and for purchasing certain policies. The County's internal service funds assess premiums attributable to Water Quality on the basis of claims experience, actuarial evaluation of future claims risk, and adequacy of available reserves. Premiums are recorded as an expense in the year paid or accrued.

Water Quality retains all risk associated with environmental claims.

Note 5 – Long-Term Liabilities and Notes Payable

Sewer Revenue Bonds – As of December 31, 2016, bonds outstanding include $2,884.9 million of serial and term bonds maturing from January 1, 2017 through January 1, 2052, bearing interest at stated rates of 1.00 percent to 5.75 percent per annum.

On February 17, 2016, the County issued $281.5 million in sewer revenue bonds, Series A, with an effective interest cost of 3.3 percent to advance refund $278.8 million of outstanding 2007, 2008, 2009, and 2010 sewer revenue bonds with an average coupon interest rate of 4.4 percent. The reacquisition price exceeded the net carrying amount of the old debt by $35.4 million. This advance refunding was undertaken to reduce total debt service payments by $65.0 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $39.6 million.

On October 12, 2016, the County issued $499.7 million in sewer revenue bonds, Series B, with an effective interest cost of 3.2 percent, to currently refund $120.9 million of outstanding 2006 sewer revenue bonds and advance refund $369.8 million of outstanding 2010, 2011-A, 2011-B, 2011-C sewer revenue bonds with a coupon interest rate of 5.0 percent. The reacquisition price exceeded the net carrying amount of the old debt by $50.3 million. This refunding was undertaken to reduce total debt service payments by $103.9 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $73.9 million.

On November 16, 2016, the County remarketed $100.0 million in junior lien sewer revenue bonds, 2015 Series A and B, changing their interest rate mode to a one-month variable rate from a one-year fixed rate. These bonds have a final maturity date of January 1, 2046.

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

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

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

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

Bond issues provide funding for Water Quality's construction plan. Certain serial bonds may not be redeemed prior to maturity; other bonds may be redeemed after the lapse of specific periods of time. Amounts from the sewer revenue bond fund may be used to purchase term bonds prior to maturity.

The bonds are secured by a pledge of the revenue of the sewer system subject to payment of all operating and maintenance expenses of the sewer system. Payments from revenues of Water Quality are required to be made to the sewer revenue bond fund to pay interest and retire serial or term bonds on or before maturity. The amount required in the cash reserves and surety policies are based on the highest year of debt service over the life of all outstanding revenue bonds.

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

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2016
2001A-B Junior Lien Variable	1/1/32	(variable)	$ 100,000	$ 100,000
2006 Refunding	1/1/36	5.00%	124,070	-
2006 (2nd Series) Refunding	1/1/36	3.50-5.00%	193,435	4,330
2007	1/1/47	5.00%	250,000	1,750
2008	1/1/48	5.00-5.75%	350,000	3,605
2009	1/1/42	4.00-5.25%	250,000	4,850
2010	1/1/50	2.00-5.00%	334,365	108,625
2011	1/1/41	5.00-5.125%	175,000	66,925
2011 Series B	1/1/41	1.00-5.00%	494,270	254,620
2011 Series C	1/1/35	3.00-5.00%	32,445	16,485
2011 Sewer Junior Lien Variable	1/1/42	(variable)	100,000	100,000
2012A Refunding	1/1/52	5.00%	104,445	104,445
2012B Refunding	1/1/35	4.00-5.00%	64,260	64,260
2012C Refunding	1/4/33	2.50-5.00%	65,415	65,415
2012 Sewer Junior Lien Variable	1/1/43	(variable)	100,000	100,000
2013A Refunding	1/1/35	2.00-5.00%	122,895	117,000
2013B Revenue and Refunding	1/1/44	2.00-5.00%	74,930	63,030
2014A Refunding	1/1/47	5.00%	75,000	75,000
2014B Refunding	7/1/35	1.00-5.00%	192,460	190,790
2015 Sewer Junior Lien Variable	1/1/46	(variable)	100,000	100,000
2015A Refunding	7/1/47	3.00-5.00%	474,025	473,190
2015B Refunding	1/1/46	4.00-5.00%	93,345	89,380
2016A Refunding	7/1/41	4.00-5.00%	281,535	281,535
2016B Refunding	7/1/49	4.00-5.00%	499,655	499,655
			$ 4,651,550	$ 2,884,890

General Obligation Bonds – As of December 31, 2016, bonds outstanding include $755.9 million of serial and term bonds maturing January 1, 2017 through 2040, bearing interest at stated rates of 2.00 percent to 5.25 percent per annum.

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

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

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

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2016
2008 LTGO	1/1/34	3.25-5.25%	$ 236,950	$ 213,460
2009B LTGO	7/1/39	5.00-5.25%	300,000	28,795
2010A-B Multi-Modal LTGO	1/1/40	(variable)	100,000	100,000
2012A LTGO	1/1/25	2.00-5.00%	68,395	67,755
2012B LTGO	1/1/29	5.00%	41,725	41,725
2012C LTGO	1/1/34	5.00%	53,405	53,405
2012F LTGO	12/1/22	2.20%	3,010	3,010
2015A LTGO	7/1/38	2.00-5.00%	247,825	247,725
			$ 1,051,310	$ 755,875

State Loans – Water Quality has received loans from the Washington State Department of Ecology under the Water Pollution Control State Revolving Fund Loan Program and the Washington Public Works Trust Fund. The loans require annual payments of principal and interest from 2017 through 2037 and bear interest at stated rates from 0.0 percent to 3.1 percent. As of December 31, 2016, the balance due on all state loans is $206.0 million. Water Quality maintains separate cash reserves of $10.4 million as of December 31, 2016. These reserves are treated as restricted, being required under the Revolving Fund Loan Program.

At December 31, 2016, the required principal and interest payments for all classes of long-term debt are as follows (in thousands):

	Revenue Bonds		General Obligation Bonds		State Loans		
Year(s) Beginning	Principal	Interest	Principal	Interest	Principal	Interest	Total
January 1, 2017	$ 52,015	$ 119,897	$ 21,105	$ 36,033	$ 13,565	$ 4,369	$ 246,984
January 1, 2018	50,015	124,234	22,140	34,952	14,756	4,110	250,207
January 1, 2019	52,190	121,899	23,225	33,820	15,039	3,834	250,007
January 1, 2020	57,140	119,432	32,160	32,632	14,822	3,553	259,739
January 1, 2021	54,660	116,792	25,620	31,203	14,688	3,276	246,239
January 1, 2022–2026	334,690	538,752	151,580	134,767	62,292	12,265	1,234,346
January 1, 2027–2031	420,105	448,796	177,035	93,428	42,209	6,282	1,187,855
January 1, 2032–2036	608,735	321,131	164,595	48,277	28,208	1,530	1,172,476
January 1, 2037–2041	480,710	206,391	138,415	20,031	409	3	845,959
January 1, 2042–2046	626,705	93,301	-	-	-	-	720,006
January 1, 2047–2051	138,060	15,003	-	-	-	-	153,063
January 1, 2052	9,865	247	-	-	-	-	10,112
	$ 2,884,890	$ 2,225,875	$ 755,875	$ 465,143	$ 205,988	$ 39,222	$ 6,576,993

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

The future annualized interest payments for the variable rate revenue bonds are based on an interest rate of 5.4 percent, which represents 90 percent of the long-term interest rate assumed by the County for financial planning purposes.

Commercial Paper (Notes Payable) – On November 24, 2015, Water Quality redeemed all of its outstanding commercial paper from the proceeds of the junior lien sewer revenue bonds, 2015 Series A and B, thereby ending the program. Changes in short-term note payables for the year ended December 31, 2015 were as follows (in thousands):

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

Variable Rate General Obligation and Revenue Bonds – The variable rate bonds, 2001 Series A and Series B revenue bonds are supported by a periodically renewable letter of credit that expires September 30, 2020. The variable rate bonds, 2010 Series A and Series B general obligation bonds are supported by a Standby Bond Purchase Agreement that expires November 3, 2017. The variable rate bonds, 2011, 2012 and variable rate 2016 Series A and Series B Sewer Jr Lien do not have liquidity facilities.

Financial Policy Reserves – In addition to bond reserves related to Sewer Revenue Bonds, Water Quality maintains liquidity and asset management reserves totaling $33.6 million at December 31, 2016.

Compliance with Bond Resolutions – With respect to the year ended December 31, 2016, Water Quality complied with all financial covenants stipulated by its bond resolutions.

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

Changes in Long-Term Liabilities – Long-term liability activity for the years ended December 31, 2016 and 2015 was as follows (in thousands):

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Bonds payable	$ 3,695,560	$ 781,190	$ (835,985)	$ 3,640,765	$ 73,120
Bond premiums and discounts	274,709	102,618	(25,176)	352,151	-
Total bonds payable	3,970,269	883,808	(861,161)	3,992,916	73,120
State loans	179,388	39,151	(12,550)	205,989	13,565
Compensated absences	11,265	11,133	(10,925)	11,473	608
Other post-employment benefits	1,467	190	(74)	1,583	-
Net pension liability	38,885	25,693	(13,010)	51,568	-
Environmental remediation	52,298	2,838	(8,259)	46,877	6,928
Total long-term liabilities	$ 4,253,572	$ 962,813	$ (905,979)	$ 4,310,406	$ 94,221

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

Note 6 – Changes in Capital Assets

Changes in capital assets for the years ended December 31, 2016 and 2015 are shown in the following table (in thousands):

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
Land	$ 253,535	$ 2,175	$ (14,951)	$ 240,759
Easements	14,863	426	-	15,289
Construction work in progress	319,960	144,565	(132,577)	331,948
Total nondepreciable assets	588,358	147,166	(147,528)	587,996
Buildings	1,915,240	65,005	(197)	1,980,048
Improvements other than building	94,246	11,104	(2,569)	102,781
Artwork	5,645	60	(5)	5,700
Right of way	7,635	-	-	7,635
Infrastructure	2,238,131	22,656	-	2,260,787
Equipment	1,071,642	43,873	(4,537)	1,110,978
Software development	35,614	52	(35)	35,631
Total depreciable assets	5,368,153	142,750	(7,343)	5,503,560
Accumulated depreciation and amortization				
Building	(655,574)	(51,441)	182	(706,833)
Improvements other than building	(25,993)	(3,256)	672	(28,577)
Artwork	(874)	(205)	-	(1,079)
Right of way	(927)	(218)	-	(1,145)
Infrastructure	(530,650)	(47,484)	-	(578,134)
Equipment	(606,100)	(59,834)	4,520	(661,414)
Software development	(29,874)	(2,991)	35	(32,830)
Total depreciation and amortization	(1,849,992)	(165,429)	5,409	(2,010,012)
Depreciable assets - net	3,518,161	(22,679)	(1,934)	3,493,548
Total capital assets - net	$ 4,106,519	$ 124,487	$ (149,462)	$ 4,081,544

Note 6 – Changes in Capital Assets (continued)

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

Note 7 – Environmental Remediation

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

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

Note 7 – Environmental Remediation (continued)

The Sediment Management Project was obligated when the Metropolitan King County Council approved the pollution remediation program. The LDW project became a Water Quality obligation when King County entered into an Administrative Order on Consent (AOC) with the DOE and EPA. This AOC also includes The Boeing Company, the City of Seattle and the Port of Seattle as parties conduct the studies on which to base the cleanup decision. Each party has agreed to pay one fourth of the costs under the AOC.

Both projects may result in additional cleanup efforts as a result of future regulatory orders. These potential cleanup liabilities cannot be currently estimated. Ongoing, regulatory action has identified and may identify other Potentially Responsible Parties (PRP) for the LDW cleanup.

There are no estimated recoveries at this time that will reduce the amount of Water Quality's pollution remediation obligations. The total environmental remediation liability at December 31, 2016 stands at $46.9 million and $52.3 million in 2015.

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

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

Note 8 – Regulatory Assets and Credits

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

Rate Stabilization – In 2005, the Council established a Rate Stabilization Reserve. This action created a deferred inflow of resource which deferred operating revenue to be set aside in a reserve and recognized in subsequent years to maintain stable sewer rates. The reserve was $46.3 million in 2015 and remains unchanged in 2016.

Note 8 – Regulatory Assets and Credits (continued)

Pollution Remediation – In 2006, the Council approved the application of regulatory accounting to treat pollution remediation obligations as regulatory assets to allow for cost recovery through future rate increases. The portion of regulatory asset costs that have been accrued is being amortized over a recovery period of 30 years.

Rainwise Program – In 2013, the Council approved the application of regulatory accounting to treat program payments to Rainwise participants as regulatory assets to allow for cost recovery through future rate increases. The portion of regulatory asset costs that have been accrued is being amortized over a recovery period of 7 years.

Note 9 – Employee Benefit Plans

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, the County elected to use June 30, 2016 and 2015, respectively, as the measurement date for reporting net pension liability at 2016 and 2015 year-end, respectively.

The following table represents the aggregate pension amounts allocated to Water Quality for all pension plans subject to the requirements of GASB Statement No. 68 for the years 2016 and 2015 (in thousands):

	Aggregate Pension Amounts—All Plans	
	2016	2015
Pension liabilities	$ 51,568	$ 38,885
Deferred outflows of resources	$ 9,849	$ 4,987
Deferred inflows of resources	$ 1,217	$ 6,984
Pension expense/expenditures	$ 8,848	$ 4,190

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

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

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

Note 9 – Employee Benefit Plans (continued)

The DRS CAFR may be obtained by writing to:

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees Retirement System – PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 and 2015 were as follows:

PERS Plan 1

	Employer	Employee
Actual contribution rates:		
January through December 2016	11.18%	6.00%
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

Note 9 – Employee Benefit Plans (continued)

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

	PERS Plan 1
2016	$ 77
2015	$ 78
2014	$ 88

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

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

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

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

Note 9 – Employee Benefit Plans (continued)

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 and 2015 were as follows:

PERS Plan 2/3		
	Employer 2/3	Employee 2
Actual contribution rates:		
January through December 2016	11.18%	6.12%
2016 Employee PERS Plan 3		Varies
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%
2015 Employee PERS Plan 3		Varies

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

	PERS Plans 2/3
2016	$ 6,717
2015	$ 5,705
2014	$ 5,020

Actuarial Assumptions – The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Note 9 – Employee Benefit Plans (continued)

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

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

- For all systems, except Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

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

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

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

Note 9 – Employee Benefit Plans (continued)

Estimated Rates of Return by Asset Class – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

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

Pension Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 23,099	$ 19,155	$ 15,761
PERS 2/3	$ 59,679	$ 32,413	$ (16,873)
PERS 1	$ 20,644	$ 16,956	$ 13,785
PERS 2/3	$ 64,119	$ 21,929	$ (10,376)

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016 and 2015, Water Quality reported a total pension liability of $51.6 million and $38.9 million, respectively, for its proportionate share of the net pension liabilities as follows (in thousands):

	Liability	
	2016	2015
PERS 1	$ 19,155	$ 16,956
PERS 2/3	$ 32,413	$ 21,929

Note 9 – Employee Benefit Plans (continued)

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.32%	0.36%	0.04%
PERS 2/3	0.61%	0.64%	0.03%

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

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

The collective net pension liability was measured as of June 30, 2016 and 2015, respectively, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2015 and 2014, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense – For the year ended December 31, 2016 and 2015, Water Quality recognized pension expense as follows (in thousands):

	Pension Expense	
	2016	2015
PERS 1	$ 760	$ (945)
PERS 2/3	8,088	5,135
Total	$ 8,848	$ 4,190

Note 9 – Employee Benefit Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2016 and 2015, Water Quality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2016		2015	
PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments.	$ 482	$ -	$ -	$ 928
Contributions subsequent to the measurement date.	1,007	-	901	-
Total	$ 1,489	$ -	$ 901	$ 928

	2016		2015	
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience.	$ 1,726	$ 1,070	$ 2,331	$ -
Net difference between projected and actual investment earnings on pension plan investments.	3,967	-	35	5,854
Changes of assumptions	335	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions.	462	147	-	202
Contributions subsequent to the measurement date.	1,870	-	1,720	-
Total	$ 8,360	$ 1,217	$ 4,086	$ 6,056

Note 9 – Employee Benefit Plans (continued)

Deferred outflows of resources related to pensions resulting from Water Quality's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017 and 2016, respectively. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

	2016	
Year Ending December 31,	PERS 1	PERS 2/3
2017	$ (119)	$ 106
2018	$ (119)	$ 106
2019	$ 443	$ 3,153
2020	$ 277	$ 1,908

	2015	
Year Ending December 31,	PERS 1	PERS 2/3
2016	$ (360)	$ (1,649)
2017	$ (360)	$ (1,649)
2018	$ (360)	$ (1,649)
2019	$ 152	$ 1,257

Note 10 – Other Post-Employment Benefits

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

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

Note 10 – Other Post-Employment Benefits (continued)

Funding Policy – Law Enforcement Officers' and Fire Fighters' Retirement System Plan (LEOFF) 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan. Water Quality contributed an estimated $74 thousand each year to the Health Plan during both 2016 and 2015. The contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to advance fund the cost of benefits.

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

Water Quality's allocated annual OPEB costs, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for the years ended December 31, 2016 and 2015 were as follows (in thousands):

	2016	2015
Normal cost - Unit Credit Method	$ 164	$ 165
Amortization of unfunded actuarial accrued liability (UAAL)	32	32
Annual Required Contribution (ARC)	196	197
Interest on net OPEB obligation	5	5
Adjustment to annual required contribution	(11)	(12)
Annual OPEB cost (expense)	190	190
Contributions made	(74)	(74)
Increase in net OPEB obligation	116	116
Net OPEB obligation - beginning of year	1,467	1,351
Net OPEB obligation - end of year	$ 1,583	$ 1,467

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2016	$ 190	38.9%	$ 1,583
12/31/2015	$ 190	38.9%	$ 1,467
12/31/2014	$ 219	29.0%	$ 1,351

Note 10 – Other Post-Employment Benefits (continued)

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

The December 31, 2016 valuation used the projected unit credit actuarial cost method. The actuarial assumptions included a 2.5 percent investment rate of return (net of administrative expenses) and an initial annual health care cost trend rate of 7.0 percent for KingCare medical, 9.0 percent for KingCare pharmacy, and 7.0 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 3.8 percent after 59 years and 7 years for medical and pharmacy, respectively. The Medicare Premium trend rate is 6.0 percent, for all years. All trend rates include a 3.0 percent inflation assumption. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 22 years.

Note 11 – Interfund Balances and Transfers

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

Interfund Balances – The balances result from the time lag between the dates when interfund goods and services were provided or reimbursable expenditures incurred and when interfund payments were made, Water Quality reported total due from other funds of $1.3 million and due to other funds of $16 thousand at December 31, 2016. Water Quality had $1.2 million due from other funds and due to other funds of $111 thousand at December 31, 2015.

Interfund Transfers – The King County Council approves ordinances and/or motions authorizing Water Quality to contribute and receive amounts to and from various County funds. During 2016 and 2015, the transfers from Water Quality to other funds were $150 thousand and $115 thousand, respectively.

Note 12 – Commitments and Contingencies

Construction and Maintenance Programs – To ensure the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities, Water Quality is committed to expending approximately $54.4 million on active construction contracts as of December 31, 2016.

Note 12 – Commitments and Contingencies (continued)

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

- An administrative order issued by the Environmental Protection Agency (EPA) that required King County, the City of Seattle, Boeing, and the Port of Seattle to conduct studies to determine the nature and extent of contamination in the Lower Duwamish Waterway. The County and the other three parties recently agreed with EPA to amend the administrative order and to conduct additional studies pursuant to the amendment. The Feasibility Study, which discusses the remediation alternatives, has been issued in final form by EPA. EPA issued a Record of Decision (ROD) in the latter part of 2014. The ROD contains EPA's final plan for cleanup of the Lower Duwamish Waterway. King County and a number of other parties are participating in an alternative dispute resolution process, called an allocation, to determine shares of liability for the costs of the cleanup. If parties that participate in the allocation accept their allotted shares, they then expect to enter into a settlement agreement and to negotiate a consent decree with EPA to implement the cleanup. Due to the fact that the parties do not yet know their respective shares of cleanup costs and no consent decree has been negotiated with EPA, the County is unable to determine the schedule or cost of any required remediation. In addition, the County is unable to determine the extent to which King County and the Wastewater Treatment Division (WTD) or Water Quality will be responsible for the cost of such remediation.

- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. Water Quality has already performed interim cleanup costing $3.6 million to comply with a formal agreement with the Washington State Department of Ecology (DOE). Water Quality is preparing a draft Cleanup Action Plan in anticipation of final cleanup being required for the site. Water Quality's proposed remedy would be subject to discussions with and approval by DOE. The County is unable to determine an amount, if any, for which Water Quality may be responsible.

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

Note 12 – Commitments and Contingencies (continued)

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

- A series of requests for change orders and claims for damages from the prime contractor for the Brightwater Treatment Plant central conveyance system alleging differing site conditions and defective specifications. The County vigorously defended against the claims and filed suit alleging contract default by the contractor for failure to complete the contract work within time limits. The County received a jury verdict of $155 million on December 21, 2012. The contractor received a verdict of $26.2 million. Rulings on post-trial motions were issued on April 19, 2013, leaving in place the verdict amounts. The rulings also awarded the County additional $14.7 million for its legal costs. While the contractor has paid the net judgment amount, it continued to appeal the judgment to the Court of Appeals who affirmed the superior court decision. On January 28, 2016, the contractor petitioned the Washington Supreme Court for review of the defective specification ruling, and the surety defendants petitioned for review of the attorney fees award. The County answered the petition advocating denial of review because the trial court rulings on both issues are consistent with Washington precedent. Amici briefs were submitted by the contractor and industry trade groups on behalf of the contractor. The Washington Supreme Court denied the contractor's petition for review but accepted review of the petition on legal costs. The County is awaiting a decision in regards to the legal costs. Water Quality recognized $133.6 million as other nonoperating revenue during 2016.

- A lawsuit filed by a contractor over contractual penalties of approximately $736 thousand that Water Quality withheld from payment to the contractor for defective installation of the four new centrifuges. The claim seeks $1.9 million. Water Quality will file an answer and counterclaim for damages in addition to the withheld liquidated damages for delay and the penalties for non-compliant centrifuge performance.

- A claim submitted by a contractor against Water Quality over the project to repair and replace two miles of pipeline serving the rapidly developing area in the vicinity of Canyon Park. The project is subject to an agreement with DOE that mandates a bypass system be constructed if this capital project was not completed by the onset of the 2016 wet season. The contractor has submitted a request for change order based on its assertion that the contract dewatering and open-faced shield tunneling specifications are defective. The amount claimed for costs for additional work at this time is approximately $1.5 million. Water Quality found the contractor in default, terminated the contract, made demand upon the performance bond surety, and procured a $20 million completion contract. Water Quality's additional costs to complete the project and consequential damages, and the contractor's counterclaims will be addressed in the lawsuit. The contractor filed a second lawsuit in Snohomish County Superior Court to enjoin the default termination. This lawsuit was dismissed and the contractor is appealing that decision to Division One of the Court of Appeals.

Note 13 – Subsequent Event

In February 2017, Water Quality deposited cash in an irrevocable escrow to defease $5.1 million of outstanding 2008 and 2009 sewer revenue bonds. With the defeasance of these bonds, revised covenants in the bond ordinance that establish the minimum ratings for surety bonds that the County may use as qualified investments in lieu of cash in the Bond Reserve have become effective.

On February 9, 2017, the West Point Treatment Plant received catastrophic damage from a massive inflow of combined stormwater and sewage when a power surge disabled pumps and a critical overflow valve malfunctioned resulting in flooding the plant. It also resulted in engagement of the emergency bypass function routing untreated flow volumes past the treatment processes of the plant and directly into Puget Sound. Water Quality management reported the incident to the DOE immediately and continue to update the agency on operational conditions and permit compliance. The loss comes under the terms of insurance coverage with a $250 thousand deductible and a maximum loss recovery of $250 million per occurrence. Water Quality management is working with insurance carriers to document and recover costs related to the incident. Restoration of primary and secondary treatment back to normal operation is Water Quality’s top priority and is anticipated by April 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the County's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30*
(dollars in thousands)

	2016	2015
County's proportion of the net pension liability/(asset)	8.90%	8.76%
County's proportionate share of the net pension liability/(asset)	$ 477,871	$ 458,477
County's covered-employee payroll	$ 18,793	$ 20,440
County's proportionate share of the net pension liability/(asset) as a percentage of covered-employee payroll	2542.81%	2243.04%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	57.03%	59.10%

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

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

	2016	2015
County's proportion of the net pension liability/(asset)	10.52%	10.36%
County's proportionate share of the net pension liability/(asset)	$ 529,855	$ 370,294
County's covered-employee payroll	$ 953,254	$ 933,304
County's proportionate share of the net pension liability/(asset) as a percentage of covered-employee payroll	55.58%	39.68%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	85.82%	89.20%

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

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

	2016	2015
Contractually required contribution	$ 1,901	$ 2,076
Contributions in relation to the contractually required contribution	1,901	2,076
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 17,003	$ 20,440
Contributions as a percentage of covered-employee payroll	11.18%	10.16%

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

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

	2016	2015
Contractually required contribution	$ 109,269	$ 95,176
Contributions in relation to the contractually required contribution	109,269	95,176
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 977,342	$ 933,304
Contributions as a percentage of covered-employee payroll	11.18%	10.20%

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

Schedule of Funding Progress for the Plan
(in thousands)

Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) ÷ c)
2014	12/31/2014	$ -	$ 167,420	$ 167,420	-	$ 1,073,511	15.6%
2015	12/31/2015	$ -	$ 167,417	$ 167,417	-	$ 1,076,068	15.6%
2016	12/31/2016	$ -	$ 167,417	$ 167,417	-	$ 1,121,961	14.9%

OTHER INFORMATION

Water Quality is obligated by applicable bond ordinances to set sewage disposal rates at a level adequate to provide net revenue equal to at least 1.15 times the annual debt service requirements for sewer revenue and general obligation bonds payable from revenues of Water Quality. It is an adopted policy of Water Quality to achieve a debt service coverage ratio of 1.25.

Coverage (1.15 required by covenant, adopted policy 1.25)	1.55

In 2001, Water Quality adopted a new debt service target of 1.15 times the annual debt service for bonds, obligations, notes, and loans of Water Quality.

Coverage (1.15 adopted target)	1.41

Water Quality is required to generate revenues sufficient to pay all costs of operation of the sewage treatment system and debt service on obligations of Water Quality.

Coverage (1.00 required by covenant)	1.32

In 2001, Water Quality issued an additional tier of revenue bonds. The bond covenants of the Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, require that sewage disposal rates provide net revenue equal to at least 1.10 times the annual debt service requirements for all Junior Lien obligations after payment of senior lien requirements. In 2010, Water Quality issued Multi-Modal Limited Tax General Obligation Sewer Revenue Bonds, series 2010A and 2010B which incorporate the identical requirement as Junior Lien obligations. In 2011 and 2012, Water Quality issued $100M of Junior Lien Variable Rate Demand Sewer Revenue Bonds which incorporate the identical requirement as Junior Lien obligations. In 2016, Water Quality issued $100M of Junior Lien Variable Rate Sewer Revenue Bonds which incorporate the identical requirement as Junior Lien obligations.

Coverage (1.10 required by covenant)	31.45

APPENDIX D

SUMMARY OF KING COUNTY'S INVESTMENT POLICY

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SUMMARY OF KING COUNTY'S INVESTMENT POLICY

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 interlocal agreement that governs its participation in the Investment Pool, and, to exit the Investment Pool, a district must provide the required notice prior to its anniversary date. The Treasury Operations Section selects the particular investment instruments.

The Investment Pool must maintain an effective duration of 1.5 years or less and 40% of its total value must be held in securities that mature within one year. As of September 30, 2017, the Investment Pool had a balance of $6.6 billion and an effective duration of 0.98 years, and 56.7% of the portfolio had a maturity of one year or less.

Under State law and the County's current investment policy, subject to certain minimum credit and maximum maturity limitations as described therein, the County may invest in the following instruments:

(i) up to 100% of the portfolio in U.S. Treasury or U.S. Agency securities;

(ii) up to 25% of the portfolio in certificates of deposit ("CDs") with institutions that are public 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% of the portfolio in commercial paper and corporate notes with a maximum of 5% per issuer across investment types;

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

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

(viii) up to 25% of the portfolio in the State's Local Government Investment Pool.

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

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

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

The investment policy also includes, as Schedule VIII, a policy adopted by the Committee to address the circumstances under which County agencies or districts can invest funds beyond the maximum maturity limits established for the Investment Pool. This policy provides the "Pool-Plus" investment option, which allows a participant in the Investment Pool to request the County to combine a portfolio of individual long-term securities in the same fund that is invested in the Investment Pool. Under the Pool-Plus option, the Investment Pool will be used for the liquidity portion of the portfolio, while the following investment types may be used for the longer term investments: U.S Treasuries or securities with full faith and credit of the U.S. government backing them, and senior debt obligations issued by U.S. agencies, instrumentalities, or government-sponsored enterprises such as Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC).

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 fourteenth most populous county in the United States. Of the State's population, nearly 30% reside in King County, and of the County's population, 33% live in the City of Seattle ("Seattle"). Seattle is the largest city in the Pacific Northwest, the County seat, and the center of the County's economic activity. Bellevue is the State's fifth largest city and the second largest in the County, and is the center of the County's eastside business and residential area.

Population

Historical and current population figures for the State, the County, and Seattle are given below.

POPULATION

Year	Washington	King County	Seattle
1980 (1)	4,130,163	1,269,749	493,846
1990 (1)	4,866,692	1,507,319	516,259
2000 (1)	5,894,121	1,737,034	563,374
2010 (1)	6,724,540	1,931,249	608,660
2013 (2)	6,882,400	1,981,900	626,600
2014 (2)	6,968,170	2,017,250	640,500
2015 (2)	7,061,410	2,052,800	662,400
2016 (2)	7,183,700	2,105,100	686,800
2017 (2)	7,310,300	2,153,700	713,700

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: State of Washington, Office of Financial Management

Per Capita Income

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

PER CAPITA INCOME

	2012	2013	2014	2015	2016
Seattle MD	$ 56,267	$ 58,483	$ 62,481	$ 65,187	$ 69,786
King County	60,090	62,770	68,877	72,530	77,213
State of Washington	46,045	47,717	49,610	51,898	54,579
U.S.	43,735	44,765	46,049	48,112	49,246

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

Construction

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

KING COUNTY
RESIDENTIAL BUILDING PERMIT VALUES

	New Single Family Units		New Multi-Family Units		
Year	**Number**	**Value($)**	**Number**	**Value($)**	**Total Value($)**
2012	3,864	$ 1,133,343,731	7,750	$ 1,118,023,021	$ 2,251,366,752
2013	4,419	1,419,065,243	7,858	1,053,237,846	2,472,303,089
2014	4,215	1,478,116,875	10,488	1,478,117,263	2,880,006,794
2015	4,010	1,539,049,136	14,527	2,227,509,189	3,766,558,325
2016	4,254	1,616,722,532	13,445	1,759,255,696	3,375,978,228
2016(1)	3,368	1,265,855,039	9,165	1,206,693,739	2,472,548,778
2017(1)	3,348	1,302,375,837	9,180	1,394,252,704	2,696,628,541

(1) Through September.

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
2012	$ 43,506,804,227	$ 17,162,539,275
2013	46,601,198,766	18,258,200,683
2014	49,638,174,066	19,995,171,842
2015	54,890,159,770	22,407,443,037
2016	59,530,882,870	24,287,539,378
2016(1)	$ 28,475,276,269	$ 11,605,222,696
2017(1)	29,477,817,107	12,149,059,838

(1) Through second quarter.

Source: Washington State Department of Revenue and Quarterly Business Review

Industry and Employment

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

PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	**Employees**
The Boeing Company	78,200
Joint Base Lewis-McChord	58,100
Navy Region Northwest	46,700
Microsoft Corp.	43,600
Amazon.com Inc.	24,000
University of Washington	23,600
Wal-Mart Stores, Inc.	19,500(1)
Providence Health & Services	17,700
Fred Meyer Stores	15,500
King County Government	14,700(2)
City of Seattle	13,700(3)
Starbucks Corp.	12,600
CHI Franciscan Health System	11,800
Nordstrom Inc.	10,900
Costco Wholesale Corp.	10,500(1)

(1) Does not include part-time or seasonal employment figures.

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

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

Source: Puget Sound Business Journal Book of Lists, 2017

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

	Annual Average				
	2012	**2013**	**2014**	**2015**	**2016**
Civilian Labor Force	1,129,670	1,139,610	1,158,230	1,178,606	1,208,334
Total Employment	1,055,000	1,079,950	1,104,930	1,128,497	1,160,734
Total Unemployment	74,670	59,660	53,300	50,109	47,600
Percent of Labor Force	6.6%	5.2%	4.6%	4.3%	3.9%

NAICS INDUSTRY	**2012**	**2013**	**2014**	**2015**	**2016**
Total Nonfarm	1,196,042	1,237,217	1,278,033	1,311,575	1,358,517
Total Private	1,030,608	1,069,975	1,108,425	1,137,442	1,180,175
Goods Producing	154,283	162,508	168,283	174,908	176,800
Mining and Logging	425	458	458	575	500
Construction	50,625	55,883	60,792	66,800	70,833
Manufacturing	103,225	106,167	107,025	107,542	105,475
Service Providing	1,041,758	1,074,708	1,109,750	1,136,667	1,181,717
Trade, Transportation, and Utilities	216,167	225,167	235,758	244,433	254,642
Information	81,017	82,617	85,583	89,058	95,967
Financial Activities	68,850	70,892	72,000	69,675	70,758
Professional and Business Services	192,525	201,042	207,933	215,733	222,667
Educational and Health Services	159,275	162,633	167,983	167,008	174,592
Leisure and Hospitality	114,850	120,575	124,883	130,108	136,425
Other Services	43,642	44,542	46,000	46,517	48,325
Government	165,433	167,242	169,608	174,133	178,342
Workers in Labor/Management Disputes	0	0	0	0	0

	Sep. 2017
Civilian Labor Force	1,243,831
Total Employment	1,195,246
Total Unemployment	48,585
Percent of Labor Force	3.9%

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

Source: Washington State Employment Security Department

APPENDIX F

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

The following information has been provided by the Depository Trust Company, New York, New York ("DTC"). The County makes no representation regarding the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners

are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records.

Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

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

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

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.