OFFICIAL STATEMENT

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

In the opinion of K&L Gates LLP, Bond Counsel, assuming compliance by the County with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "Legal and Tax Information—Tax Matters" herein for a discussion of the opinion of Bond Counsel.

$74,930,000

KING COUNTY, WASHINGTON

SEWER REVENUE AND REFUNDING BONDS, 2013 SERIES B

Dated: Date of Initial Delivery **Due: January 1, as shown on inside cover**

King County, Washington (the "County"), is issuing its Sewer Revenue and Refunding Bonds, 2013 Series B (the "Bonds"), as fully registered obligations. When issued, the Bonds will be registered in the name of Cede & Co., as Bond owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as initial securities depository for the Bonds. The Bonds will be issued initially in book-entry form only in denominations of $5,000 or any integral multiple thereof within a maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. The Bonds will bear interest payable semiannually on January 1 and July 1, beginning January 1, 2014, to their maturity dates or prior redemption. The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington, currently The Bank of New York Mellon in New York, New York (the "Bond Registrar"). For so long as the Bonds remain in a "book-entry only" transfer system, the Bond Registrar is required to make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to Beneficial Owners of the Bonds as described herein in Appendix F—Book-Entry System.

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

The Bonds are being issued to finance the construction of improvements to the County's sewer system (the "Sewer System"), to make a deposit to the Parity Bond Reserve Account, to refund certain bonds of the County payable from revenues of the Sewer System, and to pay the administrative costs of the refunding and the costs of issuing the Bonds.

The Bonds are secured by a pledge of and lien on revenues of the Sewer System that is subordinate to the payment of Operating and Maintenance Expenses of the Sewer System, equal to the lien that secures other Parity Bonds, and superior to all other liens and charges on such revenues.

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE COUNTY AND ARE NOT OBLIGATIONS OF THE STATE OF WASHINGTON OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE COUNTY. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OR THE STATE OF WASHINGTON OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS.

The Bonds are offered when, as and if issued, subject to approval of legality by K&L Gates LLP, Seattle, Washington, Bond Counsel, and certain other conditions. The form of Bond Counsel's opinion is attached hereto as Appendix B. Certain legal matters will be passed upon for the Underwriters by their counsel, Foster Pepper PLLC, Seattle, Washington. It is anticipated that the Bonds will be ready for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about October 29, 2013.

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

Dated: September 30, 2013

Citigroup **Siebert Brandford Shank & Co., LLC**

MATURITY SCHEDULE

$74,930,000

KING COUNTY, WASHINGTON

SEWER REVENUE AND REFUNDING BONDS, 2013 SERIES B

SERIAL BONDS

Due January 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP Numbers[2]
2014	$ 455,000	2.00%	0.20%	100.309%	495289K58
2015	6,340,000	2.00	0.30	101.987	495289K66
2016	5,105,000	2.00	0.50	103.236	495289K74
2017	2,010,000	2.00	0.81	103.718	495289K82
2018	2,050,000	3.00	1.22	107.218	495289K90
2019	2,105,000	4.00	1.57	112.024	495289L24
2020	2,185,000	5.00	1.88	118.099	495289L32
2021	2,295,000	5.00	2.24	118.190	495289L40
2022	2,410,000	5.00	2.51	118.290	495289L57
2023	2,520,000	5.00	2.74	118.216	495289L65
2024	2,645,000	5.00	2.94	117.994	495289L73
2025	2,770,000	5.00	3.13	116.179[1]	495289L81
2026	2,900,000	5.00	3.31	114.490[1]	495289L99
2027	3,050,000	5.00	3.52	112.557[1]	495289M23
2028	1,395,000	5.00	3.65	111.380[1]	495289M31
2029	1,465,000	5.00	3.78	110.218[1]	495289M49
2030	1,540,000	5.00	3.89	109.246[1]	495289M56
2031	1,615,000	5.00	3.97	108.545[1]	495289M64
2032	1,700,000	5.00	4.04	107.937[1]	495289M72
2033	1,780,000	5.00	4.10	107.418[1]	495289M80

TERM BONDS

Due January 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP Numbers[2]
2038	$ 10,340,000	5.00%	4.35%	105.291%[1]	495289M98
2044	16,255,000	5.00	4.46	104.371[1]	495289N22

(1) Calculated to the January 1, 2024, par call.

(2) CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers herein are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The County takes no responsibility for the accuracy of such CUSIP numbers.

KING COUNTY, WASHINGTON
500 FOURTH AVENUE
SEATTLE, WASHINGTON 98104

KING COUNTY EXECUTIVE

Dow Constantine

METROPOLITAN KING COUNTY COUNCIL

Larry Gossett	Chair
Jane Hague	Vice Chair
Julia Patterson	Vice Chair
Rod Dembowski	Councilmember
Reagan Dunn	Councilmember
Kathy Lambert	Councilmember
Joe McDermott	Councilmember
Larry Phillips	Councilmember
Pete von Reichbauer	Councilmember

OTHER ELECTED OFFICIALS

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

DIRECTOR OF FINANCE AND BUSINESS OPERATIONS DIVISION
DEPARTMENT OF EXECUTIVE SERVICES

Ken Guy

CLERK OF THE METROPOLITAN KING COUNTY COUNCIL

Anne Noris

BOND COUNSEL

K&L Gates LLP
Seattle, Washington

FINANCIAL ADVISOR TO THE COUNTY

Piper Jaffray/Seattle-Northwest Division
Seattle, Washington

UNDERWRITERS' COUNSEL

Foster Pepper PLLC

BOND REGISTRAR

The Bank of New York Mellon
New York, New York

No dealer, broker, sales representative or other person has been authorized by the County to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the County. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor 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 obtained by the County from County records and from other sources that the County believes to be reliable, but the County does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

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

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

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OFFICIAL STATEMENT

$74,930,000
KING COUNTY, WASHINGTON
SEWER REVENUE AND REFUNDING BONDS, 2013 SERIES B

INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County, Washington (the "County"), of $74,930,000 aggregate principal amount of its Sewer Revenue and Refunding Bonds, 2013 Series B (the "Bonds"). The Bonds are issued under and in accordance with the provisions of chapters 35.58, 36.67, 39.46, and 39.53 of the Revised Code of Washington ("RCW") and the County Charter, and are authorized under the provisions of County Ordinance 17599, passed on June 3, 2013 (the "Bond Ordinance"), and Motion 13978 of the Metropolitan King County Council (the "County Council") passed on September 30, 2013 (the "Sale Motion"). Together, the Bond Ordinance and the Sale Motion are referred to in this Official Statement as the "Bond Legislation."

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

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

THE BONDS

Description

The Bonds will be dated and bear interest from the date of their initial delivery, will be fully registered as to both principal and interest, and will be in the denomination of $5,000 or any integral multiple thereof within each maturity. When issued, the Bonds will be registered in the name of Cede & Co. as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC").

The Bonds will bear interest payable semiannually on each January 1 and July 1, beginning January 1, 2014, to their maturities or prior redemption. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will mature on the dates and in the years and amounts set forth on the inside cover of this Official Statement.

DTC will act as initial securities depository for the Bonds. Individual purchases may be made in book-entry form only, and purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners or Bond owners will mean Cede & Co. and will not mean the "Beneficial Owners" of the Bonds. In this Official Statement, the term "Beneficial Owner" means the person for whom a DTC participant acquires an interest in the Bonds.

The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington (the "State"), currently The Bank of New York Mellon in New York, New York (the "Bond Registrar"). For so long as the Bonds remain in a "book-entry only" transfer system, the Bond Registrar is required to make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described herein in Appendix F—Book-Entry System.

Redemption

Optional Redemption. The County reserves the right to redeem outstanding Bonds maturing on or after January 1, 2025, in whole or in part, at any time on or after January 1, 2024, at the price of par plus accrued interest, if any, to the date fixed for redemption.

Mandatory Sinking Fund Redemption of Term Bonds. If not previously redeemed as described above or purchased under the provisions described below, the Bonds maturing on January 1 in the years 2038 and 2044 (together, the "Term Bonds"), will be called for mandatory sinking fund redemption (in such manner as the Bond Registrar may determine) at a price of par, plus accrued interest to the date fixed for redemption, on January 1 in the years and amounts as follows:

2038 TERM BONDS		2044 TERM BONDS	
Years	**Amounts**	**Years**	**Amounts**
2034	$ 1,870,000	2039	$ 2,390,000
2035	1,965,000	2040	2,510,000
2036	2,065,000	2041	2,635,000
2037	2,165,000	2042	2,765,000
2038*	2,275,000	2043	2,905,000
		2044*	3,050,000

* Maturity.

If the County redeems Term Bonds under the optional redemption provisions described above or purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for the Term Bonds in the manner to be determined by the County.

Selection of Bonds for Redemption. If fewer than all of the Bonds are to be optionally redeemed prior to maturity, the County will select the maturity or maturities to be redeemed. If fewer than all of the Bonds within a maturity are to be redeemed prior to maturity, the Bonds to be redeemed will be selected, as the case may be, by DTC in accordance with the operational arrangements of DTC's Letter of Representations or, if the Bonds are no longer in book entry-only form, randomly by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate. Any Bond of a denomination more than $5,000 to be redeemed will be redeemed in the principal amount of $5,000 or any integral multiple thereof.

Notice of Redemption. Unless waived by the registered owner of the Bonds to be redeemed or the nominee of such owner, official notice of any such redemption is required to be given by the Bond Registrar by certified or registered mail, postage prepaid, not less than 20 days nor more than 60 days prior to the date fixed for redemption to the registered owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such registered owner to the Bond Registrar. These requirements will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the registered owner of any such Bond to be redeemed. As long as the Bonds are held in book-entry only form, redemption notices with respect to the Bonds will be given in accordance with procedures established by DTC. See "Book-Entry System" and Appendix F.

Conditional Redemption; Rescission of Redemption. Any optional redemption of Bonds may be subject to those conditions, including but not limited to the receipt of refunding bond proceeds, that the County sets forth in the notice of redemption. The County may also rescind any notice of an optional redemption of Bonds by giving written notice of the rescission no later than the business day before the designated redemption date to all parties who were given notice of redemption in the same manner as that notice was given.

Effect of Redemption. Unless the County has rescinded a notice of redemption or a condition to the redemption has not been satisfied, the County will transfer to the Bond Registrar amounts that, in addition to other money, if any, held by the Bond Registrar, will be sufficient to redeem, on the redemption date, all the Bonds to be redeemed. From the redemption date interest on each Bond to be redeemed will cease to accrue.

Book-Entry System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond in the aggregate principal amount of each maturity of the Bonds will be registered in the name of Cede & Co., as nominee for DTC. Neither the County nor the Bond Registrar has any responsibility or obligation to DTC participants or Beneficial Owners with respect to the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on the Bonds, any notice that is permitted or required to be given to registered owners under the Bond Ordinance (except such notices as are required to be given by the County to the Bond Registrar or to DTC), or any consent given or other action taken by DTC as the registered owner. See Appendix F for additional information.

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

Termination of Book-Entry System. If DTC resigns as the securities depository, or if the County has determined that it is no longer in the best interest of the Beneficial Owners of the Bonds to continue the book-entry system of transfer, the County may appoint a successor depository. If no substitute depository can be obtained, or if the County determines that it is in the best interests of the Beneficial Owners of the Bonds that they be able to obtain Bond certificates, the ownership of the Bonds may be transferred to any person as described in the Bond Ordinance and the Bonds will no longer be held in fully immobilized form. In that event, the interest on the Bonds will be paid by checks or drafts mailed, or by wire transfer, to owners of the Bonds at the addresses appearing on the Bond Register maintained by the Bond Registrar on the 15th day of the month preceding the interest payment date. Principal of the Bonds will be payable at maturity upon presentation and surrender of the Bonds by the owners at the principal office of the Bond Registrar, at the option of such owners. Wire transfer will be made only if so requested in writing and if the owner owns at least $1,000,000 par value of the Bonds.

Purchase

The County has reserved the right to purchase any or all of the Bonds at any time at any price.

Defeasance of Bonds

If money and/or noncallable Government Obligations (as defined in chapter 39.53 RCW) maturing at such time or times and bearing interest in amounts sufficient to redeem and retire, refund, or defease part or all of the Bonds in accordance with their terms are set aside in a special account to effect such redemption and retirement, and such money and the principal of and interest on such Government Obligations are irrevocably set aside and pledged for such purpose, then such Bonds will cease to be entitled to any lien, benefit or security of the Bond Ordinance except the right to receive the money so set aside and pledged, and such Bonds will be deemed to be not outstanding under the Bond Ordinance.

USE OF PROCEEDS

Purpose

The Bonds are being issued to finance the construction of improvements to the County's sewer system (the "Sewer System"), to make a deposit to the Parity Bond Reserve Account (see "Security and Sources of Payment for the Bonds—Parity Bond Reserve Account"), to refund certain bonds of the County payable from revenues of the Sewer System as described below under "Plan of Refunding," and to pay the administrative costs of the refunding and the costs of issuing the Bonds.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

SOURCES OF FUNDS	
Par Amount of Bonds	$ 74,930,000
Reoffering Premium	6,321,839
Total Sources of Funds	$ 81,251,839
USES OF FUNDS	
Deposit to Project Fund	$ 50,000,000
Deposit to Refunding Escrow	27,790,211
Deposit to Parity Bond Reserve Account	2,990,639
Costs of Issuance*	470,989
Total Uses of Funds	$ 81,251,839

* Includes rating agency fees, financial advisory fees, escrow agent fees, verification agent fees, underwriters' discount, legal fees, printing costs, and other costs of issuing the Bonds and refunding the Refunded Bonds (defined below).

Plan of Refunding

A portion of the proceeds from the sale of the Bonds are being used to refund a portion of the County's outstanding callable Sewer Revenue Refunding Bonds, Series 2004B (the "Refunded Bonds"), as shown below, for the purpose of realizing debt service savings.

REFUNDED BONDS

Sewer Revenue Refunding Bonds, Series 2004B

Bond Component	Maturity Date	Par Amount	Interest Rate (%)	Redemption Price (%)	Redemption Date	CUSIP Numbers
Serial	01/01/2015	$ 5,385,000	5.000	100	01/01/2014	495289LN8
	01/01/2016	4,290,000	5.000	100	01/01/2014	495289LP3
	01/01/2017	1,310,000	3.800	100	01/01/2014	495289LQ1
	01/01/2018	1,355,000	3.900	100	01/01/2014	495289LR9
	01/01/2019	1,405,000	4.000	100	01/01/2014	495289LS7
	01/01/2020	1,460,000	4.000	100	01/01/2014	495289LT5
	01/01/2021	1,515,000	4.125	100	01/01/2014	495289LU2
	01/01/2022	1,575,000	4.200	100	01/01/2014	495289LV0
	01/01/2023	1,635,000	4.300	100	01/01/2014	495289LW8
	01/01/2024	1,705,000	4.375	100	01/01/2014	495289LX6
	01/01/2025	1,775,000	4.400	100	01/01/2014	495289LY4
	01/01/2026	1,845,000	4.400	100	01/01/2014	495289LZ1
Term	01/01/2030*	1,925,000	4.500	100	01/01/2014	495289MA5
Total		$ 27,180,000				

* Partial maturity; 2027 sinking fund installment of the 2030 term bonds.

Procedure. The County will deposit a portion of the proceeds of the Bonds in an escrow account held by U.S. Bank National Association (together with any duly appointed successor, the "Escrow Agent") to provide for the payment of the Refunded Bonds, pursuant to an escrow deposit agreement to be executed by the County and the Escrow Agent.

Verification of Calculations. The mathematical accuracy of the computations of the adequacy of the cash on deposit to be held by the Escrow Agent to pay principal of and interest on the Refunded Bonds as described above will be verified by Grant Thornton LLP, independent certified public accountants (the "Verification Agent").

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Sewer Revenue

The Bonds are payable from and secured by a pledge of earnings, revenues, and money received by the County from or on account of the operation of the Sewer System ("Revenue of the System"), subject to prior payment of Operating and Maintenance Expenses of the Sewer System. See "The Sewer System." The lien on Revenue of the System that secures the Bonds is equal to the lien on Revenue of the System that secures payment of all Parity Bonds and superior to all other liens on the Revenue of the System less Operating and Maintenance Expenses ("Net Revenue"), including the liens securing the Parity Lien Obligations, the Junior Lien Obligations, the Multi-Modal LTGO/Sewer Revenue Bonds, the Subordinate Lien Obligations, and the State Revolving Fund ("SRF") Loans and Public Works Trust Fund Loans, all of which are described below under "Outstanding Sewer System Obligations." The Bonds are further secured by a Parity Bond Reserve Account. See "Parity Bond Reserve Account."

Parity Bond Reserve Account

The Parity Bond Reserve Account of the Parity Bond Fund secures all Parity Bonds, including the Bonds. The Bond Ordinance provides that the County will pay into and maintain in the Parity Bond Reserve Account an amount that will be at least equal to the maximum debt service on the Parity Bonds in any calendar year (the "Reserve Requirement"). The County may substitute Qualified Insurance or a Qualified Letter of Credit for amounts required to be paid into or maintained in the Parity Bond Reserve Account. As of December 31, 2012, the balance of cash and investments in the Parity Bond Reserve Account was $172,556,536. An additional deposit of approximately $2.99 million will be made from the proceeds of the Bonds to fully satisfy the Reserve Requirement upon the issuance of the Bonds.

In connection with the prior issuance of Parity Bonds, the County obtained debt service reserve surety bonds then satisfying the criteria of "Qualified Insurance" under the applicable bond ordinances (the "Surety Bonds"). To satisfy the criteria of Qualified Insurance under the applicable bond ordinances, the surety provider must be rated in one of the two highest rating categories by Moody's, S&P, and any other rating agency then maintaining a rating on the Parity Bonds. Due to downgrades by Moody's and S&P, the Surety Bonds no longer satisfy the definition for Qualified Insurance and, as described above, those amounts have been replaced with cash to fully meet the Reserve Requirement. However, when the 2004B Bonds, 2006 Bonds, 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, and 2009 Bonds are no longer outstanding, the ratings criteria for Qualified Insurance will be based solely on the surety provider's rating at the time of issuance of the Qualified Insurance. At that time, any outstanding Surety Bonds may once again satisfy the criteria for Qualified Insurance. Outstanding Surety Bonds that may satisfy these criteria in the future currently total $24,700,123. See Appendix A—Summary of Bond Ordinance.

When additional Parity Bonds are issued, or if an existing surety no longer satisfies the definition of Qualified Insurance, the County is required to pay into the Parity Bond Reserve Account an amount that will be sufficient to satisfy the Reserve Requirement then applicable or to provide Qualified Insurance or a Qualified Letter of Credit to satisfy such Reserve Requirement. The providers of some of the surety policies the County has purchased in the past have had their ratings downgraded to a point where such surety policies no longer met the criteria for Qualified Insurance. In these instances, the County has deposited cash into the Parity Bond Reserve Account in order to satisfy the Reserve Requirement.

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

Flow of Funds

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

(i) to pay all Operating and Maintenance Expenses;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Such other lawful purposes of the County may include repayment of interfund borrowing.

Outstanding Sewer System Obligations

The following table presents information on the outstanding obligations of the County's Sewer System secured by Sewer Revenues ("Sewer System Obligations") as of September 1, 2013.

OUTSTANDING SEWER SYSTEM OBLIGATIONS[1]

Sewer System Obligations	Principal Amount of Sewer System Obligations Outstanding	Final Maturity
Parity Bonds[2]	$ 2,566,085,000	2052
Parity Lien Obligations (LTGO)	685,245,000	2039
Junior Lien Obligations	300,000,000	2043
Multi-Modal LTGO/Sewer Revenue Bonds	100,000,000	2040
Subordinate Lien Obligations[3]	100,000,000	2016
SRF Loans and Public Works Trust Fund Loans[4]	136,002,147	2033

(1) The Sewer System is also responsible for paying 50% of the debt service associated with the County's $6,020,000 Limited Tax General Obligation Bonds (Federally Taxable Qualified Energy Conservation Bonds), Series 2012F (the "QECB Bonds"). However, the Revenue of the System was not pledged to bondholders for the repayment of these bonds; therefore, these debt service payments will be made from Revenue of the System remaining at the bottom of the flow of funds listed above under "Flow of Funds" as another lawful purpose of the County related to the Sewer System.

(2) Includes the Bonds; excludes the Refunded Bonds.

(3) The commercial paper program at this lien position has a maximum authorized principal amount of $100,000,000.

(4) As of January 1, 2013.

Source: King County Finance, Business and Operations Division

Parity Bonds. After the issuance of the Bonds, the County will have outstanding 15 series of Parity Bonds, which are sewer revenue bonds that are secured solely by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures the Parity Bonds is subordinate to the payment of Operating and Maintenance Expenses of the Sewer System and senior to the liens that secure all other Sewer System Obligations.

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

Junior Lien Obligations. The County has outstanding four series of Junior Lien Obligations, which are variable rate demand bonds that are payable from and secured by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures the Junior Lien Obligations is subordinate to the liens that secure the Parity Bonds and the Parity Lien Obligations, but senior to the liens that secure the Multi-Modal LTGO/Sewer Revenue Bonds, the Subordinate Lien Obligations, and the SRF Loans and Public Works Trust Fund Loans.

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

Subordinate Lien Obligations. The County has outstanding one issue of Subordinate Lien Obligations, which are commercial paper notes payable from and secured by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures the Subordinate Lien Obligations is subordinate to the liens that secure the Parity Bonds, the Parity Lien Obligations, the Junior Lien Obligations, and the Multi-Modal LTGO/Sewer Revenue Bonds, but senior to the liens that secure the SRF Loans and Public Works Trust Fund Loans.

SRF Loans and Public Works Trust Fund Loans. The County has received loans from the State (administered by various State agencies) that are payable from and secured by a pledge of and lien on Revenue of the System. The lien on Revenue of the System that secures these loans (the SRF Loans and the Public Works Trust Fund Loans) is subordinate to the liens that secure all other Sewer System Obligations.

Credit Facilities

The County has entered into reimbursement agreements in connection with lines of credit, letters of credit, or standby bond purchase agreements issued by commercial banks that secure the payment of the principal of and interest on certain outstanding Sewer System Obligations. The County has also entered into agreements with direct purchasers of certain outstanding Sewer System obligations. Unless extended, each such credit facility or agreement terminates prior to the final maturity of the obligations secured thereby (or, in the case of the Subordinate Lien Obligations, prior to the final authorization date). A summary of the relevant Sewer System Obligations and related credit facility terms is shown in the following table.

SUMMARY OF CREDIT FACILITIES

Series	Type of Sewer System Obligations	Amount Outstanding as of 1/1/13	Type of Facility	Provider	Expiration	Term-Out Provision	Maturity
Sewer Revenue Bond Anticipation Notes Commercial Paper Series A	Subordinate Lien Obligations	$100,000,000	Line of Credit	Bayerische Landesbank Girozentrale	11/30/2015	Three Years	Various*
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001 A&B	Junior Lien Obligations	$100,000,000	Letter of Credit	Landesbank Hessen-Thuringen Girozentrale (Helaba)	12/31/2015	Five Years	01/01/2032
Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2010 A&B	Multi-Modal LTGO/Sewer Revenue Bonds	$100,000,000	Standby Bond Purchase Agreement	State Street Bank and Trust Company	01/21/2015	Three Years	01/01/2040
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2011	Junior Lien Obligations	$100,000,000	Bondholder's Agreement	US Bank National Association	10/26/2014	Three Years	01/01/2042
Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2012	Junior Lien Obligations	$100,000,000	Continuing Covenant Agreement	Wells Fargo Municipal Capital Strategies, LLC	12/27/2016	Three Years	01/01/2043

* Authorization extends to 2016.

The County currently intends to keep these obligations outstanding until the final maturity or authorization date, as the case may be. However, if the County is unable to extend or replace any such credit facility, the provider of that credit facility is obligated to purchase the outstanding obligations secured thereby before that credit facility terminates. In that case, the County could be obligated to repay during a "term-out" period all principal of the obligations secured thereby before the stated final maturity dates. In addition, if fees for extensions or replacements of any such credit facility increase substantially or such extensions or replacements otherwise cease to benefit the County, the County may seek to refund or convert the obligations secured by that credit facility with fixed rate bonds, which may increase debt service associated with those obligations above that currently projected by the County. See "Scheduled Debt Service Requirements."

Agreements with Participants

Service Agreements. The Service Agreements with the Municipal Participants (described below under "The Sewer System—The Participants") contain provisions that are uniform in effect with respect to the facilities to be provided, delivery and acceptance of sewage, and payment for sewage disposal. The Service Agreements with the non-Municipal Participants, which accounted for approximately 0.58% of the sewage disposal revenues in the year ended December 31, 2012, do not differ substantially from the Service Agreements with the Municipal Participants. The rates set by Municipal Participants for sewer service to their customers are not subject to the jurisdiction of the Washington Utilities and Transportation Commission. Under Washington law, the Municipal Participants have various remedies for the enforcement of delinquent bills, including placing liens on the property of delinquent customers.

The Service Agreements uniformly provide that the County will receive all sewage collected by the Participants in the service area of the Sewer System and will treat and dispose of such sewage. In return, the Participants will deliver their sewage to the Sewer System and pay the County for all costs incurred in providing sewage disposal services, including the debt service on all obligations secured by Revenue of the System.

All of the Service Agreements with the Municipal Participants extend to at least July 1, 2036. Since 2002, the County has been in the process of negotiating extensions of the Service Agreements with the Participants. These negotiations continue. Extensions through July 1, 2056, have been signed by the cities of Renton, Tukwila, Pacific, Issaquah, and Carnation, the Alderwood Water & Wastewater District, the Vashon Sewer District, and the Muckleshoot Indian Tribe, which together provided 12.61% of the sewage disposal revenues in the year ended December 31, 2012. The requirement for Municipal Participants within the County to remain customers of the Sewer System beyond the expiration of existing Service Agreements is described below under “Agency Customer Continuation Requirement.”

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

Agency Customer Continuation Requirement. By Ordinance 15757, passed on May 7, 2007, the County Council invoked its authority under RCW 35.58.200(3) to require that each current Municipal Participant within the County continue as an “Agency Customer” (a wholesale customer of the Sewer System not subject to a Service Agreement) following expiration of its Service Agreement so long as bonds issued to finance the capital projects in the Regional Wastewater Services Plan (“RWSP”), which include the Bonds, remain outstanding. See “The Sewer System—The Participants.” In accordance with RCW 35.58.200(4), Ordinance 15757 also established a monthly sewer rate for Agency Customers, including Municipal Participants within the County, who are required to connect to the Sewer System, and Municipal Participants outside the County and non-Municipal Participants, which are not required to connect to the Sewer System unless a Service Agreement is in effect. Municipal Participants outside the County and Non-Municipal Participants contributed 6.22% of the sewage disposal revenues in the year ending December 31, 2012. The formula for the monthly rate charged Agency Customers under Ordinance 15757 is identical to the formula set forth in the Service Agreements.

Rate and Coverage Covenants

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

Coverage Covenant. The County has covenanted in the Bond Ordinance to establish, maintain, and collect rates and charges for sewage disposal service that, together with the interest to be earned on investments of money in the Revenue Fund, Parity Bond Fund, Parity Bond Reserve Account, and Construction Account, will provide in each calendar year Net Revenue in an amount equal to at least 1.15 times the amount required to pay the Annual Parity Debt Service for that calendar year. In addition, the Bond Ordinance requires that rates and charges for sewage disposal service be sufficient to provide funds adequate to operate and maintain the System, to make all payments and to establish and maintain all reserves required by the Bond Ordinance or any other ordinance authorizing obligations of the County payable from Revenue of the System, to make up any deficit in such payments remaining from prior years, and to pay all costs incurred in the construction or acquisition of any portion of the County’s

Comprehensive Sewage Disposal Plan that may be ordered by the County and for the payment of which sewer revenue bonds (or other obligations payable from Revenue of the System) are not issued.

Rate Stabilization Fund

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

In any year, for purposes of satisfying the rate covenants described above, the Bond Ordinance requires (i) adding to Revenue of the System for that year the amount withdrawn from the Rate Stabilization Fund and deposited in the Revenue Fund, and (ii) subtracting from Revenue of the System for that year any amounts withdrawn from the Revenue Fund and deposited into the Rate Stabilization Fund that year.

The County made its first deposit into the Rate Stabilization Fund in 2005. During 2012, $13.9 million was withdrawn from the Rate Stabilization Fund, as planned, to mitigate sewer rate increases. As of December 31, 2012, the balance in the Rate Stabilization Fund was $62.6 million. The County expects to utilize all of these funds through 2016 to mitigate sewer rate increases.

Future Parity Bonds

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

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

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

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

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

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

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

  (d) The amount expended for Operating and Maintenance Expenses during such period must be deducted from such revenue.

  (e) For each year following the proposed date of issuance of such Future Parity Bonds, there will be added to the annual revenue determined in the preceding four paragraphs an estimate of the income to be received in each such year from the investment of money in the Parity Bond Fund and any account therein and from the Construction Fund, to be determined by a firm of nationally recognized financial consultants selected by the County.

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

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

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

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

To satisfy the Future Parity Bonds test applicable to issuance of the Bonds, the County will provide a parity certificate of the type described in paragraph (iv) above.

SCHEDULED DEBT SERVICE REQUIREMENTS

The following table sets forth the scheduled debt service requirements for all outstanding obligations of the Sewer System.

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

	Parity Bonds								Public Works		
Year Ending		The Bonds			Parity Lien	Junior Lien	Multi-Modal	Subordinate Lien	Trust Fund		
December 31[(1)]	Outstanding[(2)]	Principal	Interest	Total	Obligations	Obligations[(3)]	LTGO/Sewer[(3)]	Obligations[(3)]	and SRF Loans	QECB Bonds[(4)]	Total
2013	$ 171,941,789	$ 455,000	$ 562,676	$ 172,959,465	$ 43,063,825	$ 15,525,000	$ 5,175,000	$ 5,175,000	$ 11,122,410	$ 66,220	$ 253,086,920
2014	165,949,125	6,340,000	3,258,050	175,547,175	42,876,325	15,525,000	5,175,000	5,175,000	11,413,506	66,220	255,778,226
2015	167,310,514	5,105,000	3,131,250	175,546,764	42,846,325	15,525,000	5,175,000	5,175,000	11,704,739	66,220	256,039,048
2016	159,997,038	2,010,000	3,029,150	165,036,188	54,001,525	15,525,000	5,175,000	105,175,000	11,696,524	66,220	356,675,457
2017	159,999,363	2,050,000	2,988,950	165,038,313	53,981,525	15,525,000	5,175,000	-	11,614,264	66,220	251,400,322
2018	160,003,513	2,105,000	2,927,450	165,035,963	53,960,025	15,525,000	5,175,000	-	11,607,081	66,220	251,369,289
2019	160,002,888	2,185,000	2,843,250	165,031,138	53,924,525	15,525,000	5,175,000	-	11,600,038	66,220	251,321,921
2020	160,006,389	2,295,000	2,734,000	165,035,389	53,913,025	15,525,000	5,175,000	-	11,110,980	66,220	250,825,614
2021	160,009,807	2,410,000	2,619,250	165,039,057	53,881,525	15,525,000	5,175,000	-	10,708,262	66,220	250,395,064
2022	160,018,057	2,520,000	2,498,750	165,036,807	53,862,375	15,525,000	5,175,000	-	9,664,572	3,076,220	252,339,974
2023	160,017,107	2,645,000	2,372,750	165,034,857	53,824,975	15,525,000	5,175,000	-	8,678,611	-	248,238,443
2024	160,022,282	2,770,000	2,240,500	165,032,782	53,799,975	15,525,000	5,175,000	-	8,679,104	-	248,211,861
2025	160,031,057	2,900,000	2,102,000	165,033,057	53,842,725	15,525,000	5,175,000	-	7,317,225	-	246,893,007
2026	160,032,207	3,050,000	1,957,000	165,039,207	53,806,225	15,525,000	5,175,000	-	4,143,295	-	243,688,727
2027	162,042,395	1,395,000	1,804,500	165,241,895	53,770,475	15,525,000	5,175,000	-	3,685,025	-	243,397,395
2028	162,042,319	1,465,000	1,734,750	165,242,069	53,731,475	15,525,000	5,175,000	-	3,271,730	-	242,945,274
2029	162,044,245	1,540,000	1,661,500	165,245,745	53,770,350	15,525,000	5,175,000	-	2,302,221	-	242,018,316
2030	162,045,333	1,615,000	1,584,500	165,244,833	41,236,963	15,525,000	5,175,000	-	2,301,493	-	229,483,288
2031	162,042,932	1,700,000	1,503,750	165,246,682	54,348,569	115,525,000	5,175,000	-	1,225,683	-	341,520,933
2032	162,043,251	1,780,000	1,418,750	165,242,001	54,294,688	10,350,000	5,175,000	-	1,019,340	-	236,081,028
2033	162,040,957	1,870,000	1,329,750	165,240,707	46,287,288	10,350,000	5,175,000	-	509,670	-	227,562,665
2034	162,040,638	1,965,000	1,236,250	165,241,888	21,269,025	10,350,000	5,175,000	-	-	-	202,035,913
2035	129,642,719	2,065,000	1,138,000	132,845,719	21,293,656	10,350,000	5,175,000	-	-	-	169,664,375
2036	129,920,619	2,165,000	1,034,750	133,120,369	21,328,700	10,350,000	5,175,000	-	-	-	169,974,069
2037	130,007,563	2,275,000	926,500	133,209,063	21,353,475	10,350,000	5,175,000	-	-	-	170,087,538
2038	130,085,869	2,390,000	812,750	133,288,619	21,381,538	10,350,000	5,175,000	-	-	-	170,195,157
2039	130,095,544	2,510,000	693,250	133,298,794	-	10,350,000	105,175,000	-	-	-	248,823,794
2040	130,119,107	2,635,000	567,750	133,321,857	-	10,350,000	-	-	-	-	143,671,857
2041	113,281,050	2,765,000	436,000	116,482,050	-	110,350,000	-	-	-	-	226,832,050
2042	85,467,213	2,905,000	297,750	88,669,963	-	105,175,000	-	-	-	-	193,844,963
2043	85,285,850	3,050,000	152,500	88,488,350	-	-	-	-	-	-	88,488,350
2044	85,219,750	-	-	85,219,750	-	-	-	-	-	-	85,219,750
2045	85,158,675	-	-	85,158,675	-	-	-	-	-	-	85,158,675
2046	85,083,975	-	-	85,083,975	-	-	-	-	-	-	85,083,975
2047	61,192,475	-	-	61,192,475	-	-	-	-	-	-	61,192,475
2048	28,260,750	-	-	28,260,750	-	-	-	-	-	-	28,260,750
2049	28,257,750	-	-	28,257,750	-	-	-	-	-	-	28,257,750
2050	10,358,000	-	-	10,358,000	-	-	-	-	-	-	10,358,000
2051	10,358,250	-	-	10,358,250	-	-	-	-	-	-	20,716,500
Total	$ 5,019,478,359	$ 74,930,000	$ 53,598,026	$5,148,006,385	$ 1,185,651,100	$ 703,650,000	$ 239,725,000	$ 120,700,000	$155,375,773	$ 3,672,200	$ 7,567,138,708

NOTES TO TABLE:

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

(2) Excludes the Refunded Bonds.

(3) Debt service is based on an interest rate of 5.175%, which represents 90% of the Revenue Bond Index assumed by the County for long-term financial planning purposes. The Junior Lien Obligations have bullet maturities in 2032, 2042, and 2043. The Multi-Modal LTGO/Sewer Bonds have a bullet maturity in 2040. The Subordinate Lien Obligations consist of a Commercial Paper program that is authorized through 2016; the figures shown here assume issuance of the full authorized amount of $100 million. See "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations—Credit Facilities."

(4) Revenues of the System are not pledged to the payment of the QECB Bonds. See "Security and Sources of Payment for the Bonds—Outstanding Sewer System Obligations." Reflects taxable interest rates, but not the federal subsidy expected to be received.

THE SEWER SYSTEM

The sewerage system provided by the County is wholesale in character, covering construction, operation, and maintenance of main trunk and interceptor sewers, pumping stations, and treatment plants. In 1994, the County assumed the rights, powers, functions, and obligations of the Municipality of Metropolitan Seattle ("Metro"), including the development and operation of a regional transit system and the regional collection and treatment of sewage. Metro's transit function became part of the County's Transportation Department, and the sewer utility function was integrated as a division into the County's Department of Natural Resources, now known as the Department of Natural Resources and Parks. The administrative functions of Metro were merged with those of the County in the appropriate departments.

The Facilities

The Sewer System has been designated by the County as its Water Quality Enterprise. Distributed over a 420-square-mile service area, the Sewer System collects and treats an average of 169 million gallons of sewage per day ("mgd") from approximately 1.5 million residents. The major wastewater facilities include three secondary treatment plants (West Point in Seattle, South in Renton, and Brightwater in south Snohomish County), 353 miles of interceptors, 42 pump stations, and 19 regulator stations. Other facilities include two combined sewer overflow ("CSO") treatment plants, 38 CSO control locations, and secondary treatment plants on Vashon Island and in Carnation.

The Participants

As the successor to Metro, the County has assumed by operation of law Metro's rights and obligations under its Service Agreements with 34 Municipal Participants and three non-Municipal Participants (each, a "Participant"). The Municipal Participants accounted for approximately 99.42% of the sewage disposal revenues in the year ended December 31, 2012, and the non-Municipal Participants accounted for 0.58%.

Municipal Participants. The 34 Municipal Participants (33 cities and sewer districts in King County, south Snohomish County and northern Pierce County, and the Muckleshoot Indian Tribe) contract with the County for sewage treatment services. The Municipal Participants within King County are required to continue as Agency Customers in the absence of a Service Agreement. See "Security and Sources of Payment for the Bonds—Agreements with Participants—Agency Customer Continuation Requirement." The sewerage service provided by the County is wholesale in character, covering construction, operation, and maintenance of main trunk and interceptor sewers, pumping stations, and treatment plants. The division of responsibility between the County and the Municipal Participants and their respective obligations are set forth in the Service Agreements. See "Security and Sources of Payment for the Bonds—Agreements with Participants."

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

Participant or current Municipal Participant within the County that would be required to continue as an Agency Customer cannot deliver sewage to another agency without the consent of the County.

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

Customers and Residential Customer Equivalents. The number of Residential Customers and Residential Customer Equivalents ("RCEs") reported by each Participant as of December 31, 2012, is presented in the following table.

SEWER SYSTEM PARTICIPANTS AS OF DECEMBER 31, 2012

Municipal Participants-Cities	Single Family Residential Customers	RCE[1]	Total Customers	Percentage of Total (%)
Algona	1,023	323	1,346	0.19
Auburn	11,406	17,201	28,607	4.02
Bellevue	33,289	28,791	62,080	8.72
Black Diamond	771	207	978	0.14
Bothell	4,523	2,798	7,321	1.03
Brier[2]	1,517	274	1,791	0.25
Carnation	676	318	994	0.14
Issaquah	4,814	5,314	10,128	1.42
Kent	12,063	21,872	33,935	4.76
Kirkland	8,963	5,884	14,847	2.08
Lake Forest Park	3,371	579	3,950	0.55
Mercer Island	7,071	1,698	8,769	1.23
Pacific	1,578	926	2,504	0.35
Redmond	13,652	14,962	28,614	4.02
Renton	14,732	15,137	29,869	4.19
Seattle[3]	141,060	145,840	286,900	40.29
Tukwila	920	6,446	7,366	1.03
Subtotal	261,429	268,570	529,999	74.42
Municipal Participants-Sewer Districts and Tribe				
Alderwood Water & Wastewater District[2]	25,655	12,180	37,835	5.31
Cedar River Water & Sewer District	3,914	1,417	5,331	0.75
Coal Creek Utility District	2,778	846	3,624	0.51
Cross Valley Water District [2]	-	311	311	0.04
Highlands Sewer District	106	-	106	0.01
Lakehaven Utility District	869	6	875	0.12
Muckleshoot Indian Tribe	235	78	313	0.04
NE Sammamish Sewer & Water District	4,587	125	4,712	0.66
Northshore Utility District	18,682	9,970	28,652	4.02
Olympic View Water & Sewer District[2]	194	-	194	0.03
Ronald Wastewater District	14,968	4,965	19,933	2.80
Sammamish Plateau Water & Sewer District	9,056	4,079	13,135	1.84
Skyway Water & Sewer District	3,825	1,309	5,134	0.72
Soos Creek Water & Sewer District	29,848	5,341	35,189	4.94
Valley View Sewer District	6,713	9,326	16,039	2.25
Vashon Sewer District	377	529	906	0.13
Woodinville Water District	2,247	3,507	5,754	0.81
Subtotal	124,054	53,989	178,043	25.00
Non-Municipal Participants and Other Customers	-	4,131	4,131	0.58
Total	385,483	326,690	712,173	100.00

NOTES TO TABLE:

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

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

(3) Financial and operating information about the drainage and wastewater system of the City of Seattle may be found in the City's most recent official statement and continuing disclosure filings for its drainage and wastewater revenue bonds, on file with the Municipal Securities Rulemaking Board (the "MSRB") at *http://emma.msrb.org*. The City's comprehensive annual financial reports may also be obtained on the City's website at *www.seattle.gov/cafrs*. Neither of these websites are incorporated into this Official Statement by reference.

Source: King County Wastewater Treatment Division

Sewer Rates

The County annually adopts a monthly charge (the "Sewer Rate") for sewage disposal. The Sewer Rate is set by the County at a level that is intended to provide the County with money sufficient, together with other sources of Revenue of the System, to pay all costs of the Sewer System, including debt service on all obligations payable from Revenue of the System, and to satisfy the County's debt service coverage policies.

The monthly Sewer Rate is applied to each single family residence ("Residential Customers") and to a residential customer equivalency ("RCE") value of each 750 cubic feet of water consumption by all other customers such as multifamily, commercial, and industrial properties. Each Participant and Agency Customer is billed monthly an amount based upon the adopted Sewer Rate and the number of Residential Customers and RCEs reported by the Participant or Agency Customer.

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

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

Adopted Sewer Rates. The adopted monthly sewer rates for each Residential Customer or RCE for the years 2008 through 2014 are set forth in the following table.

SEWER RATES FOR
RESIDENTIAL CUSTOMERS OR
RESIDENTIAL CUSTOMER EQUIVALENTS

Effective Date (January)	Rate ($/month)	Percentage Change
2008	27.95	--
2009	31.90	14.1%
2010	31.90	--
2011	36.10	13.2
2012	36.10	--
2013	39.79	10.2
2014*	39.79	--

* Adopted by the County Council on June 10, 2013.

Source: King County Wastewater Treatment Division

Projected Sewer Rates. The following table shows current sewer rate projections for the years 2015 through 2017. The 2015-2017 projections are for planning purposes only and are based on rate increases, subject to County Council approval, which would result in Revenue of the System that would meet the County's debt service coverage policy for all obligations payable from Revenue of the System. This results in a level of coverage that would exceed the County's debt service coverage policy for Parity Bonds and Parity Lien Obligations. See "Financial Policies." Under the Service Agreements, the County Council must formally adopt the sewer rate each year. The monthly sewer rates established by the County Council do not require the approval of the Washington Utilities and Transportation Commission or the Participants or Agency Customers.

PROJECTED SEWER RATES
FOR RESIDENTIAL CUSTOMERS
OR RESIDENTIAL CUSTOMER EQUIVALENTS

Effective Date (January)	Rate ($/month)	Percentage Change
2015	$41.94	5.4%
2016	43.16	2.9
2017	45.00	4.3

Source: King County Wastewater Treatment Division

Sewer Operating Revenues

The monthly sewer rates described above consistently account for more than 83% of the total operating revenue.

The next largest single source of operating revenue is the capacity charge, which has been imposed since 1990 on customers who establish new connections to the Sewer System. Annual capacity charge revenues have averaged 13% of total operating revenue between 2008 and 2012. The table below shows the number of new capacity charge connections for the past five years.

HISTORICAL CAPACITY CHARGE NEW CONNECTIONS

Year	Connections
2008	11,331
2009	8,949
2010	6,974
2011	5,855
2012	7,745

The capacity charge currently imposed on customers who establish new connections to the Sewer System is $53.50 per month for 15 years from the commencement of service, but may be prepaid on a discounted basis at the customer's option. A capacity charge of $55.35 per month for customers who establish new connections to the Sewer System beginning in 2014 has been adopted and is used in current projections. State law imposes limitations on the calculation of capacity charges.

A number of other charges, including fees paid by septage haulers for treatment, payments for the by-products of the sewage treatment process, and surcharges imposed for high strength and heavy metal discharges into the Sewer System, collectively account for another approximately 4% of operating revenue.

Financial Policies

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

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

Reserve Policy. In 2001, the County Council established an operating liquidity reserve, equal to $5.0 million plus 10% of operating expenses, and an emergency capital reserve equal to $15 million. As of December 31, 2012, these reserves were fully funded, with balances of $16.5 million and $15 million, respectively.

Sewer System Interfund Borrowing

During construction of the Brightwater treatment plant, which was completed in 2012, the Sewer System periodically used interfund borrowing from other County funds held in the King County Investment Pool (the “Investment Pool”) to provide interim financing for its capital improvement program pending the issuance of long-term bonds. (See “King County–King County Investment Pool.”) Such borrowings were fully repaid using the proceeds of the subsequent bond issue. No loans remain outstanding. The current financial plan does not anticipate additional interfund borrowing to provide interim funding for future capital expenditures.

In December 2008, the Investment Pool provided a $100 million operating loan to the Sewer System using other County funds for retirement of two series of MBIA-insured variable rate demand bonds. The Sewer System made five $20 million annual principal payments on the operating loan from Revenue of the System that otherwise would have been used as a funding source for the Sewer System’s capital program. The final payment was made in early 2013.

Historical Customers, Revenues, and Expenses

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

HISTORICAL FINANCIAL STATEMENTS
($ EXPRESSED IN THOUSANDS)

	2008	2009	2010	2011	2012
Residential Customer and Residential Customer Equivalents					
(Average for Year, Rounded)	706,800	703,800	704,400	707,300	708,900
Revenues and Expenses					
Sewer Operating Revenues[1]	$ 281,173	$ 322,256	$ 320,675	$ 362,930	$ 367,976
Operating and Maintenance Expense	98,370	103,118	103,682	103,995	114,939
Net Operating Revenue	$ 182,803	$ 219,138	$ 216,993	$ 258,935	$ 253,037
Interest Income	$ 4,087	$ 5,612	$ 3,426	$ 2,725	$ 1,697
Rate Stabilization[2]	3,000	(15,400)	(15,850)	(25,500)	13,900
Net Revenue Available for Debt Service	$ 189,890	$ 209,350	$ 204,569	$ 236,160	$ 268,634
Debt Service on Parity Bonds[3]	$ 110,237	$ 118,925	$ 118,817	$ 132,664	$ 157,117
Debt Service on Parity Lien Obligations[3]	24,178	26,042	26,838	32,910	38,626
Avalable for Subordinate Debt Service and Other Purposes	$ 55,475	$ 64,383	$ 58,915	$ 70,586	$ 72,891
Subordinate Debt Service[4]	18,581	12,150	12,182	12,769	14,087
Available for Other Purposes	$ 36,894	$ 52,233	$ 46,732	$ 57,817	$ 58,804
Debt Service Coverage on Parity Bonds	1.72	1.76	1.72	1.78	1.71
Debt Service Coverage on Parity Bonds and Parity Lien Obligations	1.41	1.44	1.40	1.43	1.37
Debt Service Coverage on All Sewer System Obligations[5]	1.24	1.33	1.30	1.32	1.28

NOTES TO TABLE:

(1) Includes the following capacity charges: 2008, $35.0 million; 2009, $40.8 million; 2010, $41.4 million, 2011, $48.7 million; 2012, $51.4 million.

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

(3) Total gross debt service on Parity Bonds and Parity Lien Obligations was $163.4 million in 2009, $181.3 million in 2010, $195.1 million in 2011, and $203.5 million in 2012. The amounts shown in the table for Parity Bonds exclude payments from capitalized interest reserves of $9.5 million in 2009, $23.5 million in 2010, $23.3 million in 2011, and $7.3 million in 2012, and for Parity Lien Obligations exclude payments from capitalized interest reserves of $8.9 million in 2009, $12.2 million in 2010, and $6.1 million in 2011.

(4) Subordinate Debt Service consists of debt service on Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, SRF Loans and Public Works Trust Fund Loans, and interfund construction loans. In 2009 and 2010, interfund interest of $1.4 million and $0.3 million, respectively, is included due to significant interfund borrowing prior to the completion of the planned bond issues.

(5) Net Revenue Available for Debt Service divided by Debt Service on the Sewer System Obligations.

Note: Totals may not foot due to rounding.

Source: Audited Financial Statements of the Water Quality Enterprise Fund 2008-2012, Finance and Business Operations Division

Management Discussion of 2012 Sewer System Financial Results

The Sewer System generated net operating revenue of $253.0 million during 2012, a decrease of 2.28% from 2011. Total operating revenues increased from $362.9 million to $368.0 million, while non-depreciation operating expenses increased from $104.0 million to $114.9 million.

Revenues. The $5.1 million increase in operating revenue was primarily due to a $2.7 million increase in capacity charge revenues and a $1.6 million increase in other revenues. Sewer rate revenues increased $0.8 million, reflecting a modest 0.2% increase in the number of customers and no sewer rate increase in 2012. Capacity charge revenues reflect a 3% rate increase and a $1.7 million increase in early pay-offs.

Operating revenues from other sources increased $1.6 million to $9.4 million, a 20.0% increase. The majority of this increase was due to septic hauler and methane sale revenue performance. Total revenues from septic haulers increased $1.1 million, from $2.7 million to $3.8 million.

Expenses. Overall, operating expenses of the Sewer System, excluding depreciation, increased $10.9 million to $114.9 million in 2012, a 10.5% increase. While modest inflationary increases occurred in most Operating and Maintenance Expenses in 2012, increases in several costs exceeded the rate of inflation. Costs for the operation of the Brightwater Treatment Plant increased $5.7 million, or 129.5%, to $10.1 million, reflecting 12 months of operation in 2012 compared to only four months in 2011, and related insurance costs increased $0.5 million. Other expenses increasing above the rate of inflation included local hazardous waste fee payments increasing $1.0 million, or 40%, to $3.5 million, reflecting the first rate increase in several years, and employee benefits increasing $1.8 million, reflecting an increase in the employer retirement contribution rate from 5.31% at the start of 2011 to 7.21% by the end of 2012.

Interest Income. Interest income decreased from $2.7 million to $1.7 million, reflecting lower interest rates available from the Investment Pool. The Investment Pool returned a monthly average yield of 0.54% in 2012.

Rate Stabilization Fund. During 2012, $13.9 million was withdrawn from the Rate Stabilization Fund, as planned, to mitigate sewer rate increases. This amount is included in 2012 operating revenues for the purpose of computing debt service coverage ratios.

Debt Service Coverage. The Sewer System achieved a coverage ratio of 1.37x on the combined debt service of Parity Bonds and Parity Lien Obligations in 2012, exceeding the 1.25x minimum coverage target stipulated by the County's adopted financial policies. The Sewer System achieved a debt service coverage ratio of 1.28x on all of its Sewer System Obligations in 2012, exceeding the 1.15x minimum coverage target stipulated by the County's adopted financial policies.

Projected Customers, Revenues, and Expenses

The following table sets forth a summary of the County's most recent projections of the Sewer System's customers, revenues, and expenses for the fiscal years ending December 31, 2013, through December 31, 2017. Notes for this table are provided on the page following the table.

The gains in revenue that are projected in the following table reflect the assumed monthly sewer rates presented in the table above labeled "Projected Sewer Rates for Residential Customers or Residential Customer Equivalents." These projected sewer rates are designed to produce sufficient Net Revenue, together with any planned withdrawals from the Rate Stabilization Fund, to satisfy the debt service coverage targets stipulated by the County's adopted financial policies.

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

SUMMARY OF PROJECTED SEWER SYSTEM
CUSTOMERS, REVENUES, AND EXPENSES
($ EXPRESSED IN THOUSANDS)

	2013	2014	2015	2016	2017
Residential Customer and Residential Customer Equivalents [1]					
(Average for Year, Rounded)	713,700	715,900	718,500	721,600	724,700
Revenues and Expenses					
Sewer Operating Revenues [2]	$ 398,933	$ 403,349	$ 428,373	$ 446,486	$ 470,517
Operating and Maintenance Expense	120,283	127,078	132,090	137,373	142,868
Net Operating Revenue	$ 278,650	$ 276,271	$ 296,283	$ 309,113	$ 327,649
Interest Income [3]	$ 1,638	$ 1,313	$ 1,682	$ 2,237	$ 5,203
Rate Stabilization [4]	10,350	23,865	17,150	11,235	-
Net Revenue Available for Debt Service	$ 290,638	$ 301,449	$ 315,115	$ 322,585	$ 332,852
Debt Service on Parity Bonds [5]	$ 173,388	$ 178,552	$ 183,330	$ 180,965	$ 190,020
Debt Service on Parity Lien Obligations	44,271	44,073	44,033	55,168	55,125
Available for Subordinate Debt Service and Other Purposes	$ 72,979	$ 78,824	$ 87,752	$ 86,452	$ 87,707
Subordinate Debt Service [6]	24,059	39,161	46,637	44,368	44,286
Available for Other Purposes	$ 48,920	$ 39,663	$ 41,115	$ 42,084	$ 43,421
Debt Service Coverage on Parity Bonds	1.68	1.69	1.72	1.78	1.75
Debt Service Coverage on Parity Bonds and Parity Lien Obligations	1.34	1.35	1.39	1.37	1.36
Debt Service Coverage on All Sewer System Obligations [7]	1.20	1.15	1.15	1.15	1.15

NOTES TO TABLE:

(1) The projected increase in RCEs during 2013, 2014, 2015, 2016, and 2017 reflects a forecast of improved economic activity and employment.

(2) Based on adopted and projected Sewer Rates (see "Sewer Rates—Adopted Sewer Rates" and "—Projected Sewer Rates"). Includes the following projected capacity charges: 2013, $48.652 million; 2014, $50.569 million; 2015, $55.563 million; 2016, $61.378 million; and 2017, $67.501 million.

(3) Based on assumed interest rates on investments of 0.45% in 2013, 0.40% in 2014, 0.50% in 2015, 0.60% in 2016, and 1.33% in 2017.

(4) Withdrawals from the Rate Stabilization Fund.

(5) Projections assume the issuance of additional Parity Bonds as follows: 2014: $50 million at 5.75%; 2015: $53.6 million at 6.00%; 2016: $112.1 million at 6.00%; and 2017: $124.7 million at 6.00%. Projected total debt service on Parity Bonds and Parity Lien Obligations is $217.7 million in 2013. See "Future Sewer System Financing Plans."

(6) Subordinate Debt Service consists of debt service on Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, and SRF Loans and Public Works Trust Fund Loans. Assumes payment of interest only on the outstanding Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, Subordinate Lien Obligations, and interfund construction loans, plus $88.5 million in future Junior Lien Obligations, and SRF or Public Works Trust Fund Loans expected to be issued during the period 2013 through 2017. Assumes annual interest rates that represent 90% of the assumed Parity Bond interest rates shown in footnote (5) above and reflects a level of detail in the current Wastewater Treatment Division near-term financial plan that is greater than the assumptions in the long-term plan (see footnote (4) to the table titled "Scheduled Debt Service on All Obligations of the Sewer System").

(7) Net Revenue Available for Debt Service divided by Debt Service on all Sewer System Obligations.

Source: King County Wastewater Treatment Division

Regional Wastewater Services Plan

The County Council adopted the Regional Wastewater Services Plan in 1999. The RWSP can be amended by an ordinance adopted by the County Council and has been amended seven times since 1999, to modify policies providing guidance to the Sewer System. The RWSP outlines a number of important projects, programs, and policies for the County to implement through 2030 in order to continue to protect public health and water quality and ensure sufficient wastewater capacity to meet future growth needs. Major RWSP projects include the building of Brightwater, the County's third regional treatment plant (which began operation in 2012); improvements to the County's regional conveyance system to meet the 20-year peak flow storm design standard and accommodate increased flows where needed; construction of 21 CSO control projects; and expansion of the South treatment plant from 115 mgd to 135 mgd in 2029. The RWSP also includes projects to control infiltration and inflow, process biosolids, and produce reclaimed water. See "Capital Improvement Plan."

Brightwater Project

Overview. The largest component of the RWSP is the Brightwater system, comprised of a treatment plant and conveyance system. Figure 1 provides a schematic illustration of the major components of the Brightwater project.

The Brightwater treatment plant is located in unincorporated Snohomish County east of State Highway SR-9, just north of the City of Woodinville. The treatment plant is able to treat an average of 36 mgd of wastewater, with a peak flow capacity of 130 mgd. In the decade starting in 2040, the County expects to expand the plant's treatment capacity to 54 mgd with a peak capacity of 170 mgd.

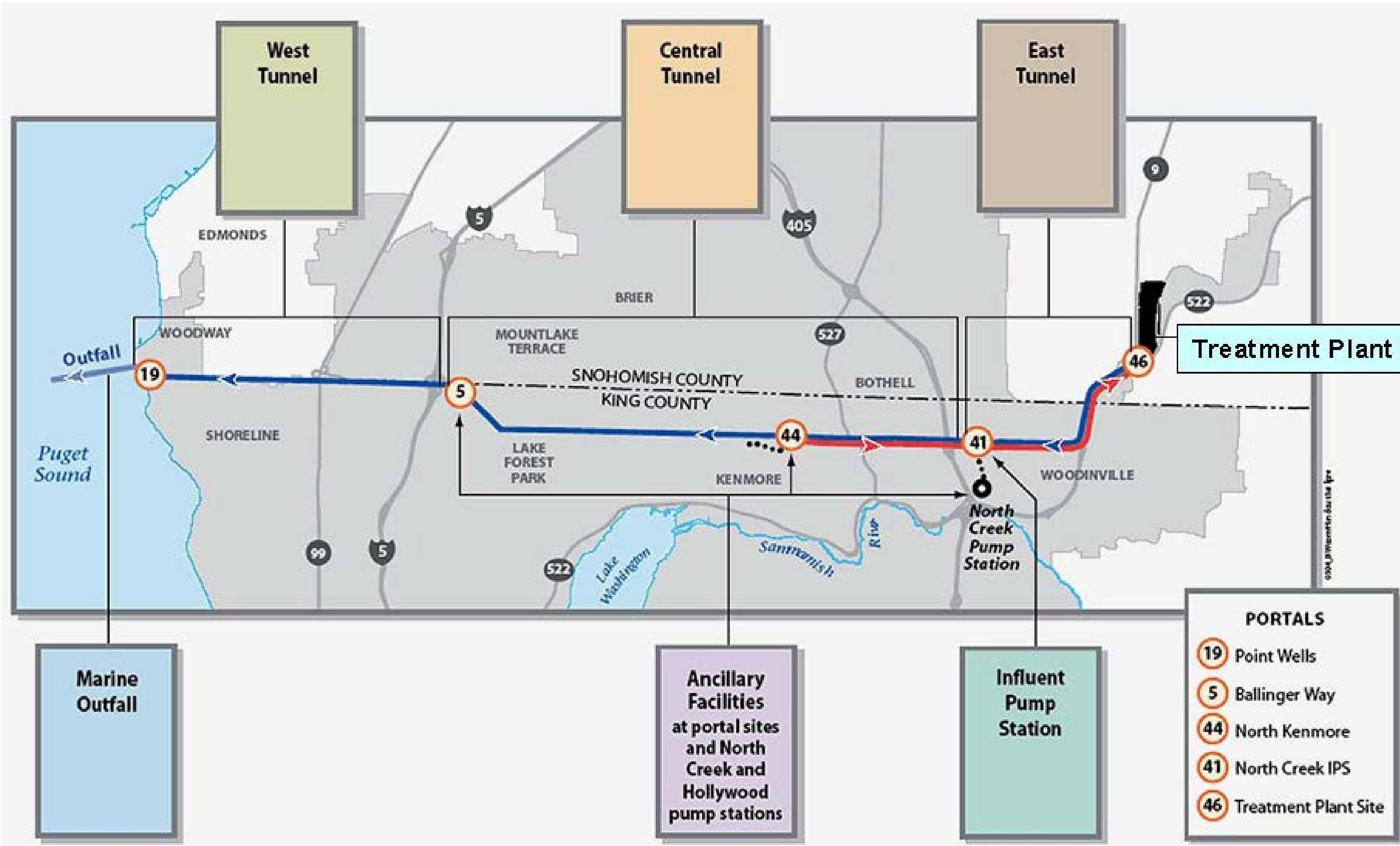
The conveyance system is composed of large-diameter tunnels that convey wastewater to the Brightwater treatment plant and transport treated effluent to a newly constructed outfall in Puget Sound near Point Wells. The conveyance tunnels are approximately 13 miles in total length. The conveyance system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

Costs. As of January 2013, the County estimated that total Brightwater project costs, including the treatment plant, conveyance system, and outfalls, will be approximately $1.860 billion. As of December 31, 2012, the County estimates that $47.9 million remains to be spent through project completion in 2014.

Project Status. The Brightwater treatment plant and conveyance system began full operation in October 2012. Site restoration work at the tunnel construction portal sites was complete as of August 2013. Permanent odor control facilities at the Ballinger Way and North Kenmore tunnel portals were fully operational as of August 2013, with final contract items expected to be complete by October 2013. The remaining Brightwater-related construction work is the wetland restoration work at the North Kenmore portal site and replacement of improperly designed motors and flywheels at the influent pumping station. The wetlands work is currently out to bid, and construction completion is scheduled for late 2014. Replacement of the motors and fly wheels is being performed under an insurance claim and expected to be completed by the fall of 2014. By the end of 2014, all Brightwater-related construction is expected to be complete.

The County initiated litigation against Vinci, Parsons and Frontier-Kemper ("VPFK"), the contractor originally responsible for the mining of two conveyance tunnel segments, in 2010. The jury award is currently under appeal. See "Legal and Tax Information—Recent Developments in Non-Tort Litigation."

FIGURE 1: MAJOR COMPONENTS OF THE BRIGHTWATER PROJECT



The diagram is not to scale. The distance between Portal 19: Point Wells and Portal 46: Treatment Plant Site is 13 miles.

Source: King County Department of Natural Resources and Parks, Wastewater Treatment Division

Capital Improvement Plan

As shown in the following table, the Sewer System's capital improvement plan ("CIP") for the period 2013 through 2017 is comprised of three distinct elements. In addition to Brightwater and other RWSP projects, the Sewer System expects to spend significant amounts annually for other capital improvements and the replacement of existing assets pursuant to its capital asset management plans.

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

	Regional Wastewater Services Plan		Other Improvements and	
Year	Brightwater	Other RWSP(2)	Asset Management	Total
2013	$ 44,993	$ 54,856	$ 83,576	$ 183,425
2014	2,819	65,907	80,012	148,738
2015	-	78,735	90,791	169,526
2016	-	97,272	78,146	175,418
2017	-	76,679	98,213	174,892
2018-2030	-	1,005,108	892,077	1,897,185
Total	$ 47,812	$ 1,378,557	$ 1,322,815	$ 2,749,184

(1) Expenditures in 2013-2017 are in nominal dollars. Estimated expenditures during 2018-2030 are expressed in 2013 dollars. The figures shown for capital expenditures during the period 2013-2017 (except Brightwater) are adjusted assuming 85% of projected budget expenditures occur in this period, with the remainder of budgeted 2013-2017 expenditures expected to occur in the 2018-2030 period. Planned capital expenditures for Brightwater are shown with a 100% accomplishment rate.

(2) Includes conveyance system improvements that expand system capacity, CSO control, and planned expansion of the South treatment plant late in the forecast period.

Source: King County Wastewater Treatment Division

Future Sewer System Financing Plans

The current financial plan for the Sewer System anticipates the issuance of approximately $340 million of additional Parity Bonds and approximately $50 million of additional Junior Lien Obligations during the period 2014 through 2017 to provide continued funding for the CIP. The balance of the CIP through 2017 is expected to be funded by a mix of new SRF Loans and Public Works Trust Fund Loans and contributions from net operating revenue. These assumed borrowing amounts do not incorporate the award associated with the County's litigation against VPFK; should that settlement be upheld, these borrowing amounts may be reduced in the future. See "Legal and Tax Information—Recent Developments in Non-Tort Litigation."

From 2018 through 2030, approximately 75% of the CIP is expected to be financed through the issuance of additional debt and the balance provided from net operating revenue.

Environmental Regulation

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

Ecology renewed the West Point treatment plant NPDES permit in June 2009 and the South treatment plant NPDES and reclaimed water permits in September 2009. These permits cover the treatment plants and their conveyance systems for a period of five years, expiring in 2014. Both NPDES permits included additional data collection and monitoring requirements and specify requirements for new technology studies if nutrient impacts are predicted from plant nutrient loadings into Puget Sound. The West Point permit also included compliance schedule milestones for the four Puget Sound CSO beach projects and a required study of sediment data adjacent to CSO outfalls. All such milestones and submissions have been made on time and in full. The permit for the Vashon treatment plant was renewed in July 2011 and expires in August 2016. The Carnation treatment plant's NPDES and reclaimed water permits were originally scheduled to expire in April and December 2013, respectively, but were administratively extended by Ecology as it works to develop one joint operating and reclaimed water permit. Application for renewal as required by the permits was made in October 2012 for the operating permit and June 2013 for the reclaimed water permit. The current permits are in effect until Ecology issues a new permit. The NPDES and reclaimed water permits for Brightwater were issued in June 2011 and expire in July 2016.

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

Nutrient Removal Standards. Reducing nutrient discharges from all point and non-point sources has recently been identified as a major policy initiative by EPA and the Puget Sound Partnership's Action Agenda for Puget Sound (a National Estuary Program). A significant number of water bodies nationwide, including some Puget Sound locations, experience low dissolved oxygen that at times exceeds water quality standards. Ecology is currently undertaking two studies investigating whether nitrogen loading from wastewater and other sources of nutrients is affecting Puget Sound waters. If these studies indicate that County treatment plants cause or contribute to water quality impairment, the County may be required to identify how nitrogen levels in treatment plant effluent can be reduced. Ecology is also currently analyzing the technical and financial feasibility of requiring nutrient removal at all treatment plants in the State. These evaluations and studies will require a significant period of time before conclusions can be drawn or regulations promulgated.

EPA Performance Review. In September 2012, the County Council approved the 2012 CSO Long-Term Control Plan to control the County's CSO outfalls by 2030. The County has now entered into a Consent Decree with EPA and Ecology for implementation of this plan. The Federal Court approved the Consent Decree and it became effective July 3, 2013.

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

In 2001, EPA listed the Lower Duwamish Waterway south of downtown Seattle as a Superfund site. More than 140 Potentially Responsible Parties ("PRPs") have been notified by EPA that they may have liability for cleanup actions in the Lower Duwamish Waterway. The County, the City of Seattle, the Port of Seattle, and the Boeing Company (the "Respondents"), four of the larger PRPs, signed an Administrative Settlement Agreement Order on Consent ("AOC") with EPA and Ecology to perform a remedial investigation and feasibility study along the Lower Duwamish Waterway. The results of these actions are to determine the nature and extent of the historical contamination at the sites and the preferred option for cleanup.

Under the AOC, the Respondents were responsible for conducting and paying for studies known as the Duwamish Remedial Investigation, Feasibility Study, and Engineering and Cost Analyses. These studies have been completed and EPA issued the draft Proposed Clean-Up Plan in February 2013. EPA is expected to issue a Record of Decision in 2014 or 2015 that will delineate the full extent of cleanup actions and liability of PRPs. Consequently, at this time, the level of each PRP's liability for this clean-up is not known. Further information regarding existing and potential environmental remediation liabilities is contained in Appendix C—King County Water Quality Enterprise 2012 Audited Financial Statements—Notes 7 and 8.

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

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

Earthquakes and Other Natural Disasters

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

KING COUNTY

General

As a general purpose government, the County provides roads, solid waste disposal, flood control, certain airport facilities, public health and other human services, park and recreation facilities, courts, law enforcement, agricultural services, property tax assessment and collection, fire inspection, planning, zoning, animal control, and criminal detention and rehabilitative services. Certain services are provided on a County-wide basis and certain services only to unincorporated areas.

Organization of the County

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

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

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

Superior and District Courts. The State Constitution provides for the existence of county superior courts as the courts of general jurisdiction. The County currently has 53 superior court judges who are elected to four-year terms. Pursuant to local court rule, the King County Superior Court judges appoint the Chief Administrative Officer who is supervised by the Presiding Judge. Superior court employees report to the Chief Administrative Officer, except for superior court commissioners, special masters, referees, and each judge's bailiff.

The State Constitution authorizes the State Legislature to create other courts of limited jurisdiction. Exercising this authority, the State Legislature has established district courts as one form of courts of limited jurisdiction. The County has 21 district court judges who are elected to four-year terms. Pursuant to the district court local rule, County district court employees report to the district court chief administrative officer, who is under the supervision of the Chief Presiding Judge and reports to the district court executive committee.

County's Budget Process

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

The County's Office of Performance, Strategy, and Budget, under the direction of the County Executive, has the responsibility for (i) preparation and management of the annual operating and capital budgets, (ii) expenditure and revenue policy, and (iii) planning and growth management. The budget must be presented to the County Council on or before September 27 of each year. The County Council holds public hearings and may increase or decrease proposed appropriations. Any changes in the budget must be within the revenues and reserves estimated as available, or the revenue estimates must be changed by an affirmative vote of at least six members of the County Council. The County Executive has general and line-item veto power over appropriation ordinances approved by the County Council. Each appropriation ordinance establishes a budgeted level of authorized expenditures that may not be exceeded without County Council approval of supplemental appropriation ordinances. The County Executive, within the restrictions of any provisos of the appropriation ordinances, may establish and amend line-item budgets as long as the total budget for each appropriation unit does not exceed the budgeted level of authorized expenditures. By an affirmative vote of at least six members, the County Council may override any general or line-item veto by the County Executive.

Finance and Business Operations Division

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

Auditing

The financial statements of the Water Quality Enterprise as of and for the fiscal year ended December 31, 2012, included herein as Appendix C, have been audited by Moss Adams LLP, independent accountants, as stated in its report appearing herein. The Water Quality Enterprise 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.

Legal compliance and fiscal audits of all County agencies are conducted by examiners from the State Auditor's office. The County is audited annually. The most recent State Auditor's Report is for the year ending December 31, 2012, and is incorporated into the County's 2012 Comprehensive Annual Financial Report.

The County's Comprehensive Annual Financial Report in its entirety may be accessed on the internet at the following link, which is not incorporated into this Official Statement by reference:

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

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

County Employees

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

COUNTY EMPLOYEES

Year	Full-time	Part-time
2012	13,293	828
2011	13,314	870
2010	13,658	1,202
2009	13,799	1,739
2008	13,762	621
2007	13,649	892

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

The County has collective bargaining agreements with 31 unions representing approximately 12,000 employees. There have been no strikes or work stoppages during the last ten years.

Retirement Programs

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

NUMBER OF EMPLOYEES AS OF DECEMBER 31, 2012	RETIREMENT SYSTEM
65	Seattle City Employees Retirement System ("SCERS")*
703	State of Washington—Law Enforcement Officers and Fire Fighters Retirement System ("LEOFF")
331	State of Washington—Public Safety Employees Retirement System ("PSERS")
All others (12,194)	State of Washington—Public Employees Retirement System ("PERS")

* Primarily Seattle-King County Health Department employees.

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

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

Substantially all full-time and qualifying part-time employees of the County participate in one of the retirement plans listed in the table titled "Retirement System Funded Status" below. PERS, PSERS, and LEOFF are State-wide governmental retirement systems administered by the State of Washington's Department of Retirement Systems ("WSDRS"). Each biennium, the Washington State Legislature establishes contribution rates for these retirement plans. SCERS is a retirement plan administered in accordance with Seattle Municipal Code Chapter 4.36. County employees who are former employees of Seattle Transit are covered by SCERS, as are King County Health Department employees. The contribution rates are established by the SCERS Board of Administration. The County's employer contribution rates and contribution amounts for all systems for the fiscal year ended December 31, 2012, and current employer contribution rates as of September 1, 2013, are shown in the table below:

COUNTY CONTRIBUTION RATES[1]

	PERS Plan 1	PERS Plan 2	PERS Plan 3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	SCERS
2012 Contribution Rate	7.21% [2]	7.21% [2]	7.21% [2]	0.16% [2]	5.24% [2]	8.87% [2]	11.01%
2012 Contribution Amount (000s)	$2,255	$50,402	$8,621	$1	$4,163	$2,188	$540
2013 Contribution Rate	9.21% [2]	9.21% [2]	9.21% [2]	0.18% [2]	5.23% [2]	10.54% [2]	11.01%

(1) PERS, LEOFF, and PSERS rates are established every two years; SCERS rates are established every year.

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

The County has met its funding obligations to these systems when they have come due. While the County's contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. Information regarding the funded status from the most recent actuarial report for each system is shown in the following table:

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

	Administered by	Most Recent Actuarial Valuation Report	Actuarial Accrued Liability(a)	Actuarial Valuation of Assets(b)[2]	UAAL[3] (a-b)	Funded Ratio (b/a)	Plan Status
PERS - Plan 1	WSDRS	As of 6/30/2012	$ 12,368	$ 8,521	$ 3,847	69%	Closed in 1977
PERS - Plan 2/3	WSDRS	As of 6/30/2012	20,347	22,653	(2,306)	111%	Open
PSERS - Plan 2	WSDRS	As of 6/30/2012	135	180	(45)	134%	Open
LEOFF - Plan 1	WSDRS	As of 6/30/2012	4,121	5,562	(1,440)	135%	Closed in 1977
LEOFF - Plan 2	WSDRS	As of 6/30/2012	6,071	7,222	(1,150)	119%	Open
SCERS	City of Seattle	As of 1/1/2013	3,025	1,920	1,105	63%	Open

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

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

(3) Unfunded actuarial accrued liability.

Note: Totals may not agree due to rounding.

Sources: Washington State Office of the State Actuary and the City of Seattle

For more information on employee retirement plans, see Appendix C—King County Water Quality Enterprise 2012 Audited Financial Statements—Note 9.

Other Post-Employment Benefits

The King County Health Plan (the "Health Plan") is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees and employees. LEOFF Plan 1 retirees are not required to contribute to the Health Plan. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Entry into LEOFF Plan 1 is now closed. All other retirees are required to pay the COBRA rate associated with the elected plan. The County's liability for other post-employment benefits ("OPEB") is limited to the direct Health Plan subsidy associated with LEOFF Plan 1 retirees and the implicit rate subsidy for other Health Plan retiree participants, which is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. For the fiscal year ended December 31, 2012, the County contributed an actuarially estimated $5.1 million to the Health Plan. The County's contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to prefund benefits. The County's annual OPEB cost (expense), which is calculated based on the annual required contribution of the County, was $12.861 million for the fiscal year ended December 31, 2012. The Health Plan liability is based on a computed annual required contribution that includes the current period's service cost and an amount to amortize unfunded accrued liabilities.

For more information on other post-employment benefits, see Appendix C—King County Water Quality Enterprise 2012 Audited Financial Statements—Note 11.

Risk Management and Insurance

The County has a separate division that is responsible for claims handling, insurance, and loss control programs. The County has implemented a program of self-insurance to cover its (i) general and automobile liability, (ii) Health Department professional malpractice, (iii) police professionals, and (iv) public officials' errors and omissions. The County has excess liability coverage that currently provides $100 million in limits above a $7.5 million per occurrence self-insured retention for the above exposures.

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

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

The cash balance in the Insurance Fund was $85.2 million as of December 31, 2012. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2012, was $68.5 million.

See Appendix C—King County Water Quality Enterprise 2012 Audited Financial Statements—Note 4.

Emergency Management and Preparedness

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

King County Investment Pool

The King County Investment Pool invests cash reserves for all County agencies and more than 120 special purpose districts and other public entities within the County such as fire, school, sewer and water districts, and other public authorities. It is one of the largest investment pools in the State, with a typical recent asset balance in excess of $4.0 billion. On average, County agencies comprise between 35% and 40% of the Investment Pool.

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

The County has commissioned an outside financial consultant, Public Financial Management ("PFM"), to conduct quarterly reviews of all assets in the Investment Pool. In its most recent assessment, dated June 30, 2013, PFM concluded that "the County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality." The most recent portfolio review can be obtained at the following website, which is not incorporated into this Official Statement by reference:

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

INITIATIVES AND REFERENDA

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 power of referendum. Any law approved through the power of initiative by a majority of the voters may not be amended or repealed by the 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 State Constitution may not be amended by initiative.

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

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

Under the County Charter, County voters may initiate County legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the County Council from becoming law. The County Charter also permits legislation to be proposed directly to the County Council by any city within the County that obtains the consent of at least half the cities in the County.

Future Initiatives and Legislative Action

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

FEDERAL SEQUESTRATION

On March 1, 2013, the sequestration provisions of the Budget Control Act of 2011 ("Sequestration") went into effect. The County expects that Sequestration will have both indirect and direct effects on the County. Indirect effects of Sequestration include an expectation that reduced federal spending may negatively affect the economy generally, including County revenue sources that are dependent on economic activity such as retail sales and use tax.

The direct effects of Sequestration on the Sewer System have been very limited and to date consist of an 8.7% reduction in the amount that the County received from the federal government in connection with interest payments that came due on June 1, 2013, on the QECB Bonds. The Sewer System's share of this reduction was $3,000. The County cannot predict how long Sequestration may last or the magnitude of future reductions, but does not expect Sequestration to materially adversely affect the finances or operations of the Sewer System.

LEGAL AND TAX INFORMATION

Litigation

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

The County is party to litigation in its normal course of business. See Appendix C—King County Water Quality Enterprise 2012 Audited Financial Statements—Note 14. The County and its agencies are also party to litigation involving tort claims. Information provided under "King County—Risk Management and Insurance" describes the County's self insurance program and the insurance policies that cover pending tort litigation. The County expects that the amount of the Insurance Fund and County insurance coverage, together with routinized budget practices, are sufficient to cover all costs associated with known tort litigation pending. Although the County cannot predict the amount of damages that may be payable, if any, in its litigation, the County does not believe that any pending litigation would materially adversely affect the ability of the County to pay when due the principal of or interest on the Bonds.

Recent Developments in Non-Tort Litigation

King County v. Vinci, Parsons, Frontier-Kemper. In 2010, the County initiated litigation against VPFK, the contractor originally responsible for the mining of two conveyance tunnel segments for the Brightwater project. On December 21, 2012, a jury verdict was rendered awarding the County $155.8 million in claims and awarding VPFK $26.2 million in counter claims. The lawsuit resulted in a net jury award in the County's favor of $129.6 million. In post-trial motions, another $14.7 million was awarded to the County for attorney fees and costs. Judgment was entered on May 7, 2013, in the amount of $144,289,909 and was paid in full by the VPFK joint venture entities the same day. VPFK filed an appeal on May 31, 2013, and the County cross-appealed on June 13, 2013. The appeal will be heard by the State Court of Appeals Division 1 in 2014.

Approval of Counsel

Legal matters incident to the authorization, issuance, and sale of the Bonds by the County are subject to the unqualified approving legal opinion of K&L Gates LLP, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel is attached to this Official Statement as Appendix B. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the Bonds and the authority to issue them conform to the Bonds and the applicable laws under which they are issued. Certain legal matters will be passed upon for the Underwriters by their counsel, Foster Pepper PLLC, Seattle, Washington. Any opinion of Foster Pepper PLLC will be rendered solely to the Underwriters, will be limited in scope, and cannot be relied upon by investors.

Potential Conflicts of Interest

The fees of Bond Counsel and the Financial Advisor are contingent upon the sale of the Bonds. From time to time, K&L Gates LLP, Bond Counsel, serves as counsel to the Underwriters and counsel to the Financial Advisor in matters unrelated to the issuance of the Bonds. From time to time, Foster Pepper PLLC, counsel to the Underwriters, serves as counsel to the County and counsel to the Financial Advisor on matters unrelated to the Bonds.

Limitations on Remedies

The Bond Ordinance provides limited remedies upon the occurrence of a default. The availability of those remedies may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, and other similar laws affecting creditors' rights generally; the application of equitable principles and the exercise of judicial discretion in appropriate cases; common law and statutes affecting the enforceability of contractual obligations generally; and principles of public policy concerning, affecting, or limiting the enforcement of rights or remedies against governmental entities such as the County. These remedies may require judicial action, which can be costly and is often subject to discretion and delay. The County cannot assure that the remedies provided in the Bond Ordinance will be available or effective if a default occurs.

In addition to the limitations on remedies contained in the Bond Ordinance, the rights and obligations under the Bonds and the Bond Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinions to be delivered by K&L Gates LLP, 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. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix A.

Under current Washington law, political subdivisions such as the County may be able to file for bankruptcy under chapter 9 of the Bankruptcy Code. In 1935, the Washington State Legislature authorized taxing districts in the State of Washington to file a petition under Section 80 of chapter IX of the then-applicable Bankruptcy Act of 1898. The 1935 authorizing statute has not been amended, notwithstanding the fact that the Bankruptcy Act of 1898 has been superseded. The 1935 authorizing statute likely allows municipalities in Washington to seek relief under chapter 9 of the now applicable Bankruptcy Code. In the event of a chapter 9 bankruptcy filing by the County, owners of the Bonds may not be able to exercise any of their remedies under the Bond Ordinance during the course of the proceeding. Legal proceedings to resolve issues could be time consuming, and substantial delays or reductions in payments to Bondholders may result.

Tax Matters

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the Bonds and the facilities financed or refinanced with proceeds of the Bonds and certain other matters. The County has covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the County comply with the above-referenced covenants and, in addition, will rely on representations by the County and its advisors with respect to matters solely within the knowledge of the County and its advisors, respectively, which Bond Counsel has not independently verified. If the County fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing taxability occurs. In rendering its opinion, Bond Counsel has relied on the report of the Verification Agent with respect to the accuracy of certain mathematical calculations.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel gives no assurance that any future legislation or clarifications or amendments to the Code, if enacted into law, will not cause the interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of the interest on the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal legislation, as to which Bond Counsel expresses no view.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the County's compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Bonds. Owners of the Bonds are advised that, if the IRS does audit the Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the County as the taxpayer, and the owners of the Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

No Bank Qualification. The Bonds are not "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission Rule 15c2–12 under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule"), the County has agreed pursuant to the Sale Motion to enter into the following written undertaking for the benefit of the Owners and Beneficial Owners of the Bonds.

Financial Statements/Operating Data. The County agrees to provide or cause to be provided to the MSRB the following annual financial information and operating data for the prior fiscal year (commencing in 2014 for the fiscal year ended December 31, 2013):

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

(ii) the amount of outstanding Parity Bonds; and

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

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

The annual information and operating data described above will be so provided on or before the end of seven months after the end of the County's fiscal year. The County's current fiscal year ends on December 31. The County may adjust its fiscal year by providing written notice to the MSRB. In lieu of providing the annual financial information and operating data, the County may make specific cross reference to other documents available to the public on the MSRB's internet website or filed with the SEC.

If not provided as part of the annual financial information discussed above, the County will provide to the MSRB the audited annual financial statements of the County's Water Quality Enterprise prepared in accordance with BARS when and if available.

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

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

(i) principal and interest payment delinquencies;

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

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

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

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

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

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

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

(ix) defeasances;

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

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership, or similar event of the County or any “obligated person” (as that term is defined in the Rule);

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

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

Solely for purposes of disclosure and not intending to modify this undertaking, the County advises with reference to items (iii) and (x) that the Parity Bond Reserve Account is the debt service reserve for the Bonds and that no property secures repayment of the Bonds.

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

Termination of Undertaking. The County’s obligations under the undertaking to provide annual financial information and notices of specified events with respect to the Bonds will terminate upon the legal defeasance or payment in full of the Bonds. These obligations, or any provision hereof, will be null and void if the County:

(i) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule that require these obligations, or any such provision, are invalid, have been repealed retroactively, or otherwise do not apply to the Bonds; and

(ii) notifies the MSRB of that opinion and the cancellation of those obligations.

Amendment of Undertaking. Notwithstanding any other provision of the Bond Legislation, the County may amend the undertaking, and any provision thereof may be waived, with an approving opinion of nationally recognized bond counsel and in accordance with the Rule.

In the event of any amendment of or waiver of a provision of the undertaking, the County will describe the amendment or waiver in the next annual report provided thereunder, and will include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements:

(i) notice of the change will be given in the same manner as described above for a specified event, and

(ii) the annual report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

Prior Compliance. The County has entered into written undertakings under the Rule with respect to all of its obligations subject thereto. The County believes that it has complied with the obligations contained within its undertakings and is currently in compliance with all such undertakings.

OTHER BOND INFORMATION

Ratings

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

Financial Advisor

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

Underwriters of the Bonds

The Bonds are being purchased by Citigroup Global Markets Inc. and Siebert Brandford Shank & Co., LLC (the "Underwriters") at a price of $81,025,335.71, and will be reoffered at a price of $81,251,839.20. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices corresponding to the yields set forth on the inside cover of this Official Statement, and such initial offering prices may be changed from time to time, by the Underwriters. After the initial public offering, the public offering prices may be varied from time to time.

Official Statement

All forecasts, estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not intended to be construed as a contract or agreement between the County and the purchasers or holders of any of the Bonds.

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

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

KING COUNTY, WASHINGTON

By: /s/ Ken Guy

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

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APPENDIX A

SUMMARY OF BOND ORDINANCE

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SUMMARY OF THE BOND ORDINANCE

Ordinance 17599 of the County, passed by the County Council on June 3, 2013 (the "Bond Ordinance"), authorizes the issuance of not to exceed $300,000,000 in Parity Bonds or Parity Lien Obligations to pay for costs of improvements to the Sewer System and not to exceed $950,000,000 in Parity Bonds or Parity Lien Obligations to refund outstanding County bonds payable from revenues of the Sewer System. The Bonds are the first authorization of bonds under the Bond Ordinance. The Bonds are being issued as Parity Bonds.

Certain provisions of the Bond Ordinance relevant to the Bonds are summarized herein. Please refer to the Bond Ordinance for full and complete statements of those provisions and for other provisions relating to the Bonds. Copies of the Bond Ordinance are available on request to Piper Jaffray & Co., Seattle-Northwest Division, 1420 Fifth Avenue, Suite 4300, Seattle, Washington 98101, or to the County.

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

Certain Definitions

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

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

1. The interest due for all outstanding Parity Bonds and Parity Lien Obligations (i) on all interest payment dates (other than January 1) in that calendar year, and (ii) on January 1 of the next year, and any Payment Agreement Payments due on those dates in respect of any Parity Payment Agreements and Parity Lien Obligation Payment Agreements, minus any Payment Agreement Receipts due in that period in respect of any Parity Payment Agreements and Parity Lien Obligation Payment Agreements. For purposes of calculating the amounts required to pay interest on Parity Bonds or Parity Lien Obligations, capitalized interest and accrued interest paid to the County upon the issuance of Parity Bonds or Parity Lien Obligations will be excluded. The amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds or Variable Rate Parity Lien Obligations will be calculated on the assumption that the interest rate on those bonds would be equal to the rate that is 90% of the average Bond Buyer Revenue Bond Index or comparable index during the fiscal quarter preceding the quarter in which the calculation is made; provided, however, that for purposes of

determining actual compliance in any past calendar year with the rate covenant applicable to Parity Lien Obligations, the actual amount of interest paid on any issue of Variable Rate Parity Bonds or Parity Lien Obligations must be taken into account.

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

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

Notwithstanding the foregoing, debt service on Parity Bonds or Parity Lien Obligations with respect to which a Payment Agreement is in force will be calculated to reflect the net economic effect on the County intended to be produced by the terms of the Parity Bonds or Parity Lien Obligations and the terms of the applicable Payment Agreements.

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

"Annual Parity Debt Service" means, with respect to any calendar year, the sum of the following:

1. The interest due for all outstanding Parity Bonds (i) on all interest payment dates (other than January 1) in such calendar year, and (ii) on January 1 of the next succeeding year, and any Payment Agreement Payments due on those dates in respect of any Parity Payment Agreements, minus any Payment Agreement Receipts due in such period in respect of such Parity Payment Agreements. For purposes of calculating the amounts required to pay interest on Parity Bonds, capitalized interest and accrued interest paid to the County upon the issuance of Parity Bonds will be excluded. The amount of interest deemed to be payable on any issue of Variable Rate Parity Bonds will be calculated on the assumption that the interest rate on those bonds would be equal to the rate that is 90% of the average Bond Buyer Revenue Bond Index or comparable index during the fiscal quarter preceding the quarter in which the calculation is made; provided, however, that for purposes of determining actual compliance in any past calendar year with the rate coverage covenant applicable to Parity Bonds, the actual amount of interest paid on any issue of Variable Rate Parity Bonds will be taken into account.

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

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

Notwithstanding the foregoing, debt service on Parity Bonds with respect to which a Payment Agreement is in force will be calculated to reflect the net economic effect on the County intended to be produced by the terms of the Parity Bonds and the terms of the applicable Payment Agreements.

From and after the date when no 2004B Bonds, 2006 Bonds, 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, for purposes of calculating the Reserve Requirement and satisfying the rate covenant and the tests for the issuance of Future Parity Bonds, Annual Parity Debt Service for any Fiscal Year or calendar year will be calculated net of any Debt Service Offsets.

“Bank Note” means the bank note issued to secure payment of the Commercial Paper Notes.

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

“Commercial Paper Notes” means the King County, Washington, Sewer Revenue Bond Anticipation Notes, Commercial Paper Series A.

“Comprehensive Plan” means the County’s Comprehensive Sewage Disposal Plan, as defined in Section 28.82.150 of the King County Code.

“Debt Service Account” means the account of that name within the Parity Bond Fund to provide for the payment of principal of and interest on the Parity Bonds.

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

“Future Parity Bonds” means any sewer revenue bonds or other obligations that may be issued in the future as Parity Bonds.

"Junior Lien Obligations" means the County's (i) Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A and Series 2001B, dated August 15, 2001, (ii) Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2011, dated October 26, 2011, (iii) Junior Lien Variable Rate Demand Sewer Revenue Bond, Series 2012, dated December 27, 2012, and (iv) any other revenue bonds or revenue obligations having a lien on Revenue of the System equal to the lien thereon of such bonds.

"Multi-Modal LTGO/Sewer Revenue Bonds" means the County's Multi-Modal Limited Tax General Obligation Bonds (Payable from Sewer Revenue), Series 2010A and Series 2010B Bonds, dated January 21, 2010, and any additional limited tax general obligation bonds of the County payable from Revenue of the System and having the same lien on that revenue as those bonds.

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

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

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

"Parity Bond Reserve Account" means the account of that name within the Parity Bond Fund to secure the payment of the Parity Bonds.

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

Designation	**Ordinance**	**Date of Issue**	**Original Principal**
2004B Bonds	14753	3/18/2004	$ 61,760,000
2006 Bonds	15385	5/16/2006	124,070,000
2006 (2nd) Bonds	15385	11/30/2006	193,435,000
2007 Bonds	15758	6/26/2007	250,000,000
2008 Bonds	16133	8/14/2008	350,000,000
2009 Bonds	16133	8/12/2009	250,000,000
2010 Bonds	16868	7/29/2010	334,365,000
2011 Bonds	16868	1/25/2011	175,000,000
2011B Bonds	17111	10/5/2011	494,270,000
2011C Bonds	17111	11/1/2011	32,445,000
2012 Bonds	17111	4/18/2012	104,445,000
2012B Bonds	17111	8/2/2012	64,260,000
2012C Bonds	17111	9/19/2012	65,415,000
2013A Bonds	17111	4/9/2013	122,895,000

"Parity Bonds" also includes any Parity Payment Agreements and reimbursement agreements entered into with the providers of credit facilities supporting Parity Bonds.

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

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

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

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

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

"Parity Lien Obligations" also includes any Payment Agreements entered into with respect to Parity Lien Obligations and reimbursement agreements entered into with the providers of credit facilities supporting Parity Lien Obligations.

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

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

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

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

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

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

"Public Works Trust Fund Loans" means loans to the County by the State of Washington under the Public Works Trust Fund loan program and any loan agreements hereafter entered into by the County under the Public Works Trust Fund loan program, the repayment obligations of which are secured by a lien on Revenue of the System equal to the lien thereon established by the current loan agreements.

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

"Qualified Insurance" means (i) so long as any 2004B Bonds, 2006 Bonds, 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, any unconditional municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States or by a service corporation acting on behalf of one or more such insurance companies, which insurance company or service corporation is rated in one of the two highest rating categories by Moody's, S&P, and any other rating agency then maintaining a rating on the Parity Bonds, provided, that, as of the time of issuance of such policy or surety bond, such insurance company or companies maintain a policy owner's surplus in excess of $500,000,000; and (ii) from and after such time as no 2004B Bonds, 2006 Bonds, 2006 (2nd) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, any unconditional municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States or by a service corporation acting on behalf of one or more such insurance companies, which insurance company or service corporation, as of the time of issuance of such policy or surety bond, is then rated in one of the two highest rating categories by Moody's, S&P, and any other rating agency then maintaining a rating on the Parity Bonds and maintains a policy owner's surplus in excess of $500,000,000.

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

"Rate Stabilization Fund" means the special fund of the County of that name created to mitigate increases in revenue requirements of the System.

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

"Reserve Requirement" means maximum Annual Parity Debt Service.

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

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

"Subordinate Lien Obligations" means the Commercial Paper Notes, the Bank Note and any additional Subordinate Lien Obligations

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

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

"Trustee" means a trustee for the Parity Bonds authorized to be appointed by owners of the Parity Bonds in accordance with the Bond Ordinance.

"Variable Rate Parity Bonds" means Parity Bonds bearing interest at a variable rate of interest.

"Variable Rate Parity Lien Obligations" means Parity Lien Obligations bearing interest at a variable rate of interest.

Revenue Fund--Priority of Payment

All Revenue of the System is to be deposited in the Revenue Fund. The Revenue of the System must be used in the order of priority described in this official statement under the caption "Security and Sources of Payment for the Bonds—Flow of Funds."

Covenants and Representations Applicable to the Bonds

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

Maintenance and Operation. The Sewer System and the business in connection therewith will be operated in a safe, sound, efficient and economic manner in compliance with applicable health, safety and environmental laws and regulations. Necessary or proper repairs, replacements and renewals will be made, without undue deferral.

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

Annual Audit. The County will cause its books of accounts to be audited annually by the State auditor's office (or other State department or agency as may be authorized and directed by law to make such audits) or by a certified public accountant. The County will furnish such audit to the Registered Owner of any Bond upon written request therefor.

Insurance. The County will at all times carry fire and extended coverage and such other forms of insurance on such of the facilities and properties of the Sewer System as under good practice are ordinarily carried by municipal or privately owned utilities engaged in the operation of sewer systems and also to carry adequate public liability insurance, provided that the County may self-insure for all or a portion of those risks.

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

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

In accordance with RCW 35.58.200(3), the County will require any county, city, special district or other political subdivision to discharge to the System all sewage collected by such entity from any portion of the Seattle metropolitan area that can drain by gravity flow into facilities of the System that serve such areas if the County Council declares that the health, safety or welfare of the people within the metropolitan area require such action.

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

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

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

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

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

Sale or Disposition of Property. The County will not sell or voluntarily dispose of all of the operating properties of the Sewer System unless provision is made for payment into the Parity Bond Fund and the Parity Lien Obligation Bond Fund of sums sufficient to pay the principal of and interest on all outstanding Parity Bonds and Parity Lien Obligations.

The County will not sell or voluntarily dispose of any part of the operating properties of the System unless provision is made (i) for payment into the Parity Bond Fund of an amount that will bear at least the same proportion to the amount of the outstanding Parity Bonds that the estimated amount of any resulting reduction in the Revenue of the System for the twelve months following such sale or disposition bears to the Revenue of the System that would have been realized if such sale or disposition had not been made and (ii) for payment into the Parity Lien Obligation Bond Fund of an amount that will bear at least the same proportion to the amount of the outstanding Parity Lien Obligations that the estimated amount of any resulting reduction in the Revenue of the System for the twelve months following such sale or disposition bears to the Revenue of the System that would have been realized if such sale or disposition had not been made. Those estimates must be made by a Professional Utility Consultant. Any money so paid into the Parity Bond Fund and the Parity Lien Obligation Bond Fund must be used to retire outstanding Parity Bonds and Parity Lien Obligations at the earliest possible date. Notwithstanding the foregoing, the County may sell or otherwise dispose of any of the works, plant, properties and facilities of the System or any real or personal property comprising a part of the System with a value of less than 5% of the net utility plant of the System or that has become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation, without making any deposit into the Parity Bond Fund or the Parity Lien Obligation Bond Fund.

Future Parity Bonds

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

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

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

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

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

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

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

b. "Annual income available for revenue bond debt service" will be determined as follows for each year following the proposed date of issue of such Future Parity Bonds:

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

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

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

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

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

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

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

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

6. The County may at any time for the purpose of refunding at or prior to their maturity any outstanding Parity Bonds or any bonds or other obligations of the County payable from Revenue of the System issue Future Parity Bonds without complying with the provisions described in paragraphs 4 or 5 above; provided, however, that the County may not issue Future Parity Bonds for such refunding purpose unless the Finance Manager certifies that upon the issuance of such Future Parity Bonds (i) total debt service required for all Parity Bonds (including the refunding bonds but not including the bonds to be refunded thereby) will decrease and (ii) the annual debt service for each year that any Parity Bonds (including the refunding bonds proposed to be issued) are then outstanding will not be increased by more than $5,000 by reason of the issuance of such Future Parity Bonds.

Subordinate Obligations. Nothing contained in the Bond Ordinance prevents the County from issuing revenue bonds that are a charge upon the Revenue of the System and money in the Revenue Fund junior or inferior to the payments required to be made therefrom into the Parity Bond Fund and any account therein, nor does the Bond Ordinance prevent the County from issuing Future Parity Bonds to refund maturing Parity Bonds for the payment of which money is not otherwise available.

Payment Agreements

General. To the extent permitted by state law, the County may enter into Payment Agreements secured by a lien on Revenue of the System equal to the lien thereon of the Bonds. "Payment Agreements" include agreements providing for an exchange of payments based on interest rates (known as interest rate swaps) or providing for ceilings or floors on such payments.

Each Payment Agreement must set forth the manner in which the Payment Agreement Payments and the Payment Agreement Receipts will be calculated and a schedule of payment dates. Any Payment Agreement must be authorized by ordinance, and the County must give notice to Moody's and S&P prior to entering into a Payment Agreement (and to Fitch for any Parity Lien Obligation Payment Agreement).

Calculation of Debt Service with respect to Payment Agreements. For purposes of determining compliance with the rate covenant and the test for issuing Future Parity Bonds, the Bond Ordinance provides that debt service on Parity Bonds with respect to which any Payment Agreements are in force will be calculated to reflect the net economic effect on the County intended to be produced by the terms of the Parity Bonds and the terms of the Payment Agreements. In calculating such amounts, the County must comply with the following requirements.

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

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

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

- If the County is obligated to make Payment Agreement Payments based on a variable rate index and the Qualified Counterparty is obligated to make payments based on a fixed rate, payments by the County will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made, and the Qualified Counterparty will make payments based on the fixed rate specified by the Parity Payment Agreement.

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

System of all such Parity Bonds, Parity Lien Obligations, Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, and Subordinate Lien Obligations.

Trustee for Owners of Parity Bonds

These provisions are applicable to the Bonds, which are being issued as Parity Bonds.

Appointment of Trustee. Under the Bond Ordinance, upon the occurrence of any event of default relating to the Parity Bonds (including the Bonds), as described below, the owners of a majority in principal amount of the outstanding Parity Bonds may appoint a Trustee. Any Trustee must 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 fees and expenses of a Trustee must be borne by the Bondowners and not by the County. The bank or trust company acting as a Trustee may be removed at any time, and a successor Trustee may be appointed by the owners of a majority in principal amount of the outstanding Parity Bonds.

Any Trustee appointed as described above, and each successor thereto, is a trustee for the owners of all Parity Bonds and is empowered to exercise all the rights and powers conferred by the Bond Ordinance on a Trustee.

Certain Rights and Obligations of Trustee. The Trustee is not responsible for recitals in any resolution, ordinance or in the Parity Bonds, or for the validity of said bonds, nor will the Trustee be responsible for insuring the System or for collecting any insurance money or for the title to any of the property of the System. The Trustee will be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed, sent or delivered by the person or persons by whom such paper or document shall purport to have been signed, sent or delivered. The Trustee is not answerable for any neglect or default of any person, firm or corporation employed and selected by it with reasonable care.

The Trustee will permit the owner or holder of any Parity Bonds to inspect any instrument, opinion or certificate filed with the Trustee by the County or by any person, firm or corporation acting for the County. The Trustee is not bound to recognize any person as a owner or holder of any Parity Bond until his, her or its title thereto, if disputed, shall have been established to its reasonable satisfaction. The 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 the Trustee in good faith and in accordance with the opinion of such counsel.

Events of Default for Parity Bonds; Powers and Duties of Trustee

These provisions are applicable to the Bonds, which are being issued as Parity Bonds.

Events of Default. Under the Bond Ordinance, the occurrence of one or more of the following are "events of default" with respect to the Bonds:

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

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

Powers of Trustee. The Trustee in its own name and on behalf of and for the benefit and protection of the holders and owners of all Parity Bonds may proceed, and upon the written request of the holders and owners of not less than 25% in principal amount of the Parity Bonds then outstanding must proceed, to protect and enforce any rights of the Trustee and, to the full extent that owners or holders of Parity Bonds themselves might do, the rights of such owners and holders of Parity Bonds, including the right to sue for, to enforce payment of and to receive any and all amounts due from the County for principal, interest, penalty interest, if any, together with any and all costs and expenses of the Trustee.

If default is made in the payment of principal of any Parity Bond and the default continues for 30 days, (i) so long as any of the 2004B Bonds remain outstanding, the Trustee shall be entitled to declare all outstanding Parity Bonds immediately due and payable and may proceed to enforce payment thereof as hereinabove provided, and (ii) after such time as no 2004B Bonds remain outstanding, the Trustee may not accelerate payment of any Parity Bonds, but may proceed to enforce payment thereof as hereinabove provided. If, in the sole judgment of the Trustee, any default is cured and the Trustee furnishes the County a certificate so stating, that default will be conclusively deemed to be cured, and the County, Trustee and owners and holders of Parity Bonds will be restored to the same rights and position they would have held if no event of default had occurred.

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

Application of Money Collected by Trustee. Any money collected by the Trustee at any time will be applied, first, to the payment of its charges, expenses, advances and compensation and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys, and, second, toward payment of the amount then due and unpaid upon the Parity Bonds, ratably and without preference or priority of any kind not expressly provided in the Bond Ordinance, according to the amounts due and payable upon such bonds, at the time and in the manner prescribed in the Bond Ordinance.

Supplemental Ordinances

Without Bondowner Consent. The County Council from time to time and at any time may adopt an ordinance or ordinances supplemental to the Bond Ordinance, without the consent of Bondowners, for any one or more of the following purposes:

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

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

With Bondowner Consent. From and after such time as no 2004B Bonds, 2006 Bonds, 2006 (2^{nd}) Bonds, 2007 Bonds, 2008 Bonds, or 2009 Bonds remain outstanding, with the consent of the owners of not less than 51% in aggregate principal amount of all Parity Bonds at the time outstanding, the Council may adopt an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Bond Ordinance or of any supplemental ordinance applicable to Parity Bonds, except as described below.

No supplemental ordinance entered into pursuant to these provisions may:

- Extend the fixed maturity of any Parity Bonds, or reduce the rate of interest thereon, or extend the time of payments of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the owner of each bond so affected; or

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

APPENDIX B

FORM OF BOND COUNSEL OPINION

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October 29, 2013

King County
Seattle, Washington

Citigroup Global Markets Inc.
Seattle, Washington

Siebert Brandford Shank & Co., LLC
Seattle, Washington

Re: King County, Washington
Sewer Revenue and Refunding Bonds, 2013 Series B - $74,930,000

Ladies and Gentlemen:

We have acted as bond counsel to King County, Washington (the "County"), and have examined a certified transcript of the proceedings taken in connection with the issuance by the County of its Sewer Revenue and Refunding Bonds, 2013 Series B, dated the date hereof, in the aggregate principal amount of $74,930,000 (the "Bonds"). The Bonds are issued pursuant to Ordinance 17599 of the County, passed on June 3, 2013 (the "Bond Ordinance"), and Motion 13978 of the County Council, passed on September 30, 2013 (together, the "Bond Legislation"), to finance a portion of the cost of capital improvements to the County's sewer system and to refund outstanding bonds of the County payable from revenue of the sewer system. Capitalized terms used herein and not otherwise defined have the meanings given them in the Bond Legislation.

The Bonds are subject to redemption as provided in the Bond Legislation.

Regarding questions of fact material to our opinion, we have relied on representations of the County contained in the Bond Legislation and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding special obligations of the County, both principal thereof and interest thereon payable solely out of a special fund of the County known as the "Water Quality Revenue Bond Account" (the "Parity Bond Fund"), except to the extent that the enforcement of the rights and remedies of the owners of the Bonds may be limited by laws relating to bankruptcy, reorganization,

insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles, and by the exercise of judicial discretion.

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

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

4. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the County comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The County has covenanted to comply with all applicable requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

The Bonds are not "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto or relating to the undertaking of the County to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

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

Very truly yours,

K&L GATES LLP

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APPENDIX C

KING COUNTY WATER QUALITY ENTERPRISE 2012 AUDITED FINANCIAL STATEMENTS

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THAT
100 COUNTS
years 1913–2013

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

King County Water Quality Enterprise Fund (An Enterprise Fund of King County, Washington)

December 31, 2012 and 2011

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTENTS

REPORT OF INDEPENDENT AUDITORS

To the Metropolitan King County Council
Seattle, Washington

Report on Financial Statements

We have audited the accompanying financial statements of the King County Water Quality Enterprise Fund (Water Quality), which comprise the statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the King County Water Quality Enterprise Fund as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Moss Adams LLP

Seattle, Washington
May 24, 2013

The management of King County Water Quality Enterprise Fund (Water Quality) presents to readers of its financial statements this narrative overview and analysis of its activities and financial performance for the fiscal years ended December 31, 2012 and 2011.

THE SEWER SYSTEM

Water Quality provides wastewater treatment services to King County, part of Snohomish County, and part of Pierce County with a service area encompassing over 420 square miles. The major wastewater treatment facilities include three secondary treatment plants at West Point in Seattle, South Plant in Renton and the Brightwater treatment plant located near Woodinville and two smaller secondary treatment plants at Vashon Island and Carnation, 353 miles of interceptors, 42 pump stations, 19 regulator stations. Other facilities include two combined sewer overflow treatment plants (CSO) and 38 CSO control locations. The sewer system collects and treats an average of 175 million gallons per day from approximately 1.5 million residents.

FINANCIAL HIGHLIGHTS

During 2012, Water Quality provided sewage treatment services to 708,900 residential customer equivalents (RCE) compared to 707,300 in 2011 and 704,400 in 2010. An RCE is one single-family residence or an equivalent unit of 750 cubic feet of monthly water consumption for all other customers such as multifamily residential, commercial, and industrial properties. The capacity charge program added 7,915 new connections to its customer billing base in 2012. The program added 5,855 and 6,974 new connections in 2011 and 2010, respectively. The average flow of the treatment plants was 188 million gallons per day (MGD) with a peak daily flow of 523 MGD. Maximum system capacity remained at 895 MGD in 2012 and 2011 with full implementation of the Brightwater Treatment Plant. The average daily flow fluctuated between a peak of 188 MGD in 2012 and a low of 173 MGD in 2011. The annual fluctuation in flows largely depends on the amount of annual precipitation.

In 2012, Water Quality distributed 114,093 wet tons of biosolids to end users engaged in forestry, agriculture and soil enhancement. About 308 million gallons of reclaimed water were used for landscape irrigation, industrial processes, and for heating and cooling. Water Quality sold 1.8 million therms of natural gas to Puget Sound Energy and produced 1.1 million kilowatt hours of electricity that was used on site at South Treatment Plant. Reclaimed water capacity has expanded capacity by 7 MGD with the completion of the Brightwater Treatment Plant. Brightwater can produce up to 21 MGD of reclaimed water with the addition of more pipeline capacity.

The Industrial Pretreatment Program conducted 424 inspections and took 1998 compliance samples in 2012. The program currently tracks 306 facilities with discharge authorization permits and 120 significant industrial users.

Water Quality currently has 38 combined sewer overflow facilities. An aggressive effort conducted in concert with the City of Seattle has resulted in a significant reduction in combined sewer overflows in years 1980-1983 from a baseline of 2.3 billion gallons per year to 1.4 billion gallons in 2012. 2012 was a high precipitation year compared to 2011 with a CSO overflow volume of 816 million gallons.

In 2012, the Environmental Protection Agency (EPA) entered into a consent decree with Water Quality to reduce CSO overflows over a 25 year period. The consent decree required the payment of a $400 thousand fine for past CSO overflows and the possibility of future fines for CSO overflows exceeding EPA limits. The EPA accepted Water Quality's 10 year CSO control plan as part of the consent decree and has established an ongoing process for alternative CSO control activities to reduce CSO's at lower costs than traditional methods. The EPA will monitor Water Quality's progress with CSO control and work closely with the enterprise going forward to achieve acceptable CSO levels.

In 1999, the Metropolitan King County Council adopted the Regional Wastewater Services Plan (RWSP) to construct additional capacity, protect public health and provide for future projected population growth in its service area through 2030. Major RWSP projects include the building of the Brightwater Treatment Plant, improvements to the regional conveyance system, construction of 21 CSO control projects, and expansion of the South Treatment Plant to 135 million gallons per day capacity by 2029. The RWSP also includes projects to control infiltration and inflow into the conveyance system, process additional biosolids, and produce additional reclaimed water. Total Water Quality capital program expenditures were $192.7 million for 2012 and $274.2 million for 2011.

Service was initiated on November 2, 2012 for the combined Brightwater Treatment Plant located in southern Snohomish County and the associated conveyance system. The plant was placed in service on September 6, 2011 with initial flows conveyed to the West Point Treatment Plant or the South Treatment Plant for final treatment and discharge. An average of 8.1 MGD was treated in that manner during 2011 and this increased to 10.9 MGD per day in 2012. The $74.0 million project expenditure in 2012 pushed life to date expenditures to $1.9 billion. The treatment plant entered full operation with a peak capacity of 130 MGD.

Water Quality operating revenues increased by 13.2 percent to $381.9 million in 2012 from $337.4 million in 2011 while operating expenses before depreciation increased by 10.0 percent to $117.0 million in 2012 from $106.4 million in 2011.

The monthly sewer rate remained at $36.10 per RCE in 2012. In 2011, it increased from $31.90 in 2010. The capacity charge rate increased to $53.50 per RCE in 2012 from $50.45 in 2011. Capacity charge revenues increased 5.5 percent to $51.4 million in 2012 from $48.7 million in 2011. The RCE's billed for sewer treatment services increased to 708,900 in 2012 from 707,300 in 2011. The rate stabilization reserve decreased to $62.6 million in 2012 from $76.5 million in 2011. This decrease of $13.9 million in the reserve balance increases operating revenues for the year and has been included in the calculation of debt service coverage for 2012. Future deposits to the rate stabilization reserve will decrease operating revenues and debt service coverage in the year of the deposit. Withdrawals will have the opposite effect of increasing operating revenues and debt service coverage in the year the rate stabilization reserve is reduced.

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

Water Quality issued $234.1 million in Sewer Revenue and Refunding Bonds in 2012, including $81.3 million for new construction and $3.6 million in additional bond reserves. The enterprise issued $163.5 million in LTGO Refunding bonds. This resulted in $29.3 million in savings over the lives of the refunded issues or $21.4 million in present value of debt service savings. In December 2012, Water Quality received $100 million in Junior Lien Variable Rate Demand Revenue bond proceeds. $15.3 million in low interest state loans at rates between 0.5% and 2.8% were received in 2012. This compares to $701.7 million of Revenue and Refunding bonds issued in 2011, including $167.5 million for new construction and $11.7 million for bond reserves, $100 million in Junior Lien Variable Rate Demand Revenue bond proceeds, and $1.2 million in state loan proceeds.

The results of operations for 2012 and 2011 produced a debt service coverage ratio on senior lien debt of 1.36 and 1.42, respectively, exceeding the coverage covenant requirement of 1.15 in both years. The total debt coverage ratio of 1.28 in 2012 and 1.32 in 2011 exceeded the 1.15 policy minimum in both years.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

The comparative statement of net position presents information on all of Water Quality's assets and liabilities, with the difference between assets and liabilities presented as net position as of each year-end. The statement of net position provides information about the nature and amount of investments in resources (assets) and obligations to creditors (liabilities). Over time, the statements demonstrate Water Quality's financial health by providing a basis for the reader to evaluate capital structure, liquidity, and financial flexibility.

The two most recent years' operating and nonoperating revenues and expenses of Water Quality are accounted for in the statements of revenues, expenses and changes in net position. The statements illustrate the current and prior period results of operations and recovery of costs by receipt of fees, and are instrumental in demonstrating Water Quality's continued creditworthiness. All changes in net position are reported as soon as the underlying event occurs, irrespective of the timing of related cash flows. The receipt of monthly sewage treatment charges provides the principal support for Water Quality's activities. Sewage treatment charges of $321.1 million provided 84.1 percent of operating revenues in 2012 and $280.9 million provided 83.2 percent of operating revenues in 2011. Water Quality is a wholesale provider of sewage treatment services to thirty-four municipal and three nonmunicipal participants in King, Pierce, and Snohomish counties. The receipt of the monthly payments is governed by service agreements, the majority of which expire in July 2036.

The statements of cash flows report cash receipts, cash payments, and net changes in cash derived from operations, financing, and investment activities. From the statements, the reader can discern Water Quality's sources and applications of cash during 2012 and 2011, reasons for differences between operating cash flows and operating income, and the effect on the statements of net position from investing, capital, and financing activities.

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

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

FINANCIAL ANALYSIS OF THE STATEMENTS OF NET POSITION

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2012	2011	2010
Current assets	$ 304.3	$ 281.6	$ 258.7
Noncurrent assets	249.7	231.2	191.4
Capital assets	4,141.2	4,062.1	3,859.0
Other	102.5	109.0	98.3
Total assets	4,797.7	4,683.9	4,407.4
Current liabilities	295.9	307.8	386.2
Long term liabilities	3,920.9	3,788.0	3,458.8
Total liabilities	4,216.8	4,095.8	3,845.0
Net position-net investment in capital assets	221.2	298.0	407.2
Net position-restricted	254.8	297.3	234.4
Net positon-unrestricted	104.9	(7.2)	(79.2)
Total position	$ 580.9	$ 588.1	$ 562.4

Net position serves as a useful indicator of Water Quality's financial position. As of December 31, 2012 and 2011, assets exceeded liabilities by $580.9 million and $588.1 million, respectively.

Of the total assets of Water Quality, 86.3 percent or $4,141.2 million were invested in capital assets such as treatment plants, pumping and regulator stations, interceptors, and other equipment at year-end 2012. For the year-end 2011, 86.7 percent or $4,062.1 million were invested in capital assets. Water Quality uses its capital assets to provide wholesale wastewater collection and treatment services in King, Pierce, and Snohomish counties. Current operating and debt service requirements are met by operating and nonoperating revenues composed of monthly sewage treatment charges, a capacity charge for new customers, other special-handling charges, miscellaneous operating revenues, and investment earnings.

The net position decreased by 1.2 percent or $7.2 million in 2012 to $580.9 million from $588.1 million in 2011. The reduction to construction work in progress increased the value of plant in service and depreciation expense and increased the loss on disposal and impairment of capital assets. Restricted net position decreased by 14.3 percent or $42.5 million in 2012 to $254.8 million from $297.3 million in 2011. The unrestricted net position increased by $112.1 million in 2012 to $104.9 million from $(7.2) million in 2011.

The net position increased by 4.6 percent or $25.7 million in 2011 from $562.4 million in 2010. The restricted net position increased by $62.9 million in 2011 from $234.4 million in 2011. The unrestricted net position increased by $72.0 million in 2012 from $(79.2) million in 2011.

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

Comparative data, stated in millions of dollars:

	Years Ended December 31,		
	2012	2011	2010
Sewage treatment fees	$ 307.2	$ 306.4	$ 269.6
Rate stabilization	13.9	(25.5)	(15.9)
Capacity charge revenue	51.4	48.7	41.4
Other revenue	9.4	7.8	9.7
Operating revenues	381.9	337.4	304.8
Operating expenses	252.4	214.7	197.8
Operating income	129.5	122.7	107.0
Non operating (expenses)	(136.7)	(104.3)	(90.8)
Grant revenues	-	7.3	2.4
Change in net position	(7.2)	25.7	18.6
Net position beginning of year	588.1	562.4	543.8
Net positon end of year	$ 580.9	$ 588.1	$ 562.4

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

During 2012, operating revenues increased by 13.2 percent or $44.5 million to $381.9 million from $337.4 million in 2011. Operating expenses increased by 17.5 percent or $37.7 million to $252.4 million in 2012 from $214.7 million in 2011.

In 2011, operating revenues increased by 10.7 percent or $32.6 million to $337.4 million from $304.8 million in 2010. Operating expenses increased by 8.5 percent or $16.9 million from $197.8 million in 2010.

The operating expenses and revenues were driven by:

- Chemicals expenses increased by 31.9 percent or about $1.6 million in 2012 to $6.6 million primarily due to price increases in polymers, caustic soda, sodium hypochlorite, and carbon. This was affected by the addition of the Brightwater Treatment Plant. Chemicals expenses increased by 3.6 percent or about $171 thousand in 2011 to $5.0 million in 2010.

- Electricity expenses increased by 25.9 percent or $2.8 million to $13.5 million in 2012 after increasing by 1.0 percent or $102 thousand to $10.7 million in 2011.

- Services expenses increased by 3.5 percent or $943 thousand to $28.2 million for 2012 from $27.2 million in 2011. Services expenses increased by 3.5 percent or $923 thousand to $27.2 million for 2011 from $26.3 million in 2010.

- Intergovernmental expenses increased by 3.8 percent or $922 thousand in 2012 to $25.4 million from $4.4 million in 2011. Intergovernmental expenses decreased by 7.3 percent or $1.9 million in 2011 to $24.4 million from $26.3 million in 2010.

- Water Quality collected a monthly sewage treatment charge of $36.10 per RCE in 2012 and 2011, and $31.90 in 2010 and 2009. Sewer disposal revenues before rate stabilization increased by 1.6 percent or $5.0 million in 2012 to $11.4 million. Sewer disposal revenues before rate stabilization increased by 13.6 percent or $36.8 million to $306.4 million in 2011 from $269.6 million in 2010.

- Other operating revenues, