



**Office of the Washington State Auditor**  
**Pat McCarthy**

October 9, 2017

Mayor and City Council  
City of Seattle  
Seattle, Washington

**Contracted CPA Firm's Audit Report on Financial Statements**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the City of Seattle – City Light Department's financial statements for the fiscal year ended December 31, 2016. The City contracted with the CPA firm for this audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

***The City of Seattle—  
City Light Department***

*Enterprise Fund of The City of Seattle*

*Financial Statements as of and for the  
Years Ended December 31, 2016 and 2015,  
Required Supplementary Information,  
Other Information, and  
Independent Auditors' Report*

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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## INDEPENDENT AUDITORS' REPORT

To the Energy and Environment Committee  
The City of Seattle – City Light Department  
Seattle, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The City of Seattle – City Light Department (the “Department”), an enterprise fund of The City of Seattle, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

### ***Management’s Responsibility for the Financial Statements***

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

### ***Auditors’ 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ 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 over financial reporting relevant to the Department'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 Department’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 Department as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Energy Committee  
The City of Seattle – City Light Department

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not present fairly the financial position of The City of Seattle, Washington, as of December 31, 2016 and 2015 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other information as listed in the table of contents, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

*Baker Tilly Voichau Krause, LLP*

Madison, Wisconsin  
April 28, 2017

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2016, and 2015. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

#### ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates generating, transmission, and distribution facilities and delivers electricity to approximately 448,000 customers in Seattle and certain surrounding communities. The Department also provides electrical energy to other City agencies at rates prescribed by City ordinances.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The Department's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Department's accounting records also follow the Uniform System of Accounts for Public Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

This discussion and analysis is intended to serve as an introduction to the Department's financial statements, which are comprised of the financial statements and the notes to the financial statements and include the following:

***Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows***—The financial statements provide an indication of the Department's financial health. The balance sheets include all the Department's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes, and which assets are restricted due to bond covenants and other commitments. The statements of revenues, expenses, and changes in net position report all the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income and cash payments for bond principal and capital additions and betterments.

***Notes to the Financial Statements***—The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

### CONDENSED BALANCE SHEETS

| (\$ in millions)                                      | December 31       |                  |                  |
|-------------------------------------------------------|-------------------|------------------|------------------|
|                                                       | 2016              | 2015             | 2014             |
| Assets:                                               |                   |                  |                  |
| Utility plant—net                                     | \$ 3,214.7        | \$2,961.5        | \$2,728.3        |
| Restricted assets                                     | 222.0             | 265.1            | 298.4            |
| Current assets                                        | 286.5             | 339.6            | 298.8            |
| Other assets                                          | <u>396.2</u>      | <u>339.5</u>     | <u>319.7</u>     |
| Total assets                                          | <u>4,119.4</u>    | <u>3,905.7</u>   | <u>3,645.2</u>   |
| Total deferred outflows of resources                  | <u>94.9</u>       | <u>49.8</u>      | <u>19.3</u>      |
| Total assets and deferred outflows of resources       | <u>\$ 4,214.3</u> | <u>\$3,955.5</u> | <u>\$3,664.5</u> |
| Liabilities:                                          |                   |                  |                  |
| Long-term debt                                        | \$ 2,165.3        | \$2,090.8        | \$1,925.2        |
| Noncurrent liabilities                                | 433.6             | 341.5            | 67.3             |
| Current liabilities                                   | 266.5             | 271.4            | 258.3            |
| Other liabilities                                     | <u>37.2</u>       | <u>29.7</u>      | <u>26.7</u>      |
| Total liabilities                                     | <u>2,902.6</u>    | <u>2,733.4</u>   | <u>2,277.5</u>   |
| Total deferred inflows of resources                   | <u>94.2</u>       | <u>89.9</u>      | <u>111.5</u>     |
| Net position:                                         |                   |                  |                  |
| Net investment in capital assets                      | 1,310.5           | 1,169.6          | 1,100.8          |
| Restricted:                                           |                   |                  |                  |
| Rate stabilization account                            | 25.0              | 25.0             | 25.0             |
| Special deposits and other purposes                   | <u>-</u>          | <u>-</u>         | <u>-</u>         |
| Total restricted                                      | <u>25.0</u>       | <u>25.0</u>      | <u>25.0</u>      |
| Unrestricted—net                                      | <u>(118.0)</u>    | <u>(62.4)</u>    | <u>149.7</u>     |
| Total net position                                    | <u>1,217.5</u>    | <u>1,132.2</u>   | <u>1,275.5</u>   |
| Total liabilities, deferred inflows, and net position | <u>\$ 4,214.3</u> | <u>\$3,955.5</u> | <u>\$3,664.5</u> |

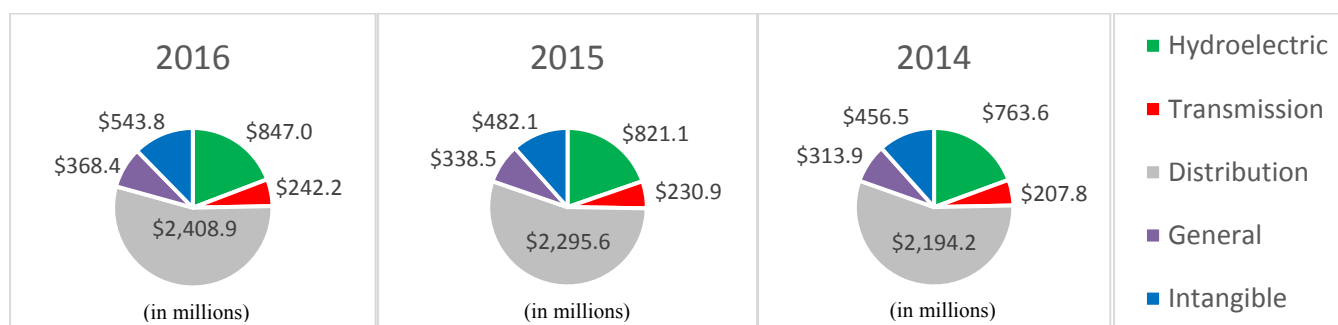
## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

#### ASSETS

##### *Utility Plant—Net*

**2016 Compared to 2015** Utility plant assets net of accumulated depreciation and amortization increased \$253.2 million to \$3,214.7 million in 2016. Utility plant assets were comprised of hydroelectric production plant \$847.0 million which increased \$25.9 million, transmission plant, \$242.2 million, which increased \$11.3 million, distribution plant, \$2,408.9 million, which increased \$113.3 million, general plant, \$368.4 million, which increased \$29.9 million, and intangible assets, \$543.8 million which increased \$61.7 million. The net increase in utility plant assets were partially offset by a \$63.5 million increase in Accumulated depreciation and amortization to \$1,735.3 million.



The \$113.2 million increase in distribution plant is primarily due to \$31.0 million for Underground, \$22.0 million for Network, \$14.1 million for Services, \$12.2 million for Poles, \$5.4 million for Station Equipment, \$5.2 million for Street Lights.

The \$27.3 million increase in Hydro Assets is primarily due to: \$12.5 million for Ancillary Electric Equipment, \$5.4 million for Miscellaneous Hydro Equipment, \$5.2 million for Hydro Structures. The \$11.4 million increase in Transmission is primarily due to: \$6.4 million for Transmission Station Equipment, \$2.2 million for Transmission Overhead Lines. The \$29.9 million increase in General plant is primarily due to: \$18.4 million for General Structure improvements, \$5.7 million for Communication Equipment, \$4.5 million for vehicles. The \$61.7 million increase in Intangible assets is primarily due to: \$38.8 million for net Software additions (New Customer Information System and Emergency Management System) and \$22.8 million for High Ross and Relicensing at Boundary and Skagit.

Other components of utility plant include Construction work-in-progress \$392.5 million which increased \$72.7 million, driven mainly by an increase of \$95.2 in Underground Distribution projects and a decrease in General Plant of \$27.5. Nonoperating property has a balance of \$12.7 million which increased \$0.9 million, Assets held for future use \$59.5 million which decreased \$1.3 million, and Land and land rights \$75 million, which increased \$2.3 million.

See Note 3 Utility Plant of the accompanying financial statements.

**2015 Compared to 2014** Utility plant assets net of accumulated depreciation and amortization increased \$233.2 million to \$2,961.5 million in 2015. Utility plant assets were comprised of hydroelectric production plant \$821.1 million which increased \$57.5 million, transmission plant \$230.9 million which increased \$23.1 million, distribution plant \$2,295.6 million which increased \$101.4 million, general plant \$338.5 million which increased \$24.6 million, and intangible assets \$482.1 million which increased \$25.6 million. The net increase in utility plant



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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assets were partially offset by a \$58.9 million increase in Accumulated depreciation and amortization to \$1,671.8 million.

The \$101.4 million increase in distribution plant is primarily due to \$45.0 million for underground system, \$17.9 million for transformers, \$15.9 million for stations, \$11.4 million for poles, \$5.5 million for overhead system, and \$5.4 million for streetlights. In hydroelectric production, an increase of \$40.4 million was due to continued improvements for generation units at the Boundary project.

Other components of utility plant include Construction work-in-progress \$319.8 million which increased \$67.4 million, Nonoperating property \$11.8 million which increased \$1.3 million, Assets held for future use \$60.8 million which decreased \$11.0 million, and Land and land rights \$72.7 million, which increased \$2.2 million. The \$67.5 million increase in Construction work-in-progress is primarily due to increases in the following projects: \$16.5 million for the new customer billing system, \$16.0 million for Seattle Seawall, \$15.7 million for Denny Substation, and \$8.1 million for replacement of the energy management system. The decrease in Assets held for future use is primarily due to distribution assets being placed in service.

#### ***Restricted Assets***

***2016 Compared to 2015*** Restricted assets consisting of restricted cash decreased by \$43.1 million to \$222.0 million.

Construction funds decreased by \$60.3 million to \$28.4 million, and represent the balance of unspent proceeds from the 2016A Clean Renewable Energy Bonds issued in January. All proceeds from bonds issued prior to 2016 and from additional bonds issued during 2016, were fully spent and used for funding a significant portion of the ongoing capital improvement program.

Bond reserve account deposits increased by \$13.3 million to \$87.0 million from bond proceeds and interest earnings. Additional funding from operating cash of \$10.0 million continued accumulation of the reserve account ahead of the existing surety bond 2029 expiration.

The Rate Stabilization Account (RSA) increased by a net \$0.1 million to \$91.1 million. A surcharge on electric rates of 1.5% remains in effect implemented in August 2016 until the RSA is funded to \$100.0 million. Additions from the rate surcharge of \$4.4 million and interest earnings of \$1.2 million were offset by transfer of funds to operating cash of \$5.5 million because actual net wholesale revenues were less than budgeted. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other restricted assets increased by \$3.8 million to \$15.5 million primarily for sundry prepayments and escrow deposits.

***2015 Compared to 2014*** Restricted assets consisting of restricted cash decreased by \$33.3 million to \$265.1 million.

Construction funds decreased by \$35.1 million to \$88.7 million, and represent the balance of unspent proceeds from the variable rate 2015B bonds issued in July. Proceeds from the 2014 bonds and from the 2015A bonds issued in May 2015 were fully spent during the year funding a significant portion of the ongoing capital improvement program.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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Bond reserve account deposits increased by \$25.8 million to \$73.7 million from operating cash, bond proceeds, and interest earnings. Funding from operating cash of \$20.0 million continued accumulation of the reserve account ahead of the existing surety bond 2029 expiration.

The Rate Stabilization Account (RSA) decreased by a net \$23.4 million to \$91.0 million as funds of \$24.7 million were transferred to operating cash during the year because net wholesale revenues were less than budgeted. Interest earnings in the amount of \$1.3 were transferred to the RSA.

Other restricted assets declined by \$0.6 million to \$11.7 million.

#### ***Current Assets***

***2016 Compared to 2015*** Current assets decreased by \$53.1 million to \$286.5 million at year end.

Operating cash decreased by \$79.6 million to \$72.9 million at the end of 2016. Increased inflows to cash derived from a 4.9% system average rate increase effective in January, Bonneville Power Administration (Bonneville) 0.9% pass-through rate adjustment effective in October 2015, transfers from the RSA, and reimbursement from the Construction account for capital expenditures. These were offset by payments for higher debt service, capital construction projects, and ongoing operations.

Accounts receivable, net, increased by \$15.6 million to \$97.8 million. A total of \$17.8 million net increase in receivables were for retail electric due to rate increases noted above of \$5.4 million, reclassification of customer overpayments to a liability at implementation of the new billing system of \$4.8 million, large service connections in progress of \$3.0 million, billings to other City departments of \$1.6 million, wholesale power receivables of \$2.0 million, and other. These were offset by a net increase of \$2.2 million in the allowance for bad debt for retail electric and sundry billings.

Unbilled revenues increased by \$6.1 million to \$76.6 million because of the rate increases and higher customer loads due to colder weather during the 4<sup>th</sup> quarter compared to same comparable period of 2015.

Other current assets increased by \$4.8 million to \$39.2 million. Materials and supplies inventory was higher by \$3.1 million due to the purchase of an additional spare transformer for generating facilities and materials for two major projects in progress. The balance increase consisted mainly of inventory loading costs that will be allocated in the following year.

***2015 Compared to 2014*** Current assets increased by \$40.8 million to \$339.6 million at the end of 2015.

Operating cash increased by \$24.2 million to \$152.5 million at the end of the year. Increased inflows to cash derived from a 4.2% system average rate increase effective in January, Bonneville Power Administration (Bonneville) 0.9% pass-through rate adjustment effective in October, transfers from the RSA, and reimbursement from the Construction account for capital expenditures. Cash inflows were offset by payments for higher debt service, capital construction projects, and ongoing operations.

Accounts receivable, net, increased by \$7.6 million to \$82.2 million. A total of \$12.6 million net increase in receivables were for retail electric due to rate increases, large service connections in progress, a grant from the Model Toxics Control Act, damage billings, and other. These were offset by a net decrease in short-term wholesale power sales of \$5.0 million because of lower surplus sales compared to December 2014.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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Unbilled revenues increased by \$5.9 million to \$70.5 million mainly because of the rate increases and higher customer loads during the 4<sup>th</sup> quarter compared to same comparable period of 2014.

Other current assets increased by \$3.1 million to \$34.4 million. Materials and supplies inventory was higher by \$2.0 million due to the purchase of additional spare parts for generating facilities and an increase in the unallocated material handling costs that will be allocated in the following year.

#### ***Other Assets***

**2016 Compared to 2015** Other assets increased by \$56.7 million to \$396.2 million. The regulatory asset for environmental cleanup costs increased by \$51.9 million, due primarily to the estimated cost to clean up the East Waterway Superfund Site. Environmental cleanup costs are being recovered through rates over a 25-year period. See Note 14 Environmental Liabilities of the accompanying financial statements.

Conservation costs, net, increased by \$8.6 million. Decreases totaled \$3.8 million of which \$2.8 million was for over allocation of labor benefits costs from actual retro pay and COLA costs paid. Accordingly, labor benefits costs will be allocated in the following year. The remaining decrease of \$1.1 million was for Long term environmental receivables to be paid by other responsible parties for cleanup costs incurred by the Department. See Note 7 Other Assets of the accompanying financial statements.

**2015 Compared to 2014** Other assets increased by \$19.8 million to \$339.5 million. Conservation costs, net, increased by \$15.7 million. The regulatory asset for environmental cleanup costs decreased by \$3.3 million and are mostly associated with cleanup of the Lower Duwamish Waterway Superfund Site.

The balance of Other assets increased by \$7.4 million. Long term receivables increased \$10.1 million as the result of completion of Shoreline underground electrical infrastructure. This was partly offset by a net \$2.1 million decrease in damage repair costs awaiting billing to other parties. Other deferred charges decreased by a net \$0.6 million.

#### ***Deferred Outflows of Resources***

**2016 Compared to 2015** Deferred outflows of resources increased by \$45.1 million to \$94.9 million.

In 2015, the Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* concerning accounting for pension plans. For 2016, the net increase of \$31.2 million was primarily for losses related to differences between projected and actual investment earnings. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Charges on advance refunding increased a net \$13.9 million to \$30.3 million. Net activity is the result of additions due to new refunding bond issues and decreases for amortization.

**2015 Compared to 2014** Deferred outflows of resources increased by \$30.5 million to \$49.8 million.

The Department deferred 2015 employer pension contributions and losses related to differences between projected and actual investment earnings totaling \$33.4 million.

Charges on advance refunding decreased a net \$2.9 million to \$16.4 million.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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#### LIABILITIES

##### *Long-Term Debt*

**2016 Compared to 2015** Long-term debt increased a net \$74.5 million to \$2,165.3 million during 2016. The Department issued total new debt in the amount of \$309.6 million consisting of revenue bonds to fund a portion of the ongoing capital improvement program and refunding revenue bonds. The 2016 bond issues were a combination of fixed and variable rate bonds. \$154.8 million in revenue bonds were refunded with lower interest rate debt.

Debt to capitalization ratio was 63.5% at the end of 2016, a favorable improvement from the 64.7% ratio of 2015.

Net revenues available to pay debt service were equal to 1.69 times principal and interest on all bonds for 2016.

See Note 8 Long-Term Debt of the accompanying financial statements.

**2015 Compared to 2014** Long-term debt increased a net \$165.6 million to \$2,090.8 million in 2015. In June, the Department issued \$171.9 million of fixed rate revenue bonds and in July, the Department issued \$100.0 million of variable rate revenue bonds to fund the ongoing capital improvement program.

Debt to capitalization ratio was 64.7% at the end of 2015, an increase from the 59.9% ratio of 2014 because of the additional bonds and the \$233.8 million reduction of net position recorded at the beginning of the year due to implementation of GASB Statement No. 68. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Net revenues available to pay debt service were equal to 1.62 times principal and interest on all bonds for 2015.

##### *Noncurrent Liabilities*

**2016 Compared to 2015** Total non-current liabilities increased by \$92.1 million to \$433.6 million at the end of 2016.

Net Pension Liability increased by a net \$46.0 million and as noted earlier, primarily for losses related to differences between projected and actual investment earnings. See Note 12 Seattle City Employees' Retirement System of the accompanying financial statements.

Environmental liabilities increased by a net \$48.4 million to \$82.0 million. Environmental liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river. In 2016, an additional liability in the amount of \$45.0 million was recorded for the Department's estimated share of cleaning the East Waterway Superfund Site. The Department is considered a potentially responsible party because of transformers sold to a local company that most likely drained contaminants into this site. More information on environmental liabilities is found in Note 14 Environmental Liabilities of the accompanying financial statements.

The balance net decrease of \$2.3 million was for nominal changes within risk management liabilities, a decrease in compensated absences as the long-term amount of restored furlough days to affected employees taken in 2010 were re-classified to current at the end of 2016, and other.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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**2015 Compared to 2014** Total non-current liabilities increased by \$274.2 million to \$341.5 million at the end of 2015.

The significant area of increase was the result of recording Net Pension Liability totaling \$271.8 million due to the implementation of GASB Statement No. 68 concerning pensions.

Compensated absences increased by \$2.7 million to \$19.4 million primarily due to additional days off negotiated by union contracts that restore to affected employees the value of unpaid furlough days taken in 2010.

The balance net decrease of \$0.3 million to \$50.3 million was for minimal changes within environmental liabilities, risk management liabilities, and other.

Environmental liabilities decreased by \$0.4 million to \$33.6 million at the end of 2015.

#### ***Current Liabilities***

**2016 Compared to 2015** Current liabilities decreased by \$4.9 million for a total of \$266.5 million at the end of 2016.

Current liability decreases of \$8.3 million were for vouchers payable for normal operations, payment of \$7.8 million for Terminal 117 and Cedar Falls Bridge remediation environmental projects, lower interest due for bonds of \$2.6 million, and lower estimate for current compensated absences of \$1.1 million due in part to transfer of information technology staff to Seattle Information Technology Department in April 2016. These were offset by higher liabilities for principal on bonds of \$5.3 million, reclassification of customer overpayments to a liability at implementation of the new billing system of \$4.8 million, inventory payables of \$2.0 million, retainage of \$1.6 million, and other net of \$1.2 million for ongoing operations.

**2015 Compared to 2014** Current liabilities increased by \$13.1 million for a total of \$271.4 million at the end of 2015.

Current liability increases of \$24.4 million were for vouchers payable for ongoing operations, debt service, furlough days restored, taxes, power, and other. These were offset by decreases of \$11.3 million in part due to payment for Terminal 117 and Cedar Falls Bridge remediation environmental projects during the year. In addition, current environmental liabilities were adjusted downward from the 2014 estimate that was inadvertently recorded.

#### ***Other Liabilities***

**2016 Compared to 2015** Other liabilities increased by \$7.5 million to \$37.2 million in 2016. The major increase was for unearned revenue for large service connections in progress due to the strong local economy.

**2015 Compared to 2014** Other liabilities increased by \$3.0 million to \$29.7 million in 2015. The major increase was for unearned revenue for large service connections in progress due in part to the improving local economy.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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#### *Deferred Inflows of Resources*

**2016 Compared to 2015** Deferred inflows of resources increased by \$4.3 million for a total of \$94.2 million at the end of 2016.

The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA. Funding of the RSA from operating cash has the corresponding effect of deferring operating revenues in the rate stabilization unearned revenue account and vice versa. During 2016, a 1.5% surcharge on electric rates was in effect since August that contributed \$4.4 million, with an offset of \$5.5 million transferred to operating revenues for actual net wholesale revenues being lower than budget. \$1.2 million in interest income was also earned, adding to the unearned revenue account, and leaving an ending balance of \$66.1 million in the rate stabilization unearned revenue account. See Note 4 Rate Stabilization Account of the accompanying financial statements.

Other deferred inflows of resources increased by \$4.2 million to \$28.1 million. The increase was mostly due to payments received from Bonneville in accordance with the Department's Energy Conservation Agreement, net of earned revenue, offset by recognition of BPA Slice true up credit deferred at the end of 2015.

**2015 Compared to 2014** Deferred inflows of resources decreased by \$21.6 million for a total of \$89.9 million at the end of 2015.

The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA. Funding of the RSA from operating cash has the corresponding effect of deferring operating revenues in the rate stabilization unearned revenue account and vice versa. During 2015, \$23.4 million net was transferred to operating revenues as a result of lower actual net wholesale revenues than budget. The ending balance of the rate stabilization unearned revenue account was \$66.0 million.

Other deferred inflows of resources increased by \$1.8 million to \$23.9 million. The increase was mostly due to payments received from Bonneville in accordance with the Department's Energy Conservation Agreement, net of earned revenue.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

### RESULTS OF OPERATIONS

#### *Condensed Statements of Revenues, Expenses, and Changes in Net Position*

| (\$ in millions)                               | Year Ended December 31 |                |                 |
|------------------------------------------------|------------------------|----------------|-----------------|
|                                                | 2016                   | 2015           | 2014            |
| Operating revenues                             | \$ 903.2               | \$ 882.9       | \$ 886.4        |
| Nonoperating revenues                          | 14.6                   | 16.7           | 18.5            |
| Total revenues                                 | <u>917.8</u>           | <u>899.6</u>   | <u>904.9</u>    |
| Operating expenses                             | 795.8                  | 772.0          | 734.1           |
| Nonoperating expenses                          | 75.1                   | 76.5           | 77.9            |
| Total expenses                                 | <u>870.9</u>           | <u>848.5</u>   | <u>812.0</u>    |
| Income before capital contributions and grants | <u>46.9</u>            | <u>51.1</u>    | <u>92.9</u>     |
| Capital contributions                          | 37.9                   | 39.0           | 27.7            |
| Capital grants                                 | 0.5                    | 0.4            | 0.7             |
| Total capital contributions and grants         | <u>38.4</u>            | <u>39.4</u>    | <u>28.4</u>     |
| Change in net position                         | <u>\$ 85.3</u>         | <u>\$ 90.5</u> | <u>\$ 121.3</u> |

### SUMMARY

**2016 Compared to 2015** Change in net position for 2016 was \$85.3 million, a decrease of \$5.2 million or 5.7% from 2015 change in net position of \$90.5 million. Higher retail electric sales attributable to rate increases, including for the 1.5% rate surcharge, and higher net Short-term wholesale power revenues were offset by lower transfers from/(to) RSA. Further offsets were for higher non-power operations and maintenance expenses due to retro pay and COLA labor costs, and for the increase in pension expense.

**2015 Compared to 2014** Change in net position for 2015 was \$90.5 million, a decrease of \$30.8 million or 25.4% from 2014 change in net position of \$121.3 million due in large part to lower net Short-term wholesale power revenues compared to 2014. Higher retail electric sales, transfers from/(to) RSA, and capital contributions were offset by lower power related revenues, net, and higher distribution, administrative and general, taxes, and depreciation, in addition to the lower net Short-term wholesale power revenues.

