PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 23, 2009

SALE DATE: JANUARY 7, 2010
SALE TIME: 2010A BONDS, 7:30 A.M., PACIFIC TIME
2010B BONDS, 8:30 A.M., PACIFIC TIME

New Issue	**Moody's Rating: Aa2**
Book-Entry Only	**Standard & Poor's Rating: AA+**

In the opinion of Bond Counsel, interest on the 2010A Bonds is not excludable from gross income for federal income tax purposes. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the 2010B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the 2010B Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2010B Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the 2010B Bonds received by certain S corporations may be subject to tax, and interest on the 2010B Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2010B Bonds may have other federal tax consequences for certain taxpayers. See "Legal and Tax Information" herein.

This is a Preliminary Official Statement, subject to correction and change. The City has authorized the distribution of the Preliminary Official Statement to prospective purchasers and others. Upon the sale of the Bonds, the City will complete and deliver an Official Statement substantially in this form.

THE CITY OF SEATTLE, WASHINGTON

$109,080,000*

Water System Revenue Bonds, 2010A
(Taxable Build America Bonds-Direct Payment)

$79,450,000*

Water System Improvement and Refunding Revenue Bonds, 2010B

DATED: DATE OF INITIAL DELIVERY **DUE: AUGUST 1, AS SHOWN ON PAGES i AND ii**

The City of Seattle Water System Revenue Bonds, 2010A (Taxable Build America Bonds-Direct Payment) (the "2010A Bonds") and Water System Improvement and Refunding Revenue Bonds, 2010B (the "2010B Bonds"), will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as bond owner and nominee for the Depository Trust Company ("DTC"). The 2010A Bonds and the 2010B Bonds collectively are referred to in this Official Statement as the "Bonds."

DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of $5,000 or any integral multiple thereof within a single series and maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning August 1, 2010. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York Mellon in New York, New York), to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Book-Entry Transfer System" and in Appendix D

The Bonds are being issued (i) to pay for part of the costs of various projects of the Water System of the City of Seattle (the "City"), (ii) to refund, depending on market conditions, certain outstanding obligations of the Water System, (iii) to provide for a debt service reserve, and (iv) to pay the issuance costs of the Bonds.

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

The Bonds are limited obligations of the City payable solely out of the Bond Account. The Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (with limited exceptions) are pledged to the payment of all Parity Bonds, including the Bonds. This pledge constitutes a lien and charge upon the Net Revenue prior and superior to any other charges. See "Security for the Bonds."

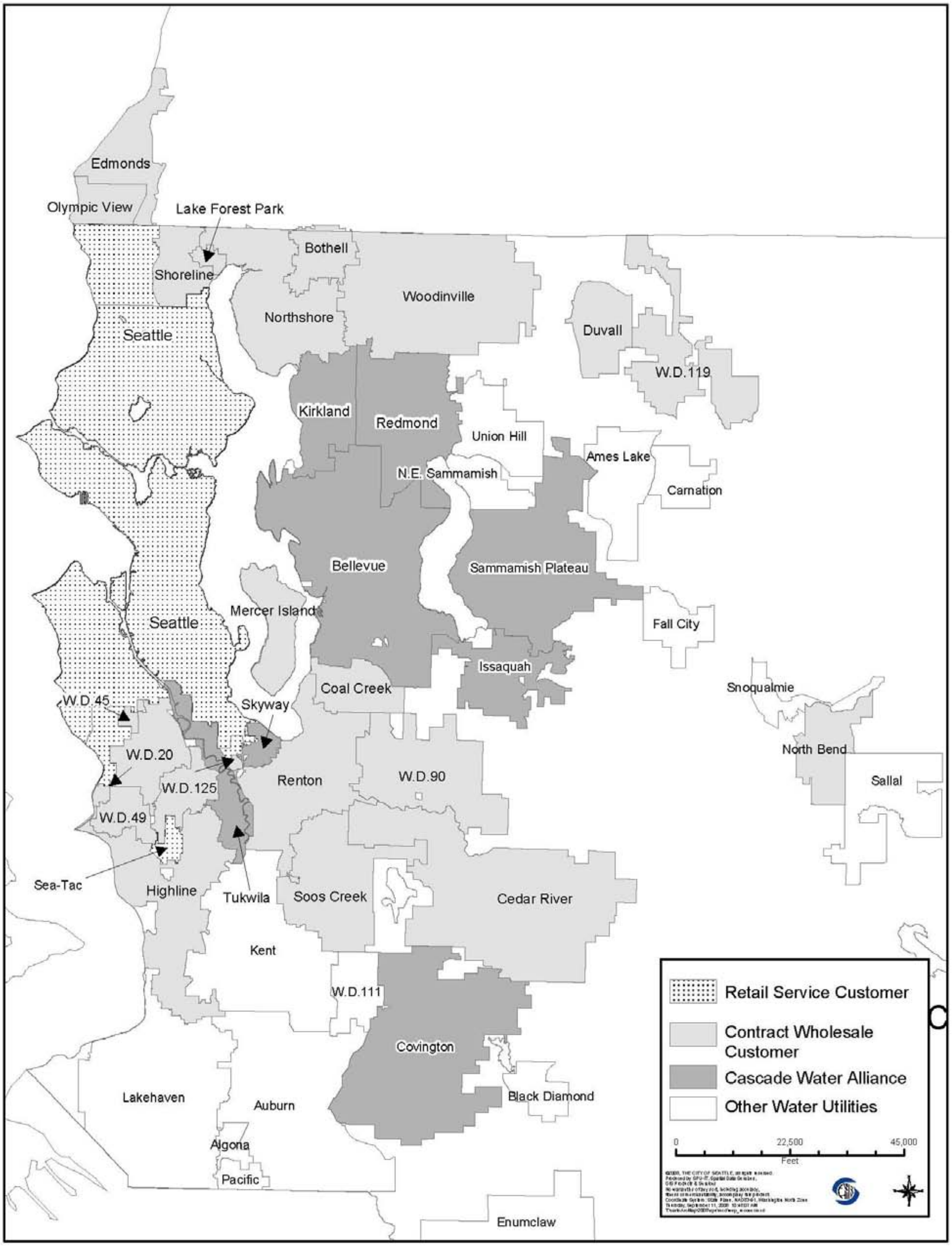
The Bonds do not constitute general obligations of the City, the State of Washington (the "State") or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the ordinance authorizing the issuance of the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.

Each series of the Bonds is offered for delivery by the purchaser of such series, when, as and if issued, subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about January 21, 2010.

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

Dated:

* Preliminary, subject to change.


Edmonds
Olympic View
Lake Forest Park
Bothell
Shoreline
Woodinville
Northshore
Seattle
Duvall
W.D.119
Kirkland
Redmond
Union Hill
Ames Lake
N.E. Sammamish
Carnation
Bellevue
Sammamish Plateau
Mercer Island
Seattle
Fall City
Issaquah
Coal Creek
Snoqualmie
W.D.45
Skyway
North Bend
W.D.20
Renton
W.D.90
Sallal
W.D.125
W.D.49
Sea-Tac
Highline
Tukwila
Soos Creek
Cedar River
Kent
W.D.111
Covington
Black Diamond
Lakehaven
Auburn
Algona
Pacific
Enumclaw
Retail Service Customer
Contract Wholesale Customer
Cascade Water Alliance
Other Water Utilities
0
22,500
45,000
Feet

MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

$109,080,000[(1)]

Water System Revenue Bonds, 2010A

(Taxable Build America Bonds-Direct Payment)

Due August 1	Amounts[(1)(2)]	Interest Rates	Yields	CUSIP Numbers[(3)]
2019	$ 3,360,000			
2020	3,465,000			
2021	3,575,000			
2022	3,695,000			
2023	3,815,000			
2024	3,950,000			
2025	4,085,000			
2026	4,230,000			
2027	4,390,000			
2028	4,550,000			
2029	4,720,000			
2030	4,895,000			
2031	5,080,000			
2032	5,270,000			
2033	5,470,000			
2034	5,675,000			
2035	5,890,000			
2036	6,115,000			
2037	6,345,000			
2038	6,585,000			
2039	6,830,000			
2040	7,090,000			

(1) Preliminary, subject to change.

(2) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case these amounts may constitute mandatory sinking fund redemptions of the Term Bonds.

(3) CUSIP is a trademark of the American Bankers Association. The CUSIP numbers herein are provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The City takes no responsibility for the accuracy of such CUSIP numbers.

MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

$79,450,000[1]

Water System Improvement and Refunding Revenue Bonds, 2010B

Due August 1	Amounts[1]	Interest Rates	Yields	CUSIP Numbers[2]
2010	$ 3,335,000			
2011	4,525,000			
2012	4,660,000			
2013	4,850,000			
2014	5,045,000			
2015	5,255,000			
2016	5,525,000			
2017	5,810,000			
2018	6,110,000			
2019	3,070,000			
2020	3,235,000[3]			
2021	3,410,000[3]			
2022	3,590,000[3]			
2023	3,780,000[3]			
2024	3,980,000[3]			
2025	4,195,000[3]			
2026	4,420,000[3]			
2027	4,655,000[3]			

(1) Preliminary, subject to change.

(2) CUSIP is a trademark of the American Bankers Association. The CUSIP numbers herein are provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The City takes no responsibility for the accuracy of such CUSIP numbers.

(3) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case these amounts may constitute mandatory sinking fund redemptions of the Term Bonds.

THE CITY OF SEATTLE

CITY OFFICIALS AND CONSULTANTS

MAYOR AND COUNCIL

Greg Nickels*	Mayor
Richard Conlin	President, City Council
Tim Burgess	Council Member
Sally Clark	Council Member
Jan Drago*	Council Member
Jean Godden	Council Member
Bruce Harrell	Council Member
Nick Licata	Council Member
Richard McIver*	Council Member
Tom Rasmussen	Council Member

CITY ADMINISTRATION

Dwight D. Dively	Director of Finance
Thomas A. Carr*	City Attorney

SEATTLE PUBLIC UTILITIES

Ray Hoffman	Acting Director
Martin Baker	Acting Deputy Director for Corporate Strategies and Communication
Kimberly Collier	Deputy Director for Human Resources and Service Equity
Nick Pealy	Deputy Director for Field Operations and Maintenance
Melina Thung	Deputy Director for Finance and Administration
Lael Hoppler	Deputy Director for Customer Service
Nancy Ahern	Deputy Director for Utility Systems Management
Linda De Boldt	Deputy Director for Engineering Services

FINANCIAL ADVISOR

Seattle-Northwest Securities Corporation
Seattle, Washington

BOND COUNSEL

Foster Pepper PLLC
Seattle, Washington

* The following officials are expected to take office effective January 1, 2010: Michael McGinn, Mayor; Sally Bagshaw, Council Member; Mike O'Brien, Council Member; and Pete Holmes, City Attorney.

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

The information set forth herein has been furnished by the City, DTC and certain other sources that the City believes to be reliable. However, the City makes no representation regarding the accuracy or completeness of the information provided in Appendix D—Book-Entry Transfer System, which has been furnished by DTC. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no material change in the affairs of the City since the date of this Official Statement. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact or representations that the estimates will be realized.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have they been registered under the securities laws of any state.

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OFFICIAL NOTICE OF BOND SALE

THE CITY OF SEATTLE, WASHINGTON

$109,080,000*
Water System Revenue Bonds, 2010A
(Taxable Build America Bonds-Direct Payment)

$79,450,000*
Water System Improvement and Refunding Revenue Bonds, 2010B

Separate electronic bids for the purchase of The City of Seattle Water System Revenue Bonds, 2010A (Taxable Build America Bonds-Direct Payment) (the "2010A Bonds") and The City of Seattle Water System Improvement and Refunding Revenue Bonds, 2010B (the "2010B Bonds") will be received by The City of Seattle, Washington (the "City"), by the Director of Finance via Bidcomp's electronic bidding service, Parity ("Parity"), in the manner described below on

JANUARY 7, 2010, AT

2010A BONDS: 7:30 A.M., PACIFIC TIME,

2010B BONDS: 8:30 A.M., PACIFIC TIME,

or such other day or time and under such other terms and conditions as may be established by the Director of Finance and communicated by the News Service as described under "Modification, Cancellation, Postponement."

The 2010A Bonds and the 2010B Bonds collectively are referred to in this Official Notice of Bond Sale as the "Bonds."

Bids must be submitted electronically via Parity in accordance with this Official Notice of Sale. For further information about Parity, potential bidders may contact Parity at (212) 404-8102. Hard copy bids will not be accepted. The City will make an official bid form (each, the "Official Bid Form") for each series of the Bonds available to Parity at least 18 hours prior to the time bids are to be received.

No bid will be received after the time for receiving bids specified above. All proper bids received with respect to the Bonds are expected to be considered and acted on by the City Council at approximately 3:00 p.m., Pacific Time, on January 7, 2010. No bid will be awarded until the City Council has adopted a resolution accepting the bid at its meeting.

Modification, Cancellation, Postponement. Bidders are advised that the City may modify the terms of this Official Notice of Bond Sale prior to the time for receipt of bids, including to change the principal amount and principal payments of one or more series of the Bonds if the City elects not to refund all or any of the bonds expected to be refunded with the 2010B Bonds or because the City elects to change the principal amounts of the two series or to change the redemption provisions. Any such modification will be announced through The Bond Buyer Wire (available on TM3, the Thomson Municipal Market Monitor, at *http://www.tm3.com*, which reference is not incorporated herein by reference) (the "News Service"), prior to 1:00 p.m., Pacific Time, on January 6, 2010. In addition, the City may cancel or postpone the date and time for the receipt of bids for the Bonds at any time prior to the opening of the bids. Notice of such cancellation or postponement will be communicated through the News Service as soon as practicable following such cancellation or postponement. As an accommodation to bidders, telephone, facsimile or electronic notice of any amendment or modification of this Official Notice of Bond Sale will be given to any bidder requesting such notice from the City's Financial Advisor at the address and phone number provided under "Official Statement—Preliminary Official Statement" in this Official Notice of Sale.

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* Preliminary, subject to change.

DESCRIPTION OF THE BONDS

Bond Details

The Bonds will be dated the date of their initial delivery. Interest on the Bonds will be payable semiannually on each February 1 and August 1, beginning August 1, 2010.

Registration and Book-Entry Only System

The Bonds are issuable only as fully registered bonds and when issued will be registered in the name of Cede & Co. as registered owner and nominee for the Depository Trust Company ("DTC"), New York, New York. DTC will act as initial securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of $5,000 or any integral multiple thereof within a single series and maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York Mellon in New York, New York) to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds.

Election of Maturities

2010A Bonds. The successful bidder for the 2010A Bonds shall designate whether some or all of the principal amounts of the 2010A Bonds, as set forth below, shall be retired on August 1 of each respective year as serial bonds maturing in such year or as amortization installments of 2010A Term Bonds maturing in the years specified by the bidder. 2010A Term Bonds, if any, must consist of the total principal payments of two or more consecutive years and mature in the latest of those years.

Years (August 1)	Serial Maturities or Amortization Installments*	Years (August 1)	Serial Maturities or Amortization Installments*
2019	$ 3,360,000	2030	$ 4,895,000
2020	3,465,000	2031	5,080,000
2021	3,575,000	2032	5,270,000
2022	3,695,000	2033	5,470,000
2023	3,815,000	2034	5,675,000
2024	3,950,000	2035	5,890,000
2025	4,085,000	2036	6,115,000
2026	4,230,000	2037	6,345,000
2027	4,390,000	2038	6,585,000
2028	4,550,000	2039	6,830,000
2029	4,720,000	2040	7,090,000

* Preliminary, subject to change.

2010B Bonds. The successful bidder for the 2010B Bonds shall designate whether some or all of the principal amounts of the 2010B Bonds maturing on or after August 1, 2020, as set forth below, shall be retired on August 1 of each respective year as serial bonds maturing in such year or as amortization installments of 2010B Term Bonds maturing in the years specified by the bidder. 2010B Term Bonds, if any, must consist of the total principal payments of two or more consecutive years and mature in the latest of those years.

Years (August 1)	Serial Maturities or Amortization Installments[1]	Years (August 1)	Serial Maturities or Amortization Installments[1]
2010	$ 3,335,000	2019	$ 3,070,000
2011	4,525,000	2020	3,235,000[2]
2012	4,660,000	2021	3,410,000[2]
2013	4,850,000	2022	3,590,000[2]
2014	5,045,000	2023	3,780,000[2]
2015	5,255,000	2024	3,980,000[2]
2016	5,525,000	2025	4,195,000[2]
2017	5,810,000	2026	4,420,000[2]
2018	6,110,000	2027	4,655,000[2]

(1) Preliminary, subject to change.

(2) These amounts will constitute principal maturities of the 2010B Bonds unless 2010B Term Bonds are specified by the successful bidder, in which case these amounts may constitute mandatory sinking fund redemptions of 2010B Term Bonds.

Redemption

Optional Redemption—2010A Bonds. The City reserves the right and option to redeem the 2010A Bonds prior to their stated maturity dates at any time, as a whole or in part, at a price of par plus the Make-Whole Premium (as defined in the Preliminary Official Statement), if any, calculated using the Treasury Rate (as defined in the Preliminary Official Statement) plus 25 basis points, together with accrued interest to the date fixed for redemption.

Extraordinary Optional Redemption—2010A Bonds. The City reserves the right and option to redeem the 2010A Bonds prior to their stated maturity dates upon the occurrence of an Extraordinary Event, as a whole or in part, at a price of par plus the Extraordinary Redemption Premium (as defined in the Preliminary Official Statement), if any, calculated using the Treasury Rate (as defined in the Preliminary Official Statement) plus 100 basis points, together with accrued interest to the date fixed for redemption.

An "Extraordinary Event" will have occurred if a material adverse change has occurred to Section 54AA or Section 6431 of the Internal Revenue Code of 1986, as amended (the "Code") (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 pertaining to "Build America Bonds") pursuant to which the City's 35 percent direct payments from the United States Treasury in respect of interest on the 2010A Bonds are reduced or eliminated.

Optional Redemption—2010B Bonds. The 2010B Bonds maturing on or before August 1, 2019, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the 2010B Bonds maturing on or after August 1, 2020, prior to their stated maturity dates at any time on and after February 1, 2020, as a whole or in part, at a price of par plus accrued interest to the date fixed for redemption.

Selection of Bonds for Redemption. If fewer than all of a series of Bonds are to be redeemed prior to maturity, the selection of such Bonds for redemption shall be made as described in the Preliminary Official Statement in "Description of the Bonds—Redemption of Bonds."

Purpose

The Bonds are being issued (i) to pay for part of the costs of various projects of the City's Water System, (ii) to refund, depending on market conditions, certain outstanding obligations of the Water System, (iii) to provide for a debt service reserve, and (iv) to pay the costs of issuing the Bonds.

Security

The Bonds are limited obligations of the City payable solely out of the Bond Account. The Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (with certain limited exceptions) are pledged to the payment of all Parity Bonds, including the Bonds. This pledge constitutes a lien and charge upon the Net Revenue prior and superior to any other liens or charges.

The Bonds do not constitute general obligations of the City, the State of Washington (the "State") or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.

BIDDING INFORMATION AND AWARD

Bidders are invited to submit bids for the purchase of either or both series of the Bonds fixing the interest rate or rates that the Bonds will bear. Interest rates bid shall be in multiples of 1/8 or 1/20 or 1/100 of one percent, or any combination thereof. No more than one rate of interest may be fixed for any one maturity of a series of the Bonds.

All bids shall be without condition. The City strongly encourages the inclusion of Women and Minority Business Enterprise firms in bidding syndicates.

2010A Bonds. No bid will be considered for the 2010A Bonds that is less than an amount equal to 98.5 percent of the par value of the 2010A Bonds. Bidders must bid on the entire offering of the 2010A Bonds. Each individual maturity must be reoffered at a yield that will produce a price of not more than a *de minimis* amount of premium as indicated in the following table.

Due August 1	Serial Maturities or Amortization Installments*	Maximum Permitted Price	Due August 1	Serial Maturities or Amortization Installments*	Maximum Permitted Price
2019	$3,360,000	102.25	2030	$4,895,000	102.50
2020	3,465,000	102.50	2031	5,080,000	102.50
2021	3,575,000	102.50	2032	5,270,000	102.50
2022	3,695,000	102.50	2033	5,470,000	102.50
2023	3,815,000	102.50	2034	5,675,000	102.50
2024	3,950,000	102.50	2035	5,890,000	102.50
2025	4,085,000	102.50	2036	6,115,000	102.50
2026	4,230,000	102.50	2037	6,345,000	102.50
2027	4,390,000	102.50	2038	6,585,000	102.50
2028	4,550,000	102.50	2039	6,830,000	102.50
2029	4,720,000	102.50	2040	7,090,000	102.50

* Preliminary, subject to change.

2010B Bonds. No bid will be considered for the 2010B Bonds that is less than an amount equal to 100 percent of the par value of the 2010B Bonds nor more than an amount equal to 114 percent of the par value of the 2010B Bonds. No bid for less than the entire offering of the 2010B Bonds will be accepted. Each individual maturity must be reoffered at a yield that will produce a price of not less than 98 percent of the principal amount for that maturity. For the purpose of the preceding sentence, "price" means the lesser of the price at the redemption date or the price at the maturity date.

Official Bid Forms

The Official Bid Forms will be made available by 1:00 p.m., Pacific Time, on January 6, 2010. The City will provide the Official Bid Forms to Parity. The Official Bid Forms also can be obtained through either the

City's Debt Manager, Michael Van Dyck, at (206) 684–8347, or the City's Financial Advisor, Seattle-Northwest Securities Corporation, at (206) 628-2898.

Bidding Process

By submitting an electronic bid for either or both series of the Bonds, each bidder thereby agrees to the following terms and conditions:

(i) If any provision in this Official Notice of Bond Sale conflicts with information or terms provided to or required of the bidder by Parity, this Official Notice of Bond Sale (including any amendments issued by the City through the News Service) and the applicable Official Bid Form shall control. Information provided by Parity to bidders shall form no part of any bid or of any contract between the successful bidder and the City unless that information is included in this Official Notice of Bond Sale or in the applicable Official Bid Form.

(ii) The bidder is solely responsible for making necessary arrangements to access Parity for purposes of submitting a timely bid in compliance with the requirements of this Official Notice of Bond Sale (including any amendments issued by the City through the News Service) and the applicable Official Bid Form.

(iii) The City shall have no duty or obligation to provide or assure access to Parity, and shall not be responsible for the proper operation of Parity or have any liability for, any delays or interruptions of, or any damages caused by, use or attempted use of Parity.

(iv) Parity is not the City's agent, but rather is the bidder's agent for submitting its bid to the City.

(v) The City will regard the electronic transmission of each bid it receives through Parity (including information regarding the purchase price of the Bonds and the interest rates for each maturity of each series of the Bonds) as though such information were submitted on the applicable Official Bid Form and executed on behalf of the bidder by a duly authorized signatory.

(vi) If an electronic bid is accepted by the City, this Official Notice of Bond Sale (including any amendments issued by the City through the News Service), the applicable Official Bid Form and the information regarding the purchase price of each series of the Bonds, any Term Bonds specified, and the interest rates for each maturity of each series of the Bonds that is submitted electronically to the City through Parity shall form a contract between the bidder and the City, and the bidder shall be bound by the terms of such contract whether or not the bidder in fact attempted or intended to submit a bid on those terms.

Good Faith Deposit

In order to be considered by the City Council, all bids must be backed by a good faith deposit in the amount of $1,090,000 with respect to the 2010A Bonds and $790,000 with respect to the 2010B Bonds.

The good faith deposit for each series of the Bonds must be paid by federal funds wire transfer within 90 minutes after the verbal award to the successful bidder for such series. Wiring instructions will be provided to the successful bidder for such series at the time of the verbal award.

The good faith deposit of the successful bidder for each series of the Bonds shall be retained by the City as security for the performance of the successful bidder and shall be applied to the purchase price of such series of the Bonds upon the delivery of such series of the Bonds to the successful bidder. Pending delivery of the Bonds, each good faith deposit may be invested for the sole benefit of the City. If the Bonds of a series are ready for delivery and the successful bidder for such series fails or neglects to complete the purchase of such series of the Bonds within 30 days following the acceptance of its bid, the applicable good faith deposit shall be retained by the City as reasonable liquidated damages and not as a penalty.

Award

The Bonds of each series will be sold to the bidder making a bid conforming to the terms of the offering and which, on the basis of the City's determination of the lowest true interest cost, is the best bid. The true interest cost to the City will be the rate that, when used to discount to the date of the applicable series of the Bonds all future payments of principal and interest (using semiannual compounding and a 30/360 day basis), produces an amount equal to the bid amount, without regard to the interest accrued to the date of delivery of such series of the Bonds. The true interest cost calculations for any bids received on a series of Bonds will be performed by the City's Financial Advisor, and the City will base its determination of the best bid for a series of Bonds solely on such calculations. If there are two or more equal bids for a series of the Bonds and those bids are the best bids received, the Director of Finance will determine by lot which bid will be presented to the City Council. *For bids submitted for the 2010A Bonds, the true interest cost to the City will be determined after subtracting 35 percent of each interest payment.*

The City reserves the right to reject any or all bids submitted and to waive any formality or irregularity in any bid or the bidding process. If all bids for a series of the Bonds are rejected, then such series of the Bonds may be sold in the manner provided by law. Any bid presented after the time specified for the receipt of bids will not be accepted, and any bid not backed by the required good faith deposit will not be considered by the City Council. The successful bid for each series of the Bonds shall remain in effect until 5:00 p.m., Pacific Time, on the day of such bid opening.

Adjustment of Principal Amounts and Bid Price After Bid Opening

The City has reserved the right to increase or decrease the preliminary principal amount of the 2010A Bonds by an amount not to exceed ten percent of the principal amount of the 2010A Bonds following the opening of the bids. The City also reserves the right to increase or decrease the preliminary principal amount of any maturity shown on the Official Bid Form for the 2010A Bonds by an amount not to exceed ten percent of the preliminary principal amount of that maturity.

The City has reserved the right to increase or decrease the preliminary principal amount of the 2010B Bonds by an amount not to exceed 15 percent of the principal amount of the 2010B Bonds following the opening of the bids. The City also reserves the right to increase or decrease the preliminary principal amount of any maturity shown on the Official Bid Form for the 2010B Bonds by an amount not to exceed the greater of $1,000,000 or 20 percent of the preliminary principal amount of that maturity.

The price bid by the successful bidder for either series of the Bonds will be adjusted by the City on a proportionate basis to reflect an increase or decrease in the principal amount and maturity schedule. In the event that the City elects to alter the bond size of either series of the Bonds after the bid pursuant to this Official Notice of Sale, the underwriter's discount, expressed in dollars per thousand, will be held constant. The City will not be responsible in the event and to the extent that any adjustment affects (i) the net compensation to be realized by the successful bidder, or (ii) the true interest cost of the winning bid or its ranking relative to other bids.

Issue Price Information

Upon award of the Bonds, the successful bidder for each series of the Bonds shall advise the City and Bond Counsel of the initial reoffering prices to the public of each maturity of such series of the Bonds (the "Initial Reoffering Prices"), for the City's inclusion in the final Official Statement for the Bonds. Prior to delivery of the Bonds, each successful bidder shall furnish to the City and Bond Counsel a certificate in form and substance acceptable to Bond Counsel:

(i) confirming the Initial Reoffering Prices,

(ii) certifying that a *bona fide* offering of the applicable series of the Bonds has been made to the public (excluding bond houses, brokers and other intermediaries),

(iii) stating the first price at which a substantial amount (at least ten percent) of each maturity of such series of the Bonds was sold to the public (excluding bond houses, brokers and other intermediaries),

(iv) if the first price at which a substantial amount of any maturity of such series of the Bonds does not conform to the Initial Reoffering Price of that maturity, providing an explanation of the facts and circumstances that resulted in that nonconformity, and

(v) stating which maturities, if any, are amortization installments of Term Bonds maturing in the years specified by the bidder.

The first price at which a substantial amount of any maturity of the 2010A Bonds is sold to the public, as described above, shall not exceed the principal amount of such maturity by more than 0.25 percent multiplied by the number of complete years to the maturity date of such maturity.

Insurance

Bids for either or both series of the Bonds shall not be conditioned upon obtaining insurance or any other credit enhancement, or upon City acceptance of any of the terms of insurance or other credit enhancement. If the Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor, any purchase of such insurance or commitment therefor shall be at the sole option and expense of the bidder, and any increased costs of issuance of the Bonds resulting by reason of such insurance, unless otherwise paid, shall be paid by such bidder, but shall not, in any event, be paid by the City. Any failure of the Bonds to be so insured or of any such policy of insurance to be issued shall not in any way relieve the purchaser of its contractual obligations arising from the acceptance of its proposal for the purchase of the applicable series of the Bonds.

If the successful bidder purchases insurance for any of the 2010A Bonds, the City will not modify the Official Statement to include information regarding such insurance and will not treat such insurance as a qualified guarantee of such 2010A Bonds. In addition, the amount of the underwriter's discount of a successful bidder that purchases insurance for any of the 2010A Bonds shall be reduced by the amount, if any, that the use of the underwriter's discount directly or indirectly to pay the premium for such insurance would cause more than two percent of the sale proceeds of the 2010A Bonds to be used to pay costs of issuance of the 2010A Bonds.

If the successful bidder purchases insurance for any of the 2010B Bonds, the City may require the successful bidder to furnish to the City and Bond Counsel a certificate in form and substance acceptable to Bond Counsel confirming that (i) the present value (calculated using the same yield as the yield on the insured 2010B Bonds) of the insurance premium is less than the present value (calculated using the same yield as the yield on the insured 2010B Bonds) of the interest cost savings represented by the comparative differences between interest amounts that would have been payable on the various maturities of the insured 2010B Bonds at interest rates on the insured 2010B Bonds issued with and without the insurance on the insured 2010B Bonds, and (ii) in the process of requesting competitive proposals to provide such insurance, such insurance provided the lowest cost.

DELIVERY

The City will deliver the Bonds (consisting of one certificate for each maturity of each series) to DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, prior to the date of closing. Closing shall occur within 30 days after the sale date. Settlement shall be in immediately available federal funds in Seattle, Washington, on the date of delivery.

If, prior to the delivery of the 2010B Bonds, the interest receivable by the owners of the 2010B Bonds becomes includable in gross income for federal income tax purposes, or becomes subject to federal income tax other than as described in the Official Statement for the 2010B Bonds, the successful bidder for the 2010B Bonds, at its option, may be relieved of its obligation to purchase the 2010B Bonds and, in that case, the good faith deposit accompanying its bid will be returned without interest.

Legal Opinion

The approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel, will be provided to the purchaser of each series of the Bonds at the time of the delivery of the Bonds. A no-litigation certificate will be included in the closing papers of the Bonds.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will appear on the Bonds, but neither the failure to insert such numbers on the Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchasers thereof to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Bond Sale.

The City's Financial Advisor is responsible for obtaining CUSIP numbers for the Bonds, and the charge of the CUSIP Service Bureau will be paid by the City.

CONTINUING DISCLOSURE UNDERTAKING

In order to assist bidders in complying with paragraph (b)(5) of Securities and Exchange Commission Rule 15c2–12 (the "Rule"), the City will undertake to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement and also will be set forth in the final Official Statement.

OFFICIAL STATEMENT

Preliminary Official Statement

The Preliminary Official Statement is in a form that the City expects to deem final for the purpose of paragraph (b)(1) of the Rule, but is subject to revision, amendment and completion in a final Official Statement, which the City will deliver, at the City's expense, to each purchaser through its designated representative not later than seven business days after the City's acceptance of the purchaser's bid, in sufficient quantities to permit the successful bidder(s) to comply with the Rule.

By submitting the successful proposal for either or both series of the Bonds, the purchaser's designated senior representative agrees:

(i) to provide to the City's Debt Manager, in writing, within 24 hours after the acceptance of the bid, pricing and other related information, including Initial Reoffering Prices of the Bonds, necessary for completion of the final Official Statement;

(ii) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any amendments or supplements prepared by the City;

(iii) to take any and all actions necessary to comply with applicable rules of the Securities and Exchange Commission and Municipal Securities Rulemaking Board governing the offering, sale and delivery of the Bonds to ultimate purchasers, including the delivery of a final Official Statement to each investor who purchases Bonds; and

(iv) to file the final Official Statement or cause it to be filed with the Municipal Securities Rulemaking Board within one business day following its receipt from the City.

The Preliminary Official Statement (with the Official Notice of Bond Sale) and the Official Bid Forms may be obtained upon request to the City's Debt Manager, 600 Fourth Avenue, Sixth Floor, Seattle, Washington, 98124-4747 (telephone: (206) 684–8347) or to Seattle-Northwest Securities Corporation, 1420 Fifth Avenue, Suite 4300, Seattle, Washington, 98101 (telephone: (206) 628–2882).

Official Statement

At closing, the City will furnish a certificate of an official or officials of the City stating that, to the best knowledge of such official(s), and relying on the opinions of Bond Counsel where appropriate, as of the date of the Official Statement and as of the date of delivery of the Bonds:

(i) the information (including financial information) regarding the City and Seattle Public Utilities (including the Water System) contained in the Official Statement was and is true and correct in all material respects and did not and does not contain any untrue statement of a material fact or omit any statement or information which is necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (however, the City will make no representation regarding Bond Counsel's form of opinion or the information provided by DTC, The Bank of New York Mellon or any entity providing bond insurance, reserve insurance or other credit facility); and

(ii) the descriptions and statements, including financial data, of or pertaining to other bodies and their activities contained in the Official Statement have been obtained from sources that the City believes to be reliable, and the City has no reason to believe that they are untrue in any material respect.

DATED at Seattle, Washington, this 23rd day of December, 2009.

/s/ Dwight D. Dively

Director of Finance

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PRELIMINARY OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

$109,080,000*

Water System Revenue Bonds, 2010A

(Taxable Build America Bonds-Direct Payment)

$79,450,000*

Water System Improvement and Refunding Revenue Bonds, 2010B

The City of Seattle, Washington (the "City"), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the "State"), furnishes this Official Statement in connection with the offering of $109,080,000* aggregate principal amount of its Water System Revenue Bonds, 2010A (the "2010A Bonds"), and of $79,450,000* aggregate principal amount of its Water System Improvement and Refunding Revenue Bonds, 2010B (the "2010B Bonds") dated the date of their initial delivery. The 2010A Bonds and the 2010B Bonds collectively are referred to in this Official Statement as the "Bonds." This Official Statement, which includes the cover page and the appendices, contains certain information related to such offering and sale concerning the City, the Bonds, Seattle Public Utilities ("SPU"), and the City's water system, referred to in the ordinance authorizing the issuance of the Bonds as the "Municipal Water System" (the "Water System").

The Bonds are to be issued by the City pursuant to chapters 35.92 and 39.53 of the Revised Code of Washington ("RCW"), the Seattle City Charter, Ordinance No. 121939, as amended, Ordinance No. 123168, passed by the City Council on November 23, 2009, (together, the "Ordinance"), and Resolution __________, adopted by the City Council on ____________ (the "Resolution").

Appendix A to this Official Statement is a copy of Ordinance 123168. Appendix B is the form of approving legal opinion of Foster Pepper PLLC of Seattle, Washington ("Bond Counsel"). Appendix C is the audited 2008 financial statements of the Water Fund. Appendix D is a description of the Depository Trust Company's ("DTC") procedures with respect to book-entry bonds. Appendix E provides demographic and economic information. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the Ordinance and in the Resolution.

DESCRIPTION OF THE BONDS

Registration and Denomination

The Bonds are issuable only as fully registered bonds under a book-entry transfer system, registered in the name of Cede & Co. as bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as initial securities depository for the Bonds. Purchasers will not receive certificates representing their interest in the Bonds purchased.

The Bonds will be dated the date of their initial delivery, and will mature on the dates and in the amounts set forth on pages i and ii of this Official Statement. Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning August 1, 2010, at the rates set forth on pages i and ii of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Principal is payable on August 1 in the years and in the amounts shown on pages i and ii of this Official Statement.

* Preliminary, subject to change

The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York Mellon in New York, New York) to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under "Description of the Bonds—Book-Entry Transfer System" and Appendix D.

Designation of the 2010A Bonds as Build America Bonds

The City has made irrevocable elections to have Section 54AA of the Internal Revenue Code of 1986, as amended (the "Code"), apply to the 2010A Bonds so that the 2010A Bonds are designated "Build America Bonds," and furthermore to have subsection 54AA(g) of the Code apply to the 2010A Bonds so that the 2010A Bonds are treated as "qualified bonds" with respect to which the City will be allowed a credit payable by the U.S. Treasury to the City pursuant to Section 6431 of the Code in an amount equal to 35 percent of the interest payable on the 2010A Bonds on each interest payment date. As a result of these elections, interest on the 2010A Bonds is not excludable from gross income of owners of the 2010A Bonds for federal income tax purposes, and owners of the 2010A Bonds will not be allowed any federal tax credits as a result of ownership or receipt of interest payments on the 2010A Bonds. See "Legal and Tax Information—Tax Matters—2010A Bonds" herein. The obligation of the U.S. Treasury under Section 6431 of the Code to make direct payments to the City in respect of interest payments on the 2010A Bonds does not constitute a full faith and credit guarantee of the 2010A Bonds by the United States of America.

Federal Credit Payments for Build America Bonds

Under the Ordinance, federal credit payments expected to be received by the City in respect of the 2010A Bonds are a component of Gross Revenue.

The Code establishes certain ongoing requirements that must be met subsequent to the delivery of the 2010A Bonds in order for the City to continue to receive federal credit payments. Many of these requirements are identical to those applicable to the 2010B Bonds, such as requirements relating to the use and expenditure of the available project proceeds of the 2010A Bonds, yield and other restrictions on investments of available project proceeds.

The Internal Revenue Service has advised that, in general, the federal credit payments made in respect of Build America Bonds such as the 2010A Bonds are payments that are treated as overpayment of tax. Accordingly, rules relating to overpayments of tax, such as credits against liabilities in respect of an internal revenue tax and offsets, interest on overpayments of tax and limitations on credits or refunds of overpayments of tax also apply to the federal credit payments made in respect of Build America Bonds.

Noncompliance by the City with any of the provisions required to claim the federal credit payments, or an internal revenue tax liability of the City (such as a federal payroll tax liability) against which federal credit payments may be offset, could result in the City not receiving expected federal credit payments.

The City has authorized the Director of Finance to take such actions as are necessary or appropriate for the City to receive from the U.S. Treasury the applicable federal credit payments in respect of the 2010A Bonds, such as the timely filing with the Internal Revenue Service of Form 8038-CP-"Return for Credit Payments to Issuers of Qualified Bonds" in the manner prescribed by Internal Revenue Service Notice 2009-26. The City also has covenanted in the Ordinance that it will not take or permit to be taken on its behalf any action that would adversely affect the entitlement of the City to receive from the United States Treasury the applicable federal credit payments in respect of the 2010A Bonds. The City has covenanted to comply with the provisions of the Code compliance with which would result in the interest on the 2010A Bonds being excluded from gross income for federal income tax purposes but for an irrevocable election to have Section 54AA of the Code apply to the 2010A Bonds.

Redemption of Bonds

Optional Redemption—2010A Bonds. The City reserves the right and option to redeem the 2010A Bonds prior to their stated maturity dates at any time, as a whole or in part, at a price of par plus the Make-Whole Premium, if any, together with accrued interest to the date fixed for redemption.

"Make-Whole Premium" means, with respect to any redemption date for a particular 2010A Bond, the excess, if any, of (i) the sum of the present value of the remaining scheduled payments of principal of and interest on such 2010A Bond, not including any portion of those payments of interest accrued and unpaid as of such redemption date, discounted to such redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the "Treasury Rate" plus 25 basis points, over (ii) the principal amount of such 2010A Bond.

"Treasury Rate" means, with respect to any redemption date for a particular 2010A Bond, the rate per *annum* equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular 2010A Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has an actual or interpolated maturity comparable to the remaining average life of such 2010A Bond, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such 2010A Bond.

"Comparable Treasury Price" means, with respect to any redemption date for a particular 2010A Bond:

(i) the most recent yield data for the applicable United States Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the City.

"Reference Treasury Dealer" means each of four firms, specified by the City from time to time, that are primary United States Government securities dealers in the City of New York (each, a "Primary Treasury Dealer"); provided, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular 2010A Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

"Valuation Date" means the third business day preceding the redemption date.

Extraordinary Optional Redemption—2010A Bonds. The City reserves the right and option to redeem the 2010A Bonds prior to their stated maturity dates upon the occurrence of an Extraordinary Event, as a whole or in part, at a price of par plus the Extraordinary Redemption Premium, if any, together with accrued interest to the date fixed for redemption.

An "Extraordinary Event" will have occurred if a material adverse change has occurred to Section 54AA or Section 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 pertaining to "Build America Bonds") pursuant to which the City's 35 percent direct payments from the United States Treasury in respect of interest on the 2010A Bonds are reduced or eliminated.

"Extraordinary Redemption Premium" means, with respect to any redemption date for a particular 2010A Bond, the excess, if any, of (i) the sum of the present value of the remaining scheduled payments of principal of and interest on such 2010A Bond, not including any portion of those payments of interest accrued and unpaid as of such redemption date, discounted to such redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the "Treasury Rate" plus 100 basis points, over (ii) the principal amount of such 2010A Bond.

Optional Redemption—2010B Bonds. The 2010B Bonds maturing on or before August 1, 2019, are not subject to redemption prior to maturity. The City reserves the right and option to redeem 2010B Bonds maturing on or after August 1, 2020, prior to their stated maturity dates at any time on and after February 1, 2020, as a whole or in part at a price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption. If not previously redeemed as described above or purchased under the provisions as described below, the ____ Term Bonds due on August 1, ____, will be called for redemption at a price of par, plus accrued interest to the date fixed for redemption, on August 1 in the years and amounts as follows:

TERM BOND		TERM BOND		TERM BOND	
Years	**Amounts**	**Years**	**Amounts**	**Years**	**Amounts**
*		*		*	

* Maturity.

If the City redeems ____ Term Bonds under the optional or extraordinary optional redemption provisions described above or purchases or defeases ____ Term Bonds, the ____ Term Bonds of such series and maturity so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for those _____ Term Bonds in the manner described below regarding the selection of Bonds for redemption.

Selection for Redemption—2010A Bonds. If fewer than all of the 2010A Bonds are to be redeemed prior to maturity, then:

(i) if such 2010A Bonds are in book-entry form at the time of such redemption, the Bond Registrar is required to instruct DTC to instruct the DTC Participants to select the specific 2010A Bonds for redemption *pro rata* among maturities and within each maturity, and neither the City nor the Bond Registrar will have any responsibility to ensure that DTC or the DTC Participants properly select such 2010A Bonds for redemption, and

(ii) if such 2010A Bonds are not in book-entry form at the time of such redemption, on each redemption date, the Bond Registrar is required to select the specific 2010A Bonds for redemption *pro rata* among maturities and within each maturity.

The portion of any 2010A Bond of a denomination of more than $5,000 to be redeemed will be in the principal amount of $5,000 or any integral multiple thereof, to be selected, as the case may be, by DTC in accordance with the Letter of Representations or by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

Selection for Redemption— 2010B Bonds. If fewer than all of the 2010B Bonds are to be redeemed prior to maturity, the City will select the maturity or maturities to be redeemed. If fewer than all of a single series and maturity of 2010B Bonds are to be redeemed prior to maturity, then:

(i) if such 2010B Bonds are in book-entry form at the time of such redemption, DTC is required to select the specific 2010B Bonds in accordance with the Letter of Representations, and

(ii) if such 2010B Bonds are not in book-entry form at the time of such redemption, on each redemption date, the Bond Registrar is required to select the specific 2010B Bonds for redemption by lot or in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

The portion of any 2010B Bond of a denomination more than $5,000 to be redeemed will be in the principal amount of $5,000 or any integral multiple thereof, to be selected, as the case may be, by DTC in accordance with the Letter of Representations or by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

Notice of Redemption. Notice of any intended redemption of Bonds will be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirements of this section will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as the Bonds are held in book-entry form, notices will be given in accordance with procedures established by DTC. See "Description of the Bonds—Book-Entry Transfer System" and in Appendix D.

In the case of an optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of the Bonds by giving a notice of rescission to the affected registered owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

Effect of Redemption. Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the Bonds called are not redeemed when presented pursuant to the call.

Purchase

The City reserves the right to purchase any of the Bonds at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Book-Entry Transfer System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity of each series, as set forth on pages i and ii of this Official Statement, each in the aggregate principal amount of such maturity of such series, will be registered in the name of Cede & Co., as nominee for DTC. See Appendix D for additional information. *As indicated therein, certain information in Appendix D has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm its contents with DTC or its participants.*

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC or if the City determines that a continuation of the book-entry transfer system is not in the best interest of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of $5,000 or any integral multiple thereof within a series and maturity. Thereafter, the principal of the Bonds will be payable upon the presentation and surrender of the Bonds by the registered owners to the Bond Registrar. Interest on the Bonds will be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the registered owners at the address appearing upon the Bond Register on the 15th day of the month preceding the interest payment date or, at the request of a registered owner of $1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in the United States designated in writing by such registered owner prior to the Record Date. The Bonds then will be transferable as provided in the Ordinance.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds (the "Defeased Bonds"). If sufficient money and/or Government Obligations, defined below (taking into account known earned income from the investment thereof) are set aside in a special fund pledged irrevocably to the redemption, retirement or defeasance of the Defeased Bonds (the "Trust Account"), then all right and interest of the owners of the Defeased Bonds in the covenants of the Ordinance and in the Net Revenues and the funds and accounts pledged to the payment of the Defeased Bonds, other than the right to receive the funds so set aside and pledged, will cease and become void. Such owners thereafter will have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account.

The term "Government Obligations" has the meaning given in chapter 39.53.010 RCW, as amended, currently: (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

If the City defeases any of the 2010A Bonds, such 2010A Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. See "Legal and Tax Information—Tax Matters—2010A Bonds."

USE OF PROCEEDS

The Bonds are being issued (i) to pay for part of the costs of various projects of the City's Water System, (ii) to refund, depending on market conditions, certain outstanding obligations of the Water System, (iii) to provide for a debt service reserve, and (iv) to pay the costs of issuing the Bonds.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

	2010A BONDS	2010B BONDS	TOTAL
SOURCES OF FUNDS			
Par Amount of Bonds			
Original Issue Premium (Discount)			
Total Sources of Funds			
USES OF FUNDS			
Project Fund Deposit			
Deposit with Refunding Trustee			
Reserve Subaccount Deposit			
Costs of Issuance*			
Total Uses of Funds			

* Includes legal, financial advisory and rating agency fees, printing and other issuance expenses, and the underwriter's discount.

Refunding Plan

The City intends to refund all or a portion of the City's outstanding Water System Revenue Bonds, 1998, set forth below (as refunded, the "Refunded Bonds"), depending on market conditions on the pricing date and the savings available to the City as a result of such refunding. If market conditions are favorable, the City will enter into a Refunding Trust Agreement with U.S. Bank National Association, as Refunding Trustee, upon the delivery of the 2010B Bonds, to provide for the current refunding of the Refunded Bonds. The refunding is being undertaken to achieve debt service savings. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Escrow Agent and Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the 2010B Bonds will be deposited with the Refunding Trustee and will be invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the redemption date of the Refunded Bonds, expected to be February 22, 2010.

The Government Obligations and earnings thereon are held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above, will be verified by Grant Thornton LLP, independent certified public accountants.

REFUNDED BONDS

Bond	Maturity Date	Interest Rate (%)	Par Amount ($)	Call Date	Call Price (%)	CUSIP Number
Water System Revenue Bonds, 1998						
Serials	10/01/2010	5.000	2,150,000	02/22/2010	101	812728DH3
	10/01/2011	5.000	2,260,000	02/22/2010	101	812728DJ9
	10/01/2012	5.000	2,375,000	02/22/2010	101	812728DK6
	10/01/2013	5.000	2,495,000	02/22/2010	101	812728DL4
	10/01/2014	5.000	2,625,000	02/22/2010	101	812728DM2
	10/01/2015	5.000	2,765,000	02/22/2010	101	812728DN0
	10/01/2016	5.000	2,910,000	02/22/2010	101	812728DP5
	10/01/2017	5.000	3,065,000	02/22/2010	101	812728DQ3
	10/01/2018	5.000	3,225,000	02/22/2010	101	812728DR1
	10/01/2019	5.000	3,400,000	02/22/2010	101	812728DS9
Term	10/01/2023	5.000	15,500,000	02/22/2010	101	812728DW0
Term	10/01/2027	5.000	19,055,000	02/22/2010	101	812728EA7
Total			61,825,000			

SECURITY FOR THE BONDS

Pledge of Net Revenue

The Bonds are limited obligations of the City payable solely from the Bond Account. The Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (with certain limited exceptions) are pledged to the payment of all Parity Bonds, including the Bonds. This pledge constitutes a lien and charge upon the Net Revenue prior and superior to any other charges. See Appendix A—Ordinance 123168—Section 17. The City has reserved the right to combine the Water System, including its funds and accounts, with other City utility systems, funds and accounts. See "Combined Utility Systems" below.

The Bonds do not constitute general obligations of the City, the State of Washington (the "State") or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.

The Water Revenue Bond Account (the "Bond Account") has been created in the Water Fund for the sole purpose of paying the principal of and interest on all Parity Bonds, including the Bonds. The City has agreed to pay into the Bond Account on or prior to the respective dates on which principal and interest are payable, all utility local improvement district ("ULID") assessments on their collection (except for ULID assessments deposited in a construction account) and certain amounts from the Net Revenue of the Water System sufficient to pay such principal and interest when due. See Appendix A—Ordinance 123168—Section 13.

Reserve Subaccount

The Reserve Subaccount has been created in the Bond Account to secure the payment of the principal of and interest on the Parity Bonds. So long as any Parity Bonds remain outstanding, the City is required to maintain the Reserve Subaccount at the lesser of Maximum Annual Debt Service or 125 percent of Average Annual Debt Service on the Parity Bonds (the "Reserve Requirement"). Under the Ordinance, the City must fund the increase in the Reserve Requirement due to the issuance of the Bonds from Parity Bond proceeds, Net Revenue in no more than five annual installments, or Reserve Insurance. See Appendix A—Ordinance 123168—Section 13. The City expects to fund the additional amount necessary to fund the current Reserve Requirement from proceeds of the Bonds.

Upon the issuance of the Bonds, the Reserve Requirement is expected to be funded as shown in the following table. Under the Ordinance, the following surety policies qualify as reserve insurance in order to satisfy the reserve requirement, as each insurer was assigned a credit rating in the two highest rating categories at the time of issuance. See Appendix A—Ordinance 123168.

Bond Issue	Surety Amount	Surety Provider	Expiration Date	Current Ratings Moody's	Current Ratings S&P
1993	$ 19,069,616	AMBAC	12/01/2023	Caa2	CC
1997	3,783,203	FGIC	08/01/2026	Withdrawn	
1998	5,397,000	AMBAC	10/01/2027	Caa2	CC
1999	4,431,090	FGIC	03/01/2029	Withdrawn	
1999B	9,440,403	FGIC	07/01/2029	Withdrawn	
2001	1,279,360	FGIC	11/01/2031	Withdrawn	
2003	4,256,356	MBIA	09/01/2033	B3	BB+
2004	3,474,371	MBIA	09/01/2034	B3	BB+
2006	3,110,214	FSA	02/01/2037	Aa3	AAA
Total Surety Amounts	$ 54,241,613				
Cash Deposit from 2008 Bond Proceeds	$ 8,936,113				
Cash Deposit from 2010 Bond Proceeds*	7,786,425				
Total Reserve Requirement*	$ 70,964,151				

* Preliminary, subject to change.

Outstanding Bonds

Outstanding Parity Bonds. The outstanding 1998 Bonds, 2001 Bonds, 2003 Bonds, 2004 Bonds, 2005 Bonds, 2006 Bonds, and 2008 Bonds issued by the City and secured by revenues of the Water System on a parity with the Bonds collectively are referred to as the "Outstanding Parity Bonds." The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds collectively are referred to as the "Parity Bonds." The following table provides a summary of the Outstanding Parity Bonds.

OUTSTANDING PARITY BONDS
(AS OF DECEMBER 1, 2009)

Bond Description	Authorizing Ordinance	Original Par Amount	Outstanding Principal on 12/01/2009
Water System Revenue Bonds, 1998*	118973	$ 80,000,000	$ 61,825,000
Water System Revenue Bonds, 2001	120547	52,525,000	46,890,000
Water System Revenue and Refunding Bonds, 2003	121094	271,320,000	202,385,000
Water System Revenue Bonds, 2004	121587	84,750,000	77,045,000
Water System Revenue and Refunding Bonds, 2005	121587	138,040,000	131,990,000
Water System Revenue and Refunding Bonds, 2006	122210	189,970,000	186,385,000
Water System Revenue and Refunding Bonds, 2008	122797, 122837	205,080,000	197,465,000
Total		$ 1,021,685,000	$ 903,985,000

* Expected to be refunded with a portion of the proceeds of the 2010B Bonds.

Other Obligations

Since 1993, the City has entered into six agreements with the Washington State Department of Community, Trade and Economic Development under its Public Works Trust Loan Program for the construction of certain capital improvements, as described below. These loans are secured by a lien on Net Revenue of the Water System junior to that of the Parity Bonds.

PUBLIC WORKS TRUST LOANS
(AS OF SEPTEMBER 30, 2009)

Year of Agreement	Amount Authorized	Amount Outstanding	Interest Rate
1993	$ 2,200,000	$ 472,866	1.00%
2005	4,040,000	3,614,737	1.50%
2007	4,040,000	3,591,111	1.50%
2008	3,030,000	3,030,000	1.50%
2008	10,000,000	0	0.50%
2008	4,040,000	0	1.50%
Total	$ 27,350,000	$ 10,708,714	

Debt Service Schedule

The following table shows the scheduled debt service on the Bonds and is followed by a table that shows scheduled debt service on the outstanding Parity Bonds.

DEBT SERVICE ON THE BONDS[(1)]

	2010A Bonds		2010B Bonds		
Year	**Principal**	**Interest[(2)(3)]**	**Principal**	**Interest[(4)]**	**Total[(3)]**
2010	-	$ 3,248,209	$ 3,335,000	$ 1,936,813	$ 8,520,021
2011	-	6,154,501	4,525,000	3,569,700	14,249,201
2012	-	6,154,501	4,660,000	3,433,950	14,248,451
2013	-	6,154,501	4,850,000	3,247,550	14,252,051
2014	-	6,154,501	5,045,000	3,053,550	14,253,051
2015	-	6,154,501	5,255,000	2,851,750	14,261,251
2016	-	6,154,501	5,525,000	2,589,000	14,268,501
2017	-	6,154,501	5,810,000	2,312,750	14,277,251
2018	-	6,154,501	6,110,000	2,022,250	14,286,751
2019	$ 3,360,000	6,154,501	3,070,000	1,716,750	14,301,251
2020	3,465,000	5,993,221	3,235,000	1,563,250	14,256,471
2021	3,575,000	5,820,664	3,410,000	1,401,500	14,207,164
2022	3,695,000	5,639,054	3,590,000	1,231,000	14,155,054
2023	3,815,000	5,447,653	3,780,000	1,051,500	14,094,153
2024	3,950,000	5,246,221	3,980,000	862,500	14,038,721
2025	4,085,000	5,033,711	4,195,000	663,500	13,977,211
2026	4,230,000	4,809,853	4,420,000	453,750	13,913,603
2027	4,390,000	4,568,193	4,655,000	232,750	13,845,943
2028	4,550,000	4,317,392	-	-	8,867,392
2029	4,720,000	4,057,450	-	-	8,777,450
2030	4,895,000	3,787,797	-	-	8,682,797
2031	5,080,000	3,508,146	-	-	8,588,146
2032	5,270,000	3,212,845	-	-	8,482,845
2033	5,470,000	2,906,500	-	-	8,376,500
2034	5,675,000	2,588,529	-	-	8,263,529
2035	5,890,000	2,258,641	-	-	8,148,641
2036	6,115,000	1,916,255	-	-	8,031,255
2037	6,345,000	1,560,791	-	-	7,905,791
2038	6,585,000	1,191,956	-	-	7,776,956
2039	6,830,000	809,170	-	-	7,639,170
2040	7,090,000	412,142	-	-	7,502,142
	$109,080,000	$ 133,724,893	$ 79,450,000	$ 34,193,813	$356,448,706

(1) Preliminary, subject to change.

(2) Preliminary; assumes interest rates ranging from 4.80 percent to 5.813 percent.

(3) Reflects taxable rates on the 2010A Bonds, but does not reflect the 35 percent interest credit associated with the 2010A Bonds.

(4) Preliminary; assumes interest rates ranging from 3.00 percent to 5.00 percent.

DEBT SERVICE ON THE OUTSTANDING PARITY BONDS[(1)]

Year	1998 Bonds[(1)]	2001 Bonds	2003 Bonds	2004 Bonds	2005 Bonds	2006 Bonds	2008 Bonds	The Bonds[(2)]	Total Parity Bonds[(2)]
2010	$ 5,241,250	$ 3,598,075	$ 17,826,826	$ 5,467,250	$ 10,913,900	$ 13,145,125	$ 13,465,750	3,761,948	$ 73,420,124
2011	5,243,750	3,588,225	17,830,301	5,466,500	10,904,400	13,130,525	13,479,350	9,512,901	79,155,952
2012	5,245,750	3,581,000	17,832,126	5,466,750	10,894,400	13,120,625	14,481,050	9,511,351	80,133,052
2013	5,247,000	3,572,750	17,841,126	5,467,750	10,883,400	13,108,000	14,477,800	9,513,151	80,110,977
2014	5,252,250	3,566,500	17,850,526	5,464,250	10,865,900	13,103,625	14,481,550	9,510,951	80,095,552
2015	5,261,000	3,557,000	17,859,726	5,466,250	10,856,650	13,096,750	14,481,550	9,509,751	80,088,677
2016	5,267,750	3,554,250	17,862,726	5,468,250	10,844,650	13,086,875	14,482,175	9,511,751	80,078,427
2017	5,277,250	3,547,750	17,830,476	5,465,000	10,839,400	13,083,250	14,477,800	9,511,751	80,032,677
2018	5,284,000	3,547,500	17,813,476	5,466,500	10,829,900	13,080,000	14,482,550	9,514,501	80,018,427
2019	5,297,750	3,543,000	17,844,726	5,467,250	10,820,650	13,076,375	14,480,550	9,514,501	80,044,802
2020	5,307,750	3,544,250	17,940,476	5,467,000	10,815,900	13,086,250	14,481,050	9,458,221	80,100,897
2021	5,318,750	3,545,750	16,195,976	5,465,500	10,819,650	13,083,750	14,483,050	9,395,664	78,308,090
2022	5,330,250	3,547,250	16,296,476	5,467,500	10,815,650	13,083,250	14,480,675	9,334,054	78,355,105
2023	5,341,750	3,543,500	16,062,476	5,467,500	10,813,400	13,078,875	14,478,050	9,262,653	78,048,204
2024	5,352,750	3,549,500	6,773,976	5,465,250	10,816,900	13,084,500	14,483,925	9,196,221	68,723,022
2025	5,367,750	3,549,500	6,773,570	5,465,500	10,804,900	13,084,000	14,477,300	9,118,711	68,641,231
2026	5,381,000	3,553,500	6,774,145	5,467,750	10,797,150	13,081,500	11,449,800	9,039,853	65,544,698
2027	5,397,000	3,556,000	6,771,770	5,466,500	7,357,400	13,080,875	11,453,925	8,958,193	62,041,663
2028	-	3,556,750	6,774,290	5,466,500	7,350,244	13,071,125	11,454,925	8,867,392	56,541,226
2029	-	3,560,500	6,771,000	5,467,250	7,344,675	13,068,588	11,452,050	8,777,450	56,441,513
2030	-	3,566,750	6,770,750	5,468,250	-	6,920,900	11,448,719	8,682,797	42,858,166
2031	-	3,570,000	6,772,250	5,464,000	-	6,918,538	11,452,613	8,588,146	42,765,546
2032	-	-	6,774,750	5,464,250	-	6,920,713	11,452,094	8,482,845	39,094,652
2033	-	-	6,772,500	5,468,250	-	6,916,975	7,078,844	8,376,500	34,613,069
2034	-	-	-	5,465,250	-	6,916,875	7,077,850	8,263,529	27,723,504
2035	-	-	-	-	-	6,919,738	7,076,500	8,148,641	22,144,879
2036	-	-	-	-	-	6,920,000	7,078,875	8,031,255	22,030,130
2037	-	-	-	-	-	6,917,213	7,079,056	7,905,791	21,902,060
2038	-	-	-	-	-	-	7,081,125	7,776,956	14,858,081
2039	-	-	-	-	-	-	-	7,639,170	7,639,170
2040	-	-	-	-	-	-	-	7,502,142	7,502,142
Total	$ 95,414,750	$ 78,299,300	$ 312,616,440	$136,662,000	$ 206,389,119	$317,184,815	$ 352,310,550	$ 270,178,732	$ 1,769,055,706

(1) Includes Refunded Bonds.

(2) Preliminary, subject to change. Does not include refunding portion of the 2010B Bonds. Reflects taxable rates on the 2010A Bonds, but does not reflect the 35 percent interest credit associated with the 2010A Bonds.

Additional Obligations

Future Parity Bonds. Future Parity Bonds may be issued upon satisfaction of certain conditions set forth in the Ordinance. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds:

(i) a certificate of the Director of Finance showing that during any 12 consecutive months out of the preceding 24 months Adjusted Net Revenue was at least equal to 1.25 times the Adjusted Annual Debt Service (the "Coverage Requirement") for all Parity Bonds plus the Future Parity Bonds to be issued, or

(ii) a certificate of the Director of Finance and the Director of SPU stating that, in their opinion, the Adjusted Net Revenue (taking into account certain permitted revenue adjustments) will be at least equal to the Coverage Requirement for the five years next following the earlier of (a) the end of the period during which interest on the Future Parity Bonds to be issued is capitalized or, if no interest is capitalized, the year in which the Future Parity Bonds are issued, or (b) the date on which substantially all the facilities financed with those Future Parity Bonds are expected to commence operations.

Future Subordinate Lien Bonds. In the Ordinance, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds.

Parity Payment Agreements. The City may enter into Parity Payment Agreements secured by a pledge of and lien on Net Revenue on a parity with the Parity Bonds, subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Ordinance 123168—Section 20.

Contract Resource Obligations. The City may enter into Contract Resource Obligations to acquire water supply, transmission or other commodity or service from facilities to be constructed. The City may determine that all payments under those Contract Resource Obligations (including payments prior to the time such supply or service is being provided or during suspension or after termination of supply or service) will be an Operation and Maintenance Expense, upon compliance with certain requirements of the Ordinance. See Appendix A—Ordinance 123168—Section 23.

Rate Covenant

The City has covenanted to establish, maintain and collect rates and charges for water service that will produce Adjusted Net Revenue of the Water System in each fiscal year at least equal to 1.25 times the Adjusted Annual Debt Service on all Parity Bonds for that year (the "Coverage Requirement"). See Appendix A—Ordinance 123168—Section 1 for definitions of "Adjusted Net Revenue" and "Adjusted Annual Debt Service," and Appendix A—Ordinance 123168—Section 18(b).

Rate Stabilization Account. The City may deposit Gross Revenue and any other money received by the Water System into the Rate Stabilization Account and may withdraw money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the Water System. No deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. As of December 31, 2008, the balance in the Rate Stabilization Account was $13.1 million. See "Water System—Financial Policies" and Appendix A—Ordinance 123168—Section 15.

Other Covenants

In the Ordinance the City has entered into other covenants, including those with respect to maintenance of the Water System, sale of the Water System and preservation of tax exemption for interest on the Bonds. See Appendix A—Ordinance 123168—Section 18.

No Acceleration of the Bonds

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal of or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

Separate Utility Systems

The City may create, acquire, construct, finance, own, and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of the separate system will not be included in Gross Revenue, and may be pledged to the payment of revenue obligations issued for the purposes of the separate system. Neither the Gross Revenue nor the Net Revenue of the Water System will be pledged to the payment of any obligations of the separate system, except as a Contract Resource Obligation or on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—Ordinance 123168—Section 22.

Combined Utility Systems

The City has reserved the right to combine the Water System with other City utility systems, including their funds and accounts. See the definition of "Municipal Water System" in Appendix A—Ordinance 123168—Section 1. Also see "Seattle Public Utilities—Administrative Structure" for a description of existing City utilities that have reserved the right to combine with other City utilities.

SEATTLE PUBLIC UTILITIES

Administrative Structure

Since 1997, Seattle's water, drainage, wastewater, and solid waste utility services have been administered under a single entity known as Seattle Public Utilities ("SPU"). Each service area has a manager responsible for ensuring that its assets perform adequately to meet defined customer service levels.

Within SPU, there are three separate funds: the Water Fund, the Drainage and Wastewater Fund, and the Solid Waste Fund. The Engineering Services Fund was eliminated in 2007 and absorbed by other funds and departments. The City has reserved the right to combine the Water System, including the Water Fund, with other City utility systems, funds and accounts.

Management

SPU consists of the Director's Office and six Executive Branches: Human Resources and Service Equity, Field Operations and Maintenance, Finance and Administration, Customer Service, Project Delivery, and Utilities System Management. The Director administers SPU in accordance with policies established by the Mayor of the City (the "Mayor") and the City Council. Brief biographies of the members of SPU's executive management team follow.

Ray Hoffman, Acting Director. Mr. Hoffman was appointed Acting Director of SPU in January 2009. Prior to this appointment, he served as director of corporate policy and performance, overseeing the utilities' external governmental relations, legislative affairs, risk management, performance measurement, and Superfund response. He is SPU's former lead for regional affairs and negotiations, and worked in recycling planning and solid waste program development for the department. Mr. Hoffman has a doctorate from the University of Washington School of Business, as well as a bachelor's degree and master's degree in accounting from the University of Illinois.

Martin Baker, Acting Deputy Director for Corporate Strategies and Communications. Mr. Baker was appointed to this position in January 2009. Previously, he served as a Strategic Advisor in the Director's Office. Prior to joining SPU, Mr. Baker served as Deputy Director, Habitat Program, with the Washington Department of Fish and Wildlife, Public Affairs Director of Regional Transit Authority (predecessor to Sound Transit), and Executive Director of the Washington Environmental Council. He graduated from the University of Washington with both a master's degree and a bachelor's degree in history.

Kimberly Collier, Deputy Director for Human Resources and Service Equity. Ms. Collier was appointed to this position in 2009. Prior to joining SPU, she was a human resources executive for Cox Communications in Arizona. A graduate of the College of New Jersey, Ms. Collier earned a bachelor's degree in management.

Nick Pealy, Deputy Director for Field Operations and Maintenance. Mr. Pealy joined SPU in 1997 as Director of Finance and was later promoted to Deputy Director for Finance and Administration. He became Director for Field Operations and Maintenance in 2005. He has worked for the City since 1987 as an economist for the City Council and as a rates supervisor and finance director for the Solid Waste Utility. He holds a bachelor's degree in political science and mathematics from Whitman College and a master's degree in economics from the University of Washington.

Melina Thung, Deputy Director for Finance and Administration. Ms. Thung was appointed to this position in 2005. Prior to that, she was Finance Director for SPU. She holds a bachelor's degree in international relations from Georgetown University, a master's degree in public administration from the University of Washington, and a master's degree in finance from Seattle University.

Lael Hoppler, Deputy Director for Customer Service. Ms. Hoppler was appointed to this position in 2006. Prior to her promotion, she was the Utility Services Team Division Director for SPU. Prior to joining SPU, she was manager of Key Accounts at Puget Sound Energy. She holds a bachelor's degree in electrical engineering from the University of Washington and a master's degree in business from Seattle University.

Nancy Ahern, Deputy Director for Utility Systems Management. Ms. Ahern was appointed to this position in 2005. She joined SPU in 2001 as Deputy Director for Resource Management. Prior to that appointment she was manager of the Water and Land Resources Division for King County. Ms. Ahern holds a bachelor's degree in biology and environmental studies from Principia College and a Ph.D. degree in natural resource management from the University of Michigan.

Linda De Boldt, Deputy Director for Engineering Services. Ms. De Boldt was appointed to this position in 2007. She is a professional engineer with 23 years of experience in public works engineering and management for the City. She has worked for the City as a design engineer, engineering manager, and division director in the fields of transportation, drainage, wastewater, water supply and treatment, and environmental restoration. She graduated from the University of Washington with a bachelor's degree in civil engineering

Employee Relations and Employment Retirement System

Currently SPU has approximately 1,400 regular employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System." Approximately 70 percent of SPU employees are represented under one of ten labor agreements with unions. SPU is currently negotiating with one union on a labor agreement that expired December 31, 2008. Currently there is no expected date by which an agreement will be reached, and the union continues to operate under the expired contract. Nine additional labor agreements are effective through December 31, 2010. SPU believes that labor relations are satisfactory. See "The City of Seattle—Labor Relations."

WATER SYSTEM

General

The Water System was established in 1890. It currently includes two watershed sources of supply east of the City and two small wellfields south of the City, as well as approximately 1,800 miles of pipeline and 400 million gallons ("MG") of storage capacity in transmission and distribution reservoirs. The Water System's service area includes Seattle and portions of the Cities of Shoreline, Burien and Lake Forest Park, as well as a portion of unincorporated King County served directly (the "direct service area"), and areas served by 21 suburban water districts and municipalities and the Cascade Water Alliance ("CWA") (together, the "Wholesale Customers") in King County (the "County"). The population of the Water System's direct service area is approximately 649,000, and the population of the area indirectly served through the Wholesale Customers is approximately 753,000. The map on the inside front cover shows the Water System's service area and the locations of the Wholesale Customers. A summary of operating statistics for the Water System follows.

WATER SYSTEM OPERATING STATISTICS

	2004	2005	2006	2007	2008
Population Served					
Retail	629,500	628,529	624,134	642,385	649,286
Wholesale(1)	718,700	725,167	737,619	746,589	753,406
Total Population Served	1,348,200	1,353,696	1,361,753	1,388,974	1,402,692
Water Sales Revenues ($000)(2)(3)					
Retail	$ 101,190	$ 95,382	$ 101,122	$ 102,334	$ 106,689
Wholesale	38,524	40,406	40,826	41,558	42,884
Total Water Sales Revenues	$ 139,714	$ 135,788	$ 141,948	$ 143,892	$ 149,573
Billed Water Consumption (MG)(3)					
Retail	22,436	21,199	21,783	21,311	20,599
Wholesale	24,312	22,183	23,826	22,741	22,255
Total Billed Water Use	46,748	43,382	45,609	44,052	42,854
Operating Costs ($ per MG)(4)	2,160	2,658	2,844	3,143	3,423
Gallons Used per Day per Capita	95	88	92	87	84
Retail Meters in Use	180,682	181,914	183,576	185,272	187,032
Number of New Retail Meters	802	1,232	1,662	1,696	1,760
Total Water Diversions (MGD)	141.7	127.6	131.2	125.9	125.1
Non-Revenue	13.9	8.7	6.3	5.2	8.0
% Non-Revenue	9.8	6.8	4.8	4.1	6.4

(1) This is the estimated total population served by SPU's water supply. As some Wholesale Customers obtain some or all of their water from sources other than SPU, this number is less than the total population shown in the shaded areas on the map on the inside front cover.

(2) Revenues represent payments from customers for service provided at published rates in each year. Revenues shown are not net of transfers to the Rate Stabilization Account or other credits or deferrals of income.

(3) Revenue increases have been a result of increases in rates, as retail consumption steadily decreased from 2004 to 2008 due largely to conservation efforts. Variations in billed water use are primarily associated with year-to-year variations in temperature and precipitation in the summer irrigation period and, in 2005, drought messaging early in the year. There has been no change in the geographic area served nor any appreciable change in the number or composition of retail customers.

(4) The increases in per unit operating costs are primarily due to increased depreciation and watershed management expenses, expenses related to the new Cedar Treatment Facility, and higher taxes resulting from an increase in the City's utility tax rate in 2005.

Source: Seattle Public Utilities

Comprehensive Planning

The SPU Water System Plan (the "Water System Plan") is the 20-year comprehensive plan for the Water System. The most recent Water System Plan was approved by the Washington State Department of Health (the "DOH") in 2007. The Water System Plan provides guidance for planning and operating the Water System, and includes objectives for the next six years in the areas of water quality, maintenance and rehabilitation, water conservation, and water supply.

Water Supply

The Water System's two surface water supply diversions are located on the Cedar River and on the South Fork of the Tolt River, each approximately 25 miles east of Seattle. The watershed areas upstream of the water supply intakes on these two rivers consist of approximately 104,000 acres of forest land in the Cascade Mountains of western Washington. Rainfall in the watersheds averages in excess of 100 inches annually. The snow pack at higher elevations averages five feet per year. Raw water storage capacity is 84,000 acre feet in the Cedar River Watershed and 56,000 acre feet in the Tolt River Watershed.

The City has diverted water from the Cedar River for use by the Water System since 1902. The City acquired this right by purchase, riparian right, appropriation, and other applicable laws. This claim of water rights, its relationship to instream flow requirements and the effect of the City's diversion dam in blocking passage of anadromous fish have been addressed in the Cedar River Watershed Habitat Conservation Plan (the "HCP"), a comprehensive, 50-year set of legal agreements with State and federal governments signed in 2000. In 2006, in a comprehensive settlement with the Muckleshoot Indian Tribe regarding the Cedar River Watershed, the City agreed to further limits on its annual diversions. The City agreed to dedicate that portion of its water right above 124 million gallons per day ("MGD") to instream flows, and to certain limits on its annual diversions from the Cedar River in perpetuity. The agreement resolved long-standing issues between the City and the Muckleshoot Indian Tribe and strengthened the status of the City's water rights on the Cedar River.

The establishment of water rights under State law is a complex process subject to ongoing interpretation and litigation. The City's water rights on the South Fork of the Tolt River were established by permits for water storage and water diversion granted by the State in 1957, with a priority date of July 14, 1936. The reservoir storage certificate was issued in 2003, but the diversion water right remains in permit status. In 1989, the Federal Energy Regulatory Commission granted a license to Seattle City Light to build a hydroelectric power plant on the South Fork of the Tolt River, resulting in modifications to the terms of the original water permits. In 1997, Seattle City Light documented the full beneficial use of the water needed for the hydropower plant and received a certificate of water right.

In two wellfields located immediately north of the Seattle-Tacoma International Airport (the "Seattle Well Fields"), the City has developed three supply wells with a combined capacity of 10 MGD to augment the City's surface water supply. The feasibility of augmenting recharge of the aquifer with surplus winter-spring flows from the Cedar River has been tested successfully. The wells are operated under temporary permits from the State of Washington Department of Ecology ("Ecology"). The City has applied for permits that can be converted into water rights.

In addition to the surface water supply diversions and the wellfields, the City has two barge-mounted pumping plants on Chester Morse Lake for use in the event of droughts. Each plant has the capacity to pump up to 120 MGD of high quality water from below the lowest natural outlet of the lake.

The City also has water rights applications on file with Ecology for potential future sources of supply, including the North Fork Tolt River, the Snoqualmie Aquifer, and an additional groundwater well near the Seattle Well Fields. See "Future Water Supply and Conservation."

The administration of water rights in Washington is a matter of ongoing development and debate in the State Legislature and the courts.

Future Water Supply and Conservation

At present, SPU has adequate supply resources to meet Water System demands under a wide range of weather conditions. Existing sources of supply owned by the City provide an average annual firm yield of 171 MGD, an increase from 160 MGD in 2001 due to the completion of a new filtration plant on the South Fork Tolt River, which removes some of the restrictions on reservoir drawdowns. Demand in the service area has averaged less than 130 MGD since 2005.

While population has steadily risen in SPU's water service area, water demand has been decreasing due to conservation. Conservation has been encouraged through higher marginal rates in the summer peak season, aggressive water conservation programs, new state plumbing codes specifying efficiency standards for water fixtures, and improved system operations. Between 1999 and 2008, these programs and actions achieved an estimated cumulative average annual savings of almost 30 MGD. Conservation programs currently in place include the One Percent Regional Conservation Program, which was initiated in 1999 with the goal of holding demand flat in the face of population growth for at least ten years. Additionally, in 2001, the City enacted a more aggressive conservation program designed to reduce the aggregate level of demand for water by an additional three MGD by 2010, with an emphasis on low income participation and system-wide efficiencies.

In 2003, the State Legislature passed a Municipal Water Law that resulted in the adoption of water use efficiency rules by DOH. The rules include planning requirements, distribution leakage standards, water use efficiency goal-setting, and performance reporting. SPU's 2007 Water System Plan includes a new conservation program to provide 15 MGD of cumulative savings from 2011 through 2030 to provide a baseline level of conservation and a six-year conservation goal to achieve compliance with the Municipal Water Law. See "Capital Improvement Program."

Current forecasts of demand and supply suggest that a new primary source of supply will not be needed until sometime after 2060. This is due in part to the impact of the conservation savings noted above and in part to the declining-block contract with the CWA, which became effective in 2004. See "Wholesale Customer Contracts." SPU considered the potential uncertainties associated with demand forecasts, as well as the potential impacts future climate change may have on its water supplies, in determining that no significant investments in new sources are needed at this time. Nevertheless, in addition to new conservation programs, several potential new water resources have been identified. These include:

(i) development of the Snoqualmie River Valley/North Bend Aquifer,

(ii) use of a permanent pumping plant at Chester Morse Lake for normal supply,

(iii) drawdown of Lake Youngs (which stores water from the Cedar River) for water supply,

(iv) additional drawdown of the reservoir on the South Fork of the Tolt River,

(v) development of a new source of supply at the North Fork of the Tolt River, and

(vi) development of reclaimed water projects in the retail service area.

Endangered Species Act

In 1999, the National Marine Fisheries Service ("NMFS") listed the Puget Sound Chinook salmon, which migrate through waterways within and adjacent to the City, as a "threatened species" under the Endangered Species Act (the "ESA"). NMFS subsequently finalized a "4(d) rule" extending the ESA's prohibition against "take" to Puget Sound Chinook salmon. This rule enables jurisdictions to submit plans that, if approved, would limit the application of the general prohibition to activities covered in the plan. Eligible activities include certain municipal, residential, commercial, and industrial development activities, certain road maintenance activities and certain forestry activities. The full implications of this listing and the 4(d) rule for the Water System are difficult to predict due to the many legal and scientific uncertainties associated with the application of the ESA to water supply operations.

In an effort to reduce uncertainty with regard to its largest water supply source, the Cedar River, the City entered into the HCP with the U.S. Fish and Wildlife Service ("USFWS") and NMFS in 2000. The HCP specifies the measures the City will undertake to minimize and mitigate potential impacts on listed species. The HCP commits the City to spend about $100 million (in 2008 dollars) to improve conditions for fish and wildlife within the Cedar River Watershed through the year 2050. See "Watershed Management Policies" and "Capital Improvement Program." While these measures include commitments to instream flow levels, the Water System's estimated firm yield would not be impacted adversely by the HCP. The incidental take permit, which the City was issued when the HCP was approved, protects the City from ESA liability resulting from potential impacts of the Water System's Cedar River operations on Chinook salmon, bull trout, steelhead, northern spotted owls, marbled murrelets, bald eagles, and approximately 76 other species of fish, mammals, birds, and amphibians known to be present and potentially affected by the City's water supply and hydroelectric and land management activities.

The second major Water System supply is drawn from the South Fork of the Tolt River with the aid of a dam. Streamflow levels downstream from the impoundment are affected by dam operations and water diversions, with potential impacts on Chinook salmon and steelhead, which are both listed under the ESA as threatened. The City, tribes and several federal agencies entered into the Tolt River Settlement Agreement in 1988, which included commitments for streamflows and habitat improvements that are intended to mitigate for impacts caused by the City's water supply and power generation operations.

Bull trout also have been listed as threatened and endangered and other fish listings can be anticipated. Because it is unknown whether bull trout are present in the Tolt River, the impact of the bull trout listing on the Tolt River and other City operations is unknown.

It is likely that other activities will be affected by the ESA. Facility construction and maintenance activities are under considerable environmental scrutiny, so at a minimum there are likely to be delays in permitting while federal, State and local agencies continue to sort out their respective regulatory roles. The extent to which additional costs will be incurred for mitigation specifically related to ESA is unknown.

To further manage legal risks, the City has invested in Chinook salmon research for its major waterways and participated in regional watershed planning for the Cedar River, the Snohomish/Tolt Rivers and the Green/Duwamish Rivers. As a result, it has assembled substantial data on Chinook salmon and new scientific methods that provide the basis for development of best management practices ("BMPs") in several key City activity areas, including BMPs for water maintenance activities within road rights-of-way. In addition, salmon research and funding of staff at federal regulatory agencies responsible for ESA Section 7 consultations are allowing better project design, which is expected to result in fewer anticipated permit delays.

The City and SPU expect that additional funding will be needed to support habitat restoration programs that address salmon-related policy objectives. Funding for these programs is expected to come from a variety of sources, including City water rates, drainage and wastewater rates, taxes or fees imposed by other local jurisdictions, and federal and State grants.

Transmission Facilities

The transmission facilities of the Water System consist of multiple primary transmission lines from the Cedar River, one transmission line and substantial portions of a second line from the Tolt River ("Tolt 1" and "Tolt 2") and a network of supply mains throughout the total service area. In all, there are approximately 160 miles of primarily concrete or steel pipelines ranging in diameter from 30 to 96 inches.

After two segments of Tolt 1 ruptured in the late 1980s, the entire pipe was replaced or sliplined with new pipe by 2005. In addition, for both reliability and new capacity, approximately 18 miles of Tolt 2, a second transmission pipeline from the Tolt source, were constructed beginning at the Tolt Regulating Basin and running parallel to and interconnecting with Tolt 1 at several locations. The cathodic protection program is also being expanded to extend the service life of both steel and concrete cylinder pipelines.

To assist in maintaining water flow to the distribution portion of the Water System, the transmission system includes two regulating basins, six storage reservoirs and three elevated tanks. In addition, there are ten transmission pumping stations with a total rated capacity of more than 140,000 gallons per minute ("GPM"). The following table shows the hydraulic capacities of the primary transmission lines and the transmission regulating basins and reservoirs of the Water System.

CAPACITY OF INDIVIDUAL COMPONENTS OF THE TRANSMISSION SYSTEM [(1)]

Facility	Capacity
Transmission Lines (MGD)	
Cedar River	200
Tolt River	135
Total	335
Raw Water Storage Facilities (MG)	
Lake Youngs (regulating basin)[(2)]	4,812
Tolt Regulating Basin[(2)]	312
Total	5,124
Treated Water Storage Facilities (MG)	
Reservoirs	185
Elevated Tanks and Other Storage	5
Total	190

(1) Treatment capacity is 120 MGD on the Tolt River source and 180 MGD on the Cedar River source. Equalizing reservoirs (clearwells) at the outlet of the treatment plants (5 MG on the Tolt River supply, 20 MG on the Cedar River supply) make it possible to deliver higher flow rates as needed into the transmission system for several hours. Averaged over several days, though, effective transmission capacity cannot exceed treatment capacity, as all water must be treated.

(2) Effective capacity under current operating guidelines is less than hydraulic capacity.

Source: Seattle Public Utilities

During the month of record maximum consumption, July 1985, the transmission lines delivered an average of 301 MGD. Water delivery by transmission pipelines on peak days at present does not typically exceed 250 MGD.

Storage and Distribution

Storage of water within the distribution portion of the Water System is accomplished by nine reservoirs, seven standpipes and two elevated tanks with capacities as follows:

CURRENT DISTRIBUTION CAPACITY (MGs)

Reservoirs	197.5
Standpipes	9.0
Elevated Tanks	2.0
Total	208.5

Source: Seattle Public Utilities

SPU operates under storage guidelines promulgated by the DOH. In 1997, SPU demonstrated the adequacy of its distribution and transmission storage volumes by using a computerized hydraulic model of the system to simulate a suite of emergency and peak demand conditions. The DOH approved the method and results as part of the 2007 update to SPU's Water System Plan.

The distribution system consists of approximately 1,640 miles of predominantly cast iron and ductile iron pipe and some concrete cylinder and steel pipe. To assist in maintaining adequate pressure within the distribution system, there are 17 electric and hydraulic pumping stations with a total rated pumping capacity of 149 MGD.

The storage and distribution facilities and conservation incentives have met the needs of the expanding population in the service area. Peak day consumption levels as high as 329 MG and 348 MG were recorded on June 29, 1987, and July 15, 1970, respectively. However, in the last five years, peak daily consumption has averaged about 236 MG.

In 2008, SPU's total uses of non-revenue producing water (leakage, system cleaning and flushing, fire fighting, and lake flushing) was estimated to be 8.0 MGD, or 6.4 percent of total water produced. System-wide leakage losses for 2008 were approximately 6.0 MGD.

System Reliability

Since the late 1980s, several engineering evaluations have been made of the major parts of the Water System to assess its reliability in the event of a major earthquake. Analysis has included the effects of (i) a magnitude 7.5 earthquake centered under critical water system facilities such as reservoirs and transmission lines, and (ii) a magnitude 8.25 subduction earthquake within 95 miles of critical facilities. Overall, Water System facilities generally are expected to remain operational in the event of a major earthquake. Most of the tank-type reservoirs, both elevated tanks and standpipes, are predicted to sustain some damage and leakage resulting in water outages until repairs can be made.

Since 1993, several tanks and standpipes have been replaced or retrofitted with additional supports. Other potential upgrades or replacements will be undertaken if it is determined that benefits outweigh costs. The two transmission pipeline seismic upgrades and a major valve control structure identified by the original seismic evaluations have been completed. While the ultimate cost of the remedial work is uncertain, SPU believes that the projects and costs already included in the Capital Improvement Program (the "CIP") represent the major portion of the costs of the identified remedial program.

SPU has an active program to identify and analyze security risks to the Water System's critical assets and systems, and to invest in strategies to lower risks, develop emergency plans, and train employees for improved response. The Water System's integrated security system includes access control devices, door and hatch contacts, alarms, CCTV, and around-the-clock monitoring and surveillance. The reservoir covering program is providing communities with multiple benefits, including improved water quality and security. Every year, SPU conducts vulnerability and risk assessments; invests in security countermeasures; and partners with local, State and Federal agencies to coordinate planning and response activities.

Over the last three years, SPU has developed and equipped a Wildland Fire Team to attack and suppress Wildland fires that may start on the South Fork Tolt or Cedar River Watersheds. To supplement classroom training and planned field exercises, the team participates in mobilization training missions on actual wildfire events at the request of the State or Federal government during wildfire emergencies, when available.

Water Quality

SPU has a comprehensive source-to-tap water quality management program. Water quality is ensured through an integrated effort of source protection, state-of-the-art treatment and ongoing monitoring throughout the system for potential microbial and chemical contaminants.

SPU owns the Cedar River Watershed and 70 percent of the South Fork Tolt River Watershed (the other 30 percent is U.S. Forest Service land) above the intake points. Protection of the two watersheds from agricultural, industrial and recreational activities helps ensure that high quality water is delivered to 1.3 million people in the Seattle area. In addition to the two primary surface sources, three wells on an aquifer south of the City periodically provide a small portion of the City's water supply. These wells, collectively known as Seattle Well Fields, are deep and afford natural protection from contamination.

In 2001, SPU commissioned a new treatment plant for the South Fork Tolt River supply with a maximum treatment capacity of 120 MGD. The Tolt filtration plant is operated under a long-term contract with American Water/CDM. The plant provides primary treatment for the Tolt supply using treatment process including ozonation, direct filtration, pH and alkalinity adjustment, and chlorination.

On the Cedar River source, water is screened and fluoridated at the Landsburg Cedar River Diversion facilities ahead of traveling through transmission pipelines to Lake Youngs. Primary treatment for the source is provided by the new Cedar Water Treatment Plant at the outlet of Lake Youngs. The plant was commissioned in 2004, with a maximum treatment capacity of 180 MGD. The Cedar treatment plant is operated under a long-term contract with CH2M HILL OMI. The plant treatment processes include ozonation, ultraviolet light disinfection, pH adjustment, and disinfection with chlorine.

When Seattle Well Fields are in operation, treatment includes chlorination, fluoridation and pH adjustment. The intent of treatment is to protect public health and to comply with treatment and monitoring requirements of the DOH. SPU operates a water quality laboratory accredited by Ecology for bacteriological and chemical analyses to help ensure compliance with drinking water standards.

As an operator of a community water system, SPU must comply with treatment and monitoring requirements of the Safe Drinking Water Act of 1974 as amended and any additional requirements as specified by the DOH. Water quality parameters and regulations of particular significance are discussed below.

Surface Water Treatment. The federal Surface Water Treatment Rule established filtration and disinfection requirements for public water systems utilizing surface sources. Since startup of the Tolt Treatment Facility in 2001, the Tolt supply has been treated to meet these requirements.

The Surface Water Treatment Rule also established criteria for unfiltered systems with a Limited Alternative to Filtration ("LAF"), including (i) watershed protection and management, (ii) raw water quality, (iii) treatment efficiency and redundancy, and (iv) some aspects of distribution system water quality. In 2004, SPU began operation of the new Cedar Treatment Facility under the requirements of the LAF.

In 2006, the United States Environmental Protection Agency (the "EPA") issued the Long-Term 2 Enhanced Surface Water Treatment Rule, which requires higher levels of treatment for water sources with higher levels of *Cryptosporidium*. SPU has completed monitoring for *Cryptosporidium* in the Tolt and Cedar supplies. The results showed extremely low levels, and no change of water treatment is required.

Lead and Copper. Lead and copper have not been detected in the source water. Lead in water normally comes from plumbing materials, primarily from corrosion of lead solder used to connect copper pipes and corrosion of brass fixtures that contain lead. SPU recognized this as a potential problem over 25 years ago and has been treating the water to reduce its corrosiveness since the early 1980s. The City was the first municipality in the nation to ban the use of lead solder in potable plumbing systems. The steps taken in the last two decades to reduce the corrosiveness of the water have been successful in reducing lead levels at customer taps. Results from residential tap sampling in 2004 showed further reduction in lead and copper levels since the Tolt Treatment Facility came on line, corrosion control was optimized, and two Tolt service area reservoirs were covered. At the request of the DOH, the sampling frame was partitioned in 2004 into four subregions. Monitoring has continued to show that all four subregions are below the lead and copper action levels required by regulations.

Disinfection Byproducts. The use of disinfectants, such as chlorine, to provide protection against microbes in water can result in the formation of disinfection byproducts ("DBPs") when the disinfectants react with organic matter in the water. SPU meets current (Stage 1 DBP Rule) regulatory standards for DBPs. In addition, SPU has completed investigatory monitoring for the Stage 2 DBP Rule (issued in 2006), and anticipates meeting the more stringent requirements of the Rule when it takes effect in 2012, without any changes to the water system.

Open Reservoirs. The 1994 revisions to DOH drinking water regulations required the development of a plan to cover all open distribution reservoirs. SPU developed and is now implementing a Reservoir Covering Plan, which the DOH approved. SPU plans to continue with this plan to comply with the reservoir covering requirements of the Long-Term 2 Enhanced Surface Water Treatment Rule. Since 2002, SPU has covered five reservoirs, and expects to complete a sixth reservoir covering in 2010. One additional reservoir, the 60 MG Maple Leaf Reservoir, was taken out of service in summer 2009 for replacement with a covered structure, which is targeted for completion in 2012. Shortly after the completion of the Maple Leaf Reservoir, SPU expects to remove its remaining two open storage facilities, the Roosevelt and Volunteer Reservoirs, from service. SPU plans to decommission the Roosevelt Reservoir, the larger of the two, and must conduct additional evaluation on the Volunteer Reservoir before a final decision can be made on its decommissioning. SPU also maintains an Open Reservoir Protection Plan with annual updates submitted to the DOH.

Arsenic. EPA's Maximum Contaminant Level ("MCL") for arsenic is ten parts per billion ("ppb"). Testing of the City's two primary drinking water sources from the Tolt and Cedar River watersheds indicate that arsenic is not present above one part per billion, the analytic detection limits. Naturally occurring arsenic concentrations in the Seattle Well Fields have ranged from 1.5 to 5.7 ppb.

Radon. Radon is a radioactive gas that emits ionizing radiation and may be released from tap water. No current rule regulates radon in water. EPA proposed a Radon Rule in 1999; however, there has been very little activity by EPA in the regulation of radon in drinking water in the past few years, so it is unknown if and when a new regulation might be issued. Radon has not been detected in samples analyzed from the Cedar and Tolt supplies. While the seasonally operated Seattle Well Fields contain naturally occurring radon, SPU expects to be able to comply with the proposed Radon Rule requirements under current operational practices.

Watershed Management Policies

SPU carries out programs of watershed resource management, fire protection and the protection of water resources within the Cedar River and South Fork of the Tolt River Watersheds. Seattle City Light also operates small hydroelectric plants in the Cedar River and Tolt Watersheds.

Land development impacts and more stringent regulatory standards have made ownership of the property in the watersheds an increasingly important element of SPU's overall strategy to preserve and enhance water quality. The City now owns more than 99 percent of the 141-square-mile Cedar River Watershed. The City owns 70 percent of the 21-square-mile South Fork of the Tolt River Watershed, and the U.S. Forest Service owns the remainder.

Consolidated ownership of the Cedar River basin has resulted in strengthening forest management, wildlife and other programs that are based upon comprehensive management policies adopted in 1989 to guide the secondary uses of the watershed. In 2000, the City committed to discontinuing timber harvest for commercial purposes over the 50-year lifespan of the Cedar River Watershed HCP. While trees may be cut, timber harvests are allowed only when they benefit fish or wildlife populations and support the goals and objectives of the HCP.

The HCP commits the City to improving fish and wildlife habitat, including providing salmonid fish passage above the Landsburg diversion dam, ecological and restoration thinning and planting of more than 17,000 acres of second growth forest, restoration of riparian, wetland and stream habitats, and the abandonment of more than 200 miles of logging roads in the watershed.

A watershed management plan was developed for the South Fork Tolt River Watershed in 2008 to provide a long-term framework for managing the land and natural resources in the South Fork Tolt River Watershed.

Wholesale Customer Contracts

Approximately 28 percent of water sales revenue is derived from wholesale sales to Wholesale Customers. Wholesale Customers consist of 21 water districts and municipalities served under individual contracts and the CWA, a consortium of eight municipalities and water districts that includes five formerly served under individual contracts.

Sales to eight Wholesale Customers (representing four percent of water system sales by volume of water consumed and eight percent of wholesale consumption) are governed by contracts that expire in 2011 (the "1982 Contracts"). These 1982 Contracts obligate the City to meet the Wholesale Customers' demand for water (except in emergency conditions) and provide the City with the long-term commitments requisite to investing in future Water System expansions to serve the Wholesale Customers. Under these 1982 Contracts, any Wholesale Customer that decides to develop alternative sources and leave the Water System must give five years' notice and hold harmless the City and remaining Wholesale Customers from any increased capital and operating costs allocated to them as a result of such withdrawal. Negotiations on replacement contracts began in early 2009 and are expected to be complete before the 1982 Contracts expire.

Since 2001, 12 Wholesale Customers, representing about 49 percent of total Wholesale Customer consumption and 24 percent of total system consumption, have signed fixed block or full and partial requirements contracts with a 60-year term (the "2001 Contracts"). The full and partial requirements contracts obligate the City to meet the Wholesale Customers' demand that is not already met by their independent sources of supply. The 2001 Contracts also facilitate the development by Wholesale Customers of alternative sources of water and the reduction of purchases from the City.

SPU signed a 50-year declining block sales contract with CWA in 2003 that capped CWA demand from the Water System at 30.3 MGD through 2023, when the block volume begins to decline. In 2009, the contract was amended to increase the CWA block to 33.3 MGD from 2009 through 2017 and to 35.3 MGD from 2018 through 2023, after which the block begins to decline. CWA's 2008 demand represents about 43 percent of total Wholesale Customer consumption and 22 percent of system consumption. CWA expects to develop sources of supply to satisfy the future water demands of CWA members above the cap amount and is pursuing the use of Lake Tapps in Pierce County as a potable water supply. In June 2009, CWA requested negotiations to further amend the contract, delaying the year in which the block volume begins to decline, and to consider further increments in block size. This would allow CWA to delay development of Lake Tapps.

In 2008, SPU signed a 60-year partial requirements contract with the City of North Bend to provide untreated water for North Bend's use in supplementing stream flows affected by their well operation. This contract has a cap of 1.1 MGD. Water deliveries began in 2009.

SPU currently serves approximately 11,000 retail customers in the City of Shoreline, directly north of Seattle. This represents approximately half of the retail customers in Shoreline. The remainder are served by Shoreline Water District, which is a wholesale customer of SPU. In November 2009, the City of Shoreline requested to begin negotiations to acquire SPU's water distribution system to provide retail service within its city limits. Under the ordinances of the City authorizing the issuance of the outstanding Parity Bonds, the City may sell or transfer any facilities or property of the Water System if the aggregate depreciated cost value of the facilities or property being transferred in any fiscal year comprises no more than three percent of the total assets of the Water System. See Appendix A—Ordinance 123168—Section 18(c). The aggregate depreciated cost of value of SPU's water distribution system in Shoreline is less than three percent of the total assets of the Water System. If SPU determines to sell or transfer its water distribution system in Shoreline, SPU expects to continue to provide wholesale water service to the City of Shoreline, and does not expect that any such sale or transfer would have a material adverse impact on the City's ability to pay principal of and interest on the Bonds when due.

The following table lists consumption in hundred cubic feet ("ccf") by individual Wholesale Customers and revenues generated by water sales to individual Wholesale Customers in 2008.

WATER SALES TO WHOLESALE CUSTOMERS IN 2008[(1)]

Wholesale Customer	Consumption(CCF)	Revenue
Cascade Water Alliance[(2)]	12,971,482	$ 16,536,510
Northshore[(2)(3)]	2,441,109	4,922,909
Highline[(2)]	2,473,927	3,359,495
Woodinville[(2)(3)]	1,956,618	3,126,813
Soos Creek[(2)(3)]	1,981,264	2,892,979
Water District #20[(2)(3)]	1,358,086	1,795,181
Cedar River[(2)]	872,814	1,403,818
Mercer Island[(2)(3)]	1,039,660	1,462,388
Bothell[(3)]	725,123	1,363,896
Shoreline[(2)(3)]	850,414	1,072,099
Coal Creek[(2)(3)]	516,395	808,392
Water District #49	585,791	788,975
Water District #125[(2)]	549,107	721,021
Water District #90[(3)]	550,935	754,129
Olympic View[(2)]	406,802	539,021
Duvall	222,695	455,074
Water District #119[(3)]	117,871	240,668
Water District #45[(2)(3)]	94,013	123,919
Renton	38,125	73,589
Other Purveyors	40	9,272
Total	29,752,271	$ 42,450,148

(1) Figures are 2008 metered water consumption and associated revenue from SPU records, not net of certain credits, accruals, and allowances included in the audited financial statements.

(2) Indicates Wholesale Customers that have signed a new contract (Full Requirements, Partial Requirements, Declining Block, or Fixed Block).

(3) Indicates Wholesale Customers that buy all their water from SPU.

Source: Seattle Public Utilities

Major Retail Water Users

There are no major water-intensive users in the service area. The Water System's ten largest retail water users in 2008 were the University of Washington, the City of Seattle, the Port of Seattle, Seattle Steam, Nucor Steel, BPB Gypsum, Inc., Harborview Medical Center, Pepsi Bottling Group, Swedish Medical Center, and Virginia Mason Medical Center. In the aggregate, revenue from these customers was less than eight percent of operating revenues in 2008.

Water Rates

Establishment of Rates. Water rates are proposed by the Mayor, reviewed by the City Council and adopted after public hearings. The Mayor and the City Council have exclusive authority to set rates and charges for water services. The City is not subject to the rate-making jurisdiction of the Washington Utilities and Transportation Commission or any other State or federal agency.

The following table shows water rate increases since 2000.

Year	Rate Increase
2000	19.1%
2001	5.9
2002	5.6
2003	14.5
2004	10.6
2005	0.2
2006	0.8
2007	4.6
2008	5.9
2009[(1)]	11.7
2009[(2)]	6.9

(1) January 1, 2009.

(2) March 31, 2009; a temporary surcharge through December 31, 2010, to cover costs related to *Lane v. City of Seattle, 2008.* See "Litigation and Claims."

Source: Seattle Public Utilities

The following table shows the rates in effect as of March 31, 2009. Both retail and wholesale rates are seasonally differentiated; the summer residential rate has an inclining block structure. The structure and basis for rates to Wholesale Customers served through master meters are governed by the Wholesale Customer contracts.

SEATTLE WATER SYSTEM
MONTHLY WATER RATES EFFECTIVE IN 2009

	Residential [(1)]	Commercial [(1)]	Wholesale Customer (1982 Contracts/2001 Contracts)
Commodity Charge ($ per ccf)			
Winter (eight months)	$ 3.25	$ 3.25	$ 1.19/1.14
Summer (four months)		4.12	1.83/1.77
Up to 5 ccf	3.58	NA	NA/NA
Next 10 ccf	4.12	NA	NA/NA
Over 15 ccf	10.62	NA	NA/NA
Growth charge [(2)]	NA	NA	0.31/0.60
Basic Service Charge ($ per month)[(3)]			
3/4"	$ 11.68	$ 11.68	NA/NA
1"	12.01	12.01	$ 54.00/NA
1-1/2"	18.62	18.62	60.00/NA
2"	24.80	24.80	66.00/NA
4"	109.10	109.10	108.00/NA

(1) Rates in the direct service area include a temporary 10.2 percent surcharge imposed through 2010 on retail customers to recover costs related to *Lane v. City of Seattle*. See "Litigation and Claims." Retail rates to customers outside the City limits and not within the City of Shoreline are 14 percent higher than in the table above. Rates for customers within the City of Shoreline are 21 percent higher than in the table above.

(2) An individual Wholesale Customer pays a growth charge on any purchases in excess of purchases in the base period (1979–81).

(3) The Basic Service Charge is based on the size of the customer's meter. Rates for larger meters are not shown.

Source: Seattle Public Utilities

Rate Comparisons. SPU's water rates have risen faster than the rate of inflation over the past five years and now are above the average of other cities of its size. The following table shows July 1, 2009, representative water bills for SPU compared to other cities in the region.

REGIONAL COMPARISONS
(RATES IN EFFECT AS OF JULY 1, 2009)

City	State	Residential (5.5 ccf/month)	Commercial (500 ccf/month)	Industrial (15,000 ccf/month)
Seattle	Washington	$30.56	$ 1,833.80	$53,677.29
Bellevue	Washington	27.13	1,782.02	50,838.69
Tacoma	Washington	21.99	758.06	18,143.05
Portland	Oregon	20.80	1,266.36	36,663.11
Everett	Washington	13.20	598.40	14,748.40

Source: SPU Survey

Billing. SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Inside the City, residential customers receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services, while commercial customers receive a combined utility bill that itemizes amounts due for water and wastewater. Customers outside the City receive bills for water only. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is transferred to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, water may be shut off when an account is delinquent, and outstanding balances are considered a lien on the property. Delinquent charges bear interest at the rate of 12 percent per *annum*. Total 90-day-plus outstanding balances for SPU billed water, wastewater and solid waste services were $2.3 million (less than one percent of annual revenue) as of September 2009. These figures include active and inactive debt since 2006.

Capital Improvement Program

Capital investments are guided by the Water System Plan and multi-year CIP, which is developed within the framework of the Water System Plan and included in the Capital Improvement Program of the City as a whole. The CIP is reviewed, revised and adopted annually by the Mayor and City Council as part of the City's budget process. The CIP identifies facility needs and financing for rehabilitation, enhancement and expansion of the Water System. Currently the main areas of focus are to rehabilitate the water distribution system and make water quality improvements.

Including the Bonds, SPU expects to issue approximately $424 million in long-term debt for the CIP during the period 2010 through 2015. Annual debt service is expected to rise from $70 million in 2009 to $94 million in 2015.

The CIP is organized into program areas: (i) Distribution, (ii) Transmission, (iii) Watershed Stewardship, (iv) Water Quality and Treatment, (v) Water Resources, (vi) Habitat Conservation Program, (vii) Shared Cost Projects, and (viii) Technology, as shown in the table below. The amount shown for each program area in 2009 is based on the current 2009 City budget; the amounts shown for 2010 through 2015 are based on the City's adopted CIP.

WATER SYSTEM
CAPITAL IMPROVEMENT PROGRAM
(Amounts in Thousands of Nominal Dollars)

	ADOPTED							
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Program Area								
Distribution	$ 22,008	$ 22,380	$ 21,277	$ 34,827	$ 34,846	$ 40,209	$ 42,497	$ 218,044
Transmission	2,910	3,173	3,255	3,824	3,791	3,867	3,833	24,653
Watershed Stewardship	6,047	1,635	2,212	2,758	1,478	2,228	981	17,339
Water Quality and Treatment	33,778	21,657	20,898	5,442	1,677	298	282	84,032
Water Resources	15,652	15,793	5,932	10,097	6,320	8,433	4,496	66,723
Habitat Conservation Program	5,646	9,627	8,589	3,379	2,551	4,064	2,516	36,372
Shared Cost Projects (1)	24,437	19,649	20,701	26,398	33,542	31,776	36,106	192,609
Technology	5,705	4,634	4,679	5,855	5,972	6,091	6,213	39,149
Total	$ 116,183	$ 98,548	$ 87,543	$ 92,580	$ 90,177	$ 96,966	$ 96,924	$ 678,921

	PLANNED							
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Funding Sources								
Debt Financing								
Outstanding Bonds	$ 70,695	$ 11,442	$ 0	$ 0	$ 0	$ 0	$ 0	$ 82,137
The Bonds	0	56,874	59,283	0	0	0	0	116,158
Washington State Water Revolving Fund Loans	3,000	9,000	0	0	0	0	0	12,000
Future Bonds	0	0	5,088	64,513	56,780	58,711	56,159	241,251
Total Debt Financing	$ 73,695	$ 77,317	$ 64,371	$ 64,513	$ 56,780	$ 58,711	$ 56,159	$ 451,546
Revenue Financing								
Internally Generated Funds	$ 6,582	$ 7,594	$ 11,137	$ 15,527	$ 21,062	$ 25,214	$ 27,686	$ 114,803
Grants and Reimbursements	6,376	3,782	3,280	3,282	3,317	3,344	3,386	26,768
Total Revenue Financing	$ 12,958	$ 11,377	$ 14,417	$ 18,809	$ 24,379	$ 28,558	$ 31,072	$ 141,571
Other (2)	29,530	9,855	8,754	9,258	9,018	9,697	9,692	85,804
Total	$ 116,183	$ 98,548	$ 87,543	$ 92,580	$ 90,177	$ 96,966	$ 96,924	$ 678,921

NOTES TO TABLE:

(1) Includes projects that affect the Water System, but involve more than a water purpose and are typically funded from multiple sources. Current projects include Sound Transit projects, the Alaskan Way Viaduct and Seawall replacement, State Route 520 replacement, and the South Lake Union Urban Center redevelopment area.

(2) The amounts shown reflect the difference between the full amount of the budgeted CIP and the expected amount of CIP spending.

The development of the CIP balances financial capacity with the demands of rehabilitation, improvement, water quality, and expansion. In response, SPU has steadily expanded the CIP, raised rates and increased its long-term borrowing plans. In managing the expansion of the CIP, SPU has emphasized efficient project design and careful staging of improvements within the 20-year time frame of the Water System Plan. In the period 2009 through 2015, SPU expects the financial requirements for these projects to be met from Net Revenue of the Water System and from the proceeds of State Water Revolving Fund loans and Parity and Subordinate Lien Bonds. About 78 percent of projected CIP spending is expected to be financed by the issuance of Future Parity Bonds and Subordinate Lien Bonds.

Financial Policies

The Mayor and City Council have established financial policies by resolution for SPU, including the Water System. In accordance with these policies, water rates are set to achieve generally positive net income and cash balances and a minimum debt service coverage ratio on fixed rate long-term Parity Bonds of 1.70 times annual debt service. In addition, in each rate study period, an average of at least 20 percent of capital expenditures is expected to be financed with current revenue, with a minimum of 15 percent in any one year. The current rate study period is 2009-2011. Rates were adopted in late 2008 with increases effective on January 1, 2009, 2010, and 2011. Because the length of the next rate study period is unknown, each of the years 2012 and beyond is expected to meet the 20 percent minimum.

In 2002, the City by ordinance strengthened the Rate Stabilization Account by announcing an intent to raise rates to achieve a balance of $9 million in approximately four years if no money is withdrawn to meet coverage requirements. As of December 31, 2008, the balance in the Rate Stabilization Account was $13.1 million. The $9 million minimum balance in the account is intended for use during periods of poor water sales, but amounts over and above the minimum balance may be used to meet operating expenditures, pay capital improvement program expenditures, or meet financial policy requirements. The City, by ordinance, has authorized withdrawal of excess amounts for such purposes while current rates are in effect. Revenues contributed to the Rate Stabilization Account are not considered available for debt service coverage in the year they are contributed, but are considered available for coverage in the year they are withdrawn. See Appendix A—Ordinance 123168—Section 15.

Under the City Charter, City taxes on the Water System may be paid only after provision has been made for debt service payable from Net Revenues.

Financial Performance

The table "Operating Results" shows historical revenues and expenses of the Water System for the years 2004 through 2008 and projected revenues and expenses for 2009 and 2010. Notes to the table are shown on the following page. The projections assume a 4.5 percent inflation rate, 5.0 percent interest cost on new long-term fixed-rate bonds, and a rate increase effective January 1, 2010, which was approved in 2008.

SPU DOES NOT AS A MATTER OF COURSE MAKE PUBLIC PROJECTIONS AS TO FUTURE SALES, EARNINGS OR OTHER RESULTS. HOWEVER, THE MANAGEMENT OF SPU HAS PREPARED THE PROSPECTIVE FINANCIAL INFORMATION AS SET FORTH BELOW UNDER "THE WATER SYSTEM—CAPITAL IMPROVEMENT PROGRAM" AND "—FINANCIAL PERFORMANCE" TO PROVIDE READERS OF THIS OFFICIAL STATEMENT INFORMATION RELATED TO PROJECTED REVENUES AND EXPENSES OF THE WATER SYSTEM. THE ACCOMPANYING PROSPECTIVE FINANCIAL INFORMATION WAS NOT PREPARED WITH A VIEW TOWARD PUBLIC DISCLOSURE OR WITH A VIEW TOWARD COMPLYING WITH THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS WITH RESPECT TO PROSPECTIVE FINANCIAL INFORMATION, BUT, IN THE VIEW OF SPU'S MANAGEMENT, WAS PREPARED ON A REASONABLE BASIS, REFLECTS THE BEST CURRENTLY

AVAILABLE ESTIMATES AND JUDGMENTS, AND PRESENTS, TO THE BEST OF MANAGEMENT'S KNOWLEDGE AND BELIEF, THE EXPECTED COURSE OF ACTION AND THE EXPECTED FUTURE FINANCIAL PERFORMANCE OF THE WATER SYSTEM. HOWEVER, THIS INFORMATION IS NOT FACT AND SHOULD NOT BE RELIED UPON AS BEING NECESSARILY INDICATIVE OF FUTURE RESULTS, AND POTENTIAL PURCHASERS OF THE BONDS AND THE READERS OF THIS OFFICIAL STATEMENT ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THE PROSPECTIVE FINANCIAL INFORMATION.

NEITHER SPU'S INDEPENDENT AUDITORS, NOR ANY OTHER INDEPENDENT ACCOUNTANTS, HAVE COMPILED, EXAMINED, OR PERFORMED ANY PROCEDURES WITH RESPECT TO THE PROSPECTIVE FINANCIAL INFORMATION CONTAINED HEREIN, NOR HAVE THEY EXPRESSED ANY OPINION OR ANY OTHER FORM OF ASSURANCE ON SUCH INFORMATION OR ITS ACHIEVABILITY, AND ASSUME NO RESPONSIBILITY FOR, AND DISCLAIM ANY ASSOCIATION WITH, THE PROSPECTIVE FINANCIAL INFORMATION. THE FINANCIAL STATEMENTS OF THE WATER FUND AS OF AND FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008, INCLUDED HEREIN AS APPENDIX C, HAVE BEEN AUDITED BY MOSS ADAMS LLP, INDEPENDENT ACCOUNTANTS, AS STATED IN ITS REPORT APPEARING HEREIN. SEATTLE PUBLIC UTILITIES HAS NOT REQUESTED THAT MOSS ADAMS LLP PROVIDE CONSENT FOR INCLUSION OF ITS AUDITED FINANCIAL STATEMENTS IN THIS OFFICIAL STATEMENT, AND MOSS ADAMS LLP HAS NOT PERFORMED, SINCE THE DATE OF ITS REPORT INCLUDED HEREIN, ANY PROCEDURES ON THE FINANCIAL STATEMENTS ADDRESSED IN THAT REPORT. FURTHER, MOSS ADAMS LLP HAS NOT PARTICIPATED IN ANY WAY IN THE PREPARATION OR REVIEW OF THIS OFFICIAL STATEMENT.

Overall demand is assumed to decline by approximately one percent per year in 2009 and 2010. The One Percent Conservation Program is expected to continue offsetting the impact of population and employment growth on wholesale water demand, while more than offsetting the effects of growth within the City.

WATER SYSTEM
OPERATING RESULTS

	Actual 2004	2005	2006	2007	2008	Projected 2009	2010
Operating Revenue							
Water Sales	$ 139,714,540	$ 135,788,355	$ 141,948,350	$ 143,892,005	$ 149,573,411	$ 179,910,412	$ 188,399,065
(Deposits to)/Withdrawals from Revenue Stabilization Fund [1]	(5,000,000)	(625,000)	0	0	0	1,500,000	1,500,000
Other	6,598,695	10,955,500	13,226,658	16,269,301	14,831,619	11,853,696	14,753,406
Total Operating Revenue	$ 141,313,235	$ 146,118,855	$ 155,175,008	$ 160,161,306	$ 164,405,030	$ 193,264,108	$ 204,652,471
Other Income							
Interest Income-Other	$ 1,023,320	$ 2,491,816	$ 2,984,761	$ 3,909,309	$ 1,065,889	$ 1,270,501	$ 1,226,121
Gain/(Loss) on Sale of Assets, and Others-net	1,638,228	358,688	314,631	5,331,997	(976,997)	5,372,076	2,578,549
Total Other Income	$ 2,661,548	$ 2,850,504	$ 3,299,392	$ 9,241,306	$ 88,892	$ 6,642,577	$ 3,804,670
Operating Expenses							
Operating and Maintenance Expenses							
Expenses	$ 55,785,740	$ 61,319,219	$ 69,250,221	$ 76,835,299	$ 81,265,096	$ 84,118,870	$ 84,447,583
Taxes Other Than City Taxes	5,571,806	5,049,590	5,427,977	5,609,435	5,761,732	7,437,327	7,718,041
Other Expenses							
City Taxes [2]	9,933,240	14,113,449	17,907,205	18,561,201	19,029,097	27,514,664	30,872,949
Depreciation	29,704,592	34,816,278	37,113,610	37,435,778	40,615,626	44,455,847	50,117,495
Total Operating Expenses	$ 100,995,378	$ 115,298,536	$ 129,699,013	$ 138,441,713	$ 146,671,551	$ 163,526,708	$ 173,156,069
Other Income (Expenses)							
Interest Expenses and Amortization of Debt Issue Costs and Net Discount	$ (28,683,516)	$ (35,043,882)	$ (35,297,423)	$ (37,668,952)	$ (34,661,405)	$ (41,355,487)	$ (47,317,929)
Contributions in Aid of Construction	3,547,079	5,093,760	7,080,459	7,886,096	17,339,107	10,266,002	4,415,706
Total Other Income (Expenses)	$ (25,136,437)	$ (29,950,122)	$ (28,216,964)	$ (29,782,856)	$ (17,322,298)	$ (31,089,485)	$ (42,902,224)
Net Income	$ 17,842,968	$ 3,720,701	$ 558,423	$ 1,178,043	$ 500,073	$ 5,290,492	$ (7,601,151)
Revenue Available for Debt Service							
City Taxes [3]	$ 9,933,240	$ 14,113,449	$ 17,907,205	$ 18,561,201	$ 19,029,097	$ 27,514,664	$ 30,872,949
Deprecitaion and Amortization	29,704,592	34,816,278	37,113,610	37,435,778	40,615,626	44,455,847	50,117,495
Interest paid on Revenue Bonds	33,470,561	37,451,354	37,897,394	40,713,418	38,355,433	42,034,869	47,783,255
(Transfer to)/Withdrawal from BPA Account		3,351,050	1,930,080	413,024	595,473	400,000	800,000
Capitalized Interest	(5,258,790)	(2,748,485)	(2,985,837)	(3,286,626)	(4,446,525)	(4,292,614)	(3,212,000)
Accrued and Other Non-Cash Expenses	814,084	341,014	(1,558,226)	(1,911,672)	(12,153,362)	(3,990,000)	(1,013,281)
Total Revenue Available for Debt Service [4]	$ 86,506,655	$ 91,045,361	$ 90,862,649	$ 93,103,166	$ 82,495,815	$ 111,413,258	$ 117,747,267
Debt Service [5]							
Parity Lien Debt Service	$ 51,090,770	$ 54,317,133	$ 52,520,021	$ 52,215,444	$ 56,250,906	$ 70,275,346	$ 73,052,382
Subordinate Lien Debt Service [6]	3,539,246	4,728,231	5,882,795	6,173,146	3,489,526	969,289	870,640
Total Debt Service	$ 54,630,016	$ 59,045,364	$ 58,402,816	$ 58,388,590	$ 59,740,432	$ 71,244,635	$ 73,923,022
Debt Service Coverage [5]							
Parity Lien Debt Service Coverage	1.69	1.68	1.73	1.78	1.47	1.59	1.61
Overall Debt Service Coverage	1.58	1.54	1.56	1.59	1.38	1.56	1.59

NOTES TO TABLE:

(1) Withdrawals from the Rate Stabilization Account are added to Operating Revenues and deposits are deducted, in accordance with FAS 71. Consequently, withdrawals from and deposits to this Account affect Net Operating Income. Withdrawals from this Account are available for debt service and increase debt service coverage. Deposits to this Account reduce revenue available for debt service and lower debt service coverage.

(2) The City currently levies a tax of 19.87 percent upon total gross income of the Water System from its retail business within and outside the City.

(3) Under the City Charter, City taxes are payable after payment of debt service.

(4) Revenue available for debt service = net income (including contributions in aid of construction) + City taxes + depreciation + interest expenses + debt cost amortization + accrued and other non-cash expenses.

(5) Includes the effect of redeeming the Subordinate Lien Bonds in 2009.

(6) Includes Public Works Trust loans. See "Security for the Bonds—Other Obligations."

Source: Seattle Public Utilities

The Water System has been designed and maintained to require a minimum of pumping, and does not rely on outside sources to meet water demand. Inflationary pressures have increased operations and maintenance expenses, which have been partially offset by increased tap installation fee revenue, due to increases in demand and price, and the sale of assets that are no longer needed. Also, during the last five years SPU has greatly expanded the size of its CIP and has raised rates to support these investments.

Operating revenues are generated primarily from wholesale and retail water sales. The water sales revenue increase of 35 percent from 2004 to 2009 is primarily due to rate increases, as there was a decline in demand during this period. The other operating revenue increase from 2004 to 2005 was primarily the result of new charges for fire hydrant services effective January 1, 2005, and the 2006 and 2007 increases were due to increased tap installation fee revenue. This revenue dropped somewhat in 2008 and 2009 due to economic conditions.

Operating results during the period 2004 to 2008 were affected by a change in City tax rules and the tax rates in 2005, a total of $5.6 million in deposits into the Rate Stabilization Account, and a sizeable CIP over all five years. SPU adopted a new capitalization policy in 2006 and made it more stringent in 2007. Under the new policy, SPU adopted a more conservative approach in its application of Financial Accounting Standards Board Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." This resulted in expensing a number of projects in the capital budget rather than deferring their cost over a period of years. The net impact of the 2006-2007 policy changes was an increase in non-cash operating expense.

All policy targets were met in 2006 and 2007; however, the debt service coverage level fell below policy targets in 2004, 2005, and 2008. Projected results for 2009 indicate meeting revenue funding of the CIP and net income targets, but missing the year-end cash balance and debt service coverage targets. Projected results for 2010 indicate only the year-end cash target will be met. Items affecting 2009 and 2010 include the decision to refund the outstanding Subordinate Lien Bonds, which occurred after the 2009-11 rate proposal was finalized, and the impact of *Lane v. City of Seattle* (see "Litigation and Claims"), which included a temporary City tax rate increase effective in March 2009.

Litigation and Claims

In *Lane v. City of Seattle, 164 Wn.2d 875, 194 P.3d 977 (2008)* the Washington Supreme Court ruled that the City's general fund must reimburse the Water Fund for fire hydrant costs incurred from March 1, 2002, through December 31, 2004, and that SPU must make refunds to the Water System ratepayers for those fire hydrant costs included in water rates during that period, plus 12 percent interest. In response, the City adopted Ordinance 122916 temporarily increasing the utility tax imposed on SPU from 15.54 percent to 19.87 percent from March 31, 2009, through December 31, 2010. To pay the temporarily increased utility tax, the City adopted Ordinance 122913 imposing a 10.2 percent temporary surcharge on water rates for all SPU retail customers from March 31, 2009, through December 31, 2010.

Before the *Lane* case was filed, the City had already changed the way it handled fire hydrant costs commencing January 1, 2005, in response to a similar 2003 Washington Supreme Court ruling that streetlights should be paid out of the general fund, not the electric utility fund. Fire hydrant costs are billed to the City's general fund, instead of being included in water rates.

Other claims associated with the normal operation of the Water System periodically are filed against the City. The Water System's practice is to include in its annual budget an amount for such claims that is equal to the reasonably probable payment of claims for that year. For the purposes of financial reporting, annual claims costs are accrued based on actuarial studies of claims history.

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

Incorporated in 1869, The City of Seattle, Washington, is the largest city in the Pacific Northwest and is the County seat. The City's elected officials include a mayor, nine City Council members and a city attorney. These officials are elected at large to four-year terms. The City provides four utility services funded by rates and charges: electricity, water, drainage and wastewater, and solid waste.

Financial Management

City financial management functions are provided by the Department of Finance and the Department of Executive Administration. Dwight D. Dively is the Director of Finance. Mr. Dively is a graduate of Rose-Hulman Institute of Technology, holds a master's degree from Princeton University in public affairs and is a Ph.C. in civil engineering at the University of Washington.

Accounting. The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor's Office, which maintains a resident staff at the City to perform a continual current audit as well as the annual post-fiscal year audit of City financial operations. The Department of Finance maintains general supervision over the financial affairs of the City.

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the State Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance. The City's Comprehensive Annual Financial Report may be obtained from the Department of Finance by calling (206) 684-8347. In addition, the City's utilities are audited annually by an external auditor. The audited 2008 financial statements of the Water Fund are attached as Appendix C. See "Water System—Financial Performance."

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the Department of Finance pursuant to State statute (Chapter 35.32A RCW). The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is from January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt the budget at least 30 days before the beginning of the next fiscal year; the 2010 budget was adopted on November 23, 2009

Investments. The information in this section does not pertain to pension funds, which are administered by the Seattle City Employees' Retirement System (see "Pension System"), and some debt issuance proceeds that are administered by trustee service providers.

All cash-related transactions for the City, including its utilities, are administered by the Treasury Division of the Department of Executive Administration. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division in the following securities:

(i) U.S. Treasury and agency issues;

(ii) bankers' acceptances sold on the secondary market;

(iii) repurchase and reverse repurchase agreements, when structured with securities eligible for purchase and when executed under an approved Master Repurchase Agreement with selected primary dealers; and

(iv) commercial paper purchased in the secondary market which has received the highest ratings of at least two nationally recognized rating agencies.

State statutes, City ordinances and Department of Executive Administration policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting about the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Auditor.

As of September 30, 2009, the combined investment portfolios of the City totaled $902 million at book value. The City's cash pool is constituted solely of City funds. The City does not invest any funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. For 2008, the yield on the City's consolidated pool of investments was 4.3 percent. The yield for the period January 1, 2009, through September 30, 2009, was 1.8 percent. As of September 30, 2009, the average maturity date of the portfolio was October 14, 2010.

Approximately 45 percent, or $406.1 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years.

Investments were allocated as follows:

Government-Sponsored Enterprises	62.5%
Commercial Paper	20.3
U.S. Treasuries	8.4
Repurchase Agreements	4.8
Mortgage-Backed Securities	2.9
Taxable Municipal Bonds	1.1

Interfund Loans. City ordinances authorize the Director of Finance to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio's rate of return.

Risk Management

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. The policies provide $25 million limits above a $5 million self-insured retention per occurrence. The City also purchases all risk property insurance, including earthquake and flood, that provide up to $200 million in limits subject to a schedule of deductibles. City hydroelectric and other utility facilities and functions are not covered by the property or liability policies.

The City insures a primary level of fiduciary, crime liability, inland marine, and various commercial general liability, medical, accidental death and dismemberment, and miscellaneous exposures. Bonds are purchased for public official, notary public and pension exposures.

Pension System

City employees are covered in one of the following defined benefit pension plans: Seattle City Employees' Retirement System ("SCERS"), Firemen's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF"). The first three are administered by the City; the State administers LEOFF through the Department of Retirement Systems. Information about LEOFF is available from the State by calling (800) 547-6657.

Nearly all permanent non-uniformed City employees participate in SCERS, a single-employer public employee retirement system. The payroll for City employees covered by SCERS for the year ended December 31, 2008, was $551.8 million; total City payroll was $837.1 million. Participating City employees are required to contribute 8.03 percent of their annual base salary to SCERS, which is matched by a comparable City contribution. Combined employee and employer contributions to SCERS totaled approximately $92.9 million for the year ended December 31, 2008. The latest actuarial evaluation of SCERS was conducted by Milliman as of January 1, 2008. This showed the actuarial value of net assets available for benefits was $2.119 billion and the actuarial value for accrued liabilities was $2.295 billion, leaving an unfunded accrued actuarial liability of approximately $175 million. The resulting funding ratio was 92.4 percent. The City's Retirement Office estimates that this ratio has fallen to approximately 65 percent as of September 2009.

The Firemen's Pension Fund and the Police Relief and Pension Fund are single-employer pension plans that were established by the City in compliance with State law. Since the effective date of LEOFF in 1970, no payroll for employees was covered under these City plans, and the primary liability for pension benefits for these City plans shifted from the City to the State. However, the City was still liable for all benefits of employees in service at that time plus certain future benefits. The City's contribution to these City plans and for medical benefits associated with these plans in 2008 was $35.9 million; there were no current member contributions. The City has been pre-funding future pension obligations in the Firemen's Pension Fund.

Post-Employment Retirement Benefits

The City's liability for other post-employment benefits ("OPEB") is limited to the implicit rate subsidy for retiree health benefits, which is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. The City has assessed its OPEB liability in order to satisfy the expanded reporting requirements specified by the Governmental Accounting Standards Board Statement No. 45 ("GASB 45"). While GASB 45 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded. In conformance with GASB 45 requirements, the City began reporting its OPEB liability beginning with the fiscal year ended December 31, 2007.

The City engaged Aon Consulting to prepare an actuarial study quantifying the City's OPEB liability. The study was completed on September 19, 2008, and concluded that as of the actuarial valuation date of January 1, 2008, the City's unfunded actuarial accrued liability, under its current pay-as-you-go policy, was equal to $78.8 million. In fiscal year 2008, the City contributed approximately $2.2 million for these benefits on a pay-as-you-go basis. According to the actuarial study, the City's annual required contribution in fiscal year 2008 to fund this liability was $8.6 million.

Labor Relations

The City has 36 separate departments and offices with approximately 13,500 regular and temporary employees. Twenty-five different unions and 44 bargaining units represent approximately 74 percent of the City's regular employees. The City has agreements with Firefighters Local 27, Fire Chiefs Local 2898, and the Seattle Police Management Association that extend through 2011, and an agreement with the International

Brotherhood of Electrical Workers Local 77 that extends through 2012. The City's labor agreement with the Seattle Police Officers' Guild expires at the end of 2010.

INITIATIVE AND REFERENDUM

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

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

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

Under the City Charter, City voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law.

LEGAL AND TAX INFORMATION

Litigation

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds. For a description of litigation relating to the Water System, see "Water System—Litigation and Claims."

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. A form of the opinion of Bond Counsel is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Limitations on Remedies

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

In addition to the limitations on remedies contained in the Ordinance, the rights and obligations under the Bonds and the Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B.

Tax Matters—2010A Bonds

THIS ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE 2010A BONDS. THIS ADVICE IS NOT INTENDED OR WRITTEN BY FOSTER PEPPER PLLC TO BE USED, AND MAY NOT BE USED, BY ANY PERSON OR ANY ENTITY FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON ANY PERSON OR ENTITY UNDER THE CODE. PROSPECTIVE PURCHASERS OF THE 2010A BONDS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion generally describes certain aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of the 2010A Bonds who have purchased the 2010A Bonds in the initial offering and who hold the 2010A Bonds as capital assets within the meaning of Section 1221 of the Code. For purposes of this discussion, a "U.S. person" means an individual who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (iv) a trust, if either (a) a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a United States person under the applicable Treasury regulations.

This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect). This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances, such as an Owner who may purchase the 2010A Bonds in the secondary market, or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, non-U.S. persons, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, or dealers in securities. Accordingly, before deciding whether to purchase any of the 2010A Bonds, prospective purchasers should consult their own tax advisors regarding the United States federal income tax consequences, as well as tax consequences under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty, of purchasing, holding, owing and disposing of the 2010A Bonds.

In General. As described herein under "Description of the Bonds—Designation of the 2010A Bonds as Build America Bonds," the City has made irrevocable elections to have the 2010A Bonds treated as Build America Bonds within the meaning of Section 54AA(d) of the Code that are "qualified bonds" within the meaning of Section 54AA(g) of the Code. As a result of these elections, interest on the 2010A Bonds is not excludable from the gross income of the Owners for federal income tax purposes, and Owners of the 2010A Bonds will not be allowed any federal tax credits as a result of ownership or receipt of interest payments on the 2010A Bonds.

Payments of Interest. Interest paid on the 2010A Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner's method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest payment; Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

Disposition or Retirement. Upon the sale, exchange or other disposition of a 2010A Bond, or upon the retirement of a 2010A Bond (including by redemption), an Owner will recognize a capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the 2010A Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes. If the City defeases any of the 2010A Bonds, such 2010A Bonds may be deemed to retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a 2010A Bond would recognize a gain or loss on the 2010A Bond at the time of defeasance.

Backup Withholding. An Owner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 28 percent, but may change in the future) with respect to interest [or original issue discount] on the 2010A Bonds. This withholding generally applies if the Owner of a 2010A Bond (i) fails to furnish the Bond Registrar or other payor with its taxpayer identification number, (ii) furnishes the Bond Registrar or other payor with an incorrect taxpayer identification number, (iii) fails to report properly interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Bond Registrar or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the Owner is not subject to backup withholding. Any amount withheld may be creditable against the Owner's U.S. federal income tax liability and be refundable to the extent it exceeds the Owner's U.S. federal income tax liability.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the 2010A Bonds will be reported to the Owners and to the Internal Revenue Service.

Tax Exemption—2010B Bonds

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the 2010B Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the 2010B Bonds in order to maintain the exclusion of the interest on the 2010B Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the 2010B Bonds and the facilities financed or refinanced with proceeds of the 2010B Bonds, limitations on investing gross proceeds of the 2010B Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the 2010B Bonds. The City has covenanted in the Resolution to comply with those requirements, but if the City fails to comply with those requirements, interest on the 2010B Bonds could become taxable retroactive to the date of issuance of the 2010B Bonds.

Corporate Alternative Minimum Tax. While interest on the 2010B Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the 2010B Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20 percent minimum tax.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the 2010B Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the 2010B Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 2010B Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the 2010B Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the 2010B Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2010B Bonds could adversely affect the market value and liquidity of the 2010B Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences—2010B Bonds

2010B Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $30,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than $30,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has <u>not</u> designated the 2010B Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the 2010B Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the 2010B Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the 2010B Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the 2010B Bonds may have other federal tax consequences as to which prospective purchasers of the 2010B Bonds should consult their own tax advisors.

ERISA Considerations

The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans should consult their own tax advisors with respect to the consequences of any investment in the Bonds.

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events. To meet the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"), as applicable to a participating underwriter for the Bonds, the City will undertake in the Resolution (the "Undertaking") for the benefit of holders of the Bonds, as follows.

Annual Financial Information. The City will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, annual financial information and operating data of the type included in this Official Statement with respect to the Water System as generally described below ("annual financial information"):

(i) annual financial statements of the Water System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law; which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided;

(ii) a statement of authorized, issued and outstanding bonded debt secured by Net Revenue of the Water System;

(iii) debt service coverage ratios;

(iv) summary operating statistics for the Water System, including population served, water sales revenue and billed water use; and

(v) current water rates.

Annual financial information described above will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City, as such fiscal year may be changed as permitted or required by State law, commencing with the City's fiscal year ending December 31, 2009. The annual information may be provided in a single or in multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

The City also will provide or cause to be provided to the MSRB timely notice of a failure by the City to provide required annual financial information on or before the date specified above.

Material Events. The City further will provide or cause to be provided to the MSRB timely notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

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

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

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

(vi) adverse tax opinions or events affecting the tax-exempt status of the 2010B Bonds;

(vii) modifications to rights of holders of the Bonds;

(viii) Bond calls (other than scheduled mandatory redemption of Term Bonds);

(ix) defeasances;

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

(xi) rating changes.

For purposes of this section, "Continuing Disclosure Undertaking," the term "holders of the Bonds" will have the meaning intended for such term under the Rule.

Amendment of Undertaking. The Undertaking may be amended without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City's obligations under the Undertaking will terminate upon the legal defeasance, prior redemption or payment in full of all of the then outstanding Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the City (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with the federal securities laws to the effect that those portions of the Rule which require the City to comply with the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) so notifies the MSRB of such termination.

Remedy for Failure to Comply with Undertaking. The City has agreed to proceed with due diligence to cause any failure to comply with the Undertaking to be corrected as soon as practicable after the City learns of that failure.

No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default with respect to the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary and appropriate to compel the City or other obligated person to comply with the Undertaking. The Undertaking will inure to the benefit of the City and any holder of the Bonds, and will not inure to the benefit of or create any rights in any other person.

Other Continuing Disclosure Undertakings of the City. The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City on and after July 3, 1995, subject to the Rule. The City is in compliance with all such undertakings.

OTHER BOND INFORMATION

Ratings on the Bonds

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

Purchasers of the Bonds

The 2010A Bonds are being purchased by _____________ at a price of $______________. The 2010A Bonds will be reoffered at the prices or yields set forth on page i of this Official Statement. The 2010B Bonds are being purchased by _____________ at a price of $______________. The 2010B Bonds will be reoffered at the prices or yields set forth on page ii of this Official Statement.

The purchaser of each series of the Bonds may offer and sell such series of the Bonds to certain dealers (including dealers depositing such series of the Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on pages i and ii hereof, and such initial offering prices may be changed from time to time by such purchaser. After the initial public offering, the public offering prices may be varied from time to time.

Official Statement

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, SPU and the Water System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.

Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The City specifically disclaims any obligations to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided under "Legal and Tax Information—Continuing Disclosure Undertaking."

The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle

By: ______________________________

Dwight D. Dively
Director of Finance

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APPENDIX A

ORDINANCE 123168

Ordinance 123168, passed by the City Council on November 23, 2009, the form of which is set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 121939, as amended, passed by the City Council on September 26, 2005, authorized the refunding of all outstanding and future Parity Bonds. The material provisions of both ordinances are substantially identical.

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ORDINANCE [123168] 123168

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to or extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds, in one or more series, for the purposes of paying part of the cost of carrying out that system or plan, providing a bond reserve and paying the costs of issuing and selling the bonds; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of the bonds; creating certain accounts of the City relating to those bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle (the "City") owns and operates a municipal water system (the "Municipal Water System"), which Municipal Water System has from time to time required various additions, improvements and extensions; and

WHEREAS, the City needs to acquire and construct certain additions and betterments to and extensions of the Municipal Water System as set forth in this ordinance (the "Plan of Additions"); and

WHEREAS, the City has previously issued water system revenue bonds pursuant to the ordinances and resolutions set forth in Exhibit A to this ordinance (the "Outstanding Parity Bonds"); and

WHEREAS, the City has determined that it is in the best interest of the City to authorize the issuance and sale, subject to the provisions of this ordinance, of water system revenue bonds (the "Bonds") as Parity Bonds, to pay part of the cost of carrying out the Plan of Additions, to provide a bond reserve and to pay the costs of issuing and selling those bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. Definitions. As used in this ordinance and for the purposes of this ordinance the following words shall have the following meanings:

"**Accreted Value**" means:

(1) with respect to any Capital Appreciation Bonds, as of the time of calculation, the sum of the amount representing the initial principal amount of such Capital Appreciation Bonds as set forth in the applicable Parity Bond Authorizing Ordinance plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or

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(2) with respect to original issue discount bonds under the Code, as of the time of calculation, the amount representing the initial public offering price of such original issue discount bonds plus the amount of the discounted principal which has accreted since the date of issue, determined in accordance with the provisions of the applicable Parity Bond Authorizing Ordinance.

"**Adjusted Annual Debt Service**" for any fiscal year means Annual Debt Service minus (1) an amount equal to ULID Assessments due in that year and not delinquent, (2) an amount equal to earnings from investments in the Reserve Subaccount and (3) Annual Debt Service provided for by Parity Bond proceeds.

"**Adjusted Gross Revenue of the Municipal Water System**" or "**Adjusted Gross Revenue**" means Gross Revenue of the Municipal Water System plus withdrawals from the Rate Stabilization Account and minus (1) ULID Assessments, (2) earnings from investments in the Reserve Subaccount and (3) deposits into the Rate Stabilization Account.

"**Adjusted Net Revenue of the Municipal Water System**" or "**Adjusted Net Revenue**" means Adjusted Gross Revenue less Operation and Maintenance Expenses.

"**Annual Debt Service**" means, for any fiscal year of the City, all amounts required to be paid in respect of interest on and principal of Parity Bonds and Payment Agreement Payments in respect of Parity Payment Agreements, subject to the following:

(i) Debt Service on Term Bonds. For purposes of calculating debt service on Term Bonds, only the scheduled mandatory redemption amounts payable in respect of principal of Term Bonds shall be taken into account in any fiscal year prior to the Term Bond Maturity Year, and only the principal amount scheduled to remain outstanding after payment of all prior mandatory redemption amounts shall be taken into account in the Term Bond Maturity Year;

(ii) Interest on Parity Bonds. For purposes of determining compliance with the Coverage Requirement, the Reserve Requirement and conditions for the issuance of Future Parity Bonds,

(A) Generally. Except as otherwise provided by subparagraph (ii)(B) with respect to Variable Interest Rate Bonds and by subparagraph (ii)(C) with respect to Parity Bonds with respect to which a Payment Agreement is in force, interest on any issue of Parity Bonds shall be calculated based on the actual amount of accrued, accreted or otherwise accumulated interest that is payable in respect of that issue taken as a whole, at the rate or rates set forth in the Parity Bond Authorizing Ordinance;

(B) Interest on Variable Interest Rate Bonds. The amount of interest deemed to be payable on any issue of Variable Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate (the "assumed RBI-based rate") that is 90% of the average RBI during the fiscal quarter preceding the quarter in which the calculation is made;

(C) Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force. Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects that (i) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as obligations bearing interest at a fixed interest rate, and (ii) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus

Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement, the following assumptions shall be made:

(1) Counterparty Obligated to Pay Actual Variable Interest on Variable Interest Rate Bonds. If any Payment Agreement obligates a Qualified Counterparty to make payments to the City based on the actual Variable Interest Rate on Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds and obligates the City to make payments to the Qualified Counterparty based on a fixed rate, payments by the City to the Qualified Counterparty shall be assumed to be made at the fixed rate specified by the Payment Agreement and payments by the Qualified Counterparty to the City shall be assumed to be made at the actual Variable Interest Rate on such Parity Bonds, without regard to the occurrence of any event that, under the provisions of the Payment Agreement, would permit the Qualified Counterparty to make payments on any basis other than the actual Variable Interest Rate on such Parity Bonds, and the Parity Bond Authorizing Ordinance shall set forth a debt service schedule for those Parity Bonds based on that assumption;

(2) Variable Interest Rate Bonds and Payment Agreements Having the Same Variable Rate Component. If both a Payment Agreement and related Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds include a variable rate payment component that is required to be calculated on the same basis (including, without limitation, on the basis of the same variable rate index), it shall be assumed that the variable rate payment component payable pursuant to the Payment Agreement is equal in amount to the variable rate interest component payable on those Parity Bonds;

(3) Variable Interest Rate Bonds and Payment Agreements Having Different Variable Rate Interest Components. If a Payment Agreement obligates either the City or the Qualified Counterparty to make payments of a variable rate interest component

on a basis that is different (including, without limitation, on a different variable rate index) from the basis that is required to be used to calculate interest on the Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds, it shall be assumed:

(a) City Obligated to Make Payments Based on Variable Rate Index. If payments by the City under the Payment Agreement are to be based on a variable rate index and payments by the Qualified Counterparty are to be based on a fixed rate, that payments by the City to the Qualified Counterparty will be based upon an interest rate equal to the assumed RBI-based rate, and that payments by the Qualified Counterparty to the City will be based on the fixed rate specified by the Payment Agreement; and

(b) City Obligated to Make Payments Based on Fixed Rate. If payments by the City under the Payment Agreement are to be based on a fixed rate and payments by the Qualified Counterparty are to be based on a variable rate index, that payments by the City to the Qualified Counterparty will be based on an interest rate equal to the rate (the "assumed fixed payor rate") that is 105% of the fixed rate specified by the Payment Agreement, and that payments by the Qualified Counterparty to the City will be based on a rate equal to the actual Variable Interest Rate on the Variable Interest Rate Bonds;

(4) Certain Payment Agreements May be Disregarded. Notwithstanding the provisions of subparagraphs (ii)(C)(1), (2) and (3) of this definition, the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten years or less;

(D) Debt Service on Parity Payment Agreements. No additional debt service shall be taken into account with respect to a Parity Payment Agreement for any period during which Payment Agreement Payments on that Parity Payment Agreement are taken into account in determining Annual Debt Service on related Parity Bonds under subparagraph (ii)(C) of this definition. However, for any period during which Payment Agreement Payments are not taken into account in calculating Annual Debt Service on any

outstanding Parity Bonds because the Parity Payment Agreement is not then related to any outstanding Parity Bonds, debt service on that Parity Payment Agreement shall be taken into account by assuming:

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

(2) City Obligated to Make Payments Based on Variable Rate Index. If the City is obligated to make Payment Agreement Payments based on a variable rate index and the Qualified Counterparty is obligated to make payment based on a fixed rate, that payments by the City will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made, and that the Qualified Counterparty will make payments based on the fixed rate specified by the Parity Payment Agreement; and

(E) Balloon Bonds. For purposes of calculating debt service on any Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds, together with interest thereon at a rate equal to the assumed RBI-based rate, will be amortized in equal annual installments over a term of 30 years.

"**Average Annual Debt Service**" means the sum of the Annual Debt Service for the remaining years to the last scheduled maturity of the applicable issue or issues of Parity Bonds divided by the number of those years.

"**Balloon Bonds**" means any series of Parity Bonds designated as Balloon Bonds in the applicable Parity Bond Authorizing Ordinance.

"<u>Bond Account</u>" means that special account of the City known as the Water Revenue Bond Account created by Ordinance 116705 in the Water Fund of the City for the payment of the principal of, mandatory sinking fund payments, Payment Agreement Payments, premiums, (if any), and interest on the Parity Bonds.

"<u>Bond Counsel</u>" means a firm of lawyers nationally recognized and accepted as bond counsel and so employed by the City for any purpose under this ordinance applicable to the use of that term.

"<u>Bond Insurance</u>" means any bond insurance, letter of credit, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds.

"<u>Bond Insurer</u>" means any provider of Bond Insurance approved by the City Council by ordinance or resolution.

"<u>Bond Register</u>" means the books or records maintained by the Bond Registrar on which are recorded the names and addresses of the Registered Owners of each of the Bonds.

"<u>Bond Registrar</u>" or **"<u>Registrar</u>"** means the Fiscal Agency of the State of Washington, or any successor bond registrar selected by the City, whose duties include the registration and authentication of the Bonds, maintenance of the Bond Register, effecting transfer of ownership of the Bonds, and paying the principal of and premium, if any, and interest on the Bonds.

"<u>Bond Resolution</u>" means one or more resolutions of the City Council adopted pursuant to this ordinance to specify certain additional provisions of each series of Bonds and their sale.

"<u>Bonds</u>" means the bonds issued in one or more series from time to time, pursuant to, under the authority of and for the purposes provided in this ordinance.

"<u>Build America Bonds</u>" means the Bonds of any series to which the City irrevocably elects to have Section 54AA of the Code apply.

"<u>Capital Appreciation Bonds</u>" means any Parity Bonds, all or a portion of the interest on which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in the applicable Parity Bond Authorizing Ordinance and is payable only upon redemption or on the maturity date of such Parity Bonds. Parity Bonds that are issued as Capital Appreciation Bonds, but later convert to obligations on which interest is paid periodically, shall be Capital Appreciation Bonds until the conversion date and thereafter shall no longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal to their Accreted Value on the conversion date.

"<u>CIP</u>" means the portion or portions relating to the Municipal Water System of the "2009-2014 Capital Improvement Program" of the City as adopted by the City in Ordinance 122961, together with any previously adopted Capital Improvement Program of the City, as that Capital Improvement Program may be amended, updated, supplemented or replaced from time to time.

"<u>City</u>" means The City of Seattle, Washington.

"<u>City Council</u>" means the City Council of the City.

"<u>Closing Date</u>" means the date on which a series of Bonds is delivered to the initial purchaser or purchasers thereof upon payment in full therefor.

"<u>Code</u>" means the Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

"<u>Construction Account</u>" means the Water System Construction Subaccount, 2009, created by this ordinance in the Water System Construction Account, which account was previously created in the Water Fund.

"<u>Contract Resource Obligation</u>" means an obligation of the City, designated as a Contract Resource Obligation and entered into pursuant to Section 23 of this ordinance, to make payments for water supply, transmission or other commodity or service to another person or entity (including without limitation a separate utility system created pursuant to Section 22 of this ordinance).

"<u>Coverage Requirement</u>" in any fiscal year of the City means an amount of Adjusted Net Revenue of the Municipal Water System equal to at least 1.25 times the Adjusted Annual Debt Service that year on all Parity Bonds.

"<u>Director of Finance</u>" means the Director of the Department of Finance of the City, or any other officer who succeeds to substantially all of the responsibilities of that office specified in this ordinance.

"<u>DTC</u>" means The Depository Trust Company, New York, New York, as initial Securities Depository for the Bonds.

"<u>Event of Default</u>" shall have the meaning assigned to that term in Section 28(a) of this ordinance.

"<u>Fiscal Agency</u>" means the fiscal agency of the State of Washington, as the same may be designated from time to time.

"<u>Future Parity Bonds</u>" means all revenue bonds and other obligations (other than the Bonds) of the City issued or entered into hereafter, the payment of which constitutes a charge and lien on the Net Revenue of the Municipal Water System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Account to pay and secure the payment of the principal of and interest on the Parity Bonds. Future Parity Bonds may include Parity Payment Agreements and any other obligations issued in compliance with Section 20.

"<u>Government Obligations</u>" means those government obligations defined by RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.

"<u>Gross Revenue of the Municipal Water System</u>" or **"<u>Gross Revenue</u>"** means in any fiscal year of the City all of the revenues of the Municipal Water System, including but not limited to revenue from the sale or transmission of water; the sale, lease or furnishing of other commodities, services, properties or facilities; the imposition of connection, capital

improvement or other charges; ULID Assessments; net receipts from Payment Agreements; and earnings from the investment of money in the Water Fund. However, Gross Revenue shall not include earnings of a separate utility system that may be acquired or constructed by the City pursuant to Section 22 of this ordinance; principal proceeds of Parity Bonds or other borrowings; or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund Municipal Water System obligations (until commingled with other earnings and revenues of the Municipal Water System defined as Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code.

"<u>Independent Consulting Engineer</u>" means either (1) an independent licensed professional engineer experienced in the design, construction or operation of municipal utilities of comparable size and character to the Municipal Water System, or (2) an independent certified public accountant or other professional consultant experienced in the development of rates and charges for municipal utilities of comparable size and character to the Municipal Water System.

"<u>Letter of Representations</u>" means the Blanket Issuer Letter of Representations dated October 4, 2006, between the City and DTC, as it may be amended from time to time.

"<u>Maximum Annual Debt Service</u>" means at the time of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current year or any future year on the Parity Bonds.

"<u>Municipal Water System</u>" means the water system of the City as it now exists, and all additions thereto and betterments and extensions thereof at any time made, together with any utility systems of the City hereinafter combined with the Municipal Water System. The Municipal Water System shall not include any water supply or other utility system service or other facilities that may be created, acquired or constructed by the City as a separate utility system as provided in Section 22 of this ordinance.

"**Net Revenue of the Municipal Water System**" or "**Net Revenue**" means the Gross Revenue less Operation and Maintenance Expenses.

"**Operation and Maintenance Expenses**" means all expenses incurred by the City in causing the Municipal Water System of the City to be operated and maintained in good repair, working order and condition, including without limitation: deposits, premiums, assessments or other payments for insurance, if any, on the Municipal Water System; payments into pension funds; State-imposed taxes; amounts due under Contract Resource Obligations (but only at the times described in Section 23 of this ordinance); payments made to any other person or entity for the receipt of water supply or transmission or other commodity or service; and payments with respect to any other expenses of the Municipal Water System that are properly treated as operation and maintenance expenses under generally accepted accounting principles applicable to municipal corporations. Operation and Maintenance Expenses does not include any depreciation or taxes levied or imposed by the City, or payments to the City in lieu of taxes, or capital additions or capital replacements to the Municipal Water System.

"**Outstanding Parity Bonds**" means the then outstanding 1997 Bonds, 1998 Bonds, 1999B Bonds, 2001 Bonds, 2003 Bonds, 2004 Bonds, 2005 Bonds, 2006 Bonds and 2008 Bonds, as described in Exhibit A.

"**Parity Bonds**" means the Outstanding Parity Bonds, the Bonds, and any Future Parity Bonds.

"**Parity Bond Authorizing Ordinance**" means the ordinance and/or resolution of the City that authorizes the issuance and sale and establishes the terms of a particular issue of Parity Bonds and other matters relating to the same plan of finance.

"**Parity Payment Agreement**" means a Payment Agreement under which the City's payment obligations are expressly stated to constitute a charge and lien on the Net Revenue of the Municipal Water System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Account to pay interest on Parity Bonds.

"**Payment Agreement**" means a written agreement, for the purpose of managing or reducing the City's exposure to fluctuations or levels of interest rates or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by the City and a Qualified Counterparty as authorized by any applicable laws of the State in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes, bond anticipation notes, commercial paper, or other obligations for borrowed money, or lease, installment purchase or other similar financing agreements or certificates of participation therein, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

"**Payment Agreement Payments**" means the amounts periodically required to be paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

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

"**Plan of Additions**" means, collectively, the CIP and the Water System Plan, as they may be modified hereafter as described herein.

"**Principal and Interest Subaccount**" means the account of that name created in the Bond Account for the payment of the principal of and interest and mandatory redemption requirements, if any, on the Parity Bonds.

"**Qualified Counterparty**" means a party (other than the City or a party related to the City) who is the other party to a Payment Agreement and (1)(a) whose senior debt obligations are rated in one of the three highest rating categories of each of the Rating Agencies (without regard to any gradations within a rating category) or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating in one of the two highest rating categories of each of the Rating Agencies, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

"**<u>Rate Stabilization Account</u>**" means the account of that name created in the Water Fund pursuant to Ordinance 116705 and redesignated for accounting purposes as the Revenue Stabilization Subfund of the Water Fund pursuant to Ordinance 120875.

"**<u>Rating Agencies</u>**" means Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., and their successors, and any other nationally-recognized securities rating agency or agencies rating Parity Bonds at the request of the City.

"**<u>RBI</u>**" means *The Bond Buyer* Revenue Bond Index or comparable index, or, if no comparable index can be obtained, 80% of the interest rate for actively traded 30 year United States Treasury obligations.

"**<u>Registered Owner</u>**" means the person shown on the Bond Register as the owner of one or more Bonds.

"**<u>Reserve Insurance</u>**" means any bond insurance, letter of credit, guaranty, surety bond or similar credit enhancement device obtained by the City equal to part or all of the Reserve Requirement for any Parity Bonds which is issued by an institution which has been assigned a credit rating at the time of issuance of the device in one of the two highest rating categories of each of the Rating Agencies.

"**<u>Reserve Requirement</u>**" means as of any date the lesser of Maximum Annual Debt Service or 125% of Average Annual Debt Service on the Parity Bonds.

"**<u>Reserve Subaccount</u>**" means the account of that name created in the Bond Account for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

"**<u>Securities Depository</u>**" means any one of the following registered securities depositories which has been designated by the City: (i) DTC; (ii) Midwest Securities Trust Company, Chicago, Illinois; (iii) Philadelphia Depository Trust Company, Philadelphia, Pennsylvania; or (iv) such other securities depositories as the City may designate in a certificate of the City delivered to the Bond Registrar.

"**<u>State</u>**" means the State of Washington.

"**<u>State Auditor</u>**" means the office of the Auditor of the State or such other department or office of the State authorized and directed by State law to make audits.

"**<u>Tax-Exempt Bonds</u>**" means Bonds of any series, the interest on which is intended on the date of issuance to be excluded from gross income for federal income tax purposes.

"**<u>Term Bond Maturity Year</u>**" means any calendar year in which Term Bonds are scheduled to mature.

"**<u>Term Bonds</u>**" means those Parity Bonds designated as such in the applicable Parity Bond Authorizing Ordinance.

"**<u>ULID</u>**" means a utility local improvement district.

"**<u>ULID Assessments</u>**" means all assessments levied and collected in a ULID of the City created for the acquisition or construction of additions to and betterments and extensions of the Municipal Water System if (and only if) those assessments are pledged to be paid into the Bond Account, not including any prepaid assessments paid into a construction fund or account. ULID Assessments shall include installments thereof and any interest or penalties thereon.

"**<u>Undertaking</u>**" means the City's undertaking in the Bond Resolution to provide certain disclosure as provided by Section 25.

"**<u>Variable Interest Rate</u>**" means any variable interest rate or rates to be borne by any Parity Bonds. The method of computing such a variable interest rate shall be as specified in the applicable Parity Bond Authorizing Ordinance (including a Bond Resolution), which ordinance or resolution also shall specify either (1) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (2) the time or times upon which any change in such variable interest rate shall become effective. A Variable Interest Rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indexes.

"Variable Interest Rate Bonds" means, for any period of time, any Parity Bonds that bear a Variable Interest Rate during that period, except that Parity Bonds shall not be treated as Variable Interest Rate Bonds if the net economic effect of interest rates on particular Parity Bonds of an issue and interest rates on other Parity Bonds of the same issue, as set forth in the applicable Parity Bond Authorizing Ordinance, or the net economic effect of a Payment Agreement with respect to particular Parity Bonds, in either case is to produce obligations that bear interest at a fixed interest rate; and Parity Bonds with respect to which a Payment Agreement is in force shall be treated as Variable Interest Rate Bonds if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

"Water Fund" means the fund of that name into which is paid the Gross Revenue of the Municipal Water System.

"Water System Plan" means the long range water system plan known as the 2007 Water System Plan adopted by the City in Ordinance 122309, as that Water System Plan may be amended, updated, supplemented or replaced from time to time.

Section 2. Adoption of Plan of Additions. The CIP and the Water System Plan constitute a system or plan of additions to or betterments or extensions of the Municipal Water System (the "Plan of Additions" and each element thereof an "Addition"). To the extent not previously specified, adopted and ordered to be carried out by the City by ordinance, the City specifies, adopts and orders to be carried out the Plan of Additions as generally provided for in the Water System Plan and the CIP. The estimated cost of the Plan of Additions, as near as may be determined, is declared to be $556,444,000 of which $163,351,000 is expected to be financed from the proceeds of the Bonds and investment earnings thereon.

The Plan of Additions shall include any amendments, updates, supplements or replacements to the CIP or the Water System Plan, all of which automatically shall constitute amendments to the Plan of Additions. The Plan of Additions also may be modified, without

amending the CIP or the Water System Plan, to include other improvements if the City determines by ordinance that those amendments or other improvements constitute a system or plan of additions to or betterments or extensions of the Municipal Water System.

The Plan of Additions includes the purchase and installation of all materials, supplies, appliances, equipment (including but not limited to data processing hardware and software and conservation equipment) and facilities, the acquisition of all permits, franchises, property and property rights, other capital assets and all engineering, consulting and other professional services and studies (whether performed by the City or by other public or private entities) necessary or convenient to carry out the Plan of Additions.

Section 3. Authorization and Description of Bonds. The City shall issue and sell Bonds in the aggregate principal amount of not to exceed $179,300,000 for the purposes of paying all or part of the cost of carrying out the Plan of Additions, providing a bond reserve and issuing and selling the Bonds. The Bonds shall be issued as Parity Bonds, may be issued in one or more series, and may be combined with other Parity Bonds authorized separately.

The Bonds shall be dated and have such title, year and series or other designation as determined by the Director of Finance or as specified by the Bond Resolution; shall be in the denomination of $5,000 or any integral multiple thereof within a single maturity or such other denomination specified in the Bond Resolution; and shall be numbered separately, in the manner and with any additional designation as the Bond Registrar deems necessary for the purpose of identification. The Bonds shall mature on the dates and in the amounts and bear interest payable on the dates and at the rates specified in the Bond Resolution, except that the net interest cost shall not exceed a weighted average rate of 10.0% per annum. The final maturity of any series of Bonds shall not extend beyond the reasonable life expectancy of the improvements, and in no event beyond 40 years from the issue date for that series.

The Bonds shall be subject to optional or mandatory redemption, purchase or defeasance on the terms and at the times specified in the Bond Resolution, and all or some of the Bonds may be Term Bonds with mandatory redemption amounts, all as specified by the Bond Resolution. The Director of Finance also may specify in Bond closing documents the respective amounts of each maturity of the Bonds allocated to paying the costs of carrying out the Plan of Additions.

Section 4. __**Bond Resolution**__. With respect to each series of Bonds, the City Council may adopt a Bond Resolution and in that resolution may provide for the matters described in this ordinance, including the manner of sale and delivery of and payment for the Bonds and such other matters that the City Council deems necessary and appropriate to carry out the purposes of this ordinance. Once adopted, the Bond Resolution shall be deemed a part of this ordinance as if set forth herein.

For each series of Bonds, the Bond Resolution may provide for Bond Insurance or Reserve Insurance, and conditions or covenants relating thereto, including additional terms, conditions and covenants relating to the Bonds that are required by the bond insurer or letter of credit provider and are consistent with the provisions of this ordinance, including but not limited to restrictions on investments and requirements of notice to and consent of the bond insurer or letter of credit provider.

For each series of Bonds, the Bond Resolution may approve and authorize the execution and delivery on behalf of the City of any contracts consistent with the provisions of this ordinance for which the City's approval is necessary or to which the City is a party and that are related or incidental to the initial issuance and sale of the Bonds, the initial establishment of the interest rate or rates on the Bonds, and any redemption of the Bonds, including but not limited to Payment Agreements and similar contracts for such purposes.

The Bond Resolution may specify that a series of Bonds is Build America Bonds.

The City Council may specify in the Bond Resolution the amount, if any, from the proceeds of or accrued interest on the Bonds to be deposited into specified funds, subfunds,

accounts and subaccounts. In the absence of such a determination and specification in the Bond Resolution, the Director of Finance may make such determination and specification.

Section 5. __**Registration and Transfer or Exchange of Bonds**__. The Bonds shall be issued only in registered form as to both principal and interest and recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the Registered Owner of each Bond and the principal amount and number of each of the Bonds held by each Registered Owner.

Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized denomination of an equal aggregate principal amount and of the same series, interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the Registered Owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond after notice of redemption of such Bond has been prepared.

The City appoints DTC as initial Securities Depository for the Bonds. For so long as DTC is the Securities Depository for the Bonds, DTC or its nominee shall be deemed to be the Registered Owner of the Bonds for all purposes hereunder, and all references in this ordinance or the Bond Resolution to the Registered Owners of the Bonds shall mean DTC or its nominee and shall not mean the owners of any beneficial interests in the Bonds. Payments of principal of, premium, if any, and interest on all outstanding Bonds registered in the name of the nominee of DTC, or its registered assign, shall be made as provided in the Letter of Representations.

Bonds executed and delivered in fully immobilized form shall be executed and delivered in the form of one fully-registered immobilized certificate for each series and maturity of the Bonds representing the aggregate principal amount of the Bonds of that series and maturity, which Bonds shall (except as provided below for the discontinuation or substitution of Securities Depository) be registered in the name of the Securities Depository or its nominee. For so long as DTC serves as Securities Depository for the Bonds, the Bonds shall be registered in the name of Cede & Co., as nominee of DTC; however, if DTC shall request that the Bonds be registered in the name of a different nominee, the Bond Registrar shall exchange all or any portion of the Bonds for an equal aggregate principal amount of Bonds registered in the name of such other nominee or nominees of DTC. No person other than DTC or its nominee shall be entitled to receive from the City or the Bond Registrar any Bond or any other evidence of ownership of the Bonds, or any right to receive any payment in respect thereof, unless DTC or its nominee shall transfer record ownership of all or any portion of the Bonds on the Bond Register, in connection with discontinuing the book entry system as provided below or otherwise.

For so long as the Bonds are registered in the name of DTC or any nominee thereof, all payments of the principal of, or premium, if any, or interest with respect to the Bonds shall be made to DTC or its nominee in immediately available funds on the dates provided for such payments under this ordinance and the Bond Resolution and at such times and in the manner provided in the Letter of Representations. Each such payment to DTC or its nominee shall be valid and effective to fully discharge all liability of the City or the Bond Registrar with respect to the principal of, premium, if any, or interest with respect to the Bonds to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds of any series and maturity, the Bond Registrar shall not require surrender by DTC or its nominee of the Bonds so redeemed, and DTC or its nominee may retain such Bonds and make an appropriate notation thereon as to the amount of such partial redemption. DTC shall deliver to the Bond Registrar, upon request, a written confirmation of such partial redemption. The records maintained by the Bond Registrar shall be conclusive as to the amount of the Bonds of such series and maturity that have been redeemed.

All transfers of beneficial ownership interests in Bonds registered in the name of DTC or its nominee shall be effected by the procedures of DTC's participants and/or indirect participants for recording and transferring the ownership of beneficial interests in bonds.

The City and the Bond Registrar may treat DTC (or its nominee) as the sole and exclusive Registered Owner of the Bonds registered in its name for the purposes of payment of the principal of, premium, if any, or interest with respect to those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Registered Owners under this ordinance or the Bond Resolution, registering the transfer of Bonds, obtaining any consent or other action to be taken by Registered Owners of Bonds and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other person which is not shown on the Bond Register as being a Registered Owner of Bonds, with respect to: (i) the Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or any such direct or indirect participant of any amount in respect of the principal of, premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be given to Registered Owners of Bonds under this ordinance or the Bond Resolution; (v) the selection by DTC or any such direct or indirect participant of any person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as Registered Owner of the Bonds.

For so long as the Bonds are registered in the name of DTC or any nominee thereof, all notices required or permitted to be given to the Registered Owners of such Bonds under this ordinance or the Bond Resolution shall be given to DTC as provided in the Letter of Representations.

In connection with any notice or other communication to be provided to Registered Owners pursuant to this ordinance or the Bond Resolution by the City or the Bond Registrar with respect to any consent or other action to be taken by Registered Owners of the Bonds, DTC shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action; however, the City or the Bond Registrar may establish a special record date for such consent or other action and shall give DTC notice of such special record date not less than 15 calendar days in advance of such special record date to the extent practical.

Any successor Bond Registrar, in its written acceptance of its duties under this ordinance and the Bond Resolution, shall agree to take any actions necessary from time to time to comply with the requirements of the Letter of Representations.

The book-entry system for registration of the ownership of the Bonds delivered in fully immobilized form may be discontinued at any time if: (i) after notice to the City and the Bond Registrar, DTC determines to resign as Securities Depository for the Bonds; or (ii) after notice to DTC and the Bond Registrar, the City determines that a continuation of the system of book-entry transfers through DTC (or through a successor Securities Depository) is not in the best interests of the City. In each of such events (unless, in the case described in clause (i) above, the City appoints a successor Securities Depository), the Bonds shall be delivered in registered certificate form to such persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the City or the Bond Registrar for the accuracy of such designation. Whenever DTC requests the City and the Bond Registrar to do so, or whenever the City requests DTC and the Bond Registrar to do so after the determination by the City to replace DTC with a successor Securities Depository, the City and the Bond Registrar shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for another Securities Depository to maintain custody of certificates evidencing the Bonds.

Section 6. **Mutilated, Lost, Stolen and Destroyed Bonds**. In case any Bonds issued hereunder shall become mutilated or be destroyed, stolen or lost, the City may, if not then prohibited or otherwise required by law, cause to be executed and delivered a new Bond of like amount, interest rate, maturity date, series and tenor in exchange and substitution for and upon cancellation of such mutilated Bonds, or in lieu of and in substitution for such destroyed, stolen or lost Bonds, upon payment by the Registered Owner thereof of the reasonable expenses and charges of the City and the Bond Registrar in connection therewith, and in the case of a Bond destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to it that such Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing the City and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated, destroyed, stolen or lost Bond already has matured or been called for redemption in accordance with its terms it shall not be necessary to issue a new Bond prior to payment. If the provisions of State law at any time differ from the provisions of this Section with respect to the requirements or procedures for replacing or otherwise handling mutilated, lost, stolen or destroyed Bonds, then the provisions of State law shall prevail.

Section 7. **Payment of Bond Principal and Interest**. Principal of, premium, if any, and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the Registered Owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date (or other record date established by the Bond Resolution) (the "Record Date") or, at the request of a Registered Owner of $1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in the United States designated in writing by such Registered Owner prior to the Record Date. Principal of and premium, if any, on the Bonds shall be payable upon presentation and surrender of the Bonds by the Registered Owners to the Bond Registrar.

Notwithstanding the foregoing, payment of any Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

The Bonds shall be payable solely out of the Bond Account and shall not be general obligations of the City.

Section 8. **Redemption and Purchase of Bonds**.

(a) **Optional Redemption**. All or some of the Bonds may be subject to redemption at the option of the City at the times and on the terms set forth in the Bond Resolution.

(b) **Mandatory Redemption**. The City shall redeem any Term Bonds, if not redeemed under the optional redemption provisions set forth in the Bond Resolution or purchased under the provisions set forth below, by lot (or in such other manner as the Bond Registrar shall determine) at par plus accrued interest on the dates and in the years and principal amounts as set forth in the Bond Resolution.

If the City redeems Term Bonds under the optional redemption provisions set forth in the Bond Resolution, purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase price) shall be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for those Term Bonds. The Director of Finance shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of such allocation at least 60 days prior to the earliest mandatory redemption date for that maturity of Term Bonds for which notice of redemption has not already been given. If no such determination is made, such allocation shall be on a pro rata basis.

(c) **Partial Redemption**. Unless otherwise provided in the Bond Resolution, whenever less than all of the Bonds of a single series and maturity are to be redeemed, the Bond Registrar shall select the Bonds or portions thereof to be redeemed from the Bonds of that series and maturity by lot, or in such other manner as the Bond Registrar shall

determine, except that, for so long as the Bonds are registered in the name of DTC or its nominee, DTC shall select the Bonds or portions thereof to be redeemed in accordance with the Letter of Representations.

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

(d) **Purchase**. The City reserves the right and option to purchase any or all of the Bonds at any time at any price acceptable to the City plus accrued interest to the date of purchase. The principal amount of Term Bonds purchased pursuant to this Section 8 shall be credited at the par amount thereof against the next mandatory redemption requirement, or as otherwise directed by the Director of Finance.

(e) **Bonds to be Canceled**. All Bonds purchased or redeemed under this Section 8 shall be canceled.

Section 9. **Notice of Redemption**. The City shall cause notice of any intended redemption of Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Registered Owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed by the Bond

Registrar within the same period, postage prepaid, to each of the Rating Agencies at their offices in New York, New York, to any Bond Insurer for the Bonds, and to such other persons and with such additional information as the Director of Finance shall determine or as specified in the Bond Resolution, but these additional mailings shall not be a condition precedent to the redemption of Bonds.

Section 10. **Failure to Redeem Bonds**. If any Bond is not redeemed when properly presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or call date until that Bond, principal of, premium, if any and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Account and the Bond has been called for payment by giving notice of that call to the Registered Owner of each of those unpaid Bonds.

Section 11. **Form and Execution of Bonds**. The Bonds shall be typed, photocopied, printed or lithographed on good bond paper in a form consistent with the provisions of this ordinance, the Bond Resolution and State law, shall be signed by the Mayor and Director of Finance, either or both of whose signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

Only Bonds bearing a Certificate of Authentication in substantially the following form (with the title or designation, year and series completed, consistent with the Bond Resolution) manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance:

CERTIFICATE OF AUTHENTICATION

This Bond is one of the fully registered The City of Seattle, Washington, Water System Revenue Bonds, [Year][Series], described in the Bond Ordinance.

Bond Registrar

By: ______________________________
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

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

Section 12. **Bond Registrar; Appointment of Other Agents**. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Bonds which shall at all times be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and SMC Chapter 5.10 establishing a system of registration for the City's bonds and obligations, as that chapter now exists or may be amended.

The City reserves the right in its discretion to appoint special paying agents, registrars or trustees in connection with the payment of some or all of the principal of or interest on the Bonds. If a new Bond Registrar is appointed by the City, notice of the name and address of the new Bond Registrar shall be mailed to the Registered Owners of the Bonds. The notice may be mailed together with the next interest payment due on the Bonds, but, to the extent practicable, shall be mailed not less than 15 days prior to a maturity date of the principal or a mandatory redemption date of any Bond.

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

Section 13. Bond Account. Ordinance 116705 created the Water Revenue Bond Account (the "Bond Account") in the Water Fund and further divided the Bond Account into two subaccounts: the Principal and Interest Subaccount and the Reserve Subaccount. So long as any Parity Bonds are outstanding, the City shall set aside and pay into the Bond Account all ULID Assessments on their collection (except for ULID Assessments deposited in a construction account) and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

(a) Into the Principal and Interest Subaccount (i) upon receipt thereof, the accrued interest, if any, received by the City from the purchaser of the Bonds, and (ii) on or before each interest or principal and interest payment date of any Parity Bonds at least an amount which, together with other money on deposit therein, will be sufficient to pay the interest, or principal and interest, to become due and payable on the Parity Bonds on that payment date, including any Parity Bonds subject to mandatory redemption on that date, and net payments due on Parity Payment Agreements; and

(b) Into the Reserve Subaccount, in approximately equal annual payments, amounts necessary to fund the Reserve Requirement within five years from the date of issuance of such Parity Bonds after taking into account the capitalization of all or any part of the Reserve Requirement. The City may provide all or any part of the Reserve Requirement through Reserve Insurance, and the amount available to be drawn upon under that Reserve Insurance shall be credited against the Reserve Requirement, subject to the following:

The Reserve Insurance shall not be cancelable on less than three years' notice. On receipt of a notice of cancellation of any Reserve Insurance or upon notice that the entity providing the Reserve Insurance no longer meets the requirements specified herein, the City shall substitute Reserve Insurance in the amount required to make up the deficiency created in the Reserve Subaccount or in the alternative shall create a special account in the Water Fund and deposit therein, on or before the 25th day of each of the 36 succeeding calendar months (commencing with the 25th day of the calendar month next following the date of the notice) 1/36th of the amount sufficient, together with other money and investments on deposit in the Reserve Subaccount, to equal the Reserve Requirement in effect as of the date the cancellation or disqualification of the entity becomes effective. The required amounts shall be deposited in that special account from money in the Water Fund after making provision for payment of Operation and Maintenance Expenses and for required payments into the Bond Account. Amounts on deposit in that special account shall not be available to pay debt service on Parity Bonds or for any other purpose of the City, and shall be transferred to the Reserve Subaccount on the effective date of any cancellation of a Reserve Insurance to make up all or part of the deficiency caused thereby. Amounts in that special account or in the Reserve Subaccount may be transferred back to the Water Fund and used for any purpose if and when qualifying Reserve Insurance is obtained.

Except for withdrawals therefrom and payments over time as authorized herein, the Reserve Subaccount shall be maintained at the Reserve Requirement, as it is adjusted from time to time, at all times so long as any Parity Bonds are outstanding. For the purpose of determining the amount credited to the Reserve Subaccount, obligations in which money in the Reserve Subaccount has been invested shall be valued at the greater of cost or accreted value.

In the event that there shall be a deficiency in the Principal and Interest Subaccount to meet maturing installments of either principal or interest or mandatory redemption requirements, as the case may be, that deficiency shall be made up from the Reserve Subaccount by the withdrawal of cash therefrom for that purpose. Any deficiency created in the Reserve Subaccount by reason of any such withdrawal shall within 12 months be made up from ULID Assessments and Net Revenue available after making necessary provisions for the required payments into the Principal and Interest Subaccount.

The money in the Reserve Subaccount may be applied to the payment of the last outstanding bonds payable out of the Bond Account, except that any money in the Reserve Subaccount (including investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Subaccount and spent for the purpose of retiring Parity Bonds or may be deposited in any other fund or account and spent for any other lawful Municipal Water System purpose. When the total amount in the Bond Account (including investment earnings) shall equal the total amount of principal and interest for all Parity Bonds to the last maturity thereof, no further payment need be made into the Bond Account.

The City may provide for the purchase, redemption or defeasance of any Parity Bonds by the use of money on deposit in any subaccount in the Bond Account as long as the money remaining in those subaccounts is sufficient to satisfy the required deposits in those subaccounts for the remaining Parity Bonds.

All money in the Bond Account may be kept in cash or invested in legal investments maturing, for investments in the Principal and Interest Subaccount, not later than the dates when the funds are required for the payment of principal of or interest on the Parity Bonds and, for investments in the Reserve Subaccount, maturing (or subject to redemption, or repurchase and redemption, at the option of the City) on a date not later than 15 years from the date of investment.

Earnings from investments in the Principal and Interest Subaccount shall be deposited in that account. Earnings from investments in the Reserve Subaccount shall be deposited in that account. Notwithstanding the provisions for the deposit of earnings, any earnings that are subject to federal arbitrage rebate requirements may be withdrawn from the Bond Account for deposit into a separate fund or account created for the purpose of compliance with those rebate requirements.

The City may create sinking fund accounts or other accounts in the Bond Account for the payment or securing the payment of Parity Bonds as long as the maintenance of such accounts does not conflict with the rights of the owners of such Parity Bonds.

Section 14. **<u>Construction Account; Deposit of Proceeds</u>**. There has been created in the Water Fund an account known as the Water System Construction Account, within which account is created a subaccount to be known as the Water System Construction Subaccount, 2009 (the "Construction Account"). The principal proceeds of the sale of the Bonds remaining after (1) the deposit of accrued interest on the Bonds, if any, into the Principal and Interest Subaccount, and (2) the deposit of any proceeds as determined by the Bond Resolution into the Reserve Subaccount, shall be deposited into the Construction Account to be used for the purpose of paying part of the costs of carrying out the Plan of Additions and to pay for the costs of issuance of the Bonds. Until needed to pay such costs, the City may invest principal proceeds and interest thereon temporarily in any legal investment, and the investment earnings may, as determined by the Director of Finance, be retained in the Construction Account and be spent for the purposes of that fund or deposited in the Bond Account.

Section 15. **<u>Rate Stabilization Account</u>**. The Rate Stabilization Account has been created in the Water Fund. The City may at any time, as determined by the City and as consistent with Section 19 of this ordinance, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the Municipal Water System and available to be used therefor. The City may withdraw any or all of the money from the Rate Stabilization Account for inclusion in the Adjusted Gross Revenue for any fiscal year of the City. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue.

No deposit of Gross Revenue shall be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant fiscal year.

Section 16. **<u>Finding as to Sufficiency of Gross Revenue</u>**. A series of Bonds will be issued only if the City Council finds and determines by the Bond Resolution (i) that the Gross Revenue and benefits to be derived from the operation and maintenance of the Municipal Water System of the City at the rates to be charged from time to time for water and other services and commodities from the Municipal Water System consistent with Section 18(b) hereof, will be sufficient to meet all Operation and Maintenance Expenses and to permit the setting aside into the Bond Account out of the Gross Revenue of amounts sufficient to pay the principal of and interest on the Bonds and any mandatory redemption requirements when due, and (ii) that in fixing the amounts to be paid into the Bond Account the City has exercised due regard for Operation and Maintenance Expenses, and has not bound and obligated itself to set aside and pay into the Bond Account a greater amount or proportion of the Gross Revenue than in the judgment of the City will be available over and above the Operation and Maintenance Expenses.

Section 17. **<u>Pledge of Net Revenue and Lien Position</u>**. The Net Revenue of the Municipal Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code), is pledged to the payment of the Parity Bonds and to make payments into the Reserve Subaccount required by this ordinance, the Bond Resolution and Parity Bond Authorizing Ordinances, and this pledge shall constitute a lien and charge upon the Net Revenue prior and superior to any other charges whatsoever.

Section 18. **<u>Parity Bond Covenants</u>**. The City covenants and agrees with the owner of each Bond at any time outstanding, as follows:

(a) **<u>Operation and Maintenance</u>**. It will at all times maintain, preserve and keep the properties of the Municipal Water System in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs

thereto, and improvements, replacements and extensions thereof so that at all times the business carried on in connection therewith will be properly and advantageously conducted, and will at all times operate or cause to be operated the properties of the Municipal Water System and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) **<u>Establishment and Collection of Rates and Charges</u>**. It will establish, maintain and collect rates and charges for services and facilities provided by the Municipal Water System which will be fair and equitable, and will adjust those rates and charges from time to time so that:

(1) The Gross Revenue will be sufficient to (i) pay all Operation and Maintenance Expenses, (ii) pay when due all amounts that the City is obligated to pay into the Bond Account and the subaccounts therein, and (iii) pay all taxes, assessments or other governmental charges lawfully imposed on the Municipal Water System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and

(2) The Adjusted Net Revenue of the Municipal Water System in each fiscal year will be at least equal to the Coverage Requirement; and

(3) Except to aid the poor or infirm and for fire-fighting purposes, it will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the Municipal Water System free of charge to any person, firm or corporation, public or private.

The failure of the City to comply with subparagraphs (1) and (2) of this paragraph (b) shall not be an Event of Default if the City promptly retains an Independent Consulting Engineer to recommend to the City Council adjustments in the rates of the Municipal Water System necessary to meet the requirements of those subparagraphs and if the City Council adopts the recommended modifications within 180 days of the date the failure became known to the City Council.

(c) **<u>Sale, Transfer or Disposition of the Municipal Water System</u>**. It will sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the Municipal Water System or any real or personal property comprising a part of the Municipal Water System only upon approval by ordinance and only consistent with one or more of the following:

(1) The City in its discretion may carry out such a sale, transfer or disposition (each, as used in this subparagraph, a "transfer") if the facilities or property transferred are not material to the operation of the Municipal Water System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Municipal Water System or are no longer necessary, material or useful to the operation of the Municipal Water System; or

(2) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property being transferred under this subparagraph (2) in any fiscal year comprises no more than 3% of the total assets of the Municipal Water System; or

(3) The City in its discretion may carry out such a transfer if the City receives from the transferee an amount equal to the fair market value of the portion of the Municipal Water System transferred. As used in this subparagraph, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the willing buyer and willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus. The proceeds of the transfer shall be used (i) to promptly redeem, or irrevocably set aside for the redemption of, Parity Bonds, and/or (ii) to provide for part of the cost of additions to and betterments and extensions of the Municipal Water System. Before any such transfer under this subparagraph (3), the City must obtain a certificate of an Independent Consulting Engineer to the effect that in his or her professional opinion, upon such transfer and the use of proceeds

of the transfer as proposed by the City, the remaining Municipal Water System will retain its operational integrity and the Adjusted Net Revenue of the Municipal Water System will be at least equal to the Coverage Requirement during the five fiscal years following the fiscal year in which the transfer is to occur, taking into account, (w) the reduction in revenue resulting from the transfer; (x) the use of any proceeds of the transfer for the redemption of Parity Bonds, (y) the Independent Consulting Engineer's estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Municipal Water System financed in part by the proposed portion of the proceeds of the transfer, and (z) any other adjustment permitted in the preparation of a certificate under Section 20(f)(2) of this ordinance. Before such a transfer, the City also must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.

The amount required to be paid to the City may be reduced by any "equity credits" or similar amounts based on prior capital contributions or other payments to the City which, under any contract between the City and the transferee, are allowed as a setoff against the transfer price that would otherwise be payable to the City.

Upon the redemption or defeasance of all then outstanding 1997 Bonds, 1998 Bonds, 1999B Bonds, 2001 Bo nds, 2003 Bonds, and 2004 Bonds, the City may sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the Municipal Water System or any real or personal property comprising a part of the Municipal Water System only consistent with one or more of the following:

(1) The City in its discretion may carry out such a sale, transfer or disposition (each, a "transfer") if the facilities or property transferred are not material to the operation of the Municipal Water System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Municipal Water System or are no longer necessary, material or useful to the operation of the Municipal Water System; or

(2) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property being transferred under this subparagraph (2) in any fiscal year comprises no more than 5% of the total assets of the Municipal Water System; or

(3) The City in its discretion may carry out such a transfer if the proceeds from such transfer are used to acquire new useful operating facilities or properties of the Municipal Water System, or are used to retire outstanding Parity Bonds or other revenue obligations of the Municipal Water System, if, at the time of such transfer, the City has on file a certificate of both the Director of Finance and the Director of Seattle Public Utilities (or any officer who succeeds to substantially all of the responsibilities of either office) demonstrating that in their opinion, upon such transfer and the use of proceeds of the transfer as proposed by the City, the remaining facilities of the Municipal Water System will retain their operational integrity and, based on the financial statements for the most recent fiscal year available, the proposed transfer would not prevent the Municipal Water System from complying with the Coverage Requirement during the five fiscal years following the fiscal year in which the transfer is to occur. The certificate shall take into account, (A) the reduction in revenue and expenses, if any, resulting from the transfer; (B) the use of any proceeds of the transfer for the redemption of Parity Bonds, (C) the estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Municipal Water System financed in part by the proposed portion of the proceeds of the transfer, and (D) any other adjustment permitted in the preparation of a certificate under Section 20(f)(2) of this ordinance. Before such a transfer, the City also must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.

(d) <u>Liens Upon the Municipal Water System</u>. Except as otherwise provided in this ordinance, it will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the Gross Revenue or any part thereof, prior or

superior to the lien thereon for the payment of the Parity Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Revenue or any part thereof, prior or superior to, or on a parity with, the lien of the Parity Bonds, or which might impair the security of the Parity Bonds.

(e) <u>Books and Accounts</u>. It will keep proper books, records and accounts with respect to the operations, income and expenditures of the Municipal Water System in accordance with generally accepted accounting practices relating to the municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited on an annual basis by the State Auditor (or, if such audit is not made by the State Auditor within 270 days after the close of any fiscal year of the City, by a certified public accountant selected by the City). It will prepare annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the Municipal Water System as of the close of the previous year, and the income and expenses for such year, including the amounts paid into the Bond Account and into any and all special funds or accounts created pursuant to the provisions of this ordinance, the status of all funds and accounts as of the end of such year, and the amounts expended for maintenance, renewals, replacements and capital additions to the Municipal Water System. Such statements shall be sent to the owner of any Parity Bonds upon written request therefor being made to the City. The City may charge a reasonable cost for providing such financial statements.

(f) <u>Collection of Delinquent Accounts</u>. On at least an annual basis, it will determine all accounts that are delinquent and will take such actions as the City determines are reasonably necessary to enforce payment of those delinquent accounts.

(g) <u>Maintenance of Insurance</u>. It at all times will carry fire and extended coverage, public liability and property damage and such other forms of insurance with responsible insurers and with policies payable to the City on such of the buildings, equipment, works, plants, facilities and properties of the Municipal Water System as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, and against such claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, or it will self-insure or will participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the City, to protect the Municipal Water System and the owners of the Parity Bonds against loss.

(h) **Condemnation Awards and Insurance Proceeds**. If the City receives any condemnation awards or proceeds of an insurance policy in connection with any loss of or damage to any property of the Municipal Water System, it shall apply the condemnation award or insurance proceeds, in the City's sole discretion, either (i) to the cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase or redemption of Parity Bonds, or (iii) to the cost of improvements to the Municipal Water System.

Section 19. **Flow of Funds**. All ULID Assessments shall be paid into the Bond Account as provided by this ordinance. The Gross Revenue of the Municipal Water System shall be used for the following purposes only and shall be applied in the following order of priority:

(a) To pay the Operation and Maintenance Expenses;

(b) To pay interest on Parity Bonds and net payments on Parity Payment Agreements when due;

(c) To pay the principal of Parity Bonds as it comes due at maturity or as the principal is required to be paid pursuant to mandatory redemption requirements applicable to Term Bonds, and to make payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the Parity Bonds;

(d) To make all payments required to be made into the Reserve Subaccount, all payments required to be made under any agreement relating to the provision of Reserve Insurance, and payments due under any reimbursement

agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the payments required to be made into the Reserve Subaccount;

(e) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants or other obligations of the City having a lien upon the revenue of the Municipal Water System junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

(f) To retire by redemption or purchase any outstanding revenue bonds or other revenue obligations of the Municipal Water System, to make necessary additional betterments, improvements and repairs to or extensions and replacements of the Municipal Water System, to make deposits into the Rate Stabilization Account, or for any other lawful Municipal Water System purposes.

The City may transfer any money from any funds or accounts of the Municipal Water System legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds, to meet the required payments to be made into the Bond Account.

Section 20. **Provisions for Future Parity Bonds**. The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of the Municipal Water System or to refund a portion of the Parity Bonds if the following conditions are met and complied with at the time of the issuance of those Future Parity Bonds or entering into the Parity Payment Agreement:

(a) There shall be no deficiency in the Bond Account and no Event of Default with respect to any Parity Bonds shall have occurred and be continuing.

(b) The Parity Bond Authorizing Ordinance shall provide that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Future Parity Bonds, shall be paid directly into the Bond Account, except for any prepaid assessments permitted by law to be paid into a construction fund or account.

(c) The Parity Bond Authorizing Ordinance shall provide for the payment of the principal thereof and interest thereon out of the Bond Account.

(d) The Parity Bond Authorizing Ordinance shall provide for the payment of amounts into the Bond Account to meet mandatory redemption requirements applicable to any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Subaccount.

(e) The Parit y Bond Authorizing Ordinance shall provide for the deposit into the Reserve Subaccount of (i) an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds or other money legally available, or (ii) Reserve Insurance or an amount plus Reserve Insurance necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds, or (iii) amounts necessary to fund the Reserve Requirement from ULID Assessments and Adjusted Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments.

(f) There shall be on file with the City either:

(1) a certificate of the Director of Finance demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that 12 month period was the Average Annual Debt Service for those proposed bonds); or

(2) a certificate of both the Director of Finance and the Director of Seattle Public Utilities, or any officer who succeeds to substantially all of the responsibilities of either office, that in their opinion the Adjusted Net Revenue for the five fiscal years next following the earlier of (A) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (B) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Adjusted Net Revenue further adjusted as provided in paragraphs (i) through (iv) below, will be at least equal to the Coverage Requirement. That certificate may take into account the following adjustments:

(i) Any changes in rates in effect and being charged, or rates expected to be charged in accordance with a program of specific rates, rate levels or increases in overall rate revenue approved by ordinance or resolution;

(ii) Net revenue from customers of the Municipal Water System who have become customers during the 12 consecutive month period or thereafter, and their estimate of net revenue from any customers to be connected to the Municipal Water System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;

(iii) Their estimate of net revenue from customers anticipated to be served by facilities or improvements financed in substantial part by those Future Parity Bonds (or additional Parity Bonds expected to be issued during the five-year period); and

(iv) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue of the Municipal Water System.

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding Parity Bonds, no such coverage certification shall be required if the Adjusted Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than $5,000 over the Adjusted Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds.

Nothing contained herein shall prevent the City from issuing Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or revenue bonds that are a charge or lien upon the Gross Revenue subordinate to the charge or lien of the Parity Bonds, or from pledging the payment of ULID assessments into a bond redemption fund created for the payment of the principal of and interest on those junior lien bonds as long as such ULID assessments are levied for improvements constructed from the proceeds of those junior lien bonds.

Section 21. **Reimbursement Obligations**. If the City elects to meet the Reserve Requirement or any portion thereof through the use of Reserve Insurance or elects to secure any issue of Parity Bonds through the use of Bond Insurance, the City may contract with the entity providing such Reserve Insurance or Bond Insurance to the effect that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds.

If provided by the Bond Resolution, if the principal of, interest or mandatory redemption requirements due on the Bonds is paid by a Bond Insurer pursuant to a Bond Insurance policy, the Bonds shall not be considered paid by the City, and the covenants, agreements and other obligations of the City to the Registered Owners shall continue to exist and the Bond Insurer shall be subrogated to the rights of the Registered Owners.

Section 22. **Separate Utility Systems**. The City may create, acquire, construct, finance, own and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of that separate utility system shall not be included in the Gross Revenue of the Municipal Water System and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither the Gross Revenue nor the Net Revenue of the Municipal Water System shall be pledged by the City to the payment of any obligations of a separate utility system except (1) as a Contract Resource Obligation upon compliance with Section 23 hereof and/or (2) with respect to the Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net Revenue.

Section 23. **Contract Resource Obligations**. The City may at any time enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of water supply, transmission or other commodity or service relating to the Municipal Water System. The City may determine that, and may agree under a Contract Resource Obligation to provide that, all payments under that Contract Resource Obligation (including payments prior to the time that water supply or transmission or other commodity or service is being provided, or during a suspension or after termination of supply or service) shall

be Operation and Maintenance Expenses if the following requirements are met at the time such a Contract Resource Obligation is entered into:

(a) No Event of Default has occurred and is continuing.

(b) There shall be on file a certificate of an Independent Consulting Engineer stating that (i) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the supply or transmission rendered; (ii) the source of any new supply, and any facilities to be constructed to provide the supply or transmission, are sound from a water or other commodity supply or transmission planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide supply or transmission no later than a date set forth in the Independent Consulting Engineer's certification; and (iii) the Adjusted Net Revenue (further adjusted by the Independent Consulting Engineer's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Adjusted Net Revenue is estimated by the Independent Consulting Engineer in accordance with the provisions of and adjustments permitted in Section 20(f)(2) of this ordinance, will be at least equal to the Coverage Requirement.

Payments required to be made under Contract Resource Obligations shall not be subject to acceleration.

Nothing in this Section shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from existing facilities and from treating those payments as Operation and Maintenance Expenses. Nothing in this Section shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a lien and charge on Net Revenue subordinate to that of Parity Bonds.

Section 24. **Preservation of Tax Exemption for Interest on Tax-Exempt Bonds**. The City covenants that it will take all actions consistent with the terms of the Bonds, this ordinance and the Bond Resolution reasonably within its power and necessary to prevent interest on the Tax-Exempt Bonds from being included in gross income for federal income tax purposes and it will neither take any action nor make or permit any use of the proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds at any time during the term of the Bonds which will cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes.

The City also covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the entitlement of the City to receive from the United States Treasury the applicable federal credit payments in respect of any series of Bonds sold and issued as Build America Bonds. Without limiting the generality of the foregoing, the City will comply with the provisions of the Code compliance with which would result in the interest on Build America Bonds being excluded from gross income for federal tax purposes but for the City's irrevocable election to have Section 54AA of the Cody apply to such Bonds.

Section 25. **Continuing Disclosure**. The City shall undertake to provide for the benefit of holders of the Bonds disclosure of certain financial information and operating data of the type included in the final official statement for the Bonds, as well as disclosure of certain material events respecting the Bonds, in the manner and to the extent required by United States Securities and Exchange Commission Rule 15c2-12(b)(5). The particular terms of the Undertaking shall be set forth in the Bond Resolution.

Section 26. **Refunding or Defeasance of Bonds**. The Bonds are hereby designated "Refundable Bonds" for purposes of Ordinance 121939. The City may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay when due the principal of, premium, if any, and interest on the Bonds, or portion thereof included in a refunding or defeasance plan, and to redeem and retire, release, refund or defease the Bonds (the "defeased Bonds") and to pay the costs of such refunding or defeasance. If money and/or Government Obligations sufficient in amount, together with known earned income from the investments thereof, to redeem and retire, release, refund or defease the defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow

account irrevocably pledged to such redemption, retirement or defeasance (the "trust account"), then all right and interest of the owners of the defeased Bonds in the covenants of this ordinance and in the Net Revenue and the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such owners thereafter shall have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account. The City shall include in the refunding or defeasance plan such provisions as the City deems necessary for the random selection of any defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be given to the registered owners of the defeased Bonds and to such other persons as the City shall determine, and for any required replacement of Bond certificates for defeased Bonds.

After the establishing and full funding of such a trust account, the defeased Bonds shall be deemed as no longer outstanding, and the City then may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes as it shall determine, subject only to the rights of the owners of any other Parity Bonds.

If the refunding or defeasance plan provides that the defeased Bonds or the refunding bonds to be issued be secured by money and/or Government Obligations pending the prior redemption of the defeased Bonds and if such refunding or defeasance plan also provides that certain money and/or Government Obligations are pledged irrevocably for the prior redemption of the defeased Bonds included in that refunding or defeasance plan, then only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is not so secured by the refunding plan, shall be included in the computation of the Coverage Requirement for the issuance of Future Parity Bonds and the annual computation of the Coverage Requirement for determining compliance with the rate covenants.

Section 27. **Amendatory and Supplemental Ordinances**.

(a) This ordinance shall not be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of this Section.

(b) The City, from time to time, and at any time, without the consent of or notice to the owners of the Bonds, may pass supplemental or amendatory ordinances as follows:

(1) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance in a manner not adverse to the owner of any Parity Bond;

(2) To impose upon the Bond Registrar (with its consent) for the benefit of the owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this ordinance as therefore in effect;

(3) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary or inconsistent with this ordinance as therefore in effect;

(4) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this ordinance of any other money, securities or funds;

(5) To authorize different denominations of the Bonds and to make correlative amendments and modifications to this ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(6) To modify, alter, amend or supplement this ordinance in any other respect which is not materially adverse to the owners of the Parity Bonds and which does not involve a change described in subsection (c) of this Section;

(7) Because of change in federal law or rulings, to maintain the exclusion from gross income of the interest on the Tax-Exempt Bonds from federal income taxation and the entitlement of the City to receive from the United States Treasury the applicable federal credit payments in respect of any series of Bonds sold and issued as Build America Bonds; and

(8) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are requested by a Bond Insurer or provider of Reserve Insurance and which are not materially adverse to the owners of the Parity Bonds.

Before the City shall adopt any such supplemental ordinance pursuant to this subsection (b), there shall have been delivered to the City and the Bond Registrar an opinion of Bond Counsel, stating that such supplemental ordinance is authorized or permitted by this ordinance and, upon the execution and delivery thereof, will be valid and binding upon the City in accordance with its terms, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds and will not adversely affect the entitlement of the City to receive from the United States Treasury the applicable federal credit payments in respect of any series of Bonds sold and issued as Build America Bonds.

(c) (1) Except for any supplemental ordinance entered into pursuant to subsection (b) of this Section, subject to the terms and provisions contained in this subsection (c) and not otherwise, Registered Owners of not less than 60% in aggregate principal amount of the Parity Bonds shall have the right from time to time to consent to and approve the passage by the City of any supplemental ordinance deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this ordinance; except that, unless approved in writing by the Registered Owners of all Parity Bonds, nothing contained in this Section shall permit, or be construed as permitting:

(i) A change in the times, amounts or currency of payment of the principal of or interest on any outstanding Parity Bond, or a reduction in the principal amount or redemption price of any outstanding Parity Bond or a change in the redemption price of any outstanding Parity Bond or a change in the method of determining the rate of interest thereon, or

(ii) A preference or priority of any Parity Bond or Bonds or any other Parity Bond or Bonds, or

(iii) A reduction in the aggregate principal amount of Parity Bonds, the consent of the Registered Owners of which is required for any such supplemental ordinance.

(2) If at any time the City shall pass any supplemental ordinance for any of the purposes of this subsection (c), the Bond Registrar shall cause notice of the proposed supplemental ordinance to be given by first-class United States mail to all Registered Owners of the Parity Bonds, to any Bond Insurer, and to the Rating Agencies if the Bonds are rated by those agencies. Such notice shall briefly set forth the nature of the proposed supplemental ordinance and shall state that a copy thereof is on file at the office of the Bond Registrar for inspection by all Registered Owners of the Parity Bonds.

(3) Within two years after the date of the mailing of such notice, the City may adopt such supplemental ordinance in substantially the form described in such notice, but only if there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of the Registered Owners of the Parity Bonds, and (ii) an opinion of bond counsel stating that such supplemental ordinance is authorized or permitted by this ordinance and, upon the execution and delivery thereof, will be valid and binding upon the City in accordance with its terms, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds and will not adversely affect the entitlement of the City to receive from the United States Treasury the applicable federal credit payments in respect of any series of Bonds sold and issued as Build America Bonds.

(4) If Registered Owners of not less than the percentage of Parity Bonds required by this subsection (c) shall have consented to and approved the execution and delivery

thereof as herein provided, no owner of the Parity Bonds shall have any right to object to the passage of such supplemental ordinance, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the passage thereof, or to enjoin or restrain the City or the Bond Registrar from passing the same or from taking any action pursuant to the provisions thereof.

(d) Upon the execution and delivery of any supplemental ordinance pursuant to the provisions of this Section, this ordinance shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this ordinance of the City, the Bond Registrar and all owners of Parity Bonds, shall thereafter be determined, exercised and enforced under this ordinance subject in all respects to such modifications and amendments.

Section 28. Defaults and Remedies.

(a) Events of Default. The following shall constitute "Events of Default" with respect to the Bonds:

(1) If a default is made in the payment of the principal of or interest on any of the Bonds when the same shall become due and payable;

(2) If the City defaults in the observance and performance of any other of the covenants, conditions and agreements on the part of the City set forth in this ordinance or any covenants, conditions or agreements on the part of the City contained in any Parity Bond Authorizing Ordinance and such default or defaults have continued for a period of six months after the City has received from the Bond Owners' Trustee (as defined below) or from the Registered Owners of not less than 25% in principal amount of the Parity Bonds, a written notice specifying and demanding the cure of such default. However, if the default in the observance and performance of any other of the covenants, conditions and agreements is one which cannot be completely remedied within the six months after written notice has been given, it shall not be an Event of Default with respect to the Bonds as long as the City has taken

active steps within the six months after written notice has been given to remedy the default and is diligently pursuing such remedy; or

(3) If the City files a petition in bankruptcy or is placed in receivership under any state or federal bankruptcy or insolvency law.

(b) **Bond Owners' Trustee**. So long as such Event of Default has not been remedied, a trustee (the "Bond Owners' Trustee") may be appointed by the Registered Owners of 25% in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners of the Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such Bond Owners' Trustee, notification thereof being given to the City. That appointment shall become effective immediately upon acceptance thereof by the Bond Owners' Trustee. Any Bond Owners' Trustee appointed under the provisions of this subsection (b) shall be a bank or trust company organized under the laws of the State of Washington or the State of New York or a national banking association. The bank or trust company acting as Bond Owners' Trustee may be removed at any time, and a successor Bond Owners' Trustee may be appointed, by the Registered Owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners of the Bonds or by their attorneys-in-fact duly authorized. The Bond Owners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

In the event that any Event of Default in the sole judgment of the Bond Owners' Trustee is cured and the Bond Owners' Trustee furnishes to the City a certificate so stating, that Event of Default shall be conclusively deemed to be cured and the City, the Bond Owners' Trustee and the Registered Owners of the Parity Bonds shall be restored to the same rights and position which they would have held if no Event of Default had occurred.

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

(c) **Suits at Law or in Equity**. Upon the happening of an Event of Default and during the continuance thereof, the Bond Owners' Trustee may, and upon the written request of the Registered Owners of not less than 25% in principal amount of the Parity Bonds outstanding shall, take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the Registered Owners of the Parity Bonds, to collect any amounts due and owing to or from the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this ordinance or in any of the Parity Bonds.

Nothing contained in this Section shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the remedy of acceleration is expressly denied to the Registered Owners of the Parity Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder shall be brought in its name as trustee for the Bond owners and all such rights of action upon or under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bond Owners' Trustee without the possession of any of those Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any such suit, action or proceeding instituted by the Bond Owners' Trustee shall be brought for the ratable benefit of all of the Registered Owners of those Parity Bonds, subject to the provisions of this ordinance. The respective Registered Owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the

Bond Owners' Trustee the true and lawful trustee of the respective Registered Owners of those Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts with respect thereto that the Registered Owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the Bond Owners' Trustee to consent to accept or adopt, on behalf of any Registered Owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any owner thereof, or to authorize or empower the Bond Owners' Trustee to vote the claims of the Registered Owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City is a party.

(d) **Application of Money Collected by Bond Owners' Trustee**. Any money collected by the Bond Owners' Trustee at any time pursuant to this Section shall be applied in the following order of priority:

(i) first, to the payment of the charges, expenses, advances and compensation of the Bond Owners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys; and

(ii) second, to the payment to the persons entitled thereto of all installments of interest then due on the Parity Bonds in the order of maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

(iii) third, to the payment to the persons entitled thereto of the unpaid principal amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably,

according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

(e) **Duties and Obligations of Bond Owners' Trustee**. The Bond Owners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bond Owners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined solely by the express provisions of this ordinance, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into this ordinance.

The Bond Owners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bond Owners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct.

The Bond Owners' Trustee shall not be bound to recognize any person as a Registered Owner of any Bond until his title thereto, if disputed, has been established to its reasonable satisfaction.

The Bond Owners' Trustee may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Bond Owners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected-by it with reasonable care.

(f) **Suits by Individual Bond Owners Restricted**. No owner of any one or more of Parity Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of same unless:

(i) an Event of Default has happened and is continuing;

(ii) a Bond Owners' Trustee has been appointed;

(iii) such owner previously shall have given to the Bond Owners' Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted;

(iv) the Registered Owners of 25% in principal amount of the Parity Bonds, after the occurrence of such Event of Default, has made written request of the Bond Owners' Trustee and have afforded the Bond Owners' Trustee a reasonable opportunity to institute such suit, action or proceeding;

(v) there have been offered to the Bond Owners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(vi) the Bond Owners' Trustee has refused or neglected to comply with such request within a reasonable time.

No owner of any Parity Bond shall have any right in any manner whatever by his action to affect or impair the obligation of the City to pay from the Net Revenue the principal of and interest on such Parity Bonds to the respective Registered Owners thereof when due.

(g) __Failure to Comply With Undertaking__. Notwithstanding anything in this Section to the contrary, the failure of the City or any obligated person to comply with the Undertaking adopted by the Bond Resolution pursuant to Section 25 shall not constitute an Event of Default hereunder, and the sole remedy of any holder of a Bond shall be to seek an order of specific performance from an appropriate court to compel the City to comply with the Undertaking.

Section 29. __Sale of Bonds__. The Director of Finance may provide for the sale of each series of Bonds (or any portion of the Bonds authorized hereunder) by public sale or by a negotiated sale with an underwriter or other financial institution chosen through a selection

process acceptable to the Director of Finance. The Director of Finance is authorized to specify a date and time of sale of the Bonds, to give notice of that sale, to determine any bid requirements and criteria for determining the award of the bid, to provide for the use of an electronic bidding mechanism, and to specify other matters in his or her determination necessary, appropriate, or desirable to carry out the sale of the Bonds. The terms of that sale shall be consistent with this ordinance and the Bond Resolution and shall be confirmed by the Bond Resolution. The Bonds shall be delivered to the purchasers as provided in the Bond Resolution immediately upon payment to the City of the purchase price plus accrued interest, if any, to the Closing Date in immediately available federal funds in Seattle, Washington, at the City's expense or at another time or place upon which the Director of Finance and the purchaser may mutually agree at the purchaser's expense.

If a series of Bonds is sold and issued as Build America Bonds, the Director of Finance is hereby authorized on behalf of the City to take such actions as are necessary or appropriate for the City to receive from the United States Treasury the applicable federal credit payments in respect of such Bonds.

CUSIP numbers will be printed on the Bonds, if requested by the purchasers, but neither failure to print CUSIP numbers on any Bond nor error with respect thereto shall constitute cause for a failure or refusal by the purchasers to accept delivery of and pay for the Bonds in accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the City, but the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the responsibility of and shall be paid by the purchasers.

The City will cause the Bonds to be typed, photocopied, printed or lithographed, sealed and executed and will furnish the approving legal opinion of Bond Counsel, the opinion also being printed on each Bond unless the Bond is typed or photocopied.

Section 30. **__General Authorization__**. The Mayor and the Director of Finance of the City and each of the other appropriate officers of the City are each authorized and directed to do everything as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance. In particular, and without limitation, the Director of Finance may, in his or her discretion and without further action by the City Council, (i) issue requests for proposals for underwriting or financing facilities and execute engagement letters with underwriters, bond insurers or other financial institutions based on responses to such requests, (ii) deem final and approve the distribution of any preliminary official statement or official statement relating to the Bonds, (iii) comply with any continuing disclosure requirements applicable to the Bonds and (iv) change the Bond Registrar or any securities depository appointed for the Bonds.

Section 31. Severability. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

Section 32. Ratification of Prior Acts. Any action taken consistent with the authority of this ordinance, after its passage but prior to the effective date, is ratified, approved and confirmed.

Section 33. Section Headings. The Section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

Section 34. Effective Date. This ordinance shall take effect and be in force 30 days from and after its approval by the Mayor, but if not approved by the Mayor and returned by the

Mayor within ten days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

Passed by the City Council the 23rd day of November, 2009, and signed by me in open session in authentication of its passage this 23rd day of November, 2009.

President of the City Council

Approved by me this 1st day of December, 2009.

Gregory J. Nickels, Mayor

Filed by me this 3rd day of December, 2009.

Carol Shenk
Acting City Clerk

(SEAL)

Exhibit A: Outstanding Parity Bonds

EXHIBIT A

Outstanding Parity Bonds

Issue Name	Dated Date	Original Par Amount	Parity Bond Authorizing Legislation
Water System Revenue Bonds, 1997 ("1997 Bonds")	3/15/1997	$53,000,000	Ordinance 118512 and Resolution 29553
Water System Revenue Bonds, 1998 ("1998 Bonds")	6/1/1998	$80,000,000	Ordinance 118973 and Resolution 29785
Water System Revenue Bonds, 1999, Series B ("1999B Bonds")	10/1/1999	$110,000,000	Ordinance 119649 and Resolution 30057
Water System Revenue Bonds, 2001 ("2001 Bonds")	11/1/2001	$52,525,000	Ordinance 120547 and Resolution 30419
Water System and Refunding Revenue Bonds, 2003 ("2003 Bonds")	4/29/2003	$271,320,000	Ordinance 121094 and Resolution 30598
Water System Revenue Bonds, 2004 ("2004 Bonds")	10/25/2004	$84,750,000	Ordinance 121587 and Resolution 30710
Water System Revenue Refunding Bonds, 2005 ("2005 Bonds")	12/28/2005	$138,040,000	Ordinance 121939 and Resolution 30832
Water System Revenue and Refunding Bonds, 2006 ("2006 Bonds")	10/23/2006	$189,970,000	Ordinance 122210 and Resolution 30919
Water System Improvement and Refunding Revenue Bonds, 2008 ("2008 Bonds")	12/15/2008	$205,080,000	Ordinance 121939, Ordinance 122797, Ordinance 122837 and Resolution 31099

2010-2011 BUDGET LEGISLATION FISCAL NOTE

Department:	Contact Person/Phone:	DOF Analyst/Phone:
SPU	Craig Omoto (5-0025)	Michael van Dyck (4-8347)

Legislation Title:

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to or extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds, in one or more series, for the purposes of paying part of the cost of carrying out that system or plan, providing a bond reserve and paying the costs of issuing and selling the bonds; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of the bonds; creating certain accounts of the City relating to those bonds; and ratifying and confirming certain prior acts.

- Summary of the Legislation:

This legislation provides the legal authorization to issue up to $179.3 million of Water System revenue bonds and / or Build America Bonds, as was assumed in Seattle Public Utilities' 2009-2014 Adopted Capital Improvement Program (CIP).

- Background:

The bond proceeds, combined with internally generated funds, will support Seattle Public Utilities' capital program over the next two years. The bond proceeds will support approximately $81.5 million in 2010 spending, $81.7 million in 2011 spending, and $1.8 million in 2012 spending, costs of issuance, and a debt service reserve of approximately $10.7 million. The bond sizing is based on the adopted budget and rates, planned cash flow and cash contribution targets.

The proposed issue is for 30-year, fixed-rate bonds. The first interest payment will be made in August 2010, and the first principal payment will be made in February 2011. The interest payment in August 2010 is estimated to be $4.4 million. Beginning in 2011, annual debt service will be approximately $11.4 million, and is projected to continue at this level for the 30-year term. A portion of this issue may be structured as Build America Bonds, if this would significantly reduce overall financing costs under market conditions at the time issuance.

Major projects supported by the bond issue include:

- Reservoir Covering Program
- Morse Lake pumping improvements
- Conservation Programs
- Transmission Line Rehabilitation
- Cedar Sockeye Hatchery

Debt financing for all new and continuing projects listed above has been assumed in the Seattle Public Utilities Water Fund 2009-2014 Adopted CIP. Debt financing of the Water System's capital program is routinely administered and complies with the City Council's budget direction.

- *Please check one of the following:*

____ This legislation does not have any financial implications. (*Stop here and delete the remainder of this document prior to saving and printing.*)

_X_ This legislation has financial implications. *Please complete all relevant sections that follow.*

- Does this legislation affect any departments besides the originating department? No.

- What are the possible alternatives to the legislation that could achieve the same or similar objectives? Financing the utility's CIP completely from cash would require massive cuts in capital and/or operating programs or large rate increases. In addition, the Water Fund would likely fail to meet its cash balance financial policy target. Since the capital improvements financed with this debt have a very long useful life and interest rates are currently low, it is more practical to spread the costs of these improvements over current and future beneficiaries, by issuing bonds.

- Is the legislation subject to public hearing requirements? No.

APPENDIX B

FORM OF BOND COUNSEL OPINION

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[FORM OF APPROVING LEGAL OPINION]

The City of Seattle, Washington

Re: The City of Seattle, Washington
$________ Water System Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment) (the "2010A Bonds"); and
$________ Water System Improvement and Refunding Revenue Bonds, 2010B (the "2010B Bonds")

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above referenced bonds (collectively, the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion and of which attorneys within the firm involved with the issuance of the Bonds have no independent knowledge, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 121939, as amended, Ordinance 123168 and Resolution ________ of the City (collectively, the "Bond Legislation") to (i) pay for part of the costs of various projects of the City's Water System, (ii) carry out the refunding of all of the City's outstanding Water System Revenue Bonds, 1998; (iii) provide for a debt service reserve; and (iv) pay the issuance costs of selling the Bonds, all as set forth in the Bond Legislation.

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

The Bonds are special limited obligations of the City payable solely out of the Water Revenue Bond Account (the "Bond Account"), into which account the City irrevocably has bound itself to pay all ULID Assessments upon their collection (except for ULID Assessments deposited in a construction account) and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely amounts sufficient to pay the principal of and interest on the Parity Bonds and net payments on Parity Payment Agreements as they respectively become due and to fund the Reserve Requirement, all at the times and in the manner set forth in the Bond Legislation.

The Net Revenue and all money and investments held in the Bond Account (including the Reserve Subaccount therein) and the Rate Stabilization Account have been pledged to the payment of the Parity Bonds and to make payments into the Reserve Subaccount required by the Bond Legislation and Parity Bond Authorizing Ordinances, and this pledge constitutes a lien and charge upon the Net Revenue prior and superior to any other charges whatsoever.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the 2010B Bonds in order to maintain the exclusion of the interest on the 2010B Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2010B Bond proceeds and the facilities financed or refinanced with 2010B Bond proceeds, limitations on investing gross proceeds of the 2010B Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2010B Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the 2010B Bonds could become taxable retroactive to the date of issuance of the 2010B Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;

2. The City has duly authorized and approved the Bond Legislation, and the Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and the ordinances of the City relating thereto;

3. The Bonds constitute valid obligations of the City payable solely out of the Net Revenue of the Water System and money in the Bond Account (including the Reserve Subaccount therein) and the Rate Stabilization Account, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;

4. The Bonds are not general obligations of the City;

5. Assuming compliance by the City after the date of issuance of the 2010B Bonds with applicable requirements of the Code, the interest on the 2010B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the 2010B Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2010B Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the 2010B Bonds received by certain S corporations may be subject to tax, and interest on the 2010B Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the 2010B Bonds; and

6. The City, in the Bond Legislation, has declared its intention that interest on the 2010A Bonds not be excludable from gross income for federal income tax purposes.

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

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds. We bring to your attention the fact the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX C

2008 AUDITED FINANCIAL STATEMENTS OF THE WATER FUND

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SEATTLE PUBLIC UTILITIES - WATER FUND (An Enterprise Fund of the City of Seattle)

Independent Auditor's Report and Financial Statements with Required Supplementary Information

December 31, 2008 and 2007

CONTENTS

MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Director of Seattle Public Utilities
Water Fund
Seattle, Washington

We have audited the accompanying balance sheets of Seattle Public Utilities - Water Fund (the "Fund"), as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities - Water Fund as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis preceding the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Seattle, Washington
June 1, 2009

As management of Seattle Public Utilities ("SPU"), a department of the City of Seattle (the "City"), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Water Fund (the "Fund") for the fiscal years ended December 31, 2008 and 2007. The revenues, expenses, assets, and liabilities of Seattle's water system are recorded in the Water Fund, the functions of which are primarily supported by user fees and charges charged to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The financial statements include Management's Discussion and Analysis and basic financial statements with accompanying notes.

Basic Financial Statements - The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 12 of this report and are comprised of three components: (1) Balance Sheets, (2) Statements of Revenues, Expenses, and Changes in Net Assets, and (3) Statements of Cash Flows.

The Balance Sheets present information, as of December 31, 2008 and 2007, on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. They also provide information about the nature and amounts of investments in resources (assets), obligations to the Fund's creditors (liabilities), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The Statements of Revenues, Expenses, and Changes in Net Assets present changes in the Fund's net assets for the years ended December 31, 2008 and 2007. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The Statements of Cash Flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2008 and 2007. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

Notes to the Financial Statements - The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 17 of this report.

FINANCIAL ANALYSIS

Increases or decreases in net assets may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2008 and 2007, the Fund's assets exceeded liabilities, resulting in surpluses in total net assets of $304.3 million and $303.8 million, respectively. During these years, the Fund's overall position improved, with increases in net assets amounting to $0.5 million (0.2%) during 2008 and $1.2 million (0.4%) during 2007. The following summary balance sheets present the assets of the Fund and show the mix of liabilities and net assets used to acquire these assets:

SUMMARY BALANCE SHEETS

	2008	2007	2006
ASSETS			
Current assets	$ 136,634,743	$ 35,181,951	$ 35,376,273
Capital assets, net	1,131,892,316	1,085,189,399	1,042,177,083
Restricted, deferred and other	160,360,383	100,649,231	159,110,588
Total assets	1,428,887,442	1,221,020,581	1,236,663,944
LIABILITIES			
Current liabilities	173,113,675	62,417,119	50,554,543
Revenue bonds	916,003,968	829,535,467	852,369,325
Other	35,469,328	25,267,597	31,117,721
Total liabilities	1,124,586,971	917,220,183	934,041,589
NET ASSETS			
Invested in capital assets, net of related debt	290,310,694	295,737,822	291,610,390
Restricted	19,377,015	10,974,130	9,357,992
Unrestricted accumulated surplus (deficit)	(5,387,238)	(2,911,554)	1,653,973
TOTAL NET ASSETS	$ 304,300,471	$ 303,800,398	$ 302,622,355

FINANCIAL ANALYSIS (Continued)

2008 Compared to 2007

Assets - Current assets increased $101.5 million (288.4%) over the prior year. The overall increase was due to several factors, including an increase in receivables, unbilled revenues, and unrestricted cash. The most significant reason for the increase is the funds received from the issuance of 2008 revenue bonds. These funds are retained in a restricted redemption account to pay for refunding of two bond issues in 2009 (see Notes 6 and 15). As detailed in Note 14, page 42 of this report, during 2008, the Fund settled a class action lawsuit related to fire hydrants, in which the City agreed to reimburse the Fund for a portion of the settlement costs. At December 31, 2008, the Fund had a $10.1 million receivable due from the City for these costs. The remainder of the increase is primarily due to accounts receivable of $0.7 million, unbilled revenues of $0.6 million, and unrestricted cash of $0.5 million. Higher volume of retail services and rates, were the primary drivers affecting these balances. These increases were offset by decreases in notes receivable of $2.8 million, due from other governments of $0.9 million, and $0.6 million due from other city funds. During 2008, the Fund received $2.8 million on a note receivable related to the Lake Youngs substation. Receivables from other funds and governments decreased due to changes in outstanding balances. The remaining $0.7 million is due to other fluctuations in accounts such as inventory and prepayments.

Restricted, deferred and other assets increased $59.7 million (59.3%), due primarily to the issuance of 2008 revenue bonds (see Note 6). Additionally, there was a $6.2 million increase of deferred charges related to hydrant settlement costs, as discussed in Note 14 of this report. This increase was offset primarily by a $2.9 million decrease from amortization of costs related to the Habitat Conservation Plan ("HCP"). The remaining net increase of $0.3 million is primarily due to bond issuance costs incurred in 2008.

Liabilities - Current liabilities increased $110.7 million (177.3%) from 2007. The current portion of revenue bonds payable increased $100.2 million; three bond issuances are due in 2009, including the 1995 adjustable rate bonds and the 2002 Series A and B adjustable rate bonds. Additionally, during 2008, parity refunding bonds were issued. A $16.2 million liability was recorded for refunds due to ratepayers as a result of the hydrant settlement (see Note 14). These increases were offset by decreases of $4.1 million for the payments related to the HCP liability and $2.1 million of accounts payable.

Other liabilities increased $10.2 million (40.4%). The most significant factor affecting this increase was a $7.1 million increase in the noncurrent portion of public works trust loans of which proceeds were received during 2008. There were also increases in liabilities for claims, salaries and benefits, compensated absences, and other post-employment benefits.

FINANCIAL ANALYSIS (Continued)

Net Assets - Net assets invested in capital assets, net of debt, was the largest portion of the Fund's net assets ($290.3 million or 95.4%). This amount reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers. Consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2008, net assets invested in capital assets decreased $5.4 million from 2007 due to capital assets placed in service, offset by depreciation, and an increase in the amount of capital-related debt outstanding.

The Fund's restricted net assets ($19.4 million or 6.4%) represent resources that are subject to restrictions on how they may be used. Restricted net assets increased $8.4 million primarily due to the restriction of 2008 bond proceeds set aside as a bond reserve.

The Fund's unrestricted net assets ($5.4 million deficit or -1.8%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion decreased $2.5 million in 2008 due to several factors. Increases in liabilities for claims ($1.5 million), salaries and benefits ($0.8 million), compensated absences ($0.3 million), and other post-employment benefits ($0.4 million) resulted in a decrease to net assets. Amounts receivable from other governments also decreased $0.9 million mostly due to hydrant billings deemed uncollectible per the hydrant settlement (see Note 14). These changes were offset by an increase to net assets of $1.4 million due to a rise in accounts receivable, including unbilled receivables.

2007 Compared to 2006

Assets - Current assets decreased $0.2 million or 0.5% over the prior year. This decrease was primarily due to a decrease of operating cash of $5.0 million to fund capital improvement projects. This decrease was offset primarily by an increase of $2.8 million in notes receivable for amounts due for certain costs incurred with the development of a substation, an increase of $1.0 million related to unbilled revenue and $1.7 million due from other governments and funds.

Other assets increased $2.7 million or 5.6% primarily due to an increase of deferred conservation costs of $1.4 million and other deferred charges primarily related to leasehold improvements of $1.7 million.

Liabilities - Current liabilities increased $11.9 million or 23.5%, due in part to an increase of the current portion of the HCP liability, net of payments of $6.2 million, $2.9 million of revenue bonds due, and $1.8 million of interest payable due to increased interest expense associated with the 2006 parity, refunding bonds.

FINANCIAL ANALYSIS (Continued)

Other liabilities decreased $5.8 million or 18.8% primarily due to $7.4 million of HCP liability due during 2007, offset by increases in compensated absences payable, deferred credits, and other non-current liabilities.

Net Assets - Net assets invested in capital assets, net of debt, was the largest portion of the Fund's net assets ($295.7 million or 97.3%). This portion of net assets increased $4.1 million over 2006 due to capital assets placed in service, offset by depreciation, and a decrease in the amount of debt outstanding.

The Fund had restricted net assets of $10.9 million or 3.6% and an unrestricted accumulated deficit of ($2.9 million) or (1.0%). The deficit was primarily due to the use of operating cash for 20% of capital improvement projects.

The Fund's unrestricted net assets decreased $4.6 million in 2007. The largest change was a decrease in operating cash of $5.0 million for the funding of capital improvement projects. Additionally, interest expense increased $1.8 million due to the issuance of the 2006 bond in October 2006. Revenue collected in advance (and not recognized) increased $1.0 million as a result of a greater number of tap jobs outstanding at the end of 2007 compared to the prior year. Offsetting the above decrease was an increase in unbilled revenue of $1.0 million and the sale of capital assets of $2.7 million.

The following summary statements of revenues, expenses, and changes in net assets present the annual surplus of revenues over expenses (the change in net assets):

SUMMARY STATEMENTS OF
REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2008	2007	2006
Operating revenues	$ 164,405,030	$ 160,161,306	$ 155,175,008
Operating expenses	(146,671,551)	(138,441,713)	(129,699,013)
Net operating income	17,733,479	21,719,593	25,475,995
Other expenses, net of other revenues	(34,572,513)	(28,427,646)	(31,998,021)
Fees, contributions, and grants	17,339,107	7,886,096	7,080,459
Change in net assets	$ 500,073	$ 1,178,043	$ 558,433

FINANCIAL ANALYSIS (Continued)

2008 Compared to 2007

Current year operating revenues increased approximately $4.2 million (2.6%). This increase is primarily due to increases in direct service revenue. While water consumption decreased 95.2 million cubic feet as compared to 2007, overall revenues were up due to an increase in rates effective January 1, 2008.

Operating expenses increased by $8.2 million (5.9%) due to several factors, the most significant of which was an increase in depreciation expense of $3.2 million. This resulted from an increase in capital assets which began depreciating during 2008. Engineering Services expenses rose by $1.5 million, mainly for water tank improvement and coating projects, cathodic protection inspections, and water design studies. Field Operations expenses increased by $1.3 million, mainly for security and emergency management, and water main maintenance. General and Administrative expenses increased $1.1 million due to increases in claims, costs for emergency response during the December 2008 snow storms, and water treatment contract costs.

2007 Compared to 2006

In 2007, operating revenues increased approximately $5.0 million (3.2%). This increase was primarily due to increased charges for tap fees and increased retail and wholesale services. Water rates increased on January 1, 2007, as a result of the 2006 - 2008 Water Rate Study. Water consumption decreased 63.2 million cubic feet for retail and 145.0 million cubic feet for wholesale services in 2007 as compared with consumption reported in 2006.

Operating expenses increased by $8.7 million (6.7%) due to several factors, the most significant of which was an increase in Science, Sustainability, and Watershed (SSW) expenses of $3.3 million. The SSW expenses were mainly for Tolt management plan, water resource development, viaduct, and service renewals. General and Administrative expenses increased $3.2 million due to the expensing of the watershed master plan, Chinook restoration, and the project tracking system. Increased expenses related to the elimination of the Engineering Services Fund also contributed to the increase in General & Administrative expenses.

CAPITAL ASSETS

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2008, 2007, and 2006.

SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2008	2007	2006
Land and land rights	$ 33,784,214	$ 33,492,544	$ 33,355,214
Buildings	136,309,500	139,370,244	141,414,969
Structures	136,519,865	112,140,531	117,261,547
Machinery and equipment	685,216,968	655,590,182	641,750,423
Computer systems	33,972,110	37,291,226	35,908,258
Construction in progress	105,278,733	106,449,342	72,212,160
Other property	810,926	855,330	274,512
Capital assets, net of accumulated depreciation	$ 1,131,892,316	$ 1,085,189,399	$ 1,042,177,083

2008 Compared to 2007

The Fund's investment in capital assets for the year ended December 31, 2008, amounted to $1.1 billion, net of accumulated depreciation. This represents a net increase of approximately $46.7 million (4.3%) for the current fiscal year. Highlights of the Fund's major capital assets placed in service during 2008 included the following:

- New distribution pipelines totaling $18.0 million were placed in service.
- Water pipelines were replaced at a cost of $13.2 million for the Sound Transit project.
- Reservoir covering projects were completed at a cost of $12.0 million.
- $9.7 million in pump station improvements were finished.
- Improvements at the Cedar River Watershed amounted to $7.2 million.
- Water tank upgrades were completed at a cost of $7.2 million.
- Operational facilities and security improvements totaled $3.6 million.

CAPITAL ASSETS (Continued)

The Fund had $105.3 million in construction work in progress as of December 31, 2008. Some of the projects currently under construction include the following:

- Water system rehabilitation, reservoir coverings, environmental stewardship, and other agency projects totaling $62.7 million.
- Costs for Sound Transit project, Water Operations Control Center, and the control monitoring programs totaling $11.2 million.
- Water conservation project costs totaling $9.8 million.
- Costs for a sockeye hatchery and improvements at the Cedar River watershed totaling $8.4 million.
- Water system improvements, such as new water mains, service renewals, pipeline protection, and seismic upgrades totaling $5.9 million.
- Business and technology infrastructure upgrades totaling $4.0 million.

2007 Compared to 2006

The Fund's capital assets for the year ended December 31, 2007, amount to $1.1 billion, net of accumulated depreciation. This represents a net increase of approximately $43.0 million (4.1%) for the current fiscal year. Highlights of the Fund's major capital assets placed in service during 2007 included the following:

- New direct service meters and replacement meters were placed in service in 2007 at a total cost of $18.5 million.
- Security improvements for the Fund's facilities were placed in service at a cost of $10.6 million.
- New distribution water mains were placed in service at a total cost of $5.8 million.
- Several computer systems were upgraded at a cost of $4.9 million.
- Upgrades to the Supervisory Control and Data Acquisition system (SCADA) were completed at a cost of $2.5 million. The system is used to acquire and monitor data, such as flow or pressure from remote sensors, and to remotely operate pumps or valves.

CAPITAL ASSETS (Continued)

The Fund had $106.4 million in construction work in progress as of December 31, 2007. Projects under construction at December 31, 2007 include the following:

- Water system rehabilitation and reservoir coverings cost $50.1 million to date.
- Water system improvements, such as new water mains, service renewals, pipeline protection, and seismic upgrades are underway. Costs as of the end of the fiscal year amounted to $22.7 million.
- Costs for a sockeye hatchery and improvements at the Ballard Locks amounted to $15.5 million.
- Rebuilding for Sound Transit, Water Operations Control Center, and Joint Training Facility cost $9.7 million to date.
- Business and technology infrastructure upgrades cost $6.1 million.
- Water conservation costs total $3.5 million.

Additional information about the Fund's capital assets can be found in Note 4 beginning on page 28 of this report.

DEBT ADMINISTRATION

The Fund's debt primarily consists of bonded debt and public works trust loans. Bonded debt is secured solely by water system revenues and provides financing for capital improvements. Public works trust loans are unsecured loans issued by the Washington State Department of Community, Trade, and Economic Development for certain capital improvements.

The Fund's revenue bonds maintain an AA+ rating by Standard & Poor's Rating Services and an Aa2 rating by Moody's Investors Service.

2008 Compared to 2007

At December 31, 2008, the Fund had $1,025.5 million in bonded debt and $8.2 million in public works trust loans, as compared to $841.8 million and $0.7 million, respectively, at December 31, 2007. Bonded debt increased $183.7 million, attributed primarily to the issuance of $205.1 million of new debt during the year, offset by payment of debt principal on existing bonds of $21.4 million. Public works trust loans increased $7.5 million, attributed primarily to loan proceeds of $8.1 million offset by loan principal payments of $0.6 million.

2007 Compared to 2006

At December 31, 2007, the Fund had $841.8 million in bonded debt and $0.7 million in public works trust loans, as compared to $861.7 million and $0.8 million, respectively, at December 31, 2006. Bonded debt decreased $19.9 million, attributed primarily to the payment of debt principal on existing bonds. Public works trust loans decreased $0.1 million, attributed primarily to loan principal payments.

Additional detail about the Fund's revenue bonds and public works trust loans are located in Notes 6 and 7 beginning on page 30 of this report.

ECONOMIC FACTORS AFFECTING NEXT YEAR

Effective March 31, 2009, the Fund's revenues will be taxed by the City at a rate of 19.87%. This tax rate reflects an increase of 4.33% and will be in effect through December 2010. The Fund expects this increase to result in approximately $6.2 million in additional tax expense during 2009.

This increase in tax is related to the hydrant settlement, which provides for refunds to customers (see Note 14 on page 42 of this report). In order to provide sufficient resources to pay the tax and other costs related to the hydrant settlement, the Fund received approval for a rate surcharge of 10.2%. The surcharge will take effect on March 31, 2009, and is expected to result in an increase in revenues of approximately $8.6 million during 2009.

REQUESTS FOR INFORMATION

The Fund's financial statements are designed to provide a general overview of the Fund's finances, as well as to demonstrate the Fund's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Seattle Public Utilities, Finance and Administration Branch, Finance Division, PO Box 34018, Seattle, WA 98124-4018, telephone (206) 684-3000.

ASSETS

	2008	2007
CURRENT ASSETS		
Cash and equity in pooled investments	$ 7,339,673	$ 6,799,276
Accounts receivable, net of allowance for doubtful		
accounts of $141,192 and $113,539	10,062,715	9,329,166
Unbilled revenues	8,936,009	8,291,258
Due from other City funds	656,123	1,245,177
Due from other governments	1,253,219	2,159,784
Hydrant settlement receivable	10,088,286	-
Current portion of notes and contracts receivable	22,400	2,775,171
Materials and supplies inventory	4,995,657	4,513,879
Prepayments and other	103,314	68,240
Redemption Account, restricted		
Cash and equity in pooled investments	31,795,164	-
Dedicated investments	60,274,366	-
Interest receivable	1,107,817	-
Total current assets	136,634,743	35,181,951
RESTRICTED ASSETS		
Bond Parity Account - cash and equity in pooled investments	68,062	127,062
Bond Reserve Account - cash and equity in pooled investments	8,989,241	-
Construction Fund		
Cash and equity in pooled investments	8,483,751	19,658,064
Dedicated investments	72,292,809	14,660,827
Interest receivable	848,977	251,299
Vendor deposits - cash and equity in pooled investments	167,390	120,119
Revenue Stabilization Fund - cash and equity in pooled investments	13,136,077	12,580,110
BPA account - cash and equity in pooled investments	1,891,228	2,393,273
Total restricted assets	105,877,535	49,790,754
DEFERRED CHARGES AND OTHER		
Unamortized bond issue costs	5,122,923	4,732,621
Notes and contracts receivable	41,430	65,785
Deferred conservation costs	36,382,434	39,343,788
Other deferred charges	12,936,061	6,716,283
Total deferred charges and other	54,482,848	50,858,477
CAPITAL ASSETS, at cost		
Capital assets - excluding land	1,435,137,303	1,350,948,613
Less accumulated depreciation	(443,118,860)	(406,556,430)
Capital assets, net of accumulated depreciation	992,018,443	944,392,183
Construction in progress	105,278,733	106,449,342
Land and land rights	33,784,214	33,492,544
Other property	810,926	855,330
Total capital assets	1,131,892,316	1,085,189,399
TOTAL	$ 1,428,887,442	$ 1,221,020,581

See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
CURRENT LIABILITIES		
Accounts payable	$ 5,231,264	$ 7,362,305
Accrued payroll and payroll taxes payable	3,480,970	2,652,539
Taxes payable	429,650	426,227
Interest payable	12,470,578	12,462,802
Due to other City funds	3,361,899	3,593,053
Due to other governments	62,305	-
Claims payable, current	1,505,062	1,239,650
Compensated absences payable	441,314	403,475
Muckleshoot liability	-	1,000,000
HCP liability, current	5,453,012	9,528,321
Revenue bonds due within one year	121,495,000	21,385,000
Public works trust loans due within one year	555,293	118,217
Hydrant settlement payable	16,210,623	-
Other current liabilities and deferred credits	2,416,705	2,245,530
Total current liabilities	173,113,675	62,417,119
REVENUE BONDS		
Revenue bonds - due serially	1,025,480,000	841,785,000
Less revenue bonds due within one year	(121,495,000)	(21,385,000)
Bond discounts	(345,979)	(405,982)
Bond premiums	29,700,214	28,268,085
Loss on refunding	(17,335,267)	(18,726,636)
Total revenue bonds	916,003,968	829,535,467
NONCURRENT AND OTHER LIABILITIES		
Vendor deposits payable	167,390	120,119
Compensated absences payable, noncurrent	4,123,812	3,876,125
Other postemployment benefits	874,864	485,779
Public works trust loans, noncurrent	7,678,714	591,083
Claims payable, noncurrent	3,689,178	2,472,565
HCP liability, noncurrent	4,153,803	4,018,433
Deferred credits - Revenue Stabilization Fund	13,091,245	12,592,936
Other noncurrent liabilities	1,690,322	1,110,557
Total noncurrent and other liabilities	35,469,328	25,267,597
Total liabilities	1,124,586,971	917,220,183
NET ASSETS		
Invested in capital assets - net of related debt	290,310,694	295,737,822
Restricted	19,377,015	10,974,130
Unrestricted accumulated deficit	(5,387,238)	(2,911,554)
Total net assets	304,300,471	303,800,398
TOTAL	$ 1,428,887,442	$ 1,221,020,581

See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING REVENUES		
Direct service	$ 106,689,261	$ 102,333,620
Wholesale	42,884,150	41,558,385
Other	14,831,619	16,269,301
Total operating revenues	164,405,030	160,161,306
OPERATING EXPENSES		
Utility systems management	20,838,847	20,838,779
Field operations	19,911,467	18,653,069
Engineering services	6,200,362	4,724,476
Customer services	8,162,533	7,548,976
General and administrative	26,151,887	25,069,999
City taxes	19,029,097	18,561,201
Other taxes	5,761,732	5,609,435
Depreciation and amortization	40,615,626	37,435,778
Total operating expenses	146,671,551	138,441,713
NET OPERATING INCOME	17,733,479	21,719,593
OTHER INCOME (EXPENSES)		
Investment income	1,065,889	3,909,309
Interest expense	(34,378,278)	(37,377,932)
Amortization of debt expenses	(283,127)	(291,020)
Loss on sale of capital assets	(1,019,655)	(199,407)
Other, net	42,658	5,531,404
Total other expenses	(34,572,513)	(28,427,646)
FEES, CONTRIBUTIONS, AND GRANTS		
Capital fees, contributions, and grants	17,171,631	7,190,972
Operating fees, contributions, and grants	167,476	695,124
Total fees, contributions, and grants	17,339,107	7,886,096
CHANGE IN NET ASSETS	500,073	1,178,043
NET ASSETS		
Beginning of year	303,800,398	302,622,355
End of year	$ 304,300,471	$ 303,800,398

See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 157,382,339	$ 156,057,545
Cash paid to suppliers	(19,802,424)	(25,298,088)
Cash paid to employees	(53,236,406)	(46,879,099)
Cash paid for taxes	(24,659,280)	(25,574,996)
Net cash provided by operating activities	59,684,229	58,305,362
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	167,476	695,124
Other cash inflows	731,765	1,181,230
Other cash outflows	(689,107)	(171,738)
Net cash provided by noncapital financing activities	210,134	1,704,616
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of bonds	208,033,602	-
Capital fees, contributions, and grants	4,805,242	7,190,973
Principal payments on revenue bonds	(21,385,000)	(19,885,000)
Proceeds from public works trust loans	8,080,000	-
Principal payments on public works trust loans	(555,293)	(118,217)
Capital expenditures and deferred charges	(73,946,740)	(77,890,502)
Interest paid on long-term debt	(38,807,127)	(38,944,982)
Proceeds from sale of capital assets	158,363	-
Debt issuance costs	(673,428)	-
Net cash provided by (used in) capital and related financing activities	85,709,619	(129,647,728)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(131,250,000)	(31,688,000)
Proceeds from sales of investments	14,675,000	77,548,000
Interest received on investments	1,163,700	3,512,463
Net cash (used in) provided by investing activities	(115,411,300)	49,372,463
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	30,192,682	(20,265,287)
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	41,677,904	61,943,191
End of year	$ 71,870,586	$ 41,677,904

See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 17,733,479	$ 21,719,593
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	40,615,626	37,435,778
Changes in operating assets and liabilities		
Accounts receivable	(733,549)	223,628
Hydrant settlement receivable	(10,088,286)	-
Unbilled revenues	(644,751)	(977,275)
Due from other City funds	589,054	(854,685)
Due from other governments	906,565	(809,859)
Materials and supplies inventory	(481,779)	132,347
Prepayments and other	(132,885)	169,689
Notes and contracts receivable	2,777,128	(2,702,651)
Vendor deposits payable	47,271	(68,426)
Accounts payable	(701,235)	2,105,320
Accrued payroll and payroll taxes payable	828,430	178,964
Taxes payable	131,549	(12,031)
Compensated absences payable	285,526	296,927
Other postemployment benefits	389,085	485,779
Due to other City funds	(359,281)	(768,047)
Due to other governments	62,306	-
Claims payable, including Muckleshoot liability	482,025	(165,830)
Deferred credits - Revenue Stabilization Fund	498,309	694,955
Other deferred credits and liabilities	7,479,642	1,221,186
Total adjustments	41,950,750	36,585,769
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 59,684,229	$ 58,305,362
NONCASH TRANSACTIONS		
Change in fair value of investments	$ 105,235	$ 10,368
Contributed infrastructure	12,366,389	2,153,832
Total noncash transactions	$ 12,471,624	$ 2,164,200

See accompanying notes.

Note 1 - Operations and Summary of Significant Accounting Policies

Operations - The City of Seattle, Seattle Public Utilities - Water Fund (the "Fund") is a public utility enterprise fund of the City of Seattle (the "City"). The Fund was established to account for activities of the water system operated by Seattle Public Utilities ("SPU"). The water system, established in 1890, provides water to the greater Seattle area through direct service to customers and through purveyors, such as suburban water districts and non-profit water associations. The activities of the water system include protection of available water supply, transmission of water to customers, development of water conservation programs, evaluation of new water sources, and management of the City's water system assets, which include the Tolt and Cedar River Watersheds, water pipes, pumping stations and aquifers.

On January 1, 1997, the City created SPU, which brought together under one administrative umbrella the water, solid waste, and drainage and wastewater functions of the City as well as certain engineering functions. The Fund (as well as SPU's other funds) remains separate for accounting purposes.

SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays public utility tax to the City's General Fund. During 2008 and 2007, the Fund paid $11,165,556 and $10,577,776, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid $19,029,097 in 2008 and $18,561,201 in 2007 to the City for public utility taxes.

Water services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $2,376,950 in 2008 and $2,504,451 in 2007 from the City for water services provided.

The utility billing function is co-managed by both SPU and Seattle City Light ("SCL"). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system, Combined Customer Services System ("CCSS"). In 2008, SPU and SCL billed and reimbursed each other for these services. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of $1,188,042 in 2008 and $1,176,009 in 2007. The Fund paid $416,036 and $315,792 for CCSS services in 2008 and 2007, respectively, which does not include reimbursements to SCL for the Fund's share of capital costs to upgrade the CCSS system.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

The Fund is subject to regulation by the City and the state of Washington (the "State"). Service rates are authorized by ordinances passed by the Seattle City Council ("City Council"). Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by GASB, as well as those issued by the Financial Accounting Standards Board on or before November 30, 1989, except when they conflict with GASB.

Basis of Accounting - The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund's operations are included on the balance sheets. The operating statements present increases (revenues) and decreases (expenses) in total net assets.

Cash and Equity in Pooled Investments - Cash and equity in pooled investments are short-term, highly liquid investments that have original maturities of three months or less at the time purchased. These short-term investments are reported at cost, which approximates fair value. Cash resources of the Fund are combined with cash resources of the City to form a pool of cash that is managed by the City's Department of Executive Administration. Under the City's investment policy, the Department of Executive Administration invests all temporary cash surpluses in the pool. The Fund's share of the pool is included in the accompanying Balance Sheets under the caption "cash and equity in pooled investments." The pool operates like a demand deposit account in that all City departments may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments.

Investments - The Fund's restricted cash resources are invested by the Department of Executive Administration separate from the cash and investments pool. Investments are managed in accordance with the City's investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Fund.

Receivables and Unbilled Revenues - Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Fund also accrues an estimated amount for services that have been provided but not billed.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

Notes and contracts receivable arise from a written agreement or contract with private individuals or organizations. Activity between funds that is outstanding at the end of the year not related to the provision of utility services is reported as due from other funds.

Allowance for Doubtful Accounts - A reserve has been established for uncollectible accounts receivable, based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely.

Materials and Supplies Inventory - The Fund values its inventory based on a moving average method. The most recent total cost of an inventory item is divided by the total units of the item that remain in the inventory to determine the moving average cost of the item. The moving average cost is then applied to all the units of the inventory item.

Restricted Assets - The construction fund accounts are comprised of unexpended bond proceeds, a portion of which will be spent during 2009.

Unamortized Bond Issue Costs - Costs associated with the issuance of bonds are amortized to expense over the term of the related debt. Amortization expense is calculated under the straight-line method or effective interest method, depending on the maturity schedule of the related bonds.

Revenue Stabilization Fund - The Revenue Stabilization Fund ("RSF") was established by the City Council to reduce year-to-year variation in rates. Amounts deposited into the RSF are excluded from the statement of revenues, expenses, and changes in net assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*. Council ordinance specifies that the balance in the RSF be maintained at a minimum of $9.0 million in metered water sales revenue. There were no deposits to the RSF in 2008. However, interest earnings of $0.5 million are included. The RSF is included in the "Revenue Stabilization Account" identified in the Fund's bond covenants. These covenants provide that withdrawals and deposits from the "Revenue Stabilization Account" shall augment or reduce adjusted net revenue available for the payment of debt service.

Deferred Conservation Costs - Conservation program costs that result in long-term benefits and reduce or postpone other capital expenditures or have a legal requirement are deferred and amortized over their expected useful lives, commencing when each program is in place. The conservation program costs are amortized over their expected useful lives of ten years. Certain costs related to the Habitat Conservation Plan ("HCP") are included in the deferred costs and amortized through 2050, the year in which the plan expires. An incidental take permit was issued to the City by the federal government approving the HCP for 50 years. Costs of administering the conservation and HCP programs are expensed as incurred.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

Other Deferred Charges - Other deferred charges include costs such as the Water System Plan, leasehold improvements, donated infrastructure to the Seattle Housing Authority, the hydrant settlement, and payments to the Muckleshoot Indian Tribe. The Fund amortizes these charges over a 2 to 33 year period. Further discussion of the Muckleshoot Indian Tribe and the hydrant settlement may be found in Note 8 and Note 14, respectively.

Capital Assets - Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements is capitalized. SPU's policy is to capitalize assets with a cost of $5,000 or more. The Fund receives donated assets such as water mains from developers and other governmental agencies.

Construction in Progress - Capitalizable costs incurred on projects which are not in service or ready for use are held in construction in progress. When the asset is ready for service, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

Other Property - Other property is stated at cost, or if contributed, the fair value at the date of contribution. Other property includes artwork and property held for future use. The artwork is acquired through the City's "One Percent for Art" program which supports the City ordinance established to direct the inclusion of works of art in public spaces within the City.

Depreciation - Capital assets in service are depreciated on the straight-line method over estimated useful lives as follows:

Buildings and fixtures	10 to 50 years
Earthen source of supply developments	100 years
Transmission and distribution pipelines, reservoirs, and tanks	15 to 100 years
Water mains	33 to 57 years
Pumps, wells, and treatment equipment	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 10 years

Composite rates, based on year of addition, are used for depreciating the transmission and distribution pipelines, water mains asset group, reservoirs, and tanks. It is SPU's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

BPA Account - In 2003, the Bonneville Power Administration ("BPA") purchased an easement in the amount of $6.0 million from the Fund to construct a power transmission line through the Cedar River Watershed. This amount was included in gain on sale of land rights and timber in the 2003 statement of revenues, expenses, and changes in net assets. This $6.0 million, together with $657,149 in timber sales related to the easement, were deposited into the BPA account and are classified as restricted assets. At December 31, 2008 and 2007, the cash balance in the BPA account was $1,891,228 and $2,393,273, respectively. Moneys in the BPA account are considered a portion of the "Revenue Stabilization Account" described in bond covenants, and therefore shall augment or reduce adjusted net revenue available for the payment of debt service. The Fund will recognize the revenues deposited in the BPA account in the calculation of adjusted net revenues available for the payment of debt service as they are withdrawn to fund certain activities in the Cedar River Watershed.

Compensated Absences - Employees earn vacation based on their date of hire and years in service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

Operating Revenues - The Fund provides water service to wholesale and retail customers and recognizes revenue when such service is provided. Wholesale customers ("Purveyors") are under contract with the Fund, and rates are set based on cost allocation criteria stipulated in the contracts.

Service rates for all customers are authorized by ordinances passed by the City Council. Service revenues are recorded through cycle billings rendered to customers monthly or bimonthly. The Fund accrues and records unbilled water service revenues in the financial statements for services provided from the date of the last billing to year end.

Operating Expenses - Certain expenses of the Fund are reported on the income statement by functional category. The types of work performed within each category are as follows:

- Utility systems management - Is accountable for the overall management of the Fund's infrastructure assets, assuring that they are properly designed, constructed, operated, and protected.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

- Field operations - Operates and maintains the Fund's water system.

- Engineering services - Provides project management and engineering services to the Fund and executes the Fund's capital projects from start to completion.

- Customer services - Invoices the Fund's customers for services provided and is the primary point of contact for customers.

Taxes - The Fund is charged a public utility tax by the City at a rate of 15.54% of Fund revenues, net of certain credits and certain revenues. In addition, the Fund paid a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Fund also paid business and occupation tax to the State at the rate of 1.5% on certain other non-utility revenues.

Other Revenues and Expenses - This includes the non-operating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are investment and interest income, interest expense, and amortization of debt expenses.

Net Assets - There are three components of net assets: invested in capital assets - net of related debt, restricted, and unrestricted. Invested in capital assets includes capital assets, construction in progress, land and land rights, other property, and debt related to capital assets, such as loans and revenue bonds net of unamortized issuance costs, premiums, discounts, and losses on refunding. The Fund's restricted net assets as of December 31, 2008 and 2007, are related to the BPA account, the RSF, bond debt reserve funds, and deferred charges. The remaining portion of net assets is considered to be unrestricted.

Arbitrage Rebate Requirement - The Fund is subject to the Internal Revenue Code ("IRC"), Section 148(f), related to its tax-exempt revenue bonds. IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2008 or 2007.

Accounting Changes - The Fund adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of January 1, 2007. GASB 45 addresses how local governments should account for and report their costs and obligations related to post employment healthcare and other non-pension benefits. The Fund has made accruals for the years 2008 and 2007 as required. See Note 10 for further information.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

Effective January 1, 2008, the Fund adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance on recording and reporting the current or potential detrimental effects of existing pollution obligations. The scope of the statement excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care. The Fund evaluated its obligations related to pollution remediation and determined that no liabilities existed at December 31, 2008 and 2007.

GASB has issued Statement No. 50, *Pension Disclosures*, an amendment of GASB Statements No. 25 and No. 27, which aligns the financial reporting requirements for pensions with those for other postemployment benefits. The statement became effective for the Fund's financial statements in the current year and did not have a significant impact on the Fund's disclosures for 2008 and 2007.

GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which clarifies the definition of intangible assets as used in the description of capital assets in GASB Statement No. 34. This statement becomes effective for the Fund's financial statements beginning January 1, 2010. The Fund is evaluating the impact of this standard on the Fund's financial statements.

GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which provides guidance for the recognition, measurement and disclosure of activity related to derivative instruments held by state and local governments. This statement becomes effective for the Fund's financial statements beginning January 1, 2010. The Fund is evaluating the impact of this standard on the Fund's financial statements.

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. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, accrued sick leave, capitalized interest, depreciation, risk liabilities, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

Reclassifications - Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

Note 2 - Cash and Investments

Custodial Credit Risk - Deposits - As of December 31, 2008 and 2007, the City's pool contained cash on deposit with the City's custodial banks in the amounts of $23,167,669 and $13,809,097, respectively. The deposits in excess of $250,000 in 2008 and $100,000 in 2007 were uninsured and uncollateralized. As such, these deposits were exposed to custodial credit risk, which is the risk that the deposits may not be returned to the City in the event of a bank failure. The City attempts to minimize exposure to custodial credit risk for deposits by requiring the depository bank to have sufficient capital to support the activity of the City. In addition, banks having a deposit relationship with the City are required to provide financial statements for the City's use in reviewing the bank's financial condition.

Investments - As of December 31, the Fund's dedicated investments, the City's pooled investments, and dedicated investments of other funds were as follows:

2008

	Dedicated Investments of the Fund	City Pool	Other Dedicated Investments	Total	Weighted Average Maturity (Days)
U.S. Government Agencies	$ 132,567,176	$ 784,028,318	$ 81,225,397	$ 997,820,891	703
Commercial Paper	-	215,172,530	44,986,000	260,158,530	15
U.S. Government Obligations	-	15,285,937	-	15,285,937	151
State and Local Governments	-	13,340,600	-	13,340,600	469
Repurchase Agreements	-	95,760,494	-	95,760,494	2
Total	$ 132,567,176	$ 1,123,587,879	$ 126,211,397	$ 1,382,366,452	
			Portfolio Weighted Average Maturity		515

2007

	Dedicated Investments of the Fund	City Pool	Other Dedicated Investments	Total	Weighted Average Maturity (Days)
U.S. Government Agencies	$ 5,073,414	$ 563,723,234	$ 480,984	$ 569,277,632	804
Commercial Paper	9,587,413	219,776,326	3,991,084	233,354,823	12
U.S. Government Obligations	-	15,370,313	-	15,370,313	517
State and Local Governments	-	34,927,394	-	34,927,394	288
Repurchase Agreements	-	92,283,483	-	92,283,483	2
Total	$ 14,660,827	$ 926,080,750	$ 4,472,068	$ 945,213,645	
			Portfolio Weighted Average Maturity		507

Note 2 - Cash and Investments (Continued)

The Fund's share of the City Pool was as follows as of December 31:

	2008	2007
Cash and equity in pooled investments	$ 7,339,673	$ 6,799,276
Restricted cash and equity in pooled investments	64,530,913	34,878,628
Total	$ 71,870,586	$ 41,677,904
Balance as a percentage of City Pool	6.3%	4.5%

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of the investment's fair value to changes in market interest rates. The City manages this risk by limiting the average maturity of investments to five years. However, the Fund's investments are selected for greater liquidity in order to support the Fund's cash flow needs and therefore typically have much shorter average maturities.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the City's investment policy, investments in commercial paper purchased on the secondary market are limited to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations ("NRSROs"). As of December 31, 2008 and 2007, the City's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 to A-1+ by Standard & Poor's Rating Service.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2008 and 2007, these investments were rated Aaa by Moody's Investors Service, and AAA by Standard & Poor's Rating Service.

The City's investments in repurchase agreements require a master repurchase agreement executed with the counterparty, and repurchase transactions may only be conducted with primary dealers of the City's bank of record or master custodial bank. Securities delivered as collateral must be priced at a minimum of 102% of their market value for U.S. Treasuries and at higher margins of 103% to 105% for debentures of U.S. federal government-sponsored enterprises, mortgage-backed pass-throughs, banker's acceptances, and commercial paper. In addition, collateral securities must have the highest credit ratings of at least two NRSROs. As of December 31, 2008 and 2007, the securities underlying the City's investment in repurchase agreements included collateral other than U.S. Treasuries, and the repurchase agreements were not rated.

Note 2 - Cash and Investments (Continued)

Concentration of Credit Risk - The City's investment policy limits concentration of credit risk for the City's investments as a whole, inclusive of the Fund's investments. These policy limits vary for each investment category.

The City's investments in which 5% or more is invested in any single issuer as of December 31 are as follows:

	2008		2007	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corp.	$ 334,910,927	24%	$ 187,527,064	20%
Federal National Mortgage Association	296,604,178	21%	198,573,365	21%
Federal Home Loan Bank	255,135,472	19%	183,177,204	19%
Federal Farm Credit Bank	111,170,313	8%	-	-
Wells Fargo	95,760,494	7%	-	-
Siemens Capital	69,980,556	5%	-	-
Bank of America	-	-	91,600,000	10%

The Fund's dedicated investments in which 5% or more is invested in any single issuer as of December 31 are as follows:

	2008		2007	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Bank	$ 101,570,895	77%	$ -	-
Federal Home Loan Mortgage Corp.	25,807,219	19%	-	-
Grampian Funding	-	-	6,491,478	44%
Federal National Mortgage Association	-	-	5,073,414	35%
Natixis	-	-	3,095,936	21%

Note 3 - Notes and Contracts Receivable

Notes and contracts receivable are composed of the following as of December 31:

	2008	2007
Water main assessments	$ 15,407	$ 27,656
Land sales receivable	48,423	62,300
Lake Youngs substation receivable	-	2,751,000
Total notes and contracts receivable	63,830	2,840,956
Due within one year	(22,400)	(2,775,171)
Total non-current notes and contracts receivable	$ 41,430	$ 65,785

Note 4 - Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2008:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 165,042,101	$ 232,616	$ -	$ 165,274,717
Structures	147,733,070	26,921,916	-	174,654,986
Machinery and equipment	952,089,402	54,214,721	(565,308)	1,005,738,815
Computer systems	86,084,040	4,832,178	(1,447,433)	89,468,785
Total capital assets - excluding land	1,350,948,613	86,201,431	(2,012,741)	1,435,137,303
Less accumulated depreciation	(406,556,430)	(37,742,753)	1,180,323	(443,118,860)
	944,392,183	48,458,678	(832,418)	992,018,443
Construction in progress	106,449,342	84,628,645	(85,799,254)	105,278,733
Land and land rights	33,492,544	631,723	(340,053)	33,784,214
Other property	855,330	-	(44,404)	810,926
Capital assets, net	$ 1,085,189,399	$ 133,719,046	$ (87,016,129)	$ 1,131,892,316

Note 4 - Capital Assets (Continued)

Capital asset activity consisted of the following for the year ended December 31, 2007:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 164,017,402	$ 5,619,877	$ (4,595,178)	$ 165,042,101
Structures	150,727,655	1,789,677	(4,784,262)	147,733,070
Machinery and equipment	915,536,125	38,747,769	(2,194,492)	952,089,402
Computer systems	78,566,310	7,517,730	-	86,084,040
Total capital assets - excluding land	1,308,847,492	53,675,053	(11,573,932)	1,350,948,613
Less accumulated depreciation	(372,512,295)	(35,340,648)	1,296,513	(406,556,430)
	936,335,197	18,334,405	(10,277,419)	944,392,183
Construction in progress	72,212,160	39,341,886	(5,104,704)	106,449,342
Land and land rights	33,355,214	2,936,935	(2,799,605)	33,492,544
Other property	274,512	580,818	-	855,330
Capital assets, net	$ 1,042,177,083	$ 61,194,044	$ (18,181,728)	$ 1,085,189,399

During 2008 and 2007, the Fund capitalized interest costs relating to construction of $4,446,525 and $3,286,626, respectively.

Note 5 - Leases

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of $628,449 in 2008 and $612,443 in 2007. Rents are paid as they become due and payable. Minimum payments under the leases as of December 31, 2008 are shown in the following table:

	Minimum Payments
2009	$ 449,281
2010	362,933
2011	359,739
2012	356,053
2013	251,690
2014 - 2016	692,995
	$ 2,472,691

Note 6 - Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside $8,936,113 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements.

In December 2008, the Fund issued $205,080,000 of Water System Revenue and Refunding Bonds. Principal payments on the bonds are due annually beginning in 2009 and ending in 2038 at interest rates ranging from 4% to 5.25%. A portion of the proceeds from the issuance was set aside in the Fund's restricted cash to be used on February 4, 2009, to refund all $93,000,000 of the 1995 and 2002 Adjustable Rate Water Revenue Bonds. The remaining proceeds will be used for certain capital improvement projects and conservation programs for the Fund.

Revenue bonds outstanding as of December 31, 2008 and 2007 consisted of the following Municipal Water bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding, 2008	Bonds Outstanding, 2007
1995 adjustable rate bonds	9/2/95	2000-2025	0.60%*	$ 45,000,000	$ 34,300,000	$ 35,700,000
1998 parity bonds	7/7/98	1999-2027	4.5-5.0%	80,000,000	63,875,000	65,830,000
1999 parity bonds	6/23/99	2000-2009	4.0-5.375%	100,000,000	2,285,000	4,470,000
1999 parity bonds, Series B	6/23/99	2001-2009	5.0-6.0%	110,000,000	2,475,000	4,835,000
2001 parity bonds	11/20/01	2005-2031	4.5-5.0%	52,525,000	48,100,000	49,265,000
2002 adjustable rate bonds, Series A	5/15/02	2003-2032	0.88%*	32,500,000	28,700,000	28,700,000
2002 adjustable rate bonds, Series B	5/15/02	2003-2032	0.95%*	32,500,000	30,000,000	30,000,000
2003 parity, refunding bonds	5/12/03	2003-2033	4.0-6.0%	271,320,000	210,170,000	217,620,000
2004 parity bonds	10/25/04	2005-2034	3.0-5.0%	84,750,000	78,580,000	80,045,000
2005 parity, refunding bonds	12/28/05	2006-2029	4.0-5.0%	138,040,000	133,700,000	135,350,000
2006 parity, refunding bonds	10/23/06	2008-2037	4.0-5.0%	189,970,000	188,215,000	189,970,000
2008 parity, refunding bonds	12/15/08	2009-2038	4.0-5.25%	205,080,000	205,080,000	-
				$ 1,341,685,000	$ 1,025,480,000	$ 841,785,000

* Interest rates for the 1995 and 2002 Adjustable Rate bonds are shown at the rate in effect at December 31, 2008.

Note 6 - Revenue Bonds (Continued)

The 1995 and the 2002 revenue bonds are variable rate obligations. The Fund has secured the services of remarketing agents responsible for remarketing the bonds at regular intervals on the open market. The Fund pays actual market interest costs and a fee for remarketing services. The bonds are currently remarketed weekly, though the Fund retains the ability to cause the bonds to be remarketed at other intervals.

Minimum debt service requirements to maturity on revenue bonds are as follows:

Years Ending December 31,	Principal	Interest	Total
2009	$ 121,495,000	$ 41,842,553	$ 163,337,553
2010	25,425,000	44,233,176	69,658,176
2011	26,565,000	43,078,051	69,643,051
2012	28,820,000	41,801,701	70,621,701
2013	30,160,000	40,437,826	70,597,826
2014 - 2018	174,030,000	178,725,055	352,755,055
2019 - 2023	217,340,000	130,552,005	347,892,005
2024 - 2028	199,755,000	76,556,470	276,311,470
2029 - 2033	140,220,000	32,645,207	172,865,207
2034 - 2038	61,670,000	6,862,482	68,532,482
	$ 1,025,480,000	$ 636,734,526	$ 1,662,214,526

The following table shows the revenue bond activity during the year ended December 31, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 841,785,000	$ 205,080,000	$ (21,385,000)	$ 1,025,480,000	$ 121,495,000
Add (deduct) deferred amounts:					
Issuance premiums	28,268,085	2,953,602	(1,521,473)	29,700,214	-
Issuance discounts	(405,982)	-	60,003	(345,979)	-
Loss on refunding	(18,726,636)	-	1,391,369	(17,335,267)	-
Total bonds payable	$ 850,920,467	$ 208,033,602	$ (21,455,101)	$ 1,037,498,968	$ 121,495,000

Note 6 - Revenue Bonds (Continued)

The following table shows the revenue bond activity during the year ended December 31, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 861,670,000	$ -	$ (19,885,000)	$ 841,785,000	$ 21,385,000
Add (deduct) deferred amounts:					
Issuance premiums	29,811,576		(1,543,491)	28,268,085	-
Issuance discounts	(472,616)	-	66,634	(405,982)	-
Loss on refunding	(20,154,632)	-	1,427,996	(18,726,636)	-
Total bonds payable	$ 870,854,328	$ -	$ (19,933,861)	$ 850,920,467	$ 21,385,000

Prior Year Defeasance of Debt - In prior years, the Fund defeased certain obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the Balance Sheet. At December 31, 2008, $172,360,000 of bonds outstanding are considered defeased. No activity on defeased bonds occurred during 2008, as shown below:

	Amount Outstanding at December 31, 2007	Additions	Redemptions	Amount Outstanding at December 31, 2008
Bonds issued				
1999 parity, Series B	$ 91,360,000	$ -	$ -	$ 91,360,000
1999 parity	81,000,000	-	-	81,000,000
Total defeased bonds	$ 172,360,000	$ -	$ -	$ 172,360,000

Debt Service Coverage - The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain adjusted net revenue available for debt service of not less than 125% of actual annual senior lien debt service. Adjusted net revenues remaining after senior lien debt service has been paid must not be less than 125% of annual junior lien debt service. In 2008, adjusted net revenue available for debt service, as defined by the bond covenants was 147% of senior lien debt service, and 752% of junior lien debt service.

Note 6 - Revenue Bonds (Continued)

Adjusted net revenue available for debt service for the year ended December 31, 2008 is determined as follows:

Change in net assets	$ 500,073
Add:	
City taxes	19,029,097
Depreciation and amortization	40,615,626
Interest paid on revenue bonds	38,355,433
Amortization of debt expenses and loss	213,027
Draws on BPA account	595,473
	99,308,729
Less:	
Donation of assets	12,366,389
Capitalized interest	4,446,525
Adjusted net revenue available for debt service	$ 82,495,815
Senior debt service requirement (cash basis)	$ 56,250,906
Senior lien coverage percentage	147%
Adjusted net revenue available for junior lien debt service	$ 26,244,909
Junior lien debt service requirement (cash basis)	$ 3,489,526
Junior lien coverage percentage	752%

Note 7 - Public Works Trust Loans

The Fund has various construction projects that are financed by low interest loans issued by the State. The loan agreements require that the Fund finance a portion of these projects from other sources. These loans have been used to enhance and protect the Water system.

Note 7 - Public Works Trust Loans (Continued)

In 2008, the Fund borrowed $8,080,000 from the Washington State Department of Community, Trade, and Economic Development under its Public Works Trust Loan Program from the Drinking Water State Revolving Fund. Proceeds from two loans were used to finance the Myrtle and Beacon reservoir projects. Beginning in 2008, amounts borrowed for the Myrtle and Beacon reservoirs are repaid over a period of 17 and 18 years, respectively, and accrue interest at 1.5% per annum.

Loans outstanding as of December 31, 2008 and 2007 are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding, 2008	Loans Outstanding, 2007
Magnolia Manor Reservoir	1994-2013	1.0%	$ 2,220,000	$ 591,083	$ 709,300
Myrtle Reservoir	2008-2025	1.5%	4,040,000	3,815,556	-
Beacon Reservoir	2008-2026	1.5%	4,040,000	3,827,368	-
			$ 10,300,000	$ 8,234,007	$ 709,300

Minimum debt service requirements to maturity on the loans are as follows:

Years Ending December 31,	Principal	Interest	Total
2009	$ 555,293	$ 120,555	$ 675,848
2010	555,293	112,817	668,110
2011	555,293	105,078	660,371
2012	555,292	97,339	652,631
2013	555,292	89,601	644,893
2014 - 2018	2,185,380	343,755	2,529,135
2019 - 2023	2,185,380	179,850	2,365,230
2024 - 2026	1,086,784	29,237	1,116,021
	$ 8,234,007	$ 1,078,232	$ 9,312,239

Note 7 - Public Works Trust Loans (Continued)

The table below summarizes the activity for the loans for the years ended December 31:

	2008	2007
Net public works trust loans, beginning of year	$ 709,300	$ 827,517
Loan proceeds	8,080,000	-
Principal payments	(555,293)	(118,217)
Net public works trust loans, end of year	$ 8,234,007	$ 709,300
Public works trust loans due within one year	$ 555,293	$ 118,217
Public works trust loans, noncurrent	$ 7,678,714	$ 591,083

Note 8 - Muckleshoot Liability

The City and the Fund are committed to working in cooperation with the Muckleshoot Indian Tribe (the "Tribe") in order to achieve salmon recovery in the Cedar River-Lake Washington system. The Tribe's exercise of its Treaty rights to hunt and gather in the Cedar River Municipal Watershed, its interest in wildlife management in the Watershed, and its interest in conducting traditional activities are being addressed in an agreement between the Tribe, National Marine Fisheries Service, and the City. During 2005, the Fund committed $14.0 million to the Tribe for fishery purposes, $2.5 million for wildlife studies, $0.5 million for habitat improvements and $1.0 million in lieu of properties on the White River and at Yakima Pass. The Fund recorded an $18.0 million liability for this commitment in 2005. In 2006, the Fund increased the liability by $0.5 million due to an increase in expected costs to acquire the Yakima Pass land. $3.0 million for wildlife studies and habitat improvements was deferred and is being amortized over a ten year period beginning in 2006. The remainder of costs was capitalized in 2006 as land rights.

In 2006, the Fund paid $17.0 million of this liability to the Tribe. In 2008, the Fund paid $1.3 million to the Tribe in lieu of the White River property. The remaining $0.5 million liability is being held for the purchase of the Yakima Pass property to be transferred to the Tribe after acquisition. Due to delays in acquiring the Yakima Pass property, the $0.5 million remaining liability has been recorded in other noncurrent liabilities.

Note 9 - Habitat Conservation Program Liability

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan ("HCP") is to protect all species of concern that may be affected by the operations of SPU and SCL in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be $99.6 million (in 2008 dollars) over a period of 50 years (from the year 2000 through the year 2050).

Expenditures are being funded from a combination of the Fund's operating revenues and issuance of revenue bonds. The total amount expended for the HCP through 2008 is $57.0 million. The remaining $42.6 million to complete the HCP is comprised of a $9.6 million liability and an estimate of $33.0 million for construction and operating commitments. The construction activities will add to the Fund's capital assets and the operating activities are mainly routine monitoring of the HCP program that will be expensed as incurred.

Note 10 - Retirement and Other Postemployment Benefit Plans

Pension Costs - All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the "System"), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with ten or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances.

City employees are required to contribute 8.03% of their annual base salaries to the System. The City's contribution rate was 8.03% for 2008, 2007, and 2006. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2008, 2007, and 2006, were $3,965,529, $3,327,468, and $3,261,956 respectively. The Fund's contribution in 2008 represents its full liability to the System.

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 1000, Seattle, Washington, 98104, telephone: (206) 386-1292.

Note 10 - Retirement and Other Postemployment Benefit Plans (Continued)

Employer contributions for the City are as follows (dollars in millions):

Year Ended December 31,	City Required Contribution	City Actual Contribution	Percentage Contributed
2006	$ 37.9	$ 37.9	100%
2007	$ 40.2	$ 40.2	100%
2008	$ 45.8	$ 45.8	100%

Actuarial data and assumptions:	
Valuation date	January 1, 2008
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	30 years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	7.75%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age[1] (b)	Unfunded AAL (UAAL)[2] (b-a)	Funded Ratio (a/b)	Covered Payroll[3] (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2004	$ 1,527.5	$ 1,778.9	$ 251.4	85.9%	$ 424.7	59.2%
January 1, 2006	$ 1,791.8	$ 2,017.5	$ 225.7	88.8%	$ 447.0	50.5%
January 1, 2008	$ 2,119.4	$ 2,294.6	$ 175.2	92.4%	$ 501.9	34.9%

1 Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

2 Actuarial accrued liabilities less actuarial value of assets.

3 Covered payroll includes compensation paid to all active employees on which contributions are calculated.

Note 10 - Retirement and Other Postemployment Benefit Plans (Continued)

The City performs an actuarial analysis on a biannual basis and expects to perform the next actuarial analysis in January 2010.

Deferred Compensation - The City offers all of its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code ("IRC") Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseen emergency.

The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries. The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

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

Eligible retirees (younger than age 65) may contribute to the medical plan and any additional health care programs contemplated or amended by ordinance of the City Council and as provided in Seattle Municipal Code 4.50.020.

The City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees self-pay 100% of the premiums based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City was required to contribute $2.3 million in 2008 and $1.4 million in 2007.

Note 10 - Retirement and Other Postemployment Benefit Plans (Continued)

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. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of shared costs between the employer and plan members, at the time of each valuation. 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.

Significant methods and assumptions are as follows:

Actuarial data and assumptions	
Valuation date	January 1, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, closed
Discount rate	4.826%
Health care cost trend rates -medical:	10.9%, decreasing by 0.5% for each year for 12 years to an ultimate rate of 5%.
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives and Retirees based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year.
Marital status	60% of members electing coverage married or registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	Morbidity rate ranges for ages 50 through 64: 100.49% to 187.49% for male retirees, 74.01% to 138.09% for female retirees, 113.29% to 234.69% for male spouses, and 83.44% to 172.86% for female spouses. Retirees' spouses pay a lower premium than retirees.
Other considerations	Active employees with current spousal and/or dependent coverage elect same plan and coverage.

Note 10 - Retirement and Other Postemployment Benefit Plans (Continued)

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net OPEB obligation for fiscal years ended December 31, 2008 and 2007. These calculations are based on the actuarial valuation date of January 1, 2008 and January 1, 2006 for the respective years.

	2008	2007
Annual required contribution	$ 8,751,992	$ 9,328,990
Interest on net OPEB obligation	384,860	-
Adjustment to annual required contribution	(508,523)	-
Annual OPEB cost (expense)	8,628,329	9,328,990
Expected contribution (employer-paid benefits)	(2,250,276)	(1,354,268)
Increase in net OPEB obligation	6,378,053	7,974,722
Net OPEB obligation, beginning of year	7,974,722	-
Net OPEB obligation, end of year	$ 14,352,775	$ 7,974,722
Fund's allocated share of City liability	$ 874,864	$ 485,779

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Entry Age (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2008	$ -	$ 78.8	$ 78.8	0.0%	NA	NA
January 1, 2006	$ -	$ 84.3	$ 84.3	0.0%	NA	NA

The Health Care Subfund of the General Fund is reported in the City's Comprehensive Annual Financial Report, which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, WA 98124-4747.

Note 11 - Claims Payable

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

Note 11 - Claims Payable (Continued)

For 2008 and 2007, liabilities for workers' compensation claims as well as other claims are discounted over a 15-year period at the City's rate of return on investments, 3.905% and 5.075%, respectively. Claims expected to be paid within one year were $1,505,062 and $1,239,650 at December 31, 2008 and 2007, respectively. The table below presents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	2008	2007
Beginning liability, undiscounted	$ 4,308,679	$ 3,837,791
Payments	(1,093,037)	(2,047,499)
Incurred claims and changes in estimate	2,651,054	2,518,387
Ending liability, undiscounted	$ 5,866,696	$ 4,308,679
Ending liability, discounted (recorded balance at December 31)	$ 5,194,240	$ 3,712,215

The Fund is involved in litigation from time to time as a result of operations. Claims are pursued if determined to be in the best interest of the Fund's customers.

Note 12 - Compensated Absences

The Fund has recorded a liability for earned but unused holiday, compensatory, merit, and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedule below presents the compensated absences activity during the years ended December 31:

	2008	2007
Beginning liability	$ 4,279,600	$ 3,982,674
Additions	6,086,644	5,147,488
Reductions	(5,801,118)	(4,850,562)
Ending liability	$ 4,565,126	$ 4,279,600

Note 13 - Commitments

The Fund is required by the Washington State Department of Health ("WDOH") to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying five reservoirs is expected to be approximately $162.7 million through the year 2013; costs beyond 2013 not estimable as of the date of this report. As of December 31, 2008 and 2007, total costs incurred were $67.2 million and $42.6 million, respectively. The Fund has $13.3 million of authorized Public Works Trust loans from WDOH to fulfill its obligation to improve the security of the drinking water system. At December 31, 2008, $10.3 million was outstanding on the loans (see Note 7) and $3.0 million was authorized and available.

The City Council authorized a contract with the City of North Bend to provide North Bend with untreated water for mitigation purposes. On February 7, 2008, the Fund executed the contract with North Bend. Under the contract, the Fund will supply water up to an annual average of 1.1 million gallons per day at the basic services rates until January 1, 2067.

Note 14 - Hydrant Settlement

A class action lawsuit against the Fund alleged that fire hydrant costs were improperly paid by the Fund's ratepayers and sought refund of such costs. The Fund settled the lawsuit and was ordered to refund ratepayers and to collect hydrant charges from the City. At the settlement date, the Fund recorded a liability of $16.2 million for refunds to ratepayers and a $14.2 million receivable due from the City and other municipalities in reimbursements. As of December 31, 2008, the Fund has received $4.1 million from the City.

The Fund has $6.2 million of deferred costs related to the settlement, which will be amortized in 2009 and 2010 as the Fund collects a surcharge from ratepayers to cover the costs.

Note 15 - Subsequent Events

On February 4, 2009, the Fund repaid $93,000,000 of 1995 and 2002 Water variable interest bonds. Proceeds to pay for the early redemptions and accumulated interest were provided by the 2008 bond issuance.

APPENDIX D

BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by the Depository Trust Company ("DTC"). The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "beneficial owners") should confirm the following with DTC or its participants (the "Participants").

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series and maturity of the Bonds, each in the aggregate principal amount of such series and maturity, and will be deposited with DTC.

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

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

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

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

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

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

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

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

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

The following information has been provided by the City.

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

Neither the City nor the Bond Registrar will be required to transfer or exchange Bonds during the period between a record date and the next succeeding interest payment date or redemption date. For purposes hereof, record date will mean in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest payment date.

With respect to Bonds registered on the Bond Register in the name of DTC or its nominee, the City and the Bond Registrar will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any amount with respect to principal of or interest on the Bonds, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede & Co., in whose name each bond is registered on the Bond Register, as the holder and absolute owner of such bond for the purpose of payment of principal and interest with respect to such bond, for the purpose of giving notices of redemption and other matters with respect to such bond, for the purpose of registering transfers with respect to such bond, and for all other purposes whatsoever.

The City's obligations under the Ordinance, the Resolution and the Bonds are to the registered owner or owners of the Bonds, and the City will not be liable to the Participants or beneficial owners of Bonds registered in the name of any nominee of DTC or a successor depository, for any acts or omissions of DTC or such successor depository.

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APPENDIX E

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest and, as the County seat, is the center of King County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the twelfth most populated county in the United States. Of the State's population, nearly 30 percent reside in King County, and of the County's population, 32 percent live in the City of Seattle.

Population

Historical and current population figures for the State of Washington, the County and the City are given below.

POPULATION

Year	Washington	King County	Seattle
1980 (2)	4,130,163	1,269,749	493,846
1990 (2)	4,866,692	1,507,319	516,259
2000 (2)	5,894,121	1,737,034	563,374
2001 (1)	5,974,900	1,758,300	568,100
2002 (1)	6,041,700	1,774,300	570,800
2003 (1)	6,098,300	1,779,300	571,900
2004 (1)	6,167,800	1,788,300	572,600
2005 (1)	6,256,400	1,808,300	573,000
2006 (1)	6,375,600	1,835,300	578,700
2007 (1)	6,488,000	1,861,300	586,200
2008 (1)	6,587,600	1,884,200	592,800
2009 (1)	6,668,200	1,909,300	602,000

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

Per Capita Income

The following table presents per capita personal income for the Seattle Primary Metropolitan Statistical Area ("PMSA"), the County and the State.

	2003	2004	2005	2006	2007
Seattle PMSA	$ 38,772	$ 41,131	$ 42,804	$ 46,054	$ 49,401
King County	44,800	49,670	49,488	53,488	57,710
State of Washington	33,214	35,347	36,227	38,639	41,207

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

Construction

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

BUILDING PERMIT VALUES

	New Single Family Units		New Multi Family Units		
Year	**Number**	**Value($)**	**Number**	**Value($)**	**Total Value($)**
2003	914	158,176,828	1,691	155,791,094	313,967,922
2004	754	129,729,132	2,790	227,540,589	357,269,721
2005	533	94,398,888	3,185	278,146,082	372,544,970
2006	482	90,534,640	5,538	597,085,138	687,619,778
2007	775	153,268,586	5,939	681,283,338	834,551,924
2008	595	122,997,326	4,256	562,871,753	685,869,079
2008*	552	113,823,398	3,995	536,325,204	650,148,602
2009*	192	42,257,743	540	64,908,020	107,165,763

* Through October.

Source: U.S. Bureau of the Census

Retail Activity

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

THE CITY OF SEATTLE AND KING COUNTY
TAXABLE RETAIL SALES (000)

Year	King County	City of Seattle
2004	$ 37,253,103,540	$ 12,868,301,227
2005	40,498,328,830	14,236,200,469
2006	43,993,478,514	15,564,363,159
2007	47,766,338,768	17,030,512,254
2008	45,711,920,389	17,096,581,492
2008*	22,761,952,403	8,399,720,514
2009*	19,102,154,079	7,364,731,258

* Through June.

Source: Washington State Department of Revenue

Industry and Employment

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

	Annual Average				
	2009[(2)]	**2008**	**2007**	**2006**	**2005**
Civilian Labor Force	1,113,390	1,088,440	1,068,490	1,047,740	1,012,940
Total Employment	1,025,050	1,041,450	1,028,850	1,005,240	965,940
Total Unemployment	88,340	47,000	39,650	42,500	47,000
Percent of Labor Force	7.9	4.3	3.7	4.1	4.6

NAICS INDUSTRY	**2009**[(2)]	**2008**	**2007**	**2006**	**2005**
Total Nonfarm	1,167,489	1,216,525	1,199,392	1,176,042	1,144,625
Total Private	1,002,922	1,050,308	1,036,183	1,014,033	983,300
Goods Producing	166,600	186,417	188,025	182,667	170,642
Natural Resources and Mining	522	583	692	692	675
Construction	61,800	73,858	74,300	69,617	63,050
Manufacturing	104,233	111,950	113,050	112,375	106,942
Services Providing	1,000,900	1,030,117	1,011,375	993,367	973,967
Trade, Transportation, and Utilities	214,000	224,717	224,125	224,275	222,917
Information	79,444	79,758	75,742	72,500	70,108
Financial Activities	71,478	75,875	77,008	77,508	76,400
Professional and Business Services	180,622	194,258	190,383	182,200	173,225
Educational and Health Services	138,722	133,500	127,733	124,700	122,750
Leisure and Hospitality	110,267	113,375	111,658	108,517	106,042
Other Services	41,811	42,458	41,508	41,658	41,233
Government	164,578	166,233	163,192	162,008	161,325
Workers in Labor/Management Disputes	0	958	0	8	850

(1) Columns may not add to totals due to rounding.
(2) Through September 2009.

Source: Washington State Employment Security Department

The following table presents employment data for major employers in 2008 in the Puget Sound area, which is defined for the purposes of this section as King, Kitsap, Pierce, and Snohomish Counties, Washington.

PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	Employees[(1)]
The Boeing Company	74,300[(2)]
U.S. Army Fort Lewis	40,100
Microsoft	36,400
University of Washington	20,600
Providence Health	14,100
King County Government	12,600
City of Seattle	9,900
Group Health Cooperative	9,100
MultiCare Health System	8,600
Costco	7,500
Weyerhaeuser	6,800
Alaska Air Group, Inc.	6,600
Washington Mutual Inc. [(3)]	6,200
Starbucks Corp.	4,900
Safeway	4,700
Nordstrom Inc.	4,400
Swedish Medical Center	3,900
Qwest	3,700

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

(2) From Boeing, as of April 30, 2009.

(3) As of September 25, 2008, Washington Mutual Bank merged with financial assistance into JPMorgan Chase Bank, National Association.

Source: Puget Sound Book of Lists, 2009 (rounded)

Other Issues

A variety of additional issues may have an effect on the Puget Sound area's economy, including but not limited to transportation infrastructure, endangered species listings, the commercial real estate market, and limits on residential development and resulting housing costs. The effects of these issues are interdependent and cannot be quantified.