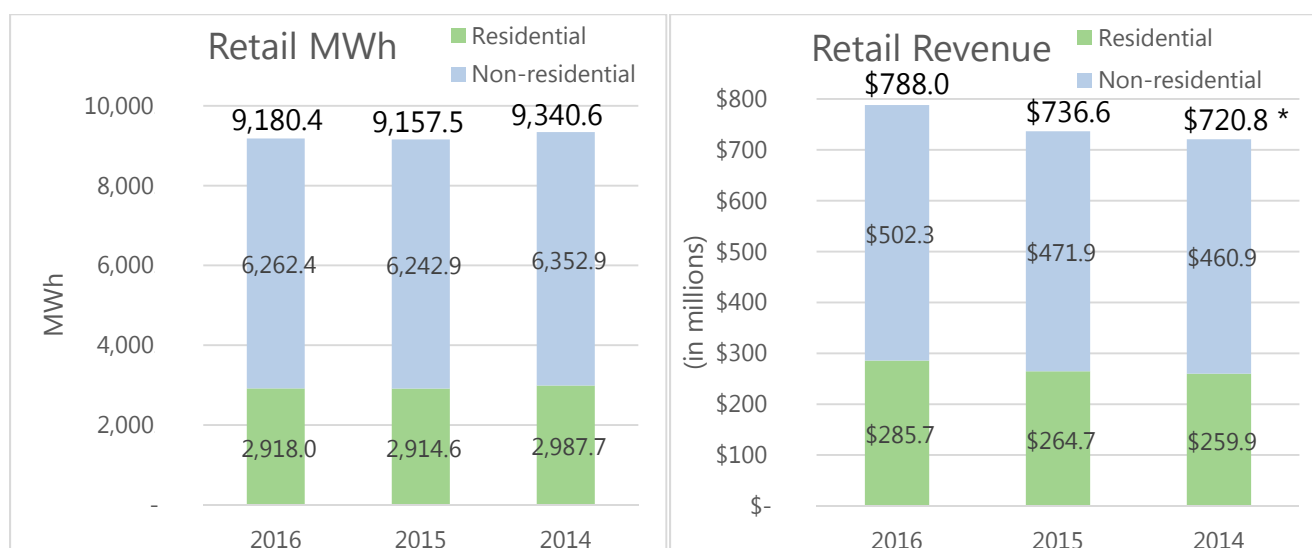
### REVENUES

**2016 Compared to 2015** Total operating revenues were \$903.2 million, an increase of \$20.3 million or 2.3% from 2015. Retail power revenues at \$788.0 million increased \$51.4 million, Short-term wholesale power revenues at \$62.9 million increased \$1.7 million, Other power-related revenues at \$32.6 million decreased \$4.2 million, Transfers from/(to) RSA at (\$.01) million decreased \$23.5 million, and Other operating revenues at \$19.8 million decreased \$5.1 million. Retail power revenues were higher due to the 4.9% across-the-board rate increase effective January 1, 2016, the 0.9% Bonneville pass-through rate adjustment effective in October 2015, and the RSA rate surcharge, effective August 1, 2016 even with lower consumption from another year with overall warmer weather.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

Transactions within Transfers from/(to) rate stabilization account are affected in part by actual net wholesale power revenues compared to budget. In 2016, actual net wholesale power revenues were lower than budget by \$5.5 million and this amount was transferred from the rate stabilization unearned revenue account. This was offset by the RSA rate surcharge revenues of \$4.4 million and interest earnings of \$1.2 million for a net (\$0.1) million transferred to the rate stabilization unearned revenue account. In 2015, actual net wholesale power revenues were lower than budget and \$23.4 million net was transferred to operating revenues. The net effect to the Transfers from/(to) RSA between years was a decrease of \$23.5 million. Other operating revenues declined for damage billings of \$1.9 million, salvage sales of \$1.6 million, and new retail billing system interest charges of \$0.6 million, and were offset by other net increases of \$1.0 million.



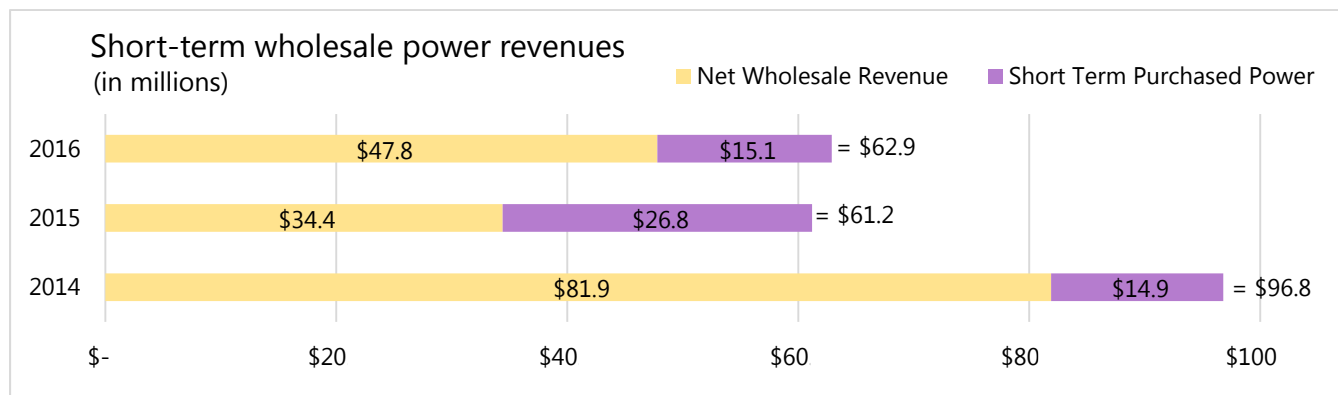
\*Operating revenues adjusted by \$4.1 million for prior years one-time true-up downward adjustment to unbilled revenue, a noncash item recorded in 2014.

Net Short-term wholesale power revenues were \$47.8 million, an increase of \$13.4 million or 39.0% from net Short-term wholesale power revenues of \$34.4 million in 2015. On an annual basis, the Department expects to be a net seller in the wholesale energy market. Water conditions in the Northwest improved in 2016 resulting in more power generated than in 2015 which was used to meet the Department's load leading to lower short-term power purchased in the spot market. Average wholesale power prices were again lower in 2016 because of the low natural gas prices. Other net power-related revenues, including valuation of energy exchange revenues were lower by a net \$2.9 million due to lower average wholesale power prices.



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015



**2015 Compared to 2014** Total operating revenues were \$882.9 million, a decrease of \$3.5 million or (0.4%) from 2014. Retail power revenues at \$736.6 million increased \$15.8 million, Short-term wholesale power revenues at \$61.2 million decreased \$35.6 million, Other power-related revenues at \$36.8 million decreased \$14.0 million, Transfers from/(to) RSA at \$23.4 million increased \$27.8 million, and Other operating revenues at \$24.9 million increased \$2.5 million. Retail power revenues were higher due to the 4.2% across-the-board rate increase effective January 1, 2015 and the 0.9% Bonneville pass-through rate adjustment effective in October 2015 despite lower consumption from warmer weather during most of 2015. Actual net wholesale power revenues were lower than budget and as a consequence, \$23.4 million net was transferred to operating revenues. In 2014, \$4.4 million net was transferred to the rate stabilization unearned revenue account as a result of actual net wholesale energy revenues being higher than budget. The net effect of Transfers from/(to) RSA between years was an increase of \$27.8 million.

Net Short-term wholesale power revenues were \$34.4 million, a substantial decrease of \$47.5 million or (58.0%) from net Short-term wholesale power revenues of \$81.9 million in 2014. During 2015, earlier snow melt in the mountains, lower than normal spring precipitation, and above average temperatures since May contributed to the lower wholesale energy sales. The resulting less power generated along with lower average wholesale prices also influenced the unfavorable surplus energy revenues. Wholesale power prices remained historically low throughout most of 2015, mainly driven by depressed natural gas prices. Additionally, compared to the average of the last five years, 2015 hydro generation was around 88% and prices were around 80%. Other power-related revenues were lower by a net \$8.1 million from 2014, also affected by lower average wholesale power prices along with lower volume available, and thereby causing lower valuation of net power exchange revenues.

### EXPENSES

**2016 Compared to 2015** Operating expenses totaled \$795.8 million, an increase of \$23.8 million or 3.1% from \$772.0 million in 2015.

Power-related operating expenses at \$348.5 million were lower by \$5.8 million or 1.6%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$219.8 million, which increased \$6.2 million, Short-term wholesale power purchases of \$15.1 million, which decreased \$11.7 million, Other power expenses of \$60.1 million, which increased \$0.5 million, and Transmission of \$53.5 million, which decreased \$0.8 million.

Short-term wholesale power purchases were lower because additional power generated during 2016 was used to meet the Department's load, and lower wholesale prices also affected wholesale power purchased. Bonneville purchased power was higher due to an increase in the Slice product of which the Department's share is 3.63% of Bonneville's total system costs. Stateline wind generation power costs were higher during 2016 due to increased

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

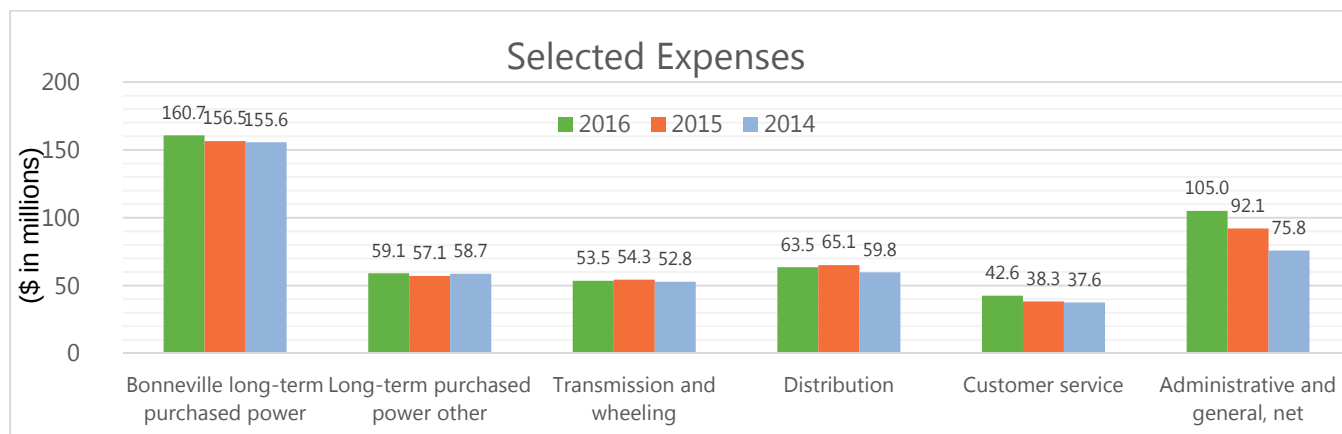
generation, and subject to weather dependency. Other power related variances were minimal and part of normal operations.

Non-power operating expenses increased by \$16.7 million to \$241.3 million or 7.4% from \$224.6 million in 2015. These expenses included Distribution expenses of \$63.5 million, which decreased \$1.6 million, Customer service of \$42.6 million, which increased \$4.3 million, Conservation of \$30.2 million, which increased \$1.1 million, and Administrative and general, net, of \$105.0 million which increased \$12.9 million.

Customer service expenses were driven higher by bad debt expense for retail electric sales due to clean-up of accounts in arrears as part of the conversion process to the new retail billing system. Retro pay and COLA salary adjustments also contributed to the higher Customer service expenses.

The 2016 GASB Statement No. 68 adjustment increased pension expenses by \$9.2 million within Administrative and general, net. Other increases were for salaries and benefits due to retro pay and COLA salary adjustments; and injuries and damages expenses based on the most recent actuarial report; and other. These were offset by lower legal costs as an ongoing power related case from the 2001 energy crises was settled, compensated absences, and other.

Taxes at \$85.2 million increased by \$4.1 million because of the higher revenues. Depreciation and amortization at \$120.8 million increased by \$8.8 million generally due to additional plant assets placed in service.



**2015 Compared to 2014** Operating expenses totaled \$772.0 million, an increase of \$37.9 million or 5.2% from \$734.1 million in 2014.

Power-related operating expenses at \$354.3 million were higher by \$6.4 million or 1.8%. These expenses were comprised of Long-term purchased power - Bonneville and other of \$219.8 million, which increased \$6.2 million, Short-term wholesale power purchases of \$15.0 million, which decreased \$11.8 million, Other power expenses of \$60.1 million, which increased \$0.5 million, and Transmission of \$53.5 million, which decreased \$0.8 million.

Short-term wholesale power purchases were affected by the earlier snow melt in the region and related consequences, and along with higher average purchase power prices led to increased short-term power purchases to manage load. The aftermath of a major wildfire near one of the Department's generating facilities triggered

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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additional short-term power purchases of \$1.0 million. In general, lower average wholesale power prices and lower volume led to lower valuation of power exchange purchases within Other power expenses.

Non-power operating expenses increased by \$24.2 million to \$224.6 million or 12.1% from \$200.4 million in 2014. These expenses included Distribution expenses of \$65.1 million, which increased \$5.4 million, Customer service of \$38.3 million, which increased \$0.7 million, Conservation of \$29.1 million, which increased \$1.8 million, and Administrative and general, net, of \$92.1 million which increased \$16.3 million.

Distribution expenses increased due to higher labor and benefits for system maintenance, tree trimming, outage maintenance, COLA accruals, and an increase in costs to repair damage billable to other parties.

The implementation of GASB Statement No. 68 increased pension expenses by \$7.5 million within Administrative and general, net. Other increases were for salaries and related benefits due to lower vacancies, COLA accruals, city general fund cost allocations, NERC administration, and other. These were offset by higher overhead applied to capital work generally due to higher labor charges and related higher overhead rates, plus a higher allocation of pension costs from GASB Statement No. 68.

Taxes at \$81.1 million increased incrementally \$1.1 million due to higher revenues. Depreciation and amortization at \$112.0 million increased by \$6.2 million as a result of additional plant assets placed in service.

#### **NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS**

**2016 Compared to 2015** Nonoperating revenues decreased by \$2.1 million to \$14.6 million in 2016. There was no FEMA non-capital grant revenue related to a fire near one of the Department's generating facilities as occurred in 2015. Lower sales of property were offset by higher CREB bonds interest subsidies from the U.S. Treasury Department.

Nonoperating expenses were slightly lower by \$1.4 million to \$75.1 million. Higher bond premium amortization and interest for construction projects were offset by an increase in bond refunding loss amortization and interest on higher average bonds outstanding throughout the year.

Capital contributions and grants decreased by \$1.0 million to \$38.4 million in 2016, the net of higher service connections for larger construction projects during 2016 on the heels of a strong local economy; and no recurring energization of underground electrical infrastructure for a local suburban jurisdiction as transpired in 2015.

**2015 Compared to 2014** Nonoperating revenues decreased by \$1.8 million to \$16.7 million in 2015. Major causes were lower market performance for the Department's share of investments in the city cash pool and less sales of properties. There was an increase in FEMA grants and specifically related to a fire near one of the Department's generating facilities.

Nonoperating expenses were slightly lower by \$1.4 million to \$76.5 million. Higher interest on outstanding bonds were offset primarily by higher interest charged to construction projects as the focus on capital work continued during the year.

Capital contributions and grants increased by \$11.0 million to \$39.4 million in 2015. Capital contributions were higher mostly due to energization of underground electrical infrastructure for Shoreline, a local suburban jurisdiction within the Department's service territory; and to a lesser extent, for service connections for larger construction projects.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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#### RISK MANAGEMENT

The Department began implementing an Enterprise-wide Risk Management (ERM) process in 2008 to establish a full spectrum approach to risk management that links important decision making functions through a standardized process of identifying, assessing, monitoring, and mitigating risks across all Business Units and Divisions of the Department.

Risk Oversight Council (ROC) oversees wholesale power marketing activities. It is comprised of the Chief Financial Officer (Chair), Power Supply & Environmental Affairs Officer, Director of Risk Oversight, Director of Power Operations and Marketing (non-voting), Director of Power Contracts & Resource Acquisition (non-voting), and Manager of Financial Planning (non-voting). The ROC guides the continuous improvement of energy risk management activities and capabilities, approves hedging strategies, hedging plans, and approves changes to relevant operating procedures.

The Risk Oversight Division, in addition to the ERM, manages the market and credit risk related to all wholesale marketing activities, and carries out the middle office functions of the Department. This includes confirmations, risk controls, independent reporting of market positions, counterparty credit risk, settlements, and ensuring adherence to Wholesale Energy Risk Management (WERM) policy and procedures.

#### Hydro Risk

Due to the Department's primary reliance on hydroelectric generation, weather can significantly affect its operations. Hydroelectric generation depends on the amount of snow-pack in the mountains upstream of the Department's hydroelectric facilities, springtime snow-melt, run-off and rainfall. Hydroelectric operations are also influenced by flood control and environmental matters, including protection of fish. In low-water years, the Department's generation is reduced and the use of wholesale purchased power may increase in order to meet load. Normally, the Department experiences electricity usage peaks in winter; however, extreme weather conditions affecting either heating or cooling needs could cause the Department's seasonal fluctuations to be more pronounced and increase costs. In addition, economic trends (increase or decrease in business activity, housing sales and development of properties) can affect demand and change or increase costs.

#### Energy Market Risk

For the Department, energy market risk is the risk of adverse fluctuations in the price of wholesale electricity, which is compounded by volumetric changes affecting the availability of, or demand for electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

The Department's exposure to hydro volumetric and energy market risk is managed by the ROC and the approved strategies are executed by the Power Operations and Marketing Division. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources.

With a significant portion of the Department's revenue expected from wholesale energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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The Department measures the risk in its energy portfolio using a model that utilizes historical simulation methodology and incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Scenario analysis is used for stress testing.

#### **Credit Risk**

Credit risk is the risk of loss that would be incurred as a result of nonperformance by counterparties of their contractual obligations. If a counterparty failed to perform on its contractual obligation to deliver electricity, then the Department may find it necessary to procure electricity at current market prices, which may be higher than the contract price. If a counterparty failed to pay its obligation in a timely manner, this would have an impact on the Department's revenue and cash flow. As with market risk, the Department has policies governing the management of credit risk.

Wholesale counterparties are assigned credit limits based on publicly available and proprietary financial information. Along with ratings provided by national ratings agencies, an internal credit scoring model is used to classify counterparties into one of several categories with permissible ranges of credit limits. Specific counterparty credit limits are set within this prescribed range based on qualitative and quantitative factors. Credit limits are also used to manage counterparty concentration risk. The Department is actively reducing concentration of credit risk related to geographic location of counterparties as it only transacts in the western energy markets. This geographic concentration of counterparties may impact the Department's overall credit exposure, because counterparties may be affected by similar conditions.

Credit limits, exposures and credit quality are actively monitored on a daily basis. Despite such efforts, there is potential for default, however the Department has not had a counterparty default in the last 10 years. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash, letters of credit, or parental guarantees.

#### **REQUESTS FOR INFORMATION**

For more information about Seattle City Light, contact Marketing and Communications at 206-684-3090 or at P.O. Box 34023, Seattle, WA 98124-4023.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## BALANCE SHEETS - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2016 AND 2015

| (\$ in millions)                                                                                      | 2016              | 2015              |
|-------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                                                                         |                   |                   |
| UTILITY PLANT—At original cost:                                                                       |                   |                   |
| Plant-in-service—excluding land                                                                       | \$ 4,410.3        | \$ 4,168.2        |
| Less accumulated depreciation and amortization                                                        | <u>(1,735.3)</u>  | <u>(1,671.8)</u>  |
| Total plant-in-service—net                                                                            | 2,675.0           | 2,496.4           |
| Construction work-in-progress                                                                         | 392.5             | 319.8             |
| Nonoperating property—net of accumulated depreciation                                                 | 12.7              | 11.8              |
| Assets held for future use                                                                            | 59.5              | 60.8              |
| Land and land rights                                                                                  | <u>75.0</u>       | <u>72.7</u>       |
| Total utility plant—net                                                                               | <u>3,214.7</u>    | <u>2,961.5</u>    |
| RESTRICTED ASSETS:                                                                                    |                   |                   |
| Rate stabilization account                                                                            | 91.1              | 91.0              |
| Municipal light and power bond reserve account                                                        | 87.0              | 73.7              |
| Construction account                                                                                  | 28.4              | 88.7              |
| Special deposits and other restricted assets                                                          | <u>15.5</u>       | <u>11.7</u>       |
| Total restricted assets                                                                               | <u>222.0</u>      | <u>265.1</u>      |
| CURRENT ASSETS:                                                                                       |                   |                   |
| Cash and equity in pooled investments                                                                 | 72.9              | 152.5             |
| Accounts receivable (includes \$2.1 and \$1.5 at fair value),<br>net of allowance of \$10.7 and \$8.4 | 92.7              | 78.7              |
| Interfund receivables                                                                                 | 5.1               | 3.5               |
| Unbilled revenues                                                                                     | 76.6              | 70.5              |
| Materials and supplies at average cost                                                                | 36.0              | 32.8              |
| Prepayments and other current assets                                                                  | <u>3.2</u>        | <u>1.6</u>        |
| Total current assets                                                                                  | <u>286.5</u>      | <u>339.6</u>      |
| OTHER ASSETS:                                                                                         |                   |                   |
| Conservation costs—net                                                                                | 252.4             | 243.8             |
| Environmental costs—net                                                                               | 83.1              | 31.2              |
| Other charges and assets—net                                                                          | <u>60.7</u>       | <u>64.5</u>       |
| Total other assets                                                                                    | <u>396.2</u>      | <u>339.5</u>      |
| TOTAL ASSETS                                                                                          | <u>4,119.4</u>    | <u>3,905.7</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                                                 |                   |                   |
| Unrealized contributions and losses related to Pension                                                | 64.6              | 33.4              |
| Charges on advance refunding                                                                          | <u>30.3</u>       | <u>16.4</u>       |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES                                                                  | <u>94.9</u>       | <u>49.8</u>       |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES                                                       | <u>\$ 4,214.3</u> | <u>\$ 3,955.5</u> |
| See notes to financial statements.                                                                    |                   |                   |

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## BALANCE SHEETS - LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION AS OF DECEMBER 31, 2016 AND 2015

| (\$ in millions)                                                             | 2016              | 2015              |
|------------------------------------------------------------------------------|-------------------|-------------------|
| <b>LIABILITIES</b>                                                           |                   |                   |
| LONG-TERM DEBT:                                                              |                   |                   |
| Revenue bonds                                                                | \$ 2,118.1        | \$ 2,070.8        |
| Plus bond premium—net                                                        | 158.4             | 125.9             |
| Less revenue bonds—current portion                                           | <u>(111.2)</u>    | <u>(105.9)</u>    |
| Total long-term debt                                                         | <u>2,165.3</u>    | <u>2,090.8</u>    |
| NONCURRENT LIABILITIES:                                                      |                   |                   |
| Net pension liability                                                        | 317.8             | 271.8             |
| Accumulated provision for injuries and damages                               | 92.0              | 42.3              |
| Compensated absences                                                         | 15.8              | 19.4              |
| Other noncurrent liabilities                                                 | <u>8.0</u>        | <u>8.0</u>        |
| Total noncurrent liabilities                                                 | <u>433.6</u>      | <u>341.5</u>      |
| CURRENT LIABILITIES:                                                         |                   |                   |
| Accounts payable and other current liabilities                               | 99.5              | 106.6             |
| Interfund payables                                                           | 11.1              | 11.0              |
| Accrued payroll and related taxes                                            | 10.8              | 10.3              |
| Compensated absences                                                         | 2.5               | 3.6               |
| Accrued interest                                                             | 31.4              | 34.0              |
| Long-term debt—current portion                                               | <u>111.2</u>      | <u>105.9</u>      |
| Total current liabilities                                                    | <u>266.5</u>      | <u>271.4</u>      |
| OTHER LIABILITIES                                                            | <u>37.2</u>       | <u>29.7</u>       |
| TOTAL LIABILITIES                                                            | <u>2,902.6</u>    | <u>2,733.4</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                         |                   |                   |
| Rate stabilization unearned revenue                                          | 66.1              | 66.0              |
| Unrealized gains related to pension                                          | 0.8               | -                 |
| Other deferred inflows of resources (includes \$1.2 and \$0.6 at fair value) | <u>27.3</u>       | <u>23.9</u>       |
| TOTAL DEFERRED INFLOWS OF RESOURCES                                          | <u>94.2</u>       | <u>89.9</u>       |
| <b>NET POSITION</b>                                                          |                   |                   |
| Net investment in capital assets                                             | 1,310.5           | 1,169.6           |
| Restricted:                                                                  |                   |                   |
| Rate stabilization account                                                   | 25.0              | 25.0              |
| Special deposits and other purposes                                          | <u>-</u>          | <u>-</u>          |
| Total restricted                                                             | <u>25.0</u>       | <u>25.0</u>       |
| Unrestricted—net                                                             | <u>(118.0)</u>    | <u>(62.4)</u>     |
| Total net position                                                           | <u>1,217.5</u>    | <u>1,132.2</u>    |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION           | <u>\$ 4,214.3</u> | <u>\$ 3,955.5</u> |

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| (\$ in millions)                                                                                                   | 2016              | 2015              |
|--------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| OPERATING REVENUES:                                                                                                |                   |                   |
| Retail power revenues                                                                                              | \$ 788.0          | \$ 736.6          |
| Short-term wholesale power revenues                                                                                | 62.9              | 61.2              |
| Other power-related revenues                                                                                       | 32.6              | 36.8              |
| Transfers from/(to) rate stabilization account                                                                     | (0.1)             | 23.4              |
| Other operating revenues                                                                                           | <u>19.8</u>       | <u>24.9</u>       |
| Total operating revenues                                                                                           | <u>903.2</u>      | <u>882.9</u>      |
| OPERATING EXPENSES:                                                                                                |                   |                   |
| Long-term purchased power—Bonneville and other                                                                     | 219.8             | 213.6             |
| Short-term wholesale power purchases                                                                               | 15.1              | 26.8              |
| Other power expenses                                                                                               | 60.1              | 59.6              |
| Transmission                                                                                                       | 53.5              | 54.3              |
| Distribution                                                                                                       | 63.5              | 65.1              |
| Customer service                                                                                                   | 42.6              | 38.3              |
| Conservation                                                                                                       | 30.2              | 29.1              |
| Administrative and general                                                                                         | 105.0             | 92.1              |
| Taxes                                                                                                              | 85.2              | 81.1              |
| Depreciation and amortization                                                                                      | <u>120.8</u>      | <u>112.0</u>      |
| Total operating expenses                                                                                           | <u>795.8</u>      | <u>772.0</u>      |
| OPERATING INCOME                                                                                                   | <u>107.4</u>      | <u>110.9</u>      |
| NONOPERATING REVENUES AND (EXPENSES):                                                                              |                   |                   |
| Other revenues and (expenses)—net                                                                                  | 14.6              | 16.7              |
| Interest expense                                                                                                   |                   |                   |
| Interest expense—net                                                                                               | (85.8)            | (85.7)            |
| Amortization of bond costs—net                                                                                     | <u>10.7</u>       | <u>9.2</u>        |
| Total interest expense                                                                                             | <u>(75.1)</u>     | <u>(76.5)</u>     |
| Total nonoperating expenses                                                                                        | <u>(60.5)</u>     | <u>(59.8)</u>     |
| INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS                                                                     | <u>46.9</u>       | <u>51.1</u>       |
| CAPITAL CONTRIBUTIONS AND GRANTS:                                                                                  |                   |                   |
| Capital contributions                                                                                              | 37.9              | 39.0              |
| Capital grants                                                                                                     | <u>0.5</u>        | <u>0.4</u>        |
| Total capital contributions and grants                                                                             | <u>38.4</u>       | <u>39.4</u>       |
| CHANGE IN NET POSITION                                                                                             | 85.3              | 90.5              |
| NET POSITION:                                                                                                      |                   |                   |
| Beginning of year                                                                                                  | 1,132.2           | 1,275.5           |
| Adjustment for the implementation of GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i> | <u>-</u>          | <u>(233.8)</u>    |
| Beginning of year, as adjusted                                                                                     | <u>1,132.2</u>    | <u>1,041.7</u>    |
| End of year                                                                                                        | <u>\$ 1,217.5</u> | <u>\$ 1,132.2</u> |

See notes to financial statements.



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| (\$ in millions)                                                        | 2016            | 2015            |
|-------------------------------------------------------------------------|-----------------|-----------------|
| <b>OPERATING ACTIVITIES:</b>                                            |                 |                 |
| Cash received from customers and counterparties                         | \$ 869.9        | \$ 836.6        |
| Interfund operating cash received                                       | 1.9             | 1.9             |
| Cash paid to suppliers and counterparties                               | (322.7)         | (326.5)         |
| Cash paid to employees                                                  | (181.0)         | (177.0)         |
| Interfund operating cash paid                                           | (30.4)          | (28.4)          |
| Taxes paid                                                              | (86.9)          | (78.5)          |
| Net cash provided by operating activities                               | <u>250.8</u>    | <u>228.1</u>    |
| <b>NONCAPITAL FINANCING ACTIVITIES:</b>                                 |                 |                 |
| Principal paid on long-term debt                                        | (10.4)          | (12.3)          |
| Interest paid on long-term debt                                         | (9.1)           | (10.5)          |
| Noncapital grants received                                              | 2.5             | 4.6             |
| Bonneville receipts for conservation                                    | 9.4             | 2.2             |
| Payment to vendors on behalf of customers for conservation              | (32.2)          | (35.2)          |
| Net cash used in noncapital financing activities                        | <u>(39.8)</u>   | <u>(51.2)</u>   |
| <b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                        |                 |                 |
| Proceeds from long-term debt                                            | 309.6           | 271.8           |
| Proceeds from long-term debt premiums                                   | 50.7            | 11.9            |
| Payment to trustee for defeased bonds                                   | (178.8)         | -               |
| Bond issue costs paid                                                   | (1.4)           | (1.0)           |
| Principal paid on long-term debt                                        | (97.1)          | (92.6)          |
| Interest paid on long-term debt                                         | (85.5)          | (79.2)          |
| Acquisition and construction of capital assets                          | (348.2)         | (306.1)         |
| Interfund payments for acquisition and construction of capital assets   | (26.2)          | (23.0)          |
| Capital contributions                                                   | 38.9            | 38.0            |
| Interfund receipts for capital contributions                            | 0.6             | 0.3             |
| Capital grants received/(paid)                                          | (2.0)           | (3.6)           |
| Interest received for suburban infrastructure improvements              | 2.5             | 2.1             |
| Proceeds on sale of property                                            | 0.4             | 1.1             |
| (Increase) Decrease in other assets                                     | (0.8)           | (9.8)           |
| Net cash used in capital and related financing activities               | <u>(337.3)</u>  | <u>(190.1)</u>  |
| <b>INVESTING ACTIVITIES:</b>                                            |                 |                 |
| Interest received (paid) on cash and equity in pooled investments       | <u>3.6</u>      | <u>4.1</u>      |
| Net cash provided by (used in) investing activities                     | <u>3.6</u>      | <u>4.1</u>      |
| <b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b> | <b>(122.7)</b>  | <b>(9.1)</b>    |
| <b>CASH AND EQUITY IN POOLED INVESTMENTS:</b>                           |                 |                 |
| Beginning of year                                                       | <u>417.6</u>    | <u>426.7</u>    |
| End of year                                                             | <u>\$ 294.9</u> | <u>\$ 417.6</u> |

See notes to financial statements.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| (\$ in millions)                                                                           | 2016     | 2015     |
|--------------------------------------------------------------------------------------------|----------|----------|
| RECONCILIATION OF OPERATING INCOME TO<br>NET CASH PROVIDED BY OPERATING ACTIVITIES:        |          |          |
| Operating income                                                                           | \$ 107.4 | \$ 110.9 |
| Adjustments to reconcile operating income to net cash<br>provided by operating activities: |          |          |
| Non-cash items included in operating income:                                               |          |          |
| Depreciation                                                                               | 127.3    | 118.3    |
| Amortization of other liabilities                                                          | (1.1)    | (0.9)    |
| Amortization of other assets                                                               | 26.7     | 24.3     |
| Bad debt expense                                                                           | 7.0      | 3.0      |
| Power revenues                                                                             | (28.5)   | (31.5)   |
| Power expenses                                                                             | 28.7     | 32.9     |
| Provision for injuries and damages                                                         | (1.6)    | 0.6      |
| Other non-cash items                                                                       | 21.3     | 7.6      |
| Change in:                                                                                 |          |          |
| Accounts receivable                                                                        | (24.0)   | (5.6)    |
| Unbilled revenues                                                                          | (6.1)    | (5.9)    |
| Materials and supplies                                                                     | (3.1)    | (7.6)    |
| Prepayments, interest receivable, and other receivables                                    | (1.9)    | (0.8)    |
| Other assets                                                                               | 6.1      | 2.7      |
| Provision for injuries and damages and claims payable                                      | (1.1)    | 1.4      |
| Accounts payable and other payables                                                        | (6.4)    | 2.1      |
| Rate stabilization unearned revenue                                                        | 0.1      | (23.4)   |
| Total adjustments                                                                          | 143.4    | 117.2    |
| Net cash provided by operating activities                                                  | \$ 250.8 | \$ 228.1 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:                                            |          |          |
| In-kind capital contributions                                                              | \$ 1.5   | \$ 1.4   |
| Amortization of debt related costs—net                                                     | 10.7     | 9.2      |
| Allowance for funds used during construction                                               | 10.2     | 8.9      |
| Power exchange revenues                                                                    | 15.8     | 17.0     |
| Power exchange expenses                                                                    | (15.8)   | (17.6)   |
| Power revenue netted against power expenses                                                | 6.6      | 6.5      |
| Power expense netted against power revenues                                                | (5.9)    | (8.5)    |

See notes to financial statements.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 448,000 residential, commercial, and public customers in the city of Seattle. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues for services provided to other City departments were \$20.1 million and \$18.0 million in 2016 and 2015, respectively, and \$2.4 million and \$2.2 million for non-energy services, respectively.

The Department receives certain services from other City departments and paid \$86.6 million in 2016 and \$64.8 million in 2015, for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, administrative, information technology and building rentals, including for the Department's administrative offices.

The Department's receivables from other City departments totaled \$5.1 million and \$3.5 million at December 31, 2016, and 2015, respectively. The Department's payables to other City departments totaled \$11.1 million and \$11.0 million at December 31, 2016, and 2015, respectively. The balances receivable and payable are the result of transactions incurred in the normal course of operations.

***Basis of Presentation and Accounting Standards***—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2016 with all applicable GASB pronouncements.

Effective January 1, 2015, the Department adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Statement Nos. 68 and 71 establish new accounting and financial reporting requirements for state and local governments related to pensions, including changes to the recognition of liabilities, expenses, deferred outflows of resources, and deferred inflows of resources. See Note 12 Seattle City Employees' Retirement System for more information related to Statement Nos. 68 and 71.

Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. Statement No 72 requires that investments should be measured at fair value, with the exception of certain

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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investments such as short-term money market instruments, and requires disclosures that include a description of the inputs and the methods used to measure fair value. These new disclosures describing Department assets and liabilities reported at fair value and the valuation techniques used to determine fair value are available in Note 2 Fair Value Measurement.

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replacing the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. Statement No. 75 will be effective for the Department in 2018 and the Department is currently evaluating the impact that adoption of this statement will have on its financial statements.

**Fair Value Measurements**—Descriptions of the Department’s accounting policies on fair value measurements for items reported on the balance sheets at December 31, 2016 and 2015, are as noted in Note 2 Fair Value Measurement, Note 5 Cash and Equity in Pooled Investments and Investments, Note 6 Accounts Receivable and Note 18 Long-Term Purchased Power, Exchanges, and Transmission.

**Fair Value of Financial Instruments**—The Department’s financial instruments reported on the balance sheets at December 31, 2016 and 2015, as Restricted assets and Cash and equity in pooled investments are measured at fair value. These instruments consist primarily of the Department’s share of the City-wide pool of investments (see Note 5 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in net position. Long-term debt at December 31, 2016 and 2015, is disclosed at fair value (see Note 9 Long-Term Debt).

**Net Position**—The Department classifies its net position into three components as follows:

- *Net investment in capital assets*—This component consists of capital assets, net of accumulated depreciation and amortization, reduced by the net outstanding debt balances related to capital assets net of unamortized debt expenses.
- *Restricted*—This component consists of net position with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, The City of Seattle Charter, or by ordinances legislated by the Seattle City Council.
- *Unrestricted*—This component consists of assets and liabilities that do not meet the definition of Net investment in capital assets or Restricted.

**Restricted and Unrestricted Net Position**—The Department’s policy is to use restricted net position for specified purposes and to use unrestricted net position for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted net position is available.

**Assets Held for Future Use**—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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of December 31, 2016 and 2015, Assets held for future use included the following electrical plant assets: land for future substations, ducts and vaults, transmission lines, and plans for additional hydraulic generating capacity totaling \$59.5 million and \$60.8 million, respectively.

**Materials and Supplies**—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued utilizing the average cost method and charged to construction or expense when used.

**Revenue Recognition**—Service rates are authorized by City ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements as unbilled revenue within Retail power revenues.

The Department's customer base accounted for electric energy sales at December 31, 2016 and 2015, as follows:

|                | 2016          | 2015          |
|----------------|---------------|---------------|
| Residential    | 36.3 %        | 35.9 %        |
| Nonresidential | <u>63.7 %</u> | <u>64.1 %</u> |
| Total          | 100.0 %       | 100.0 %       |

Revenues earned in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating revenues in the determination of change in net position. Investment income, nonexchange transactions, and other revenues are considered Nonoperating revenues.

**Expense Recognition**—Expenses incurred in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating expenses in the determination of net income. Debt interest expense, debt related amortization, and certain other expenses are considered Nonoperating expenses.

**Administrative and General Overhead Costs Applied**—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$51.4 million and \$52.1 million in 2016 and 2015, respectively. Pension and benefit costs were \$59.9 million and \$58.7 million in 2016 and 2015, respectively. Administrative and general expenses, net of total applied overhead, were \$105.0 million and \$92.1 million in 2016 and 2015, respectively.

**Interest Charged to Construction**—Interest is charged for funds used during construction of plant assets and to non-billable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's weighted-average interest rate for all bonds outstanding, the majority of which are tax exempt, and is revised when new bonds are issued and at the end of the year. Interest charged to construction totaled \$10.2 million and \$8.9 million in 2016 and 2015, respectively, and is reflected as a reduction of Interest expense in the statements of revenues, expenses, and changes in net position.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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**Nonexchange Transactions**—Capital contributions and grants in the amount of \$38.4 million and \$39.4 million for 2016 and 2015, respectively, and noncapital grants in the amount of \$2.5 million and \$4.6 million for 2016 and 2015, respectively, are reported in the statements of revenues, expenses, and changes in net position as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized at estimated fair value in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

**Compensated Absences**—Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated for the most tenured employees and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Effective 2006, only employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA) receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third party administrator, Meritain Health. HRA investments are managed by HRA Voluntary Employee Beneficiary Association (VEBA) Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

**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 amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, net pension liability, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

**Significant Risk and Uncertainty**—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; compliance with clean and renewable energy legislation; local and federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

**Reclassifications**—Certain 2015 account balances have been reclassified to conform to the 2016 presentation.

## 2. FAIR VALUE MEASUREMENT

Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*, as discussed in Note 1. The Department records certain assets and liabilities in

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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accordance with Statement No. 72, which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurement. There were no changes to the valuation methods, or the fair value amounts presented on the Department's financial statements due to the implementation of Statement No. 72, however additional disclosures are presented below as required.

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Valuation techniques to determine fair value should be consistent with one or more of three approaches: the market approach, cost approach, and income approach. The Department uses the market approach for the valuation of pooled investments, a combination of the market and income approaches for the valuation of the undelivered forward portion of energy exchanges and other nonmonetary transactions, and the market approach for the valuation of long-term debt.

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

The valuation methods of the fair value measurements are disclosed as noted below.

Cash resources of the Department are combined with cash resources of the City to form a pool of cash and investments that is managed by the City's Department of Finance and Administrative Services (FAS). The City records pooled investments at fair value based on quoted market prices.

The Department obtained the lowest level of observable input of the fair value measurement of energy exchanges and other non-monetary transactions in its entirety from subscription services or other independent parties. The observable inputs for the settled portion of the energy exchange contracts are Dow Jones price indices. The observable inputs for the undelivered forward portion of energy exchanges and other non-monetary transactions are Kiodex forward curves and present value factors based on the interest rate for Treasury constant maturities, bond-equivalent yields.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Department's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

The Department had no assets or liabilities that met the criteria for Level 3 at December 31, 2016 and 2015. The following fair value hierarchy table presents information about the Department's assets, liabilities, and deferred inflows of resources reported at fair value on a recurring basis or disclosed at fair value as of December 31, 2016 and 2015:

(\$ in millions)

| 2016                                              | Level 1 | Level 2  | Total    |
|---------------------------------------------------|---------|----------|----------|
| <b>Assets</b>                                     |         |          |          |
| Fair value investments (16.9% of City pool)       |         |          |          |
| Bank note                                         | \$ -    | \$ 8.1   | \$ 8.1   |
| Commercial paper                                  | -       | 34.6     | 34.6     |
| Local government investment pool                  | -       | 7.7      | 7.7      |
| Municipal bonds                                   | -       | 51.8     | 51.8     |
| Repurchase agreements                             | 8.5     | -        | 8.5      |
| U.S. government agency mortgage-backed securities | -       | 44.2     | 44.2     |
| U.S. government agency securities                 | -       | 93.6     | 93.6     |
| U.S. treasury & U.S. government-backed securities | 46.5    | 2.1      | 48.6     |
| Total fair value investments (16.9% of City pool) | 55.0    | 242.1    | 297.1    |
| Exchange energy receivable                        | -       | 2.1      | 2.1      |
| Total Assets at fair value                        | \$ 55.0 | \$ 244.2 | \$ 299.2 |
| <b>Deferred Inflows of Resources</b>              |         |          |          |
| Exchange energy regulatory deferred gains         | \$ -    | \$ 1.2   | \$ 1.2   |

(\$ in millions)

| 2015                                              | Level 1  | Level 2  | Total    |
|---------------------------------------------------|----------|----------|----------|
| <b>Assets</b>                                     |          |          |          |
| Fair value investments (23.7% of City pool)       |          |          |          |
| Bank note                                         | \$ -     | \$ 11.7  | \$ 11.7  |
| Commercial paper                                  | -        | 52.1     | 52.1     |
| Municipal bonds                                   | -        | 65.8     | 65.8     |
| Repurchase agreements                             | 13.1     | -        | 13.1     |
| U.S. government agency mortgage-backed securities | -        | 52.1     | 52.1     |
| U.S. government agency securities                 | -        | 114.4    | 114.4    |
| U.S. treasury & U.S. government-backed securities | 103.3    | 4.7      | 108.0    |
| Total fair value investments (23.7% of City pool) | 116.4    | 300.8    | 417.2    |
| Exchange energy receivable                        | -        | 1.5      | 1.5      |
| Total Assets at fair value                        | \$ 116.4 | \$ 302.3 | \$ 418.7 |
| <b>Deferred Inflows of Resources</b>              |          |          |          |
| Exchange energy regulatory deferred gains         | \$ -     | \$ 0.6   | \$ 0.6   |



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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#### 3. UTILITY PLANT

**Utility Plant**—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold for tangible assets was \$5,000, and for intangible assets, \$500,000 in 2016 and 2015. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions and capital grants totaled \$38.4 million in 2016 and \$39.4 million in 2015. The Department uses a straight-line composite method of depreciation and amortization and, therefore, group assets into composite groups for purposes of depreciation. Estimated economic lives range from 4 to 57 years. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.7% in 2016 and 2.7% in 2015. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation or amortization, if applicable. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments are capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives. No impairments were identified in 2016 and 2015.

At December 31, 2016 and 2015, several assets previously listed as Assets Held for Future Use have been placed in service totaling \$1.3 million and \$11.1 million, respectively.

Intangible assets are those that lack physical substance, are nonfinancial in nature, and have useful lives extending beyond a single reporting period. The Department's intangible assets are reported as capital assets under Utility Plant. The Department's intangible assets consist of easements, purchased and internally developed software, transmission rights, capitalized relicensing costs for Skagit and Boundary hydroelectric projects, Tolt hydroelectric project mitigation costs, and costs capitalized under the High Ross Agreement.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Utility plant-in-service at original cost, including land at December 31, 2016, and 2015, was:

|                                                          | Hydroelectric<br>Production | Transmission    | Distribution      | General         | Intangible      | Total             |
|----------------------------------------------------------|-----------------------------|-----------------|-------------------|-----------------|-----------------|-------------------|
| <b>2016</b>                                              |                             |                 |                   |                 |                 |                   |
| <i>(\$ in millions)</i>                                  |                             |                 |                   |                 |                 |                   |
| <b>Utility Plant-in-service - At original cost:</b>      |                             |                 |                   |                 |                 |                   |
| <b>Plant-in-service, excluding Land:</b>                 |                             |                 |                   |                 |                 |                   |
| 1/1/2016 Balance                                         | \$ 821.1                    | \$ 230.9        | \$ 2,295.6        | \$ 338.5        | \$ 482.1        | \$ 4,168.2        |
| Acquisitions                                             | 27.8                        | 13.9            | 133.6             | 30.7            | 96.1            | 302.1             |
| Dispositions                                             | (1.9)                       | (2.6)           | (20.3)            | (0.8)           | (34.4)          | (60.0)            |
| Transfers and adjustments                                | -                           | -               | -                 | -               | -               | -                 |
| 12/31/2016 Balance                                       | <u>847.0</u>                | <u>242.2</u>    | <u>2,408.9</u>    | <u>368.4</u>    | <u>543.8</u>    | <u>4,410.3</u>    |
| <b>Accumulated depreciation and amortization:</b>        |                             |                 |                   |                 |                 |                   |
| 1/1/2016 Balance                                         | 347.7                       | 82.5            | 836.0             | 214.3           | 191.3           | 1,671.8           |
| Increase in accumulated depreciation and amortization    | 16.2                        | 5.4             | 71.1              | 17.4            | 17.6            | 127.7             |
| Retirements                                              | (2.9)                       | (2.7)           | (25.6)            | (1.1)           | (34.4)          | (66.7)            |
| PY Adjustments                                           | -                           | -               | -                 | -               | 2.5             | 2.5               |
| 12/31/2016 Balance                                       | <u>361.0</u>                | <u>85.2</u>     | <u>881.5</u>      | <u>230.6</u>    | <u>177.0</u>    | <u>1,735.3</u>    |
| <b>Sub Total Plant-in-service - Net, excluding Land:</b> | <u>\$ 486.0</u>             | <u>\$ 157.0</u> | <u>\$ 1,527.4</u> | <u>\$ 137.8</u> | <u>\$ 366.8</u> | <u>\$ 2,675.0</u> |
| <b>Land and land rights:</b>                             |                             |                 |                   |                 |                 |                   |
| 1/1/2016 Balance                                         | \$ 50.6                     | \$ 3.0          | \$ 13.4           | \$ 5.7          | \$ -            | \$ 72.7           |
| Acquisitions                                             | 0.6                         | -               | -                 | 0.9             | -               | 1.5               |
| Dispositions                                             | -                           | -               | -                 | -               | -               | -                 |
| Transfers and adjustments                                | <u>0.8</u>                  | <u>-</u>        | <u>-</u>          | <u>-</u>        | <u>-</u>        | <u>0.8</u>        |
| 12/31/2016 Balance                                       | <u>52.0</u>                 | <u>3.0</u>      | <u>13.4</u>       | <u>6.6</u>      | <u>-</u>        | <u>75.0</u>       |
| <b>Tot Total Plant-in-service - Net, including Land:</b> | <u>\$ 538.0</u>             | <u>\$ 160.0</u> | <u>\$ 1,540.8</u> | <u>\$ 144.4</u> | <u>\$ 366.8</u> | <u>\$ 2,750.0</u> |

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

|                                                          | Hydroelectric<br>Production | Transmission    | Distribution      | General         | Intangible      | Total             |
|----------------------------------------------------------|-----------------------------|-----------------|-------------------|-----------------|-----------------|-------------------|
| <b>2015</b>                                              |                             |                 |                   |                 |                 |                   |
| <i>(\$ in millions)</i>                                  |                             |                 |                   |                 |                 |                   |
| <b>Utility Plant-in-service - At original cost:</b>      |                             |                 |                   |                 |                 |                   |
| <b>Plant-in-service, excluding Land:</b>                 |                             |                 |                   |                 |                 |                   |
| 1/1/2015 Balance                                         | \$ 763.6                    | \$ 207.8        | \$ 2,194.2        | \$ 313.9        | \$ 456.5        | \$ 3,936.0        |
| Acquisitions                                             | 59.3                        | 25.7            | 140.2             | 29.0            | 25.6            | 279.8             |
| Dispositions                                             | (1.8)                       | (2.6)           | (38.8)            | (4.4)           | -               | (47.6)            |
| Transfers and adjustments                                | -                           | -               | -                 | -               | -               | -                 |
| 12/31/2015 Balance                                       | <u>821.1</u>                | <u>230.9</u>    | <u>2,295.6</u>    | <u>338.5</u>    | <u>482.1</u>    | <u>4,168.2</u>    |
| <b>Accumulated depreciation and amortization:</b>        |                             |                 |                   |                 |                 |                   |
| 1/1/2015 Balance                                         | 338.9                       | 81.5            | 813.6             | 199.4           | 179.5           | 1,612.9           |
| Increase in accumulated depreciation and amortization    | 15.2                        | 4.8             | 69.0              | 18.5            | 12.7            | 120.2             |
| Retirements                                              | (6.4)                       | (3.8)           | (46.6)            | (4.7)           | -               | (61.5)            |
| PY Adjustments                                           | -                           | -               | -                 | 1.1             | (0.9)           | 0.2               |
| 12/31/2015 Balance                                       | <u>347.7</u>                | <u>82.5</u>     | <u>836.0</u>      | <u>214.3</u>    | <u>191.3</u>    | <u>1,671.8</u>    |
| <b>Sub Total Plant-in-service - Net, excluding Land:</b> | <u>\$ 473.4</u>             | <u>\$ 148.4</u> | <u>\$ 1,459.6</u> | <u>\$ 124.2</u> | <u>\$ 290.8</u> | <u>\$ 2,496.4</u> |
| <b>Land and land rights:</b>                             |                             |                 |                   |                 |                 |                   |
| 1/1/2015 Balance                                         | \$ 48.5                     | \$ 3.0          | \$ 13.3           | \$ 5.7          | \$ -            | \$ 70.5           |
| Acquisitions                                             | 0.8                         | -               | 0.1               | -               | -               | 0.9               |
| Dispositions                                             | -                           | -               | -                 | -               | -               | -                 |
| Transfers and adjustments                                | <u>1.3</u>                  | <u>-</u>        | <u>-</u>          | <u>-</u>        | <u>-</u>        | <u>1.3</u>        |
| 12/31/2015 Balance                                       | <u>50.6</u>                 | <u>3.0</u>      | <u>13.4</u>       | <u>5.7</u>      | <u>-</u>        | <u>72.7</u>       |
| <b>Tot Total Plant-in-service - Net, including Land:</b> | <u>\$ 524.0</u>             | <u>\$ 151.4</u> | <u>\$ 1,473.0</u> | <u>\$ 129.9</u> | <u>\$ 290.8</u> | <u>\$ 2,569.1</u> |

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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#### 4. RATE STABILIZATION ACCOUNT

The Rate Stabilization Account (RSA) is a restricted cash reserve established to reduce the need for rapid and substantial rate increases solely to comply with the Department's bond covenants.

In March 2010, the Seattle City Council adopted Resolution No. 31187 and Ordinance No. 123260, establishing revised financial policies and parameters for the operation of the RSA created by Ordinance No. 121637 in 2004. Ordinance No. 123260 identified the sources of significant funding of the RSA and specified parameters for its operation. The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount, and conversely, deposits are to be made to the RSA when the surplus power sales revenues are greater than budgeted. Deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year.

Ordinance No. 123260 established a target size for the RSA of no less than \$100.0 million and no greater than \$125.0 million, and authorized the imposition of automatic temporary surcharges on electric rates when the RSA balance is within the below specified levels:

| <b>RSA Balance</b>                                                    | <b>Action</b>                                                                                                                    |
|-----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Less than or equal to \$90.0 million but greater than \$80.0 million: | Automatic 1.5% surcharge                                                                                                         |
| Less than or equal to \$80.0 million but greater than \$70.0 million: | Automatic 3.0% surcharge                                                                                                         |
| Less than or equal to \$70.0 million but greater than \$50.0 million: | Automatic 4.5% surcharge                                                                                                         |
| Less than or equal to \$50.0 million:                                 | City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100.0 million within 12 months |

In February 2014, the Seattle City Council adopted Ordinance No. 124426 (retroactive to December 2013), directing specific cash transfers to the RSA with the intention of reducing the likelihood of future rate surcharges.

Ordinance No. 123260 originally required a rate review whenever the RSA balance exceeded \$125.0 million, along with the implementation of measures to reduce the RSA balance to \$125.0 million within a period of 12 months or less. Subsequently, the Seattle City Council adopted Ordinance No. 124108 in February 2013 (retroactive to January 1, 2013) which extended the timing of this required rate review and associated action to an effective date of January 1, 2014.

In 2016, actual net wholesale revenue was \$5.5 million less than budgeted. Hence, net transfers of \$5.5 million were made from the RSA to the operating cash account during the year. At June 30, 2016, the RSA balance was \$89.1 million (below the \$90.0 million threshold) which triggered a 1.5% rate surcharge effective August 1, 2016. Transfers from the RSA were partially offset by \$4.4 million surcharge revenue resulting from this 1.5% surcharge. Interest of \$1.2 million was earned on the RSA in 2016. The RSA ending balance was \$91.1 million at December 31, 2016.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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In 2015, actual net wholesale revenue was \$24.7 million less than budgeted due to an unusually warm and dry winter which yielded lower-than-normal hydro generation volumes, coupled with low wholesale energy market prices. Hence, net transfers of \$24.7 million were made to the operating cash account during the year. Interest income of \$1.3 million was earned on the RSA. The RSA ending balance was \$91.0 million at December 31, 2015, and no surcharges were in effect during 2015.

The RSA at December 31, 2016, and 2015, consisted of cash from the following sources:

| (\$ in millions)           | 2016           | 2015           |
|----------------------------|----------------|----------------|
| Rate Stabilization Account |                |                |
| Beginning balance          | \$ 91.0        | \$ 114.4       |
| Surcharge revenue          | 4.4            | -              |
| RSA interest income        | 1.2            | 1.3            |
| Operating revenue          | <u>(5.5)</u>   | <u>(24.7)</u>  |
| Ending balance             | <u>\$ 91.1</u> | <u>\$ 91.0</u> |

RSA transactions are recorded in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The regulatory deferred inflow of resources rate stabilization unearned revenue account at December 31, 2016, and 2015, consisted of the following:

| (\$ in millions)                              | 2016           | 2015           |
|-----------------------------------------------|----------------|----------------|
| Unearned revenue - Rate Stabilization Account |                |                |
| Beginning balance                             | \$ 66.0        | \$ 89.4        |
| Surcharge revenue                             | 4.4            | -              |
| RSA interest income                           | 1.2            | 1.3            |
| Operating revenue                             | <u>(5.5)</u>   | <u>(24.7)</u>  |
| Ending balance                                | <u>\$ 66.1</u> | <u>\$ 66.0</u> |

The initial \$25.0 million transfer from the Contingency Reserve Account to the RSA in May 2010 is not included in the Rate stabilization unearned revenue balance, and is not available to be transferred to current revenue in the event that net wholesale revenues are less than the budgeted amount. The Contingency Reserve Account was established in 2005 with proceeds that had been deposited in the Bond Reserve Fund, which was replaced with a surety bond.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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Net transfers from/(to) the RSA in the statements of revenues, expenses and net position for the periods ended December 31, 2016, and 2015 were as follows:

| (\$ in millions)                               | 2016            | 2015           |
|------------------------------------------------|-----------------|----------------|
| Transfers from/(to) Rate Stabilization Account | <u>\$ (0.1)</u> | <u>\$ 23.4</u> |

#### 5. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

**Cash and Equity in Pooled Investments**—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City’s Department of Finance and Administrative Services (FAS). Under the City’s investment policy, all temporary cash surpluses in the pool are invested. The Department’s share of the pool is included on the balance sheets as Cash and Equity in Pooled Investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Department, may deposit cash at any time and can also withdraw cash, out of the pool, up to the amount of the Department’s fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

**Custodial Credit Risk - Deposits**—Custodial credit risk of deposits is the risk that in the event of bank failure for one of the City’s depository institutions, the City’s deposits or related collateral securities may not be returned in a timely manner.

As of December 31, 2016, and 2015, the City did not have custodial credit risk. The City’s deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2016, and 2015, the City held \$95,000 in its cash vault. Additional small amounts of cash were held in departmental revolving fund accounts with the City’s various custodial banks, all of which fell within the NCUA/FDIC’s \$250,000 standard maximum deposit insurance amount. Any of the City’s cash not held in its vault, or a local depository, was held in the City’s operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

**Investments**—The Department’s cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City’s Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. As of December 31, 2016, and 2015, the Department did not have any dedicated investments.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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Eligible investments are those securities and deposits authorized by statute (chapters 35.39, 39.58, 39.59, 39.60, and 43.250 RCW; RCW 43.84.080, 43.180.190). Eligible investments include, but are not limited to:

- U.S. Government obligations,
- U.S. Government Agency obligations,
- U.S. Agency Mortgaged-Backed securities,
- Repurchase Agreements,
- Municipal bonds,
- Washington State Local Government Investment Pool,
- Bankers' Acceptances,
- Commercial Paper,
- Bank Notes,
- Non-negotiable Certificates of Deposit and Demand Deposits,
- Mutual Funds and Money Market Funds

The City of Seattle has three objectives in managing its investments that define its risk profile and guide implementation of its investment strategy. In order of importance they are Safety of Principal, Maintenance of Liquidity, and Return on Investment.

The City follows a set of Standards of Care when it comes to its investments that include the following:

- Social Policies: A City social policy shall take precedence over furthering the City's financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- Prudence: The standard of prudence to be used by investment personnel shall be the "Prudent Investor Rule" and will be applied in the context of managing an overall portfolio.
- Ethics and Conflict of Interest: Investment officers shall comply with the City's Ethics Code (SMC 4.16.080) and annually submit a Financial Interest Statement to the city's Ethics & Elections Commission that identifies any potential financial interest that could be related to the performance of the City's investment portfolio.
- Delegation of Authority: The Director of Finance and Administrative Services has delegated management responsibility for the City's investment program to the Director of Finance who has designated day to day management responsibility to investment officers under the supervision of the City's Treasury Services Director. No persons may engage in an investment transaction except as

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

#### AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

provided under the terms of the City Statement of Investment Policy and the procedures established therein.

As of December 31, 2016, and 2015 The City's pooled investments were as follows:

| (\$ in millions)                                | 2016                                           |                                            | 2015                                           |                                            |
|-------------------------------------------------|------------------------------------------------|--------------------------------------------|------------------------------------------------|--------------------------------------------|
|                                                 | Fair Value<br>of City<br>Pooled<br>Investments | Weighted-<br>Average<br>Maturity<br>(Days) | Fair Value<br>of City<br>Pooled<br>Investments | Weighted-<br>Average<br>Maturity<br>(Days) |
| Bank Note                                       | \$ 48.1                                        | 658                                        | \$ 49.4                                        | 879                                        |
| Commercial Paper                                | 204.5                                          | 90                                         | 219.9                                          | 25                                         |
| Local Government Investment Pool                | 45.4                                           | 3                                          | -                                              | -                                          |
| Municipal Bonds                                 | 306.5                                          | 1692                                       | 277.6                                          | 1084                                       |
| Repurchase Agreements                           | 50.4                                           | 3                                          | 55.1                                           | 4                                          |
| US Government Agency Mortgage-Backed Securities | 261.4                                          | 1853                                       | 219.8                                          | 1906                                       |
| US Government Agency Securities                 | 553.8                                          | 1355                                       | 482.7                                          | 1213                                       |
| US Treasury and US Government-Backed Securities | <u>287.8</u>                                   | 472                                        | <u>455.8</u>                                   | 487                                        |
| Total                                           | <u>\$ 1,757.9</u>                              |                                            | <u>\$ 1,760.3</u>                              |                                            |
| Portfolio Weighted Average Maturity             |                                                | 1103                                       |                                                | 896                                        |

As of December 31, 2016, and 2015, the Department's share of the City pool was as follows:

| (\$ in millions)                                          | 2016            | 2015            |
|-----------------------------------------------------------|-----------------|-----------------|
| Operating cash and equity in pooled investments           | \$ 73.2         | \$ 152.5        |
| Restricted cash and equity in pooled investments          | <u>223.3</u>    | <u>265.1</u>    |
| Total                                                     | <u>\$ 296.5</u> | <u>\$ 417.6</u> |
| Balance as a percentage of City pool cash and investments | 16.9%           | 23.7%           |

**Fair Value of Pooled Investments**—The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. See Note 2 Fair Value Measurement. Fair value of the City's pooled investments fluctuates with changes in interest rates and the underlying size of the Pooled investment portfolio. To mitigate interest rate risk in the City's Pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements. During the first quarter of 2017, the Federal Reserve continued with tightening of monetary policy which caused short-term interest rates to increase and longer-term interest rates to decline. The City's investments are held in slightly longer maturities beyond the influence of short-term monetary policy so the change in fair value of the City's investments, and the Department's share of investments, was favorable during the 1st quarter 2017 resulting in a prominently lower unrealized loss on investments.

In March 2016, the City made its first deposit into the Washington State Local Government Investment Pool (LGIP) managed by the Office of the Washington State Treasurer. The LGIP is structured as a 2a7-



## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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like pool. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office.

**Interest Rate Risk-** Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. To mitigate interest rate risk, the City intentionally immunizes its known and expected cash flow needs. To best accomplish meeting its investment objectives, the City has divided the Pool into two separate portfolios: Operating and Strategic.

The Operating Portfolio is invested to meet reasonably expected liquidity needs over a period of twelve to eighteen months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the State of Washington's Local Government Investment Pool (LGIP).

The Strategic Portfolio consists of cash that is in excess of known and expected liquidity needs. Accordingly, this portfolio is invested in debt securities with longer maturities than the Operating Portfolio, which over a market cycle, is expected to provide a higher return and greater investment income. Consistent with this profile, and for the purpose of comparing duration, yield and total return, the benchmark for the Strategic portfolio is the Barclays U.S. Government 1-7 year index. The duration of the Strategic Portfolio is targeted between 75% and 125% of the benchmark.

To further mitigate interest rate risk a minimum of 60% of the Operating Portfolio and 30% of the Strategic Portfolio must be invested in asset types with high liquidity, specifically U.S. Government obligations, U.S. Government Agency obligations, LGIP, Demand Accounts, Repo, Sweep, and Commercial Paper.

**Credit Risk-** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investments must adhere to state statutes. State statute and the City's Statement of Investment Policy do not stipulate credit quality requirements for U.S. Government or U.S. Government Agency Obligations, but provide for minimum credit ratings for investments in municipal bonds, commercial paper and corporate notes. State statute limits the maximum maturity and percentage allocation of investments in commercial paper and corporate notes but not for municipals. The City's investment policy limits the maximum percentage allocation that can be invested in municipal bonds, commercial paper and bank notes. In addition, commercial paper, bank, and corporate note purchases must adhere to the investment policies and procedures adopted by the Washington State Investment Board (Policy No. 2.05.500 revised September 15, 2016) that includes the following credit and maximum maturity constraints:

- A commercial paper issuer must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Ratings Organizations (NRSROs), at the time of purchase (P-1, A-1+, A-1, F1+, F1, by Moody's, S&P and Fitch, respectively). If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial Paper investments may not have maturities exceeding 270 days. Any Commercial Paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the two highest rating categories of a NRSRO.
- Bank notes or corporate notes at the time of purchase must have a credit rating of not less than "A" by any nationally recognized rating agency and must mature within 5.5 years.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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- Commercial paper, bank and corporate notes combined may not exceed 25 % of the total portfolio.
- No single issuer of commercial paper may exceed 3% of the total portfolio.
- No single issuer of bank or corporate notes rated AA or better by all rating agencies may exceed 3% of the total portfolio.
- No single issuer of bank or corporate notes rated single A by all rating agencies may exceed 2% of the total portfolio.
- Investments in a single credit issuer, consisting of commercial paper, bank and corporate notes combined, may not exceed 3% of the total portfolio.

The City subscribes to asset-backed commercial paper research from Moody's Investors Service and public finance and non-U.S. bank research from Fitch Ratings. The City conducts internal due diligence of commercial paper, bank note and municipal issuers, and maintains an "approved list" of issuers. Finally, the City monitors the credit worthiness of its investments over time until they mature, or are potentially sold.

**Concentration Risk-** Concentration Risk is the risk of loss attributed to the magnitude of investments in a single issuer. The City manages concentration risk by limiting its investments in any one issuer in accordance with the City's investment policy and state statutes. State statute and the City's Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City's Statement of Investment Policy outlines maximum percentage allocations for municipal securities, commercial paper as well as bank notes and corporate notes.

The City's investments in single issuers, including those maturing less than one year from date of purchase, and amounting to 5% or more of the total portfolio as of December 31, 2016, and 2015, are shown in the following table.

| Issuer                                              | 2016              |                              | 2015            |                              |
|-----------------------------------------------------|-------------------|------------------------------|-----------------|------------------------------|
|                                                     | Fair Value        | Percent of Total Investments | Fair Value      | Percent of Total Investments |
| Federal Farm Credit Bank/<br>Federal Home Loan Bank | \$ 329.9          | 19%                          | \$ 238.2        | 14%                          |
| Municipal Bonds                                     | 306.5             | 17%                          | -               | -                            |
| Federal National Mortgage Association               | 302.4             | 17%                          | 243.7           | 14%                          |
| United States Treasury                              | 287.8             | 16%                          | -               | -                            |
| Federal Home Loan Mortgage Corp.                    | 182.8             | 10%                          | 220.6           | 13%                          |
|                                                     | <u>\$ 1,409.4</u> | <u>79%</u>                   | <u>\$ 702.5</u> | <u>41%</u>                   |

**Custodial Credit Risk – Investments-** Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City's contractual custodial agent. In April 2016, the City transferred its custody relationship from Bank of New York (BNY) Mellon to Wells

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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Fargo under the State of Washington's statewide custody provider program arranged by the State Treasurer's Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

By investment policy, the City maintains a list of approved securities dealers for transacting business. The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

**Foreign Currency Risk** – The City's pooled investments do not include securities denominated in foreign currencies.

The City of Seattle's Comprehensive Annual Financial Report may be obtained by writing to The City of Seattle, Department of Finance and Administrative Services, P.O. Box 94689, Seattle, WA 98124-4689; telephone: (206) 684-2489, or obtained on-line at <http://www.seattle.gov/financial-services/comprehensive-annual-financial-report>.

## 6. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2016 and 2015, consist of:

| (\$ in millions)                     | Retail<br>Electric | Wholesale<br>Power | Other<br>Operating | Operating<br>Subtotal | Nonoperating<br>Subtotal | Total          |
|--------------------------------------|--------------------|--------------------|--------------------|-----------------------|--------------------------|----------------|
| <b>2016</b>                          |                    |                    |                    |                       |                          |                |
| Accounts receivable                  | \$ 56.1            | \$ 11.7            | \$ 12.8            | \$ 80.6               | \$ 22.8                  | \$ 103.4       |
| Less allowance for doubtful accounts | <u>(3.4)</u>       | <u>-</u>           | <u>(7.3)</u>       | <u>(10.7)</u>         | <u>-</u>                 | <u>(10.7)</u>  |
|                                      | <u>\$ 52.7</u>     | <u>\$ 11.7</u>     | <u>\$ 5.5</u>      | <u>\$ 69.9</u>        | <u>\$ 22.8</u>           | <u>\$ 92.7</u> |
| <b>2015</b>                          |                    |                    |                    |                       |                          |                |
| Accounts receivable                  | \$ 46.3            | \$ 9.8             | \$ 11.5            | \$ 67.6               | \$ 19.5                  | \$ 87.1        |
| Less allowance for doubtful accounts | <u>(2.8)</u>       | <u>-</u>           | <u>(5.6)</u>       | <u>(8.4)</u>          | <u>-</u>                 | <u>(8.4)</u>   |
|                                      | <u>\$ 43.5</u>     | <u>\$ 9.8</u>      | <u>\$ 5.9</u>      | <u>\$ 59.2</u>        | <u>\$ 19.5</u>           | <u>\$ 78.7</u> |

Wholesale power receivable includes \$2.1 million at December 31, 2016, and \$1.5 million at December 31, 2015, for exchange energy at fair value under long-term contracts (see Note 18 Long-Term Purchased Power, Exchanges, and Transmission).

## 7. OTHER ASSETS

Seattle City Council passed resolutions which authorized certain costs to be financed by debt and reported as regulatory assets in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Programmatic conservation costs incurred by the Department and not funded by third parties and Endangered Species Act costs are reported as regulatory assets in accordance with GASB Statement No. 62 and amortized over 20 years. Endangered Species Act costs are amortized over the remaining license period (see Note 16 Commitments and Contingencies). Environmental costs reported as regulatory assets are amortized over 25 years, beginning in the year costs are paid.

Other assets, which are not covered under GASB Statement No. 62, consist of:

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## NOTES TO FINANCIAL STATEMENTS

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- Suburban infrastructure long-term receivables are underground electrical infrastructure costs for suburban jurisdictions, which are recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.
- Long-term interfund receivable for expected recoveries related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 14 Environmental Liabilities).
- Puget Sound Energy interconnection and substation costs are being amortized to expense over 25 years.
- Studies, surveys, and investigations are reported as regulatory assets until such time they result in active projects, or when it is determined no assets will result, at which time they are expensed.
- Long-term customer loans receivable and the remaining components of other assets, are not amortized.

Regulatory assets and other assets, net, at December 31, 2016 and 2015, consisted of the following:

| (\$ in millions)                                       | 2016            | 2015            |
|--------------------------------------------------------|-----------------|-----------------|
| Regulatory assets:                                     |                 |                 |
| Conservation costs—net                                 | \$ 252.4        | \$ 243.8        |
| Endangered Species Act costs—net                       | 1.9             | 2.0             |
| Environmental costs                                    | <u>83.1</u>     | <u>31.2</u>     |
|                                                        | <u>337.4</u>    | <u>277.0</u>    |
| Other charges and assets—net:                          |                 |                 |
| Suburban infrastructure long-term receivables          | 53.3            | 53.2            |
| Long-term interfund receivable for environmental costs | 3.0             | 4.1             |
| Long-term customer notes receivable                    | 0.3             | 0.7             |
| Puget Sound Energy interconnection and substation      | 0.4             | 0.5             |
| Studies, surveys, and investigations                   | 2.8             | 2.8             |
| Other                                                  | <u>(1.0)</u>    | <u>1.2</u>      |
|                                                        | <u>58.8</u>     | <u>62.5</u>     |
| Total Other Assets                                     | <u>\$ 396.2</u> | <u>\$ 339.5</u> |

## 8. DEFERRED OUTFLOWS OF RESOURCES

Effective January 1, 2015, the Department adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB Statement Nos. 68 and 71 require that employer contributions made between the pension plan measurement date and the employer's fiscal year end be recognized as deferred outflows of resources. Also to be recognized as deferred outflows of resources are losses resulting from differences between projected and actual earnings on plan investments, which are amortized over a closed five-year period, and losses related to differences between expected and actual experience with regard to economic

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or demographic factors in the measurement of total pension liability, which are amortized to pension expense over a period equal to the expected remaining service life of employees receiving pension benefits. See Note 12 Seattle City Employees' Retirement System.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt are reported as Deferred outflows of resources and amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. See Note 9 Long-term Debt.

Deferred outflows of resources at December 31, 2016 and 2015 consisted of the following:

| (\$ in millions)                                       | 2016           | 2015           |
|--------------------------------------------------------|----------------|----------------|
| Deferred outflows of resources:                        |                |                |
| Unrealized contributions and losses related to pension | \$ 64.6        | \$ 33.4        |
| Charges on advance refunding                           | <u>30.3</u>    | <u>16.4</u>    |
| Total                                                  | <u>\$ 94.9</u> | <u>\$ 49.8</u> |

## 9. LONG-TERM DEBT

At December 31, 2016 and 2015, the Department's long-term debt consisted of the following prior lien or parity bonds:

| LONG-TERM<br>(\$ in millions) |                                               | Fixed Rate     | Maturity<br>Year | Original<br>Issuance | 2016              | 2015              |
|-------------------------------|-----------------------------------------------|----------------|------------------|----------------------|-------------------|-------------------|
| Prior Lien Bonds:             |                                               |                |                  |                      |                   |                   |
| 2016A                         | ML&P Revenue Bonds                            | 4.050% fixed   | 2041             | \$ 31.9              | \$ 31.9           | \$ -              |
| 2016B                         | ML&P Refunding Revenue Bonds                  | 4.000%–5.000%  | 2029             | 116.9                | 115.3             | -                 |
| 2016C                         | ML&P Improvement and Refunding Revenue Bonds  | 4.000%–5.000%  | 2046             | 160.8                | 160.8             | -                 |
| 2015A                         | ML&P Revenue Bonds                            | 4.000%–5.000%  | 2045             | 171.9                | 167.5             | 171.9             |
| 2015B1                        | ML&P Adjustable Rate Revenue Bonds            | variable rates | 2045             | 50.0                 | 50.0              | 50.0              |
| 2015B2                        | ML&P Adjustable Rate Revenue Bonds            | variable rates | 2045             | 50.0                 | 50.0              | 50.0              |
| 2014                          | ML&P Improvement and Refunding Revenue Bonds  | 4.000%–5.000%  | 2044             | 265.2                | 239.5             | 250.0             |
| 2013                          | ML&P Improvement and Refunding Revenue Bonds  | 2.000%–5.000%  | 2043             | 190.8                | 181.9             | 184.8             |
| 2012A                         | ML&P Improvement and Refunding Revenue Bonds  | 2.000%–5.000%  | 2041             | 293.3                | 261.1             | 272.5             |
| 2012C                         | ML&P Clean Renewable Energy Bonds             | 3.400%–3.750%  | 2033             | 43.0                 | 43.0              | 43.0              |
| 2011A                         | ML&P Improvement and Refunding Revenue Bonds  | 1.000%–5.500%  | 2036             | 296.3                | 239.8             | 253.0             |
| 2011B                         | ML&P Clean Renewable Energy Bonds             | 5.750%–5.750%  | 2027             | 10.0                 | 10.0              | 10.0              |
| 2010A                         | ML&P Build America Bonds                      | 4.447%–5.570%  | 2040             | 181.6                | 181.6             | 181.6             |
| 2010B                         | ML&P Improvement and Refunding Revenue Bonds  | 2.000%–5.000%  | 2026             | 596.9                | 340.9             | 421.2             |
| 2010C                         | ML&P Recovery Zone Economic Development Bonds | 5.590%–5.590%  | 2040             | 13.3                 | 13.3              | 13.3              |
| 2008                          | ML&P Revenue and Refunding Revenue Bonds      | 4.000%–6.000%  | 2029             | <u>257.4</u>         | <u>31.5</u>       | <u>169.5</u>      |
| Total prior lien bonds        |                                               |                |                  | <u>\$ 2,729.3</u>    | <u>\$ 2,118.1</u> | <u>\$ 2,070.8</u> |

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The Department had the following activity in long-term debt during 2016 and 2015:

| (\$ in millions)                 | Balance at<br>1/1/16 | Additions | Reductions | Balance at<br>12/31/16 | Current<br>Portion |
|----------------------------------|----------------------|-----------|------------|------------------------|--------------------|
| <b>2016</b>                      |                      |           |            |                        |                    |
| Prior Lien Bonds - fixed rate    | \$ 1,970.8           | \$ 309.6  | \$ (262.3) | \$ 2,018.1             | \$ 111.2           |
| Prior Lien Bonds - variable rate | 100.0                | -         | -          | 100.0                  | -                  |
|                                  | \$ 2,070.8           | \$ 309.6  | \$ (262.3) | \$ 2,118.1             | \$ 111.2           |
| (\$ in millions)                 | Balance at<br>1/1/15 | Additions | Reductions | Balance at<br>12/31/15 | Current<br>Portion |
| <b>2015</b>                      |                      |           |            |                        |                    |
| Prior Lien Bonds - fixed rate    | \$ 1,903.8           | \$ 171.9  | \$ (104.9) | \$ 1,970.8             | \$ 105.9           |
| Prior Lien Bonds - variable rate | -                    | 100.0     | -          | 100.0                  | -                  |
|                                  | \$ 1,903.8           | \$ 271.9  | \$ (104.9) | \$ 2,070.8             | \$ 105.9           |

**Prior Lien Bonds**—In January 2016 the Department issued \$31.9 million of taxable Municipal Light and Power (ML&P) Clean Renewable Energy Bonds (2016A Bonds) and \$116.9 million of tax exempt Municipal Light and Power (ML&P) Refunding Revenue Bonds (2016B Bonds). In September 2016, the Department issued \$160.8 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2016C Bonds). The 2016A Bonds had a fixed coupon interest rate of 4.05% and mature serially from January 1, 2036 to January 1, 2041. The 2016B Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from October 1, 2016 through April 1, 2029. The 2016C Bonds had interest rates ranging from 4.00% to 5.00% and mature serially from October 1, 2017 through October 1, 2037 with term bonds maturing annually from October 1, 2038 to October 1, 2046. The arbitrage yield was 1.01% for the 2016A Bonds, 1.88% for the 2016B Bonds, and 2.29% for the 2016C Bonds. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2016A Bonds are being used to finance certain capital improvement and conservation programs. Proceeds from the 2016B Bonds were used to refund \$122.8 million of the 2008 Bonds. Proceeds from the 2016C Bonds were used to finance certain capital improvement and conservation programs and to refund \$32.0 million of the 2010B Bonds.

The debt service on the 2016A Bonds requires a cash flow over the life of the bonds of \$60.9 million, including \$29.0 million in interest, and the debt service on the 2016B Bonds requires a cash flow over the life of the bonds of \$166.8 million including \$50.0 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding for the 2016A&B Bonds and the 2016C Bonds totaled \$22.1 million and \$1.8 million, and the aggregate economic gain on refunding totaled \$19.4 million and \$2.0 million at present value, respectively. The debt service of the 2016C Bonds requires a cash flow over the life of the bonds of \$268.8 million, including \$108.0 million in interest. The accounting loss on refunding for the 2016B Bonds was \$16.1 million and was \$3.0 million for the 2016C Bonds.

In July 2015, the Department issued \$171.9 million of tax exempt Municipal Light and Power (ML&P) Revenue Bonds (2015A Bonds), and \$100.0 million of tax exempt variable rate Municipal Light and Power (ML&P) Revenue Bonds (2015B Bonds). The 2015A Bonds had coupon interest rates ranging from 4.00% to 5.00% and mature serially from May 1, 2016 to May 1, 2040 with term Bonds maturing May 1, 2045. The 2015B Bonds had coupon interest rates ranging from .69% to .71% during 2015 with term bonds maturing annually from May 1, 2026 to May 1, 2045. The 2015B Bonds bear interest at the adjusted Securities Industry and Financial Markets Association (SIFMA) interest rate which is the SIFMA Index plus the Index floating rate spread. The arbitrage yield was 3.52% for the 2015A Bonds and 3.47%

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for the 2015B Bonds. Proceeds from the 2015 Bonds were used to finance certain capital improvement and conservation programs and to make a deposit to the Reserve Fund.

The debt service on the 2015A Bonds requires a cash flow over the life of the bonds of \$286.0 million, including \$114.1 million in interest, and the debt service on the 2015B Bonds requires a cash flow over the life of the bonds of \$177.4 million including \$77.4 million in estimated interest.

The Department has certain bonds outstanding that provide a refundable tax credit, or federal subsidy, paid to state or local governmental issuers by the U.S. Treasury. The amount of the federal subsidy is equal to the lesser of the amount of interest payable based on the coupon interest rate or a percentage of the amount of interest payable based on the tax credit rate on the sale date with respect to those bonds. This federal subsidy ultimately results in a net decrease to debt service, although debt service payments are paid gross. The federal subsidies are recorded as nonoperating revenues on the statements of revenues, expenses, and changes in net position.

*Federal Sequestration.* The sequestration provisions of the Budget Control Act of 2011 went into effect on March 1, 2013. The only direct impact of sequestration on the Department for 2016 was a 6.8% reduction through the end of the federal fiscal year ending September 30, 2016 at which time the automatic reductions were adjusted to 6.9% in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment); Municipal Light and Power Revenue Bonds; 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment); Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment); and Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds—Direct Payment). Because of this reduction, the Department will receive approximately \$0.4 million less in interest subsidies than originally anticipated for 2016. The Department has sufficient revenues to pay the interest without these subsidies. The effect for the accrual of federal subsidies as of December 31, 2016 was inconsequential. The effect during 2017 is estimated to be lower federal subsidies by approximately \$0.4 million. The effect thereafter for federal subsidies is indeterminable. Sequestration was originally in effect through federal fiscal year (FFY) 2021 and has subsequently been extended through FFY 2024.

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Debt service requirements for prior lien bonds, excluding federal subsidies for the 2016, 2012, 2011 and 2010 bonds are shown in the table below. Future debt service requirements on the variable 2015B Bonds are based on actual interest rates in effect as of December 31, 2016.

(\$ in millions)

| Years Ending<br>December 31 | Fixed Rate Bonds         |                          | Variable Rate Bonds      |                          | Total             |
|-----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------|
|                             | Principal<br>Redemptions | Interest<br>Requirements | Principal<br>Redemptions | Interest<br>Requirements |                   |
| 2017                        | \$ 111.2                 | \$ 93.8                  | \$ -                     | \$ 1.4                   | \$ 206.4          |
| 2018                        | 111.8                    | 88.5                     | -                        | 1.4                      | 201.7             |
| 2019                        | 108.6                    | 83.0                     | -                        | 1.4                      | 193.0             |
| 2020                        | 107.8                    | 77.5                     | -                        | 1.4                      | 186.7             |
| 2021                        | 106.8                    | 72.5                     | -                        | 1.4                      | 180.7             |
| 2022 – 2026                 | 519.6                    | 281.4                    | 3.3                      | 7.0                      | 811.3             |
| 2027 – 2031                 | 294.5                    | 179.3                    | 18.8                     | 6.1                      | 498.7             |
| 2032 – 2036                 | 280.1                    | 116.6                    | 23.0                     | 4.6                      | 424.3             |
| 2037 – 2041                 | 267.4                    | 53.5                     | 28.0                     | 2.9                      | 351.8             |
| 2042 – 2046                 | <u>110.3</u>             | <u>10.2</u>              | <u>26.9</u>              | <u>0.7</u>               | <u>148.1</u>      |
| Total                       | <u>\$ 2,018.1</u>        | <u>\$ 1,056.3</u>        | <u>\$ 100.0</u>          | <u>\$ 28.3</u>           | <u>\$ 3,202.7</u> |

*Reserve Fund* - The Department has created and is required under Ordinance No. 124916 (Bond Ordinance) to maintain a Reserve Fund for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding and all amounts due under Parity Payment Agreements. The Reserve Fund is a pooled reserve and is an account within the books of the Department.

The Bond Legislation provides that, if the amount in the Reserve Fund is less than the Reserve Fund Requirement (taking into account the method of funding over five years in connection with the issuance of Future Parity Bonds), the Department must transfer to the Reserve Fund money in an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement within 12 months after the date of such deficiency. Such transfers must be made, first, from money in the Light Fund (after making provision for payment of operating and maintenance expenses and for required payments into the Parity Bond Fund) and, only thereafter, from money in any construction fund or account established with respect to any issue of Parity Bonds (first taking money from the unrestricted portion thereof, and then taking money from the restricted portion thereof).

The Reserve Fund is held by the City in a “special fund” as that term is used in State law; it is not held by an independent trustee. In the context of bankruptcy proceedings, notwithstanding State law, there can be no assurance that the funds on deposit therein would be held intact for the benefit of holders of the Parity Bonds.

*Reserve Fund Requirement* - Under the Bond Ordinance, the aggregate Reserve Fund Requirement for all Parity Bonds is equal to the sum of the Reserve Fund Requirements established for each issue of Parity Bonds outstanding. The Bond Ordinance permits the Department to establish the Reserve Fund Requirement (if any) for each issue of the 2016C Bonds or of Future Parity Bonds in the bond resolution



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approving the sale of that issue. Solely for purposes of setting the Reserve Fund Requirement, all series issued together under a single bond sale resolution are treated as a single “issue.”

The Bond Resolution for the 2016C Bonds establishes the Reserve Fund Requirement for the 2016C Bonds as an amount equal to the additional amount necessary at the time of issuance to achieve an overall level of funding for the Reserve Fund that is equal to the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund.” Until the expiration of the Surety Bond in 2029 (See “*Method of Satisfying Reserve Fund Requirement*”) unless earlier terminated, this amount is calculated based on the debt service requirements for all Parity Bonds that are outstanding as of the Issue Date, excluding refunded bonds. Upon the expiration or termination of the Surety Bond, this amount will be recalculated to exclude the debt service requirements of the outstanding 2015B Bonds, a multimodal variable rate bond issue, and any other issue of Future Parity Bonds that are excluded pursuant to the legislation authorizing such Future Parity Bonds.

Upon the issuance of the 2016C Bonds, the aggregate Reserve Fund Requirement for all Parity Bonds outstanding was \$127.3 million. Upon the expiration or termination of the Surety Bond, the Reserve Requirement for the 2015B Bonds will be reduced to zero resulting in a reduction in the aggregate Reserve Fund Requirement.

*Method of Satisfying Reserve Fund Requirement* - The Bond Ordinance permits the Department to select the method of funding the Reserve Fund Requirement for each issue of the 2016C Bonds and for Future Parity Bonds in the applicable bond sale resolution from among the following methods: (i) depositing an amount equal to the Reserve Fund Requirement for that issue of Future Parity Bonds into the Reserve Fund out of Gross Revenues (or out of any other legally available funds, including proceeds of such Future Parity Bonds) at one time on the Issue Date, (ii) making periodic payments so that by five years from the date of such Future Parity Bonds, there will have been paid into the Reserve Fund an amount which, together with the money already on deposit therein, will be at least equal to the Reserve Fund Requirement for all Parity Bonds outstanding at the end of that five-year period, or (iii) by obtaining one or more Alternate Reserve Securities for specific amounts required to be paid into the Reserve Fund.

With respect to the 2016C Bonds, the Bond Resolution provides that the Department will pay into the Reserve Fund out of Gross Revenues on the Issue Date such sums as will, together with money currently in the Reserve Fund, provide for the Reserve Fund Requirement for the 2016C Bonds. The Reserve Fund Requirement for the 2016C Bonds were satisfied by the amounts already on deposit and no additional deposit to the Reserve Fund was required as a result of the issuance of the 2016C Bonds. Upon issuance of the 2016C Bonds, there was a cash balance of \$76.7 million in the Reserve Fund, which together with the Surety Bond, fully satisfies the Reserve Fund requirement for the Outstanding Parity Bonds and the Bonds. The Department also held approximately \$24.1 million in the Reserve Fund at issuance of the 2016C Bonds that is intended to be used to satisfy the Reserve Fund Requirement upon the expiration or termination of the Surety Bond. An additional deposit of \$10.0 million was made to the Reserve Fund from operating cash for this purpose.

*Surety Bond* - Under the Bond Legislation, the City is permitted to provide for the Reserve Fund Requirement with an Alternate Reserve Security consistent with the Bond Legislation requirements. Under the Bond Legislation, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund Requirement if the provider’s ratings are in one of the top two rating categories at the time the policy is issued. The Bond Legislation does not require that the Reserve Fund be funded with cash or an Alternate Reserve Security if the provider of qualified insurance is subsequently downgraded.

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The City currently has a surety bond (the “Surety Bond”) purchased from Financial Security Assurance, Inc. (“FSA”), with a policy limit that is equal to \$74.7 million. This amount is used to satisfy a large proportion of the aggregate Reserve Fund Requirement. As of September 14, 2016, the remainder of the Reserve Fund Requirement was satisfied by \$52.6 million in cash held in the Reserve Fund. Also included within the Reserve Fund was \$34.4 million and \$20.5 million at the end of 2016 and 2015 that is expected to be used toward the eventual replacement of the Surety Bond upon its expiration. Total reserve fund balance was \$87.0 million and \$73.7 million at December 31, 2016 and 2015 respectively.

The Surety Bond was issued by FSA in 2005; FSA was acquired by Assured Guaranty Corporation in 2009. In 2009, Assured Guaranty Corporation changed the name of its FSA subsidiary to Assured Guaranty Municipal Corporation (“AGM”).

The Surety Bond secures all Parity Bonds and Future Parity Bonds (including Parity Payment Agreements) and expires on August 1, 2029. The amount available to be drawn on the Surety Bond (the “Policy Limit”) is currently equal to \$74.7 million. However, should the Reserve Fund Requirement be reduced in the future, the Policy Limit would be reduced irrevocably by a like amount, which is expected to occur with the issuance of the 2016C Bonds. The Policy Limit would also be reduced temporarily to the extent of any draw on the Surety Bond. In that event, the Policy Limit would be reinstated (up to the limit in effect prior to the draw) upon reimbursement in accordance with the terms of the reimbursement agreement. The Department’s reimbursement obligation is subordinate to the Department’s obligation to pay the principal of and interest on the Parity Bonds.

AGM is currently rated A2 and AA by Moody’s Investors Service and Standard & Poor’s Ratings Services, respectively. AGM is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements, and other information with the U.S. Securities and Exchange Commission.

***Irrevocable Trust Accounts***—All the proceeds of the 2016B refunding revenue Bonds and \$36.5 million of the 2016C refunding revenue Bonds were placed in a separate irrevocable trust accounts to provide for all future debt service payments on certain prior lien bonds advance refunded or defeased. There were balances outstanding in the irrevocable trust account during 2016 for prior lien bonds advance refunded or defeased with the 2016 bonds and no balances were outstanding for prior lien bonds advance refunded prior to 2016. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department’s financial statements. The outstanding principal balance of all bonds defeased through 2016 was \$154.8 million as of December 31, 2016. As of December 31, 2016, none of the defeased bonds were called and paid from the 2016 irrevocable trust account. Funds held in the 2016 irrevocable trust accounts at December 31, 2016 are sufficient to service and redeem the defeased bonds outstanding.

***Bond Ratings***—The 2016 and 2015 Bonds, along with other outstanding parity bonds, were rated “Aa2” and “AA”; and “Aa2” and “AA”, by Moody’s Investors Service, Inc. and Standard Poor’s Rating Services, respectively.

***Revenue Pledged***— Revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and Reserve Fund. Principal and interest paid for 2016 and 2015 was \$202.1 million and \$194.6 million, respectively. Total revenue available for debt service as defined for the same periods was \$331.9 million and \$306.6 million, respectively. Annual interest and principal payments are expected to require 63.7% of revenues available for debt service for 2017 and required 65.8% in 2016.

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**Federal Arbitrage Regulations**—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. \$0.3 million in federal arbitrage rebate liability was recorded in 2016 and no arbitrage rebate liability was recorded in 2015.

**Other**—There were no liens on property or revenue pertaining to parity bonds and all bond covenants were in compliance for the Department's prior lien bonds as of December 31, 2016 and 2015, respectively.

**Fair Value**—Debt is recorded and presented in the financial statements at carrying value net of premiums and discounts and shown below with fair values as provided by the Department's financial advisor, Piper Jaffray & Company. The fair value for the Department's bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts and fair values at December 31, 2016 and 2015, were as follows:

| (\$ in millions) | 2016            |            | 2015            |            |
|------------------|-----------------|------------|-----------------|------------|
|                  | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt:  |                 |            |                 |            |
| Prior lien bonds | \$ 2,276.5      | \$ 2,298.1 | \$ 2,196.7      | \$ 2,304.6 |

**Amortization**—Discounts and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the effective interest method over the terms of the issues to which they pertain. Charges on advance refunding amortized to interest expense totaled \$4.6 million in 2016 and \$2.9 million in 2015. Charges on advance refunding in the amount of \$30.3 million and \$16.4 million are included as a component of Deferred Outflows of Resources on the 2016 and 2015 balance sheets, respectively.

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**Noncurrent Liabilities**—The Department had the following activities during 2016 and 2015:

(\$ in millions)

|                                                | Balance at 1/1/16              | Additions       | Reductions       | Balance at 12/31/16 |
|------------------------------------------------|--------------------------------|-----------------|------------------|---------------------|
| <b>2016</b>                                    |                                |                 |                  |                     |
| Net pension liability                          | \$ 271.8                       | \$ 70.9         | \$ (24.9)        | \$ 317.8            |
| Accumulated provision for injuries and damages | 42.3                           | 49.8            | (0.1)            | 92.0                |
| Compensated absences                           | 19.4                           | -               | (3.6)            | 15.8                |
| Other                                          | 8.0                            | 0.1             | (0.1)            | 8.0                 |
| Total                                          | <u>\$ 341.5</u>                | <u>\$ 120.8</u> | <u>\$ (28.7)</u> | <u>\$ 433.6</u>     |
|                                                | Balance at 1/1/15, as Adjusted | Additions       | Reductions       | Balance at 12/31/15 |
| <b>2015</b>                                    |                                |                 |                  |                     |
| Net pension liability                          | \$ 255.9                       | \$ 38.0         | \$ (22.1)        | \$ 271.8            |
| Accumulated provision for injuries and damages | 42.9                           | 0.1             | (0.7)            | 42.3                |
| Compensated absences                           | 16.7                           | 2.7             | -                | 19.4                |
| Other                                          | 7.7                            | 0.4             | (0.1)            | 8.0                 |
| Total                                          | <u>\$ 323.2</u>                | <u>\$ 41.2</u>  | <u>\$ (22.9)</u> | <u>\$ 341.5</u>     |

Additional information on the Net pension liability can be found in Note 12 Seattle City Employees' Retirement System. Information about the provision for injuries and damages can be found in Note 10 Provision for Injuries and Damages and Note 14 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 13 Other Postemployment Benefits. The beginning balance for 2015 was adjusted to record Net pension liability for the Department in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

## 10. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 14 Environmental Liabilities. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. For 2016 and 2015, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 24 to 28 years at the City's average annual rate of return on investments, which was 1.13% and 0.931%, respectively.

To address the risk for certain losses arising from personal and property damage claims by third parties and for job-related illnesses and injuries to employees, the Department as part of the City of Seattle, has been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. Beginning June 1, 2014, the City had general liability insurance coverage for losses

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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over a \$6.5 million self-insured retention per occurrence, with a \$60.0 million limit per occurrence in the aggregate. Effective June 1, 2016 the limit was increased to \$85.0 million. The Department had no settled claims exceeding coverage in the last three years.

The City also purchased an all risk comprehensive property insurance policy that provides \$500.0 million in limits subject to various deductible levels depending on the type of asset and value of the building. This includes \$100.0 million in earthquake and flood limits. Hydroelectric and certain other utility producing and processing projects are not covered by the property policy. The City also purchased insurance for excess workers' compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, public notaries, pension exposures, and specific projects and activities as necessary.

The changes in the provision for injuries and damages at December 31, 2016 and 2015 are as follows:

| <i>(\$ in millions)</i>           | <b>2016</b>    | <b>2015</b>    |
|-----------------------------------|----------------|----------------|
| Beginning unpaid claims liability | \$ 12.8        | \$ 12.9        |
| Payments                          | (4.3)          | (5.2)          |
| Incurred claims                   | <u>5.5</u>     | <u>5.1</u>     |
| Ending unpaid claims liability    | <u>\$ 14.0</u> | <u>\$ 12.8</u> |

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2016 and 2015 is as follows:

| <i>(\$ in millions)</i>                        | <b>2016</b>    | <b>2015</b>    |
|------------------------------------------------|----------------|----------------|
| Noncurrent liabilities                         | \$ 10.0        | \$ 8.7         |
| Accounts payable and other current liabilities | <u>4.0</u>     | <u>4.1</u>     |
| Total liability                                | <u>\$ 14.0</u> | <u>\$ 12.8</u> |

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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### 11. ACCOUNTS PAYABLE

**Accounts Payable and Other Current Liabilities**—The composition of accounts payable and other current liabilities at December 31, 2016 and 2015, is as follows:

| (\$ in millions)                        | 2016           | 2015            |
|-----------------------------------------|----------------|-----------------|
| Vouchers payable                        | \$ 42.9        | \$ 51.1         |
| Power accounts payable                  | 24.2           | 23.5            |
| Taxes payable                           | 8.2            | 9.4             |
| Claims payable                          | 8.6            | 16.4            |
| Guarantee deposit and contract retainer | 10.3           | 3.0             |
| Other accounts payable                  | 5.3            | 3.2             |
| Total                                   | <u>\$ 99.5</u> | <u>\$ 106.6</u> |

### 12. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

Effective January 1, 2015, the Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The cumulative effect of the change in Net position due to the change in accounting standard was a decrease of \$233.8 million and is shown as an adjustment to beginning Net position for 2015.

**Plan Description** - The Seattle City Employees' Retirement System (SCERS) is a cost-sharing multiple-employer defined benefit public employee retirement system, covering employees of the City and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a pension trust fund of the City. SCERS is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of the King County Departments of Transportation and Public Health who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership. Following is membership data for employees covered by the benefit terms as of the reporting date, December 31, 2016, and the measurement date, December 31, 2015 and December 31, 2015 report date and December 31, 2014 measurement date:

|                                                      | 2016  | 2015  |
|------------------------------------------------------|-------|-------|
| Active members                                       | 9,151 | 8,853 |
| Retired members and beneficiaries receiving benefits | 6,382 | 6,222 |
| Vested terminated employees entitled to benefits     | 2,352 | 1,246 |

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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**Summary of Significant Accounting Policies** – SCERS financial statements and schedules are presented using the economic resources measurement focus and the accrual basis of accounting. For purposes of measuring the net pension liability (NPL), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SCERS and additions to and deductions from SCERS fiduciary net position have been determined on the same basis as they are reported by SCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value in accordance with GASB 72.

The NPL was measured as of December 31, 2015 and December 31, 2014, and the total pension liability used to calculate the NPL was based on an actuarial valuation as of December 31, 2014, rolled forward to December 31, 2015 and December 31, 2014, respectively.

**Pension Benefits** – Service retirement benefits are calculated on the basis of age, salary, and service credit. Members are eligible for retirement benefits after 30 years of service, at age 52 after 20 years of service, at age 57 after 10 years of service, and at age 62 after 5 years of service. Annual retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

**Disability Benefits** – An active member is eligible to receive disability benefits when: (a) member has achieved 10 years of credited service within the 15 years preceding disability retirement, or (b) the disability occurs in the course of City employment in which no service requirement exists. The amount of the disability benefit is the greater of (a) 1.5% times the final compensation times completed years of creditable service, or (b) 1.5% times final compensation total years of service that could have been earned to age 62, but not to exceed one-third of final compensation. Disability benefits vest after 10 years of credited service.

**Death Benefits** – Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are (a) payment to the beneficiary of accumulated contributions, including interest, or (b) if the member had completed 10 years of service at the time of death, a surviving spouse or registered domestic partner may elect to receive, in place of (a) above, either: (1) A monthly allowance for life equal to the benefit the spouse would have received had the member just retired with a 100% contingent annuitant option in force, or (2) A cash payment of no more than one-half of the member's accumulated contributions, along with a correspondingly reduced retirement allowance. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement. Death benefits vest after 10 years of credited service.

**Contributions** – Member and employer contributions rates are established by Seattle Municipal Code Chapter 4.436. The overall contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. Member contribution rates are also set via collective bargaining contracts. The overall formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

#### AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

valuations. Contribution rates and amounts were as follows as of the reporting dates, December 31, 2016 and December 31, 2015, and the measurement dates, December 31, 2015 and December 31, 2014:

|      | Contributions |              |         |            |
|------|---------------|--------------|---------|------------|
|      | Rates         |              | Amounts |            |
|      | Employer      | Most members | City    | Department |
| 2016 | 15.29%        | 10.03%       | \$108.5 | \$23.9     |
| 2015 | 15.73%        | 10.03%       | \$101.0 | \$24.9     |

Effective January 1, 2017, the city will implement a new defined benefit retirement plan SCERS II for new employees hired on or after January 1, 2017. These changes have no effect on net pension liability or employee contributions as of December 31, 2016.

**Net Pension Liability**—The Department reported a liability of \$317.8 million and \$271.8 million for its proportionate share of net pension liability as of December 31, 2016 and December 31, 2015, respectively. The Department's proportion of the NPL as of December 31, 2016 and December 31, 2015 was based on contributions to SCERS during the fiscal year ended December 31, 2015 and December 31, 2014, respectively. The Department's proportionate share percent was 24.46% and 24.53% for the years ended December 31, 2015 and December 31, 2014, respectively. The net pension liability was measured as of December 31, 2015 and December 31, 2014, and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of December 31, 2014, rolled forward to December 31, 2015 and December 31, 2014, respectively.

In April, 2016, there was a transfer of 115 employees from Seattle City Light to the newly created Seattle Information Technology department. Employer pension contributions for transferred employees continued to be recognized as a Seattle City Light expense through December 31, 2016 and are reflected in our deferred outflows of resources herein. This transfer will affect Seattle City Light's proportionate share of pension expense in 2017, but does not affect the net pension liability as of December 31, 2016.



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

### Changes in Net Pension Liability

(In millions)

|                                                       | Fiscal Year Ended December 31 |          |
|-------------------------------------------------------|-------------------------------|----------|
|                                                       | 2016                          | 2015     |
| <u>Total Pension Liability</u>                        |                               |          |
| Service cost                                          | \$ 24.5                       | \$ 23.1  |
| Interest on total pension liability                   | 62.3                          | 59.3     |
| Effect of plan changes                                |                               |          |
| Effect of economic/demographic gains or losses        | 0.5                           | -        |
| Effect of assumptions changes or inputs               | -                             | -        |
| `                                                     | (39.0)                        | (36.9)   |
| Refund of contributions                               | (3.9)                         | (3.7)    |
| Net change in total pension liability                 | 44.4                          | 41.8     |
| Total pension liability, beginning of period          | 841.5                         | 799.7    |
| Effect of change in proportionate share               | (2.4)                         | -        |
| Adjusted total pension liability, beginning of period | 839.1                         | 799.7    |
| Total pension liability, end of period                | 883.5                         | 841.5    |
| <u>Plan fiduciary net position</u>                    |                               |          |
| Benefit payments                                      | (39.0)                        | (36.9)   |
| Refunds of contributions                              | (3.9)                         | (3.7)    |
| Administrative expenses                               | (2.0)                         | (1.3)    |
| Member contributions                                  | 16.1                          | 15.7     |
| Employer contributions                                | 24.7                          | 22.1     |
| Net investment income                                 | 1.7                           | 30.0     |
| Net change in Plan fiduciary net position             | (2.4)                         | 25.9     |
| Plan fiduciary net position, beginning of period      | 569.7                         | 543.8    |
| Effect of change in proportionate share               | (1.6)                         | -        |
| Adjusted fiduciary net position, beginning of period  | 568.1                         | 543.8    |
| Plan fiduciary net position, end of period            | 565.7                         | 569.7    |
| Net pension liability, end of period                  | \$ 317.8                      | \$ 271.8 |

The Department recognized pension expense of \$40.8 million and \$29.5 million for the years ended December 31, 2016, and 2015, respectively.

**Actuarial assumptions**—The total pension liability at December 31, 2016 and 2015, was based on actuarial valuations as of December 31, 2015 and 2014, respectively, using the following actuarial methods and assumptions:

|                                    |                                          |
|------------------------------------|------------------------------------------|
| Actuarial Cost Method              | Individual Entry Age Normal              |
| Amortization Method                |                                          |
| Level percent or level dollar      | Level percent                            |
| Closed, open, or layered periods   | Closed                                   |
| Amortization Period and Start Date | 30 years as of January 1, 2013 Valuation |
| Amortization Growth Rate           | 4.00%                                    |
| Asset Valuation Method             |                                          |
| Smoothing period                   | 5 years                                  |

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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|                                        |                                                                                                                             |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Recognition method                     | Non-asymptotic                                                                                                              |
| Corridor                               | None                                                                                                                        |
| Inflation                              | 3.25%                                                                                                                       |
| Investment Rate of Return              | 7.50%                                                                                                                       |
| Post-retirement benefit increases      | 1.50%                                                                                                                       |
| Cost-of-living year-end bonus dividend | 0.00%                                                                                                                       |
| Mortality                              | Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA. |

All other actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2013, including updates to salary increase, mortality and retirement rates.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and gross of administrative expenses) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following table reflects long-term expected (30 year) real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The expected inflation rate is projected at 3.25% for the same period.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| Asset Category          | Target Allocation | Geometric Expected Return |
|-------------------------|-------------------|---------------------------|
| Equity                  |                   |                           |
| Public Equity           | 48.0%             | 4.63%                     |
| Private Equity          | 9.0%              | 6.25%                     |
| Fixed Income            |                   |                           |
| Broad Fixed Income      | 18.0%             | 0.75%                     |
| Credit Fixed Income     | 5.0%              | 3.55%                     |
| Real Assets             |                   |                           |
| Real Estate             | 12.0%             | 3.25%                     |
| Infrastructure          | 3.0%              | 3.25%                     |
| Diversifying Strategies | 5.0%              | 3.25%                     |

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** –The following presents the Department’s proportionate share of the net pension liability of SCERS, calculated using a discount rate of 7.50%, as well as what the Department’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%):

### Discount Rate Sensitivity

(In millions)

| Discount Rate                 | Net Pension Liability at December 31, |          |
|-------------------------------|---------------------------------------|----------|
|                               | 2016                                  | 2015     |
| 1% decrease - 6.50%           | \$ 425.6                              | \$ 375.1 |
| Current discount Rate - 7.50% | 317.8                                 | 271.8    |
| 1% increase - 8.50%           | 227.0                                 | 185.0    |

***Plan Fiduciary Net Position*** – Detailed information about the SCERS’s fiduciary net position is available in the separately issued, audited financial statements as of December 31, 2015, which are publicly available at <http://www.seattle.gov/retirement/about-us/financials-and-governance>.

***Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension*** – The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for the Department at December 31, 2016, and December 31, 2015:

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## NOTES TO FINANCIAL STATEMENTS

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(\$ in millions)

|                                                                                     | December 31    |                |
|-------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                     | 2016           | 2015           |
| <u>Deferred outflows of resources</u>                                               |                |                |
| Differences between expected and actual experience                                  | \$ 0.4         | \$ -           |
| Net difference between projected and actual earnings                                | 38.9           | 8.5            |
| Contributions made subsequent to measurement date                                   | 25.3           | 24.9           |
| Total deferred outflows of resources                                                | <u>\$ 64.6</u> | <u>\$ 33.4</u> |
| <u>Deferred inflows of resources</u>                                                |                |                |
| Differences between employer contributions and proportionate share of contributions | \$ 0.8         | \$ -           |
| Total deferred inflows of resources                                                 | <u>\$ 0.8</u>  | <u>\$ -</u>    |

Department contributions made in 2016 in the amount of \$25.3 million are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. These contributions along with the net difference between projected and actual earnings reported as deferred outflows of resources will be recognized as pension expense in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

| Year Ending December 31 | Amortization   |
|-------------------------|----------------|
| (\$ in millions)        |                |
| 2017                    | \$ 35.5        |
| 2018                    | 10.2           |
| 2019                    | 10.1           |
| 2020                    | 8.0            |
| 2021                    | -              |
| Thereafter              | -              |
| Total                   | <u>\$ 63.8</u> |

### 13. OTHER POSTEMPLOYMENT BENEFITS

Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

Employees retiring under the City may continue their health insurance coverage under the City's health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The City provides an implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The postemployment benefit provisions are

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

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established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The City's expected contribution for employer-paid benefits was \$1.3 million, \$1.1 million, and \$1.0 million in 2016, 2015, and 2014, respectively. The Department's portion of the expected contribution was \$0.2 million, \$0.2 million, and \$0.2 million in years 2016 and 2015, and 2014, respectively. The City recorded an expense and liability for OPEB of \$2.6 million in 2016 and \$2.6 million in 2015. The Department recorded a reduction to expense and a decrease in liability for OPEB of \$0.1M in 2016, and an expense and increase in liability for OPEB of \$0.5M in 2015. The department reported an OPEB liability of \$7.9M in 2016 and \$8.0M in 2015.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Based on the latest biennial actuarial valuation date the significant methods and assumptions are as follows:

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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#### Actuarial data and assumptions

|                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation date                             | January 1, 2014                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Actuarial cost method                      | Entry age normal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Amortization method                        | Level dollar                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Initial amortization period                | 30 years, open                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Discount rate                              | 3.48%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Health care cost trend rates—medical:      | Aetna plans: 8.0%, decreasing by 0.5% each year for 2 years with varying rate changes thereafter. Group Health plans: 7.5%, decreasing by 0.5% each year for 3 years with varying rate changes thereafter.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Participation                              | 40% of Active Employees who retire participate                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Mortality                                  | General Service Actives and Retirees based on RP-2000 Table and RP-2000 Combined Healthy, respectively, with ages set back six years for male and female actives; set back two years for male and female retirees. Rates are generational for both males and females using Projection Scale AA.                                                                                                                                                                                                                                                                                                                                                                                                      |
| Marital status                             | 45% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Morbidity factors                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Aetna Traditional & Aetna Preventive       | Per-capita claim costs for the two Aetna plans were developed based on a blending of the following with equal weights (25% each): self-funding premium equivalent rates provided by City of Seattle, Aon Hewitt's internal manual rate, retiree claim experience specific to each plan from 1/1/2012 to 8/31/2014, and active claim experience specific to the Aetna plans from 1/1/2012 to 8/31/2014.<br>For the Aetna plans, because the retirees' spouses pay a lower premium for health care coverage than retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same age and gender. The morbidity factors were adjusted to reflect this discrepancy. |
| Group Health Standard and Deductible Plans | Per-capita claim costs for the two Group Health plans were developed based on a blending of the following with equal weights (33.3% each): self-funding premium equivalent rates provided by City of Seattle, Aon Hewitt's internal manual rate, and retiree claim experience specific to each plan from 1/1/2012 to 8/31/2014.                                                                                                                                                                                                                                                                                                                                                                      |
| Other considerations                       | Active employees with current spouse and/or dependent coverage elect same plan and coverage. After retirement, it is assumed that children will have aged off of coverage and will have \$0 liability.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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Based on the actuarial valuation date of January 1, 2014, the City's annual cost for fiscal years ended December 31, 2016 and 2015, the amount of expected contribution to the plan, and changes in net obligation are as follows:

| (\$ in millions)                               | 2016           | 2015           |
|------------------------------------------------|----------------|----------------|
| Annual required contribution                   | \$ 7.7         | \$ 4.6         |
| Interest on net OPEB obligation                | 1.5            | 1.6            |
| Adjustment to annual required contribution     | (2.5)          | (2.5)          |
| Annual OPEB cost (expense)                     | 6.7            | 3.7            |
| Expected contribution (employer-paid benefits) | (2.0)          | (1.1)          |
| Increase in net OPEB obligation                | 4.7            | 2.6            |
| Net OPEB obligation - beginning of the year    | 49.4           | 46.8           |
| Net OPEB obligation - end of year              | <u>\$ 54.1</u> | <u>\$ 49.4</u> |

\* Estimated using growth rate of 2014-2015 from 2015 actuarial report

The schedules of funding progress (\$ in millions) (unaudited) are as follows:

| Actuarial<br>Valuation<br>Date<br>January 1 | Actuarial<br>Value of<br>Assets<br>(A) | Actuarial<br>Accrued<br>Liabilities<br>(AAL)<br>Entry Age<br>(B) | Unfunded<br>AAL<br>(UAAL)<br>(B-A) | Funding<br>Ratio<br>(A/B) | Covered<br>Payroll<br>(C) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((B-A)/C) |
|---------------------------------------------|----------------------------------------|------------------------------------------------------------------|------------------------------------|---------------------------|---------------------------|---------------------------------------------------------------|
| 2012                                        | \$ -                                   | \$ 74.7                                                          | \$ 74.7                            | - %                       | \$ 891.6                  | 8.4 %                                                         |
| 2014                                        | -                                      | 41.8                                                             | 41.8                               | -                         | 1,004.0                   | 4.2                                                           |
| 2016                                        | -                                      | 65.7                                                             | 65.7                               | -                         | 1,125.7                   | 5.8                                                           |

The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

#### 14. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$86.7 million and \$45.9 million, at December 31, 2016, and 2015, respectively.

The following is a brief description of the significant Superfund sites:

- The Harbor Island Superfund Site**—In 1983, the U.S. Environmental Protection Agency (EPA) designated this site as a federal Superfund site. The Department and other entities are sharing costs equally for investigating contamination in the East Waterway alongside Harbor Island. The City share is split between City Light 45% and Seattle Public Utilities (SPU) 55%. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate cleanup actions. A draft final feasibility study was submitted to EPA in October 2016. Nine alternative actions were presented with costs ranging from \$256.0 million to \$411.0 million with an estimated time to complete construction on active cleanup components ranging from 9 to 13 years. EPA however, has not identified the cleanup construction timing and cost estimate at this time. The project

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manager has estimated that total remediation liability may be up to \$300.0M, of which \$100.0 million is the City share. The Department recorded its share of the estimated liability of \$45.0 million in October, 2016 in accordance with GASB Statement No. 49. The Department's ultimate liability is indeterminate.

- *The Lower Duwamish Waterway Superfund Site*—In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department's involvement is attributable to its land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent (AOC) with the EPA and Washington State Department of Ecology (DOE) to conduct a remedial investigation and feasibility study to prepare a site remedy. The EPA approved the feasibility study in November 2012. In February 2013, the EPA issued the Proposed Plan for cleanup of the Lower Duwamish Waterway. In December 2014, the EPA issued its final Record of Decision (ROD) indicating its preferred alternative clean-up with an estimated cost of \$342.0 million. The extent and cost of additional investigation work required prior to implementation of remedy is still unknown. The Department's ultimate liability is indeterminate.

In November 2012, the EPA issued general notification letters to parties informing them of their potential liability for the Lower Duwamish Waterway cleanup. The City and other three parties who signed the AOC with the EPA agreed to invite some of those parties to participate in an alternative dispute resolution process (the "allocation process") to resolve their respective shares of past and future costs. There are 44 parties are participating in allocation. The City hired an allocator and the allocation process officially began in April 2014. The Department agreed to administer the allocator's contract, estimated to cost about \$4.0 million over a four-year period. Parties participating in the allocation process will share the cost of the allocator and the process.

The City is also responsible for investigation and cleanup at the Port of Seattle Terminal 117 Streets, Uplands and Sediments sites. The South Park street is not owned by the Department but the City has jurisdiction over the streets and right-of-ways. Remediation activities for streets was completed in August 2016. The City's share for the uplands and sediments site is paid 100% by the Department. The City's share for the adjacent streets is split between the Department and SPU according to a Memorandum of Agreement (MOA) signed in August 2014. According to this MOA, SPU will pay 2.5% for some portions of the construction and up to 100% for other parts of the cleanup and restoration. The cleanup of the sediments and the upland is complete.

- *South Park Marina*—The Washington Department of Ecology has notified the City that it is a Potentially Liable Party for contamination at South Park Marina, which is adjacent to Terminal 117. The Department is the lead for the City at this site. Negotiations with the property owner and with Washington State Department of Ecology is underway. The Department's ultimate liability is indeterminate.
- *North Boeing Field/Georgetown Steam Plant*—The City, King County, and Boeing signed an Administrative Order issued by the Washington State Department of Ecology (Ecology) requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant, and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing agreed to pay 67% of the costs for Ecology's implementation of the current order. The order requires completion and then implementation of a remedial investigation and feasibility. The final remedial investigation work plan was issued in November 2013. In January 2015, all parties executed the First Amendment to the North Boeing Field/Georgetown Steam Plant Agreed Order, making all parties responsible for conducting



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and completing remedial action at the site. The City is responsible for 1/3 of the costs, with the Department's share at 90% and SPU's share at 10%. The implementation of the RI work plan is ongoing and will continue into the first quarter of 2016. The schedule for the feasibility study (F/S) anticipates a draft F/S document in May 2018 and the Final F/S document in November 2018. Total estimated costs for the current order are \$6.0 million. Costs to date are approximately \$6.8 million with an additional \$383K projected through completion of the F/S. Boeing and the City will each pay 100% of costs for remedial action at their own facilities.

The Department has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB Statement No. 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites for appropriate cost sharing. The Department's estimate for realized recoveries was \$3.0 million and \$4.1 million at December 31, 2016, and 2015, respectively, primarily representing an interfund receivable from SPU for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department's estimate for not yet realized recoveries from other parties for their share of remediation work performed that partially offset the Department's estimated environmental liabilities was zero at December 31, 2016, and 2015. As of December 31, 2016, and 2015, environmental costs of \$83.1 million and \$31.2 million were deferred primarily for cleanup estimates of the Department's responsibility for the Lower Duwamish Waterway and East Waterway Superfund Sites; and these costs will be recovered through future rates in accordance with GASB Statement No. 62.

The changes in the provision for environmental liabilities at December 31, 2016, and 2015 are as follows:

| <i>(\$ in millions)</i>                              | <b>2016</b>    | <b>2015</b>    |
|------------------------------------------------------|----------------|----------------|
| Beginning environmental liability, net of recoveries | \$ 45.9        | \$ 57.6        |
| Payments                                             | (10.0)         | (8.4)          |
| Incurred environmental liability                     | <u>50.8</u>    | <u>(3.3)</u>   |
| Ending environmental liability, net of recoveries    | <u>\$ 86.7</u> | <u>\$ 45.9</u> |

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The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2016 and 2015, is as follows:

| (\$ in millions)                               | 2016           | 2015           |
|------------------------------------------------|----------------|----------------|
| Noncurrent liabilities                         | \$ 82.0        | \$ 33.6        |
| Accounts payable and other current liabilities | <u>4.7</u>     | <u>12.3</u>    |
| Ending liability                               | <u>\$ 86.7</u> | <u>\$ 45.9</u> |

#### 15. OTHER LIABILITIES

Other liabilities include unearned capital fees which are amortized to revenues as earned, deposits that are returned to customers, and certain other unearned revenues which expire at contract completion.

Other liabilities at December 31, 2016 and 2015 consisted of the following:

| (\$ in millions)                             | 2016           | 2015           |
|----------------------------------------------|----------------|----------------|
| Other liabilities:                           |                |                |
| Unearned capital fees                        | \$ 30.2        | \$ 24.6        |
| Customer deposits—sundry sales               | 6.4            | 4.5            |
| Unearned operations and maintenance revenues | 0.2            | 0.2            |
| Unearned revenues—other                      | <u>0.4</u>     | <u>0.4</u>     |
| Total                                        | <u>\$ 37.2</u> | <u>\$ 29.7</u> |

#### 16. DEFERRED INFLOWS OF RESOURCES

Seattle City Council passed resolutions authorizing the reporting of certain credits as regulatory liabilities in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*.

The unearned revenue for the Rate Stabilization Account for 2016 and 2015 is the result of spreading retail electric revenues and related activity over multiple periods to reduce the need for rapid and substantial rate increases (see Note 4 Rate Stabilization Account).

The Department receives payments from Bonneville for certain conservation measures implemented by retail customers which are recorded as Other deferred inflows of resources and amortized to revenues over a 20 year period.

Recognized as deferred inflows of resources are decreases in Net Pension Liability resulting from changes in employer proportion and differences between contributions and proportionate share of pension expense, which are amortized over a closed five-year period. See Note 12 Seattle City Employees' Retirement System for more information.

Bonneville Slice contract true-up credits are reported as regulatory liabilities in the year invoiced and recognized as revenue in the following year. Seattle City Council affirmed the Department's practice of recognizing the effects of reporting the fair value of exchange contracts in future periods for rate making

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purposes and maintaining regulatory accounts to spread the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 18 Long-Term Purchased Power, Exchanges, and Transmission).

Deferred inflows of resources at December 31, 2016 and 2015 consisted of the following:

| (\$ in millions)                                                                                                                                   | 2016           | 2015           |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Deferred inflows of resources:                                                                                                                     |                |                |
| Unearned revenue—rate stabilization account                                                                                                        | \$ 66.1        | \$ 66.0        |
| Changes in Net Pension Liability - changes in employer proportion and differences between contributions and proportionate share of pension expense | 0.8            | -              |
| Bonneville energy conservation agreement                                                                                                           | 25.7           | 17.7           |
| Bonneville Slice true-up credit                                                                                                                    | 0.4            | 5.6            |
| Exchange energy: regulatory gain                                                                                                                   | <u>1.2</u>     | <u>0.6</u>     |
| Total                                                                                                                                              | <u>\$ 94.2</u> | <u>\$ 89.9</u> |

#### 17. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of stream flows, availability of generating units, historic and forward market information, contract terms, and experience. On the basis of these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 24 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council.

It is the Department's policy to apply the normal purchase and normal sales exception of Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*, as appropriate. Certain forward purchase and sale of electricity contracts meet the definition of a derivative instrument, but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, the Department considers these forward contracts as normal purchases and normal sales under GASB Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

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The undiscounted aggregate contract amounts, fair value, and unrealized gain or (loss) of the Department's commodity derivative instruments qualifying as normal purchases and normal sales at December 31, 2016 and 2015 consisted of the following:

| (\$ in millions) | Aggregate<br>Contract Amount | Aggregate Fair<br>Value | Unrealized Gain<br>(Loss) |
|------------------|------------------------------|-------------------------|---------------------------|
| <b>2016</b>      |                              |                         |                           |
| Sales            | \$ 23.3                      | \$ 26.6                 | \$ (3.3)                  |
| Purchases        | 2.2                          | 2.4                     | 0.2                       |
| Total            | <u>\$ 25.5</u>               | <u>\$ 29.0</u>          | <u>\$ (3.1)</u>           |
|                  | Aggregate<br>Contract Amount | Aggregate Fair<br>Value | Unrealized Gain<br>(Loss) |
| <b>2015</b>      |                              |                         |                           |
| Sales            | \$ 13.3                      | \$ 13.5                 | \$ (0.2)                  |
| Purchases        | 1.4                          | 1.3                     | (0.1)                     |
| Total            | <u>\$ 14.7</u>               | <u>\$ 14.8</u>          | <u>\$ (0.3)</u>           |

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to GASB Statement No. 53. In 2010, the Seattle City Council adopted a resolution granting the Department authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under GASB Statement No. 53. The Department did not have any such activity for 2016 and 2015. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and the Department maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (see Note 7 Other Assets and Note 16 Deferred Inflows of Resources).

**Market Risk**—Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Market risk may also be influenced by the number of active, creditworthy market participants, and to the extent that nonperformance by market participants of their contractual obligations and commitments affects the supply of, or demand for, the commodity. Because the Department is active in the wholesale energy market, it is subject to market risk.

**Credit Risk**—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by: entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

The Department has concentrations of suppliers and customers in the electric industry including: electric utilities; electric generators and transmission providers; financial institutions; and energy marketing and trading companies. In addition, the Department has concentrations of credit risk related to geographic

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location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

**Other Operational and Event Risk**—There are other operational and event risks that can affect the supply of the commodity, and the Department's operations. Due to the Department's primary reliance on hydroelectric generation, the weather, including spring time snow melt, runoff, and rainfall, can significantly affect the Department's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

#### 18. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

**Bonneville Power Administration**—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 17-year contract, for the period October 1, 2011 through September 30, 2028. Block quantities, Slice percentage and Bonneville rates are expected to be recalculated periodically during the term of the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

The terms of the Slice product specify that the Department will receive a percentage of the actual output of the Federal Columbia River Power System (the System). The percentage is adjusted annually with a Slice Adjustment Ratio no greater than 1.0 times the 3.65663 initial slice percentage, no later than 15 days prior to the first day of each federal fiscal year, beginning with fiscal year 2012. The current Slice percentage is 3.62643%, the same as the previous fiscal year. The cost of Slice power is based on the Department's same percentage of the expected costs of the System and is subject to true-up adjustments based on actual costs with specified exceptions.

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court (the Court) rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. To remedy this inconsistency, the court ruled that refunds be issued to non-IOUs through 2019. The Department received \$5.7 million in both 2016 and 2015 in billing credits related to both the Block and Slice agreements as a result of the Court decision.

**Lucky Peak**—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

The Department provided and billed Lucky Peak \$0.3 million for operational and administrative services in both 2016 and 2015. These amounts are recorded as offsets to purchased power expense. The Department paid \$3.6 million and \$3.4 million for energy from Lucky Peak in 2016 and 2015, respectively.

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The Department's receivables from Lucky Peak were less than \$0.1 million at December 31, 2016, and 2015, respectively. The Department's payables to Lucky Peak were \$0.1 million and \$0.5 million at December 31, 2016, and 2015, respectively.

**British Columbia—High Ross Agreement**—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These other costs are included in utility plant-in-service as an intangible asset, and are being amortized to purchase power expense over 35 years through 2035 (see Note 3 Utility Plant).

Expenses incurred and energy received under these and other long-term purchased power agreements at December 31, 2016 and 2015 were as follows:

| (\$ in millions)                                | Expense  |          | Average Megawatts |        |
|-------------------------------------------------|----------|----------|-------------------|--------|
|                                                 | 2016     | 2015     | 2016              | 2015   |
| Bonneville Block                                | \$ 80.0  | \$ 78.7  | 264.7             | 269.8  |
| Bonneville Slice                                | 80.7     | 77.8     | 320.3             | 297.8  |
| Long-term purchase power—Bonneville             | 160.7    | 156.5    | 585.0             | 567.6  |
| Lucky Peak                                      | 6.9      | 6.3      | 38.8              | 31.7   |
| British Columbia - High Ross Agreement          | 13.4     | 13.4     | 35.1              | 35.4   |
| Grant County Public Utility District            | 2.3      | 3.2      | 2.9               | 2.7    |
| Columbia Basin Hydropower                       | 6.2      | 6.6      | 28.9              | 29.5   |
| Bonneville South Fork Tolt billing credit       | (3.3)    | (3.3)    | -                 | -      |
| Renewable energy - State Line Wind              | 24.8     | 20.8     | 42.5              | 34.2   |
| Renewable energy - other                        | 8.7      | 8.7      | 15.4              | 15.5   |
| Exchanges and loss returns energy at fair value | 5.5      | 6.1      | 56.0              | 71.2   |
| Long-term purchased power booked out            | (5.4)    | (4.7)    | (32.7)            | (24.0) |
| Long-term purchased power—other                 | 59.1     | 57.1     | 186.9             | 196.2  |
| Total                                           | \$ 219.8 | \$ 213.6 | 771.9             | 763.8  |

**Renewable Energy Purchase and/or Exchanges**—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3% by 2012, at least 9% by 2016, and at least 15% by 2020. The Department's 2016 and 2015 resource portfolio is adequate to meet the 9% target and 3% target, respectively.

**Energy Exchange**—Northern California Power Agency (NCPA) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at a 1.2:1 ratio of exchange power, from November through April. The agreement includes financial settlement and termination options. In a letter NCPA dated May 17, 2011, NCPA gave seven year's advance written notice to the Department terminating the agreement effective no later than May 31, 2018.

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**Fair Value of Exchange Energy**—Exchange energy receivable and the related regulatory gains at December 31, 2016 and 2015, were valued using Kiodex Forward Curves, and Dow Jones U.S. Daily Electricity Price Indices for settled deliveries. An income valuation technique that uses interest rate forecasts from HIS Global Insight is used to discount for present value based on the interest rate for U.S. Government Treasury constant maturities, bond-equivalent yields by the future month of the transactions (see Note 2 Fair Value Measurement and Note 16 Deferred Inflows of Resources).

**Estimated Future Payments Under Purchased Power, Transmission and Related Contracts**—The Department's estimated payments for purchased power and transmission, Renewable Energy Credits (RECs) and other contracts for the period from 2017 through 2065, undiscounted, are as follows:

| Years Ending<br>December 31<br>(\$ in millions) | Estimated<br>Payments <sup>(a)</sup> |
|-------------------------------------------------|--------------------------------------|
| 2017                                            | \$ 288.8                             |
| 2018                                            | 283.5                                |
| 2019                                            | 291.6                                |
| 2020                                            | 308.6                                |
| 2021(b)                                         | 292.2                                |
| 2022-2026(c)                                    | 1,395.7                              |
| 2027-2031(d)                                    | 497.2                                |
| Thereafter (through 2065)                       | <u>160.0</u>                         |
| Total                                           | <u>\$ 3,517.6</u>                    |

(a) 2017 to 2019 includes estimated REP recoveries from Bonneville.

(b) British Columbia - High Ross direct cost payments end in 2020.

(c) Bonneville transmission contract expires July 31, 2025.

(d) Bonneville Block and Slice contract expires September 30, 2028.

## 19. COMMITMENTS AND CONTINGENCIES

**Operating Leases**—While the Department owns several buildings including those at the Skagit and Boundary hydroelectric projects, service centers, and the System Control Center, the Department leases some administrative office space from the City. Such lease payments to the City are made through a central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases certain office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expenses for all operating leases totaled \$1.7 million in 2016 and \$1.6 million in 2015.

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Minimum payments under the operating leases are:

| Year Ending<br>December 31<br>(\$ in millions) | Minimum<br>Payments |
|------------------------------------------------|---------------------|
| 2017                                           | \$ 1.5              |
| 2018                                           | 1.1                 |
| 2019                                           | 1.0                 |
| Total                                          | <u>\$ 3.6</u>       |

**2017 Capital Program**—The budget for the Department’s 2017 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$541.8 million. At December 31, 2016, the Department had approximately \$191.0 million in commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

**2017 Operations and Maintenance Budget**—The Department’s 2017 Operating and Maintenance budget is \$1,041.4 million for labor and related benefits, purchased power, outside services, supplies, taxes, injuries and damages, interest, debt-related costs, maintenance of Department assets, and other non-capital expenditures incurred in the normal course of operations.

**Federal Energy Regulatory Commission Fees**—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$203.5 million through 2055; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and Tolt licenses are excluded after 2025, at which time their current FERC licenses expire. The estimated portion of Boundary fees is included through 2055, the year in which the current license issued by FERC expires. The current Boundary FERC license and related issues are discussed below.

**New Boundary License**—The Department’s FERC license for the Boundary Project expired on September 30, 2011 and a new license was issued on March 20, 2013 with a 42-year life and a total cost of \$48.6 million. The terms and conditions of the new license have been evaluated and the Department is in the license implementation process, which imposes mitigation of endangered species including water quality standards and conservation management.

As part of the application process, the Department negotiated a settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. The settlement sought to preserve the Department’s operational flexibility at Boundary Dam while providing for natural resource protection, mitigation and enhancement measures.

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department’s license application, were estimated to be \$371.0 million adjusted to 2016 dollars, of which \$42.9 million were expended through 2016. Projected mitigation cost estimates are subject to revision as more information becomes available.

**Skagit and South Fork Tolt Licensing Mitigation and Compliance**—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became



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effective. As a condition for both licenses, the Department has taken and will continue to take required mitigating and compliance measures.

Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2016, to be \$132.2 million, of which \$114.5 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.8 million, of which \$1.3 million were expended through 2016. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2016 dollars. Department labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

***Endangered Species*** – Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the ESA as threatened or endangered. Although the species were listed after FERC licenses were issued for all of the Department's hydroelectric projects, the ESA listings still affect operations of the Department's Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

The Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council, but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Department's share of the Early Action program from inception in 1999 through December 31, 2016, are estimated to be \$11.9 million, and \$1.4 million has been allocated for the program in the 2017 budget.

***Project Impact Payments***—Effective August 2010, the Department renewed its contract with Pend Oreille County and committed to pay a total of \$19.0 million over 10 years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Department's hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of \$15.8 million over 15 years ending in 2023. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project, located on the Pend Oreille River, affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The impact payments totaled

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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\$1.7 million and \$2.5 million to Pend Oreille County, and \$1.1 million and \$1.0 million to Whatcom County in 2016 and 2015, respectively.

***Energy Crisis Refund Litigation*** — The Department (City) is involved in various legal proceedings relating to the enormous price spikes in energy costs in California and the rest of the West Coast in 2000 and 2001.

- ***California Refund Case, Appeals and Related Litigation***—In a proceeding before the Federal Energy Regulatory Commission (FERC), various public and private California entities (the California Parties) sought refunds in markets that had been created by the State of California. In February 2011, the City agreed to a settlement, which was eventually approved by the trial court and by FERC. Under the settlement, the City has resolved this matter for \$9.0 million, none of which was immediately paid by the Department. As part of the settlement, the City has assigned its accounts receivable from the California Independent Systems Operator to the California Parties, which was valued at approximately \$1.4 million at the time of the settlement agreement. The balance of over \$7.6 million is contingent upon the Department recovering monies in the Pacific Northwest Refund Case, discussed below. To date, the Department has received \$4.6 million in payments in the Pacific Northwest Refund Case, half of which has been paid to the California parties pursuant to the settlement.
- ***Pacific Northwest Refund Case***—In a proceeding before FERC, various buyers of energy, including the City, sought refunds from various sellers on energy sales in the Pacific Northwest between December 1999 and June 2001. The case was tried at FERC between August and October of 2013. In March 2014, the FERC administrative law judge issued an Initial Decision denying all refunds. In May 2014, the City filed a brief objecting to the Initial Decision. Prior to the FERC trial, the City settled refund claims with fourteen entities, with a combined total settlement amount of \$4.6 million. In February 2015, after hearing argument in a related case, the Ninth Circuit *sua sponte* reactivated certain City Light appeals previously stayed at the Ninth Circuit that were primarily related to City Light's appeal of the FERC's determination that the Mobile-Sierra presumption applied to the contracts at issue and whether FERC had improperly excluded certain evidence that City Light had presented in order to overcome the Mobile-Sierra presumption. After a truncated briefing schedule, oral arguments were heard in June 2015. On December 17, 2015, the Ninth Circuit issued its opinion finding that the Mobile-Serra presumption does apply to the issues in this case. The Ninth Circuit also determined that it did not have jurisdiction over the evidentiary issues. On December 31, 2015, FERC issued its decision largely confirming the Initial Decision issued by the administrative law judge on March 28, 2014. City Light filed its notice of appeal to the Ninth Circuit on February 22, 2016. In October 2016, City Light settled all remaining claims in this longstanding litigation for a non-material amount. On November 4, 2016, The Ninth Circuit granted City Light's motion to voluntarily dismiss its appeal.

***Centralia Steam Plant Project Asbestos Claims*** – In 2013, the Department received notice of a lawsuit that had been filed against PacifiCorp (the successor in interest of the former operator of the Centralia Steam Plant Project) by an employee of a contractor who worked at the Project between April 26, 1971 and December 3, 1971. The claimant alleges he developed mesothelioma as a result of his exposure to asbestos during the time he worked at the Project. PacifiCorp provided notice to the Department, and all the other former owners of the Project that, as a former owner of the Project, it could liable for any liabilities resulting from the construction not covered by insurance in proportion to its ownership share. Based on the agreement for the construction and ownership of the Project, the Department owned 8% of the Project during the material times. Recently, the Department received additional notice indicating there are two additional decedent estates have filed lawsuits against the former operator alleging similar claims. The Department is not named in any of the litigation and trial dates for these cases against the former

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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operator were set for various times in 2016. The Department's ultimate liability is indeterminate. In August 2016, the Department received notice from the former operator, who was a defendant in all three lawsuits, that all three lawsuits had been resolved. The first lawsuit involving Estate of Thomas Murphy, was settled and the agreed order of dismissal was entered on May 11, 2016. The second involving the Estate of Gary Cameron was dismissed on summary judgment on June 30, 2016. The final matter, involving Marvin Coleman, was voluntarily dismissed by the plaintiff on July 29, 2016.

**Central Puget Sound Regional Transit Authority Condemnation Cases**—The Department is involved in four separate condemnation actions brought by the Central Puget Sound Regional Transit Authority ("Sound Transit") involving the Department's Eastside Transmission Corridor as it travels through Bellevue, Washington along 124<sup>th</sup> Avenue across four adjacent properties. The Department has contested Sound Transit's ability to condemn publicly owned property, but on December 20, 2016, a trial court entered an order denying the Department's motion contesting Sound Transit's Authority to condemn public property and simultaneously entered an order finding public use and necessity over portions of the Department's easement area. The Department appealed the decision to the Court of Appeal on December 21, 2016. On December 28, 2016, the Department also filed a motion for reconsideration of a portion of the trial court order, which was granted, but the trial court is waiting for permission from the Court of Appeals to enter its revised order. In the event the appeal is unsuccessful, the value of the land sought to be condemned by Sound Transit from the Department is significant, but indeterminate.

**Taylor, et al. v. City**—Four plaintiffs allege that certain Department managers retaliated and discriminated against them on the basis of age, race, gender, and sexual orientation. The Department managers deny all allegations of discrimination, harassment, and retaliation. An adverse result in litigation could result in awards of back pay, compensatory damages, and attorneys' fees. Trial is currently scheduled for April 17, 2017, in King County Superior Court. The Department's ultimate liability is indeterminate.

**Gamble v. City**—A Department employee contends that the Department has failed properly to accommodate her disability. An adverse result in litigation could result in awards of back pay, compensatory damages, and attorneys' fees. Trial is currently scheduled to begin in King County Superior Court on April 3, 2017. The Department's ultimate liability is indeterminate.

**Other Contingencies**—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department's financial position, operations, or cash flows.

## 20. SUBSEQUENT EVENTS

**2017 Bonds**—On January 27, 2017, the Department issued \$50.0 million Municipal Light and Power (ML&P) Revenue Bonds, Series 2017A (Multi-Modal), and \$50.0 million Municipal Light and Power (ML&P) Revenue Bonds, Series 2017B (Multi-Modal), collectively, the "Bonds". The 2017 Bonds will finance certain capital improvements to and conservation programs. Major projects supported by the 2017 Bonds include generator rebuilds, existing network upgrades, relocating electrical service to accommodate transportation projects, advanced metering infrastructure, and construction of the new Denny substation. Average interest coupon rates for the 2017 Bonds were 4.0% and the arbitrage yield was 4.03%.

**Toshiba Corporation Contract**—The Department has a \$40.0 million contract with Toshiba International Corporation (Toshiba) to overhaul, fabricate, and install two transformers and two generating units (units 55 and 56, respectively) at the Boundary Project. To date, \$35.0 million of this contract has been earned

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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including the completion of work on unit 55. The Department has withheld \$2.0 million in retainage. The remaining work on unit 56 is valued at \$5.0 million and is scheduled to be completed by February 2018. A transformer for generating unit 56 has passed final inspection at a foreign factory and delivery is expected in June 2017. The Department holds a \$15.0 million performance bond for work on generating unit 56 that will be transferred to a \$1.5 million warranty bond when the unit is operational. The Department also holds a \$1.7 million warranty bond for the completed work on generating unit 55.

Recent news reports have described financial losses by Toshiba Corporation and uncertainty about the company's ability to continue as a going concern. The Department does not have any other knowledge that Toshiba will not be able to perform its remaining obligations under the contract. The Department is of the opinion that in the event of a failure to perform, remaining work can be completed with the unpaid portions of the contract and additional amounts available from the performance bond.

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# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

### DEFINED BENEFIT PENSION PLAN

The Department's schedule of the employer's proportionate share of the net pension liability for the years ended December 31 (dollar amounts in millions):

|                                                                                                         | 2016     | 2015     |
|---------------------------------------------------------------------------------------------------------|----------|----------|
| Employer's proportion of the net pension liability                                                      | 24.46%   | 24.53%   |
| Employer's proportionate share of total pension liability                                               | \$ 883.5 | \$ 841.5 |
| Employer's proportionate share of plan fiduciary net position                                           | \$ 565.7 | \$ 569.7 |
| Employer's proportionate share of the net pension liability                                             | \$ 317.8 | \$ 271.8 |
| Employer's covered-employee payroll                                                                     | \$ 165.0 | \$ 152.3 |
| Employer's proportionate share of net pension liability as a percentage of its covered-employee payroll | 202.44%  | 178.48%  |
| Plan fiduciary net position as a percentage of the total pension liability                              | 64.03%   | 67.70%   |

Note:

This schedule is intended to show information for 10 years. Since 2015 was the first year of this presentation, data on years preceding 2015 are not available. Additional years' data will be included as they become available.

The Department's proportionate schedule of employer's contributions (dollar amounts in millions):

|                                                                  | 2016     | 2015     |
|------------------------------------------------------------------|----------|----------|
| Contractually required contribution                              | \$ 25.3  | \$ 24.9  |
| Contributions in relation to contractually required contribution | 25.3     | 24.9     |
| Contribution deficiency (excess)                                 | \$ -     | \$ -     |
| Covered-employee payroll                                         | \$ 164.0 | \$ 165.0 |
| Contributions as a percentage of covered-employee payroll        | 15.43%   | 15.09%   |

Note:

This schedule is intended to show information for 10 years. Since 2015 was the first year of this presentation, data on years preceding 2015 are not available. Additional years' data will be included as they become available.

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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#### SCHEDULES OF FUNDING PROGRESS

The Department's schedule of funding progress for the other post-employment benefit healthcare plans is presented below for the most recent actuarial valuation and the two preceding valuations for which the Department has available data (dollar amounts in millions):

| Actuarial<br>Valuation<br>Date<br>January 1 | Actuarial<br>Value of<br>Assets<br>(A) | Actuarial<br>Accrued<br>Liabilities<br>(AAL)<br>Entry Age<br>(B) | Unfunded<br>AAL<br>(UAAL)<br>(B-A) | Funding<br>Ratio<br>(A/B) | Covered<br>Payroll<br>(C) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((B-A)/C) |
|---------------------------------------------|----------------------------------------|------------------------------------------------------------------|------------------------------------|---------------------------|---------------------------|---------------------------------------------------------------|
| 2012                                        | \$ -                                   | \$ 74.7                                                          | \$ 74.7                            | - %                       | \$ 891.6                  | 8.4 %                                                         |
| 2014                                        | -                                      | 41.8                                                             | 41.8                               | -                         | 1,004.0                   | 4.2                                                           |
| 2016                                        | -                                      | 65.7                                                             | 65.7                               | -                         | 1,125.7                   | 5.8                                                           |

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### OTHER INFORMATION (UNAUDITED)

#### DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2016, 2015, and 2014. The target level for debt service coverage was 1.8x on all bonds for 2016, 2015, and 2014 in accordance with current financial policies (which include a Rate Stabilization Account that will result in greater compliance of actual debt service coverage with the policy-specified level).

(\$ in millions)

#### Debt Service Coverage

|                                                                              | December 31     |                 |                 |
|------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
|                                                                              | 2016            | 2015            | 2014            |
| OPERATING REVENUES:                                                          |                 |                 |                 |
| Retail power revenues                                                        | \$ 788.0        | \$ 736.6        | \$ 720.8        |
| Short-term wholesale power revenues                                          | 62.9            | 61.2            | 96.8            |
| Other power-related revenues (a)(b)(c)                                       | 32.6            | 36.8            | 50.8            |
| Transfers from/(to) rate stabilization account (d)                           | (0.1)           | 23.4            | (4.4)           |
| Other operating revenues                                                     | 19.8            | 24.9            | 22.4            |
| Total operating revenues                                                     | <u>\$ 903.2</u> | <u>\$ 882.9</u> | <u>\$ 886.4</u> |
| OPERATING EXPENSES:                                                          |                 |                 |                 |
| Long-term purchased power—Bonneville and other (b)                           | \$ 219.8        | \$ 213.6        | \$ 214.3        |
| Short-term wholesale power purchases                                         | 15.1            | 26.8            | 14.9            |
| Other power expenses (b)                                                     | 60.1            | 59.6            | 65.9            |
| Transmission (e)                                                             | 53.5            | 54.3            | 52.8            |
| Distribution                                                                 | 63.5            | 65.1            | 59.7            |
| Customer service                                                             | 42.6            | 38.3            | 37.6            |
| Conservation                                                                 | 30.2            | 29.1            | 27.3            |
| Administrative and general                                                   | 105.0           | 92.1            | 75.8            |
| Taxes                                                                        | 85.2            | 81.1            | 80.0            |
| Depreciation and amortization                                                | 120.8           | 112.0           | 105.8           |
| Total operating expenses                                                     | <u>\$ 795.8</u> | <u>\$ 772.0</u> | <u>\$ 734.1</u> |
| NET OPERATING REVENUE (f)                                                    | <u>\$ 107.4</u> | <u>\$ 110.9</u> | <u>\$ 152.3</u> |
| Adjustments to Net Operating Revenue (g)                                     |                 |                 |                 |
| City Taxes (h)                                                               | \$ 48.4         | \$ 45.5         | \$ 44.6         |
| Depreciation and amortization                                                | 120.8           | 112.0           | 105.8           |
| Depreciation & amortization included in operating & maintenance expenses (i) | 29.9            | 27.1            | 24.8            |
| Pension expense (j)                                                          | 40.8            | 27.9            | -               |
| Pension contributions (j)                                                    | (25.3)          | (24.9)          | -               |
| Valuation on exchange power, net (b)(c)                                      | 0.0             | 0.6             | 0.3             |
| BPA Conservation Augmentation/Agreement revenue (k)                          | (1.2)           | (0.9)           | (0.7)           |
| Investment income (l)                                                        | 7.3             | 6.7             | 5.4             |
| Non-cash expenses (m)                                                        | 1.8             | (0.3)           | 1.9             |
| Other (n)                                                                    | 2.0             | 2.0             | 7.0             |
| Total adjustments                                                            | <u>\$ 224.5</u> | <u>\$ 195.7</u> | <u>\$ 189.1</u> |
| Net Revenue Available for Debt Service                                       | <u>\$ 331.9</u> | <u>\$ 306.6</u> | <u>\$ 341.4</u> |
| Total Debt Service (o)                                                       | <u>\$ 196.5</u> | <u>\$ 189.6</u> | <u>\$ 184.8</u> |
| Ratio of Available Net Revenue to Debt Service                               | <u>1.69x</u>    | <u>1.62x</u>    | <u>1.85x</u>    |

## THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

### OTHER INFORMATION (UNAUDITED)

#### Notes

- (a) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (b) Effective January 1, 2016, the Department adopted GASB Statement No. 72, *Fair Value Measurement and Application*. Non-monetary transactions are measured at fair value and are valued at market. Disclosures required by GASB Statement No. 72 are available in Note 2 Fair Value Measurement.
- (c) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. Energy exchanges have both revenue and expense components; therefore, a net revenue or expense adjustment is made for a given year.
- (d) Transfers from/(to) the RSA in accordance with Ordinance No. 123260, primarily to address fluctuations in surplus power sales.
- (e) Includes revenue from the short-term sale of excess transmission capacity.
- (f) Operating Income per audited financial statements.
- (g) Significant non-cash transactions are adjusted from Net Operating Revenue to calculate Revenue Available for debt Service. Furthermore, some types of revenue in addition to Operating Revenue are included to calculate Revenue Available for Debt Service. These adjustments are listed in the remaining lines within the table.
- (h) City taxes are excluded because the lien on such taxes is junior to debt service in accordance with the Bond Legislation.
- (i) The majority of the depreciation and amortization (non-cash) expenses included in Operating and Maintenance Expense are for amortization of conservation expenses that are recognized over a 20-year period.
- (j) Pension expense is the amount recorded for compliance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, implemented in 2015, a non-cash item. Pension contributions are the 2015 Department cash contributions to the Seattle City Employee's Retirement System.
- (k) Payments received for conservation measures are initially recorded as unearned revenue. The adjustment represents the amount of revenue amortized and recognized over future periods for financial reporting, a non-cash transaction.
- (l) Investment income is not included in Total Revenue in this table; therefore, an adjustment is made to Net Operating Revenue, consisting primarily of interest earnings from City's cash pool and interest receipts from suburban underground charges. This amount excludes unrealized gains and losses, which are non-cash adjustments.
- (m) Primarily claim expenses and capital project expenditures from prior year which were determined not to be capital expenditures.
- (n) Includes proceeds from sale of properties, principal receipts from suburban underground charges from local jurisdictions, and miscellaneous items.
- (o) Net of federal bond subsidies.

### DEBT SERVICE COVERAGE: ALL BONDS

| Year Ending<br>December 31<br>(\$ in millions) | Revenue Available<br>for Debt Service | Debt Service<br>Requirements | Debt Service<br>Coverage |
|------------------------------------------------|---------------------------------------|------------------------------|--------------------------|
| 2016                                           | \$ 331.9                              | \$ 196.5                     | 1.69                     |
| 2015                                           | 306.6                                 | 189.6                        | 1.62                     |
| 2014                                           | 341.4                                 | 184.8                        | 1.85                     |
| 2013                                           | 319.6                                 | 172.8                        | 1.85                     |
| 2012                                           | 306.1                                 | 169.1                        | 1.81                     |



# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

| Year Ending<br>December 31<br>(\$ in millions) | Fixed Rate Bonds |            |            | Variable Rate Bonds |          |          | Total <sup>(a)</sup> |
|------------------------------------------------|------------------|------------|------------|---------------------|----------|----------|----------------------|
|                                                | Principal        | Interest   | Subtotal   | Principal           | Interest | Subtotal |                      |
| 2017                                           | \$ 111.2         | \$ 93.8    | \$ 205.0   | \$ -                | \$ 1.4   | \$ 1.4   | \$ 206.4             |
| 2018                                           | 111.8            | 88.5       | 200.3      | -                   | 1.4      | 1.4      | 201.7                |
| 2019                                           | 108.6            | 83.0       | 191.6      | -                   | 1.4      | 1.4      | 193.0                |
| 2020                                           | 107.8            | 77.5       | 185.3      | -                   | 1.4      | 1.4      | 186.7                |
| 2021                                           | 106.8            | 72.5       | 179.3      | -                   | 1.4      | 1.4      | 180.7                |
| 2022                                           | 106.3            | 67.1       | 173.4      | -                   | 1.4      | 1.4      | 174.8                |
| 2023                                           | 108.1            | 61.7       | 169.8      | -                   | 1.4      | 1.4      | 171.2                |
| 2024                                           | 111.2            | 56.2       | 167.4      | -                   | 1.4      | 1.4      | 168.8                |
| 2025                                           | 100.4            | 50.6       | 151.0      | -                   | 1.4      | 1.4      | 152.4                |
| 2026                                           | 93.6             | 45.8       | 139.4      | 3.3                 | 1.4      | 4.7      | 144.1                |
| 2027                                           | 67.6             | 41.8       | 109.4      | 3.5                 | 1.3      | 4.8      | 114.2                |
| 2028                                           | 68.9             | 38.5       | 107.4      | 3.5                 | 1.3      | 4.8      | 112.2                |
| 2029                                           | 62.2             | 35.5       | 97.7       | 3.8                 | 1.2      | 5.0      | 102.7                |
| 2030                                           | 47.0             | 32.9       | 79.9       | 3.9                 | 1.2      | 5.1      | 85.0                 |
| 2031                                           | 48.8             | 30.6       | 79.4       | 4.1                 | 1.1      | 5.2      | 84.6                 |
| 2032                                           | 50.7             | 28.3       | 79.0       | 4.2                 | 1.1      | 5.3      | 84.3                 |
| 2033                                           | 52.6             | 26.0       | 78.6       | 4.4                 | 1.0      | 5.4      | 84.0                 |
| 2034                                           | 54.8             | 23.4       | 78.2       | 4.6                 | 0.9      | 5.5      | 83.7                 |
| 2035                                           | 57.2             | 20.8       | 78.0       | 4.8                 | 0.9      | 5.7      | 83.7                 |
| 2036                                           | 64.8             | 18.1       | 82.9       | 5.0                 | 0.7      | 5.7      | 88.6                 |
| 2037                                           | 52.3             | 15.5       | 67.8       | 5.2                 | 0.7      | 5.9      | 73.7                 |
| 2038                                           | 54.2             | 13.1       | 67.3       | 5.3                 | 0.7      | 6.0      | 73.3                 |
| 2039                                           | 56.2             | 10.7       | 66.9       | 5.6                 | 0.6      | 6.2      | 73.1                 |
| 2040                                           | 58.3             | 8.2        | 66.5       | 5.8                 | 0.5      | 6.3      | 72.8                 |
| 2041                                           | 46.4             | 6.0        | 52.4       | 6.1                 | 0.4      | 6.5      | 58.9                 |
| 2042                                           | 31.6             | 4.4        | 36.0       | 6.3                 | 0.3      | 6.6      | 42.6                 |
| 2043                                           | 32.9             | 3.1        | 36.0       | 6.6                 | 0.2      | 6.8      | 42.8                 |
| 2044                                           | 23.3             | 1.7        | 25.0       | 6.9                 | 0.1      | 7.0      | 32.0                 |
| 2045                                           | 15.1             | 0.7        | 15.8       | 7.1                 | 0.1      | 7.2      | 23.0                 |
| 2046                                           | 7.4              | 0.3        | 7.7        | -                   | -        | -        | 7.7                  |
| Total                                          | \$ 2,018.1       | \$ 1,056.3 | \$ 3,074.4 | \$ 100.0            | \$ 28.3  | \$ 128.3 | \$ 3,202.7           |

<sup>(a)</sup> Maximum debt service of \$206.4 is due in 2017. See Note 9 Long-term debt.

Note: All parity bonds of the Department are fixed rate bonds except the 2015B bonds which are variable rate bonds.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### STATEMENT OF LONG-TERM DEBT

As of December 31, 2016

(\$ in millions)

| Bond Series  | When Due  | Interest Rate (%) | Amount Issued   | Amount Outstanding | Amount Due Within One Year | Accrued Interest |
|--------------|-----------|-------------------|-----------------|--------------------|----------------------------|------------------|
| Series 2008  | 2017-2018 | 5.000             | 36.70           | \$ 21.5            | \$ 10.5                    | \$ 0.3           |
| Series 2008  | 2019-2020 | 5.250             | 20.60           | 10.0               | -                          | 0.1              |
| Series 2010A | 2017-2021 | 4.447             | 4.60            | 4.6                | -                          | 0.1              |
| Series 2010A | 2022      | 4.597             | 7.20            | 7.2                | -                          | 0.1              |
| Series 2010A | 2023      | 4.747             | 7.50            | 7.5                | -                          | 0.1              |
| Series 2010A | 2024      | 4.947             | 7.70            | 7.7                | -                          | 0.2              |
| Series 2010A | 2025      | 5.047             | 8.00            | 8.0                | -                          | 0.2              |
| Series 2010A | 2026      | 5.147             | 8.20            | 8.2                | -                          | 0.2              |
| Series 2010A | 2027      | 5.247             | 8.50            | 8.5                | -                          | 0.2              |
| Series 2010A | 2028-2030 | 5.470             | 27.40           | 27.4               | -                          | 0.6              |
| Series 2010A | 2031-2040 | 5.570             | 102.60          | 102.5              | -                          | 2.4              |
| Series 2010B | 2017      | 4.000             | 4.40            | 4.4                | 4.4                        | 0.1              |
| Series 2010B | 2017      | 5.000             | 46.30           | 46.3               | 46.3                       | 1.0              |
| Series 2010B | 2018      | 4.000             | 5.00            | 5.0                | -                          | 0.1              |
| Series 2010B | 2018      | 5.000             | 38.80           | 38.8               | -                          | 0.8              |
| Series 2010B | 2019      | 4.000             | 1.50            | 1.5                | -                          | -                |
| Series 2010B | 2019      | 5.000             | 42.70           | 42.7               | -                          | 0.9              |
| Series 2010B | 2020      | 4.000             | 2.60            | 2.6                | -                          | -                |
| Series 2010B | 2020      | 5.000             | 43.90           | 43.9               | -                          | 0.9              |
| Series 2010B | 2021-2026 | 5.000             | 187.80          | 155.8              | -                          | 3.3              |
| Series 2010C | 2017-2040 | 5.590             | 13.30           | 13.3               | -                          | 0.3              |
| Series 2011A | 2017-2027 | 5.000             | 176.90          | 134.2              | 13.9                       | 2.9              |
| Series 2011A | 2028      | 5.250             | 9.40            | 9.4                | -                          | 0.2              |
| Series 2011A | 2029-2030 | 5.500             | 20.40           | 20.4               | -                          | 0.5              |
| Series 2011A | 2031-2036 | 5.250             | 75.80           | 75.8               | -                          | 1.6              |
| Series 2011B | 2027      | 5.750             | 10.00           | 10.0               | -                          | 0.2              |
| Series 2012A | 2017-2027 | 5.000             | 198.00          | 174.4              | 17.2                       | 0.6              |
| Series 2012A | 2028      | 3.250             | 12.40           | 12.4               | -                          | -                |
| Series 2012A | 2034-2036 | 4.000             | 25.10           | 25.1               | -                          | 0.1              |
| Series 2012A | 2037-2041 | 4.000             | 49.10           | 49.1               | -                          | 0.2              |
| Series 2012C | 2028      | 3.400             | 4.30            | 4.3                | -                          | -                |
| Series 2012C | 2029      | 3.500             | 7.70            | 7.7                | -                          | -                |
| Series 2012C | 2030      | 3.500             | 7.70            | 7.7                | -                          | -                |
| Series 2012C | 2031-2033 | 3.750             | 23.40           | 23.4               | -                          | 0.1              |
| Series 2013  | 2017-2033 | 5.000             | 97.40           | 94.4               | 3.1                        | 2.2              |
| Series 2013  | 2034-2035 | 4.000             | 14.70           | 14.7               | -                          | 0.3              |
| Series 2013  | 2036-2038 | 4.125             | 24.40           | 24.4               | -                          | 0.6              |
| Series 2013  | 2039-2043 | 4.500             | 48.30           | 48.3               | -                          | 1.1              |
| Series 2014  | 2017-2029 | 5.000             | 163.20          | 137.4              | 7.3                        | 2.1              |
| Series 2014  | 2030-2038 | 4.000             | 53.90           | 53.9               | -                          | 0.8              |
| Series 2014  | 2039-2040 | 4.000             | 14.80           | 14.8               | -                          | 0.3              |
| Series 2014  | 2041-2044 | 4.000             | 33.30           | 33.3               | -                          | 0.5              |
| Series 2015A | 2017-2026 | 5.000             | 62.90           | 58.5               | 6.4                        | 0.4              |
| Series 2015A | 2027-2045 | 4.000             | 109.00          | 109.0              | -                          | 0.8              |
| Series 2015B | 2026-2045 | 0.69 - 0.71       | 50.00           | 50.0               | -                          | 0.1              |
| Series 2015B | 2026-2045 | 0.69 - 0.71       | 50.00           | 50.0               | -                          | 0.1              |
| Series 2016A | 2036-2041 | 4.050             | 31.90           | 31.9               | -                          | 0.6              |
| Series 2016B | 2020-2028 | 5.000             | 103.00          | 101.5              | -                          | 1.2              |
| Series 2016B | 2029      | 4.000             | 13.90           | 13.9               | -                          | 0.2              |
| Series 2016C | 2017-2026 | 5.000             | 56.90           | 56.9               | 2.1                        | 0.6              |
| Series 2016C | 2027-2046 | 4.000             | 103.90          | 103.9              | -                          | 1.2              |
| Total        |           |                   | <u>2,277.00</u> | <u>\$ 2,118.1</u>  | <u>\$ 111.2</u>            | <u>\$ 31.4</u>   |

<sup>A</sup> Range of adjustable rates in effect during 2016.

Note: All parity bonds of the Department are fixed rate bonds except the 2015B bonds, which are variable rate bonds.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### POWER COSTS AND STATISTICS

| Year ending December 31                                  | 2016               | 2015               | 2014             | 2013              | 2012               |
|----------------------------------------------------------|--------------------|--------------------|------------------|-------------------|--------------------|
| (\$ in millions)                                         |                    |                    |                  |                   |                    |
| <b>POWER COSTS</b>                                       |                    |                    |                  |                   |                    |
| Hydroelectric generation <sup>(a)(c)</sup>               | \$ 53.0            | \$ 50.1            | \$ 49.9          | \$ 54.0           | \$ 45.7            |
| Long-term purchased power <sup>(b)</sup>                 | 219.8              | 213.6              | 214.3            | 203.1             | 204.1              |
| Wholesale power purchases <sup>(c)(e)</sup>              | 15.1               | 26.8               | 14.9             | 19.8              | 11.8               |
| Fair valuation & other power purchases <sup>(b)(e)</sup> | 10.5               | 11.8               | 17.7             | 14.1              | 7.8                |
| Owned transmission <sup>(a)</sup>                        | 15.9               | 17.2               | 15.3             | 15.1              | 14.5               |
| Wheeling expenses                                        | 42.9               | 42.0               | 42.1             | 37.4              | 36.5               |
| Other power expenses                                     | <u>12.8</u>        | <u>12.9</u>        | <u>13.2</u>      | <u>12.2</u>       | <u>10.3</u>        |
| Total power costs                                        | <u>370.0</u>       | <u>374.4</u>       | <u>367.4</u>     | <u>355.7</u>      | <u>330.7</u>       |
| Less short-term wholesale power sales <sup>(c)</sup>     | (62.9)             | (61.2)             | (96.8)           | (63.0)            | (70.4)             |
| Less other power-related revenues                        | (16.7)             | (19.9)             | (25.5)           | (21.5)            | (16.8)             |
| Less fair valuation other power-related <sup>(b)</sup>   | <u>(15.9)</u>      | <u>(16.9)</u>      | <u>(25.3)</u>    | <u>(18.9)</u>     | <u>(12.5)</u>      |
| Net power costs                                          | <u>\$ 274.5</u>    | <u>\$ 276.4</u>    | <u>\$ 219.8</u>  | <u>\$ 252.3</u>   | <u>\$ 231.0</u>    |
| <b>POWER STATISTICS (MWh)</b>                            |                    |                    |                  |                   |                    |
| Hydroelectric generation <sup>(c)</sup>                  | 6,707,264          | 5,979,884          | 7,091,368        | 6,108,908         | 6,947,088          |
| Long-term purchased power <sup>(b)</sup>                 | 7,215,308          | 6,900,647          | 6,658,689        | 6,482,960         | 7,232,362          |
| Wholesale power purchases <sup>(c)(e)</sup>              | 936,289            | 1,379,168          | 900,527          | 2,072,066         | 2,592,354          |
| Wholesale power sales <sup>(c)(e)</sup>                  | (4,044,452)        | (3,548,507)        | (4,083,391)      | (3,854,352)       | (5,625,088)        |
| Other <sup>(d)</sup>                                     | <u>(1,117,826)</u> | <u>(1,023,970)</u> | <u>(655,569)</u> | <u>(760,882)</u>  | <u>(1,064,692)</u> |
| Total power available                                    | <u>9,696,583</u>   | <u>9,687,222</u>   | <u>9,911,624</u> | <u>10,048,700</u> | <u>10,082,024</u>  |
| Less self consumed energy                                | (24,912)           | (25,195)           | (29,717)         | (30,910)          | (31,072)           |
| Less system losses                                       | <u>(491,233)</u>   | <u>(504,533)</u>   | <u>(541,323)</u> | <u>(511,390)</u>  | <u>(584,310)</u>   |
| Total power delivered to retail customers                | <u>9,180,438</u>   | <u>9,157,494</u>   | <u>9,340,584</u> | <u>9,506,400</u>  | <u>9,466,642</u>   |
| Net power cost per MWh delivered                         | <u>\$ 29.90</u>    | <u>\$ 30.18</u>    | <u>\$ 23.53</u>  | <u>\$ 26.53</u>   | <u>\$ 24.40</u>    |

(a) Including depreciation.

(b) Long-term purchased power, fair valuation & other power purchases, and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts are valued at market. Disclosures required by GASB Statement No. 12, *Fair Value Measurement and Application*, are available in Note 2 Fair Value Measurements.

(c) The level of generation (and consequently the amount of power purchased and sold on the wholesale market) can fluctuate widely from year to year depending upon water conditions in the Northwest region.

(d) "Other" includes seasonal exchange power delivered and miscellaneous power transactions.

(e) Bookout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales, however MWh are presented gross.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### HISTORICAL ENERGY RESOURCES (in MWh)

|                                                       | 2016       | 2015       | 2014       | 2013       | 2012       |
|-------------------------------------------------------|------------|------------|------------|------------|------------|
| Department-Owned Generation                           |            |            |            |            |            |
| Boundary Project                                      | 3,888,316  | 3,469,855  | 4,249,957  | 3,465,890  | 3,802,251  |
| Skagit Hydroelectric Project:                         |            |            |            |            |            |
| Gorge                                                 | 1,036,540  | 953,628    | 1,057,865  | 955,265    | 1,081,349  |
| Diablo                                                | 870,216    | 775,025    | 857,757    | 828,200    | 937,646    |
| Ross                                                  | 791,415    | 684,687    | 796,513    | 726,560    | 939,943    |
| Cedar Falls/Newhalem                                  | 68,429     | 47,571     | 65,687     | 77,397     | 122,615    |
| South Fork Tolt                                       | 52,348     | 49,118     | 63,589     | 55,596     | 63,284     |
| Subtotal                                              | 6,707,264  | 5,979,884  | 7,091,368  | 6,108,908  | 6,947,088  |
| Energy Purchases                                      |            |            |            |            |            |
| Bonneville                                            | 5,138,417  | 4,971,459  | 5,155,271  | 5,079,991  | 5,633,906  |
| Priest Rapids                                         | 25,249     | 23,698     | 21,961     | 33,205     | 36,381     |
| CBH (formerly GCPHA) <sup>(a)</sup>                   | 253,628    | 258,678    | 272,842    | 254,568    | 255,569    |
| High Ross                                             | 308,478    | 310,102    | 307,873    | 312,350    | 308,365    |
| Lucky Peak                                            | 340,474    | 278,001    | 308,334    | 215,587    | 401,400    |
| Stateline Wind Project                                | 373,389    | 299,551    | 357,325    | 363,099    | 365,192    |
| Columbia Ridge                                        | 99,487     | 94,271     | 68,920     | 51,577     | 49,779     |
| Seasonal and Other Exchange <sup>(b)</sup>            | 676,186    | 664,887    | 411,555    | 69,940     | 100,782    |
| Wholesale Market Purchases <sup>(c)</sup>             | 936,289    | 1,379,168  | 900,527    | 2,072,066  | 2,592,354  |
| Subtotal                                              | 8,151,597  | 8,279,815  | 7,804,608  | 8,452,383  | 9,743,728  |
| Total Department Resources                            | 14,858,861 | 14,259,699 | 14,895,976 | 14,561,291 | 16,690,816 |
| Minus Offsetting Energy Sales                         |            |            |            |            |            |
| Firm Energy Sales and Marketing Losses <sup>(d)</sup> | 344,383    | 331,897    | 393,844    | 421,375    | 491,724    |
| Seasonal and Other Exchange <sup>(b)</sup>            | 773,443    | 692,073    | 507,117    | 236,864    | 491,980    |
| Wholesale Market Sales <sup>(e)</sup>                 | 4,044,452  | 3,548,507  | 4,083,391  | 3,854,352  | 5,625,088  |
| Total Energy Resources                                | 9,696,583  | 9,687,222  | 9,911,624  | 10,048,700 | 10,082,024 |

(a) Columbia Basin Hydropower (formerly Grand Coulee Project Hydroelectric Authority.)

(b) Includes exchange contracts with the Northern California Power Authority (NCPA), Sacramento Municipal Utility District, Grant County and the Lucky Peak Project.

(c) Purchases to compensate for low water conditions and to balance loads and resources.

(d) Energy provided to Public Utility District of Pend Oreille County under the Boundary Project's FERC license and includes losses due to expanded activity in the wholesale market.

(e) Runoff was 121% of historical average in 2012.

# THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

## OTHER INFORMATION (UNAUDITED)

### CUSTOMER STATISTICS

| Years ended December 31                              | 2016    |           | 2015    |           | 2014    |           | 2013    |           | 2012    |           |
|------------------------------------------------------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|
| Average number of customers: *                       |         |           |         |           |         |           |         |           |         |           |
| Residential                                          | 397,074 |           | 381,419 |           | 374,619 |           | 367,837 |           | 362,658 |           |
| Non-residential                                      | 50,258  |           | 41,391  |           | 40,437  |           | 40,218  |           | 39,950  |           |
| Total                                                | 447,332 |           | 422,810 |           | 415,056 |           | 408,055 |           | 402,608 |           |
| Megawatt-hours <sup>(a)</sup> :                      |         |           |         |           |         |           |         |           |         |           |
| Residential                                          | 32%     | 2,917,984 | 32%     | 2,914,563 | 32%     | 2,987,711 | 33%     | 3,158,629 | 34%     | 3,098,745 |
| Non-residential                                      | 68%     | 6,262,454 | 68%     | 6,242,931 | 68%     | 6,352,873 | 67%     | 6,347,771 | 66%     | 6,367,897 |
| Total                                                | 100%    | 9,180,438 | 100%    | 9,157,494 | 100%    | 9,340,584 | 100%    | 9,506,400 | 100%    | 9,466,642 |
| Average annual revenue per customer <sup>(a)</sup> : |         |           |         |           |         |           |         |           |         |           |
| Residential                                          | \$      | 717       | \$      | 691       | \$      | 695       | \$      | 710       | \$      | 664       |
| Non-residential                                      | \$      | 9,983     | \$      | 11,390    | \$      | 11,448    | \$      | 10,820    | \$      | 10,603    |

\* Seattle City Light changed customer counts to Service Agreement effective September 2016 with the implementation of the new retail electric billing system. Service Agreement determines how Seattle City Light and Seattle Public Utilities charge customers for services provided. An account can have several Service Agreements for the different types of services. No revisions were made to prior year customer counts.

| Years ended December 31,                                           | 2016    |  | 2015    |  | 2014    |  | 2013    |  | 2012    |  |
|--------------------------------------------------------------------|---------|--|---------|--|---------|--|---------|--|---------|--|
| Average annual consumption per customer (kWhs) <sup>(a)(b)</sup> : |         |  |         |  |         |  |         |  |         |  |
| Residential                                                        |         |  |         |  |         |  |         |  |         |  |
| - Seattle                                                          | 7,349   |  | 7,641   |  | 7,975   |  | 8,587   |  | 8,545   |  |
| - National                                                         | n/a     |  | 10,816  |  | 10,936  |  | 10,916  |  | 10,837  |  |
| Non-residential                                                    |         |  |         |  |         |  |         |  |         |  |
| - Seattle                                                          | 124,606 |  | 150,828 |  | 157,107 |  | 157,834 |  | 159,399 |  |
| - National                                                         | n/a     |  | 125,592 |  | 126,114 |  | 125,871 |  | 125,674 |  |
| Average rate per kilowatt-hour (cents) <sup>(a)(b)</sup> :         |         |  |         |  |         |  |         |  |         |  |
| Residential                                                        |         |  |         |  |         |  |         |  |         |  |
| - Seattle                                                          | 9.75    |  | 9.05    |  | 8.71    |  | 8.27    |  | 7.77    |  |
| - National                                                         | n/a     |  | 12.65   |  | 12.52   |  | 12.12   |  | 11.88   |  |
| Non-residential                                                    |         |  |         |  |         |  |         |  |         |  |
| - Seattle                                                          | 8.01    |  | 7.55    |  | 7.29    |  | 6.86    |  | 6.65    |  |
| - National                                                         | n/a     |  | 9.08    |  | 9.20    |  | 8.84    |  | 8.64    |  |

(a) Source of national data: Department of Energy ([www.eia.doe.gov/electricity/annual/](http://www.eia.doe.gov/electricity/annual/)) 2016 National average annual consumption data and average rate data not available. Certain 2015-2012 National average annual consumption and national average rate data were updated with revised actuals.

(b) Seattle amounts include an allocation for the net change in unbilled revenue. Unbilled revenue excludes retail customer voluntary payments for conservation.

NOTE: A comprehensive rate change of 4.9% became effective January 1, 2016.

Effective August 2016, a 1.5% RSA rate was applied to all residential and non-residential rates schedules.

Notice of public hearings on future rate actions may be obtained on request to: The Office of the City Clerk, 600-4th Ave, Floor Three, Seattle, WA 98104. Phone number 206-684-8344. Additional information about Council meetings can be found on the Web at [www.seattle.gov/council/calendar](http://www.seattle.gov/council/calendar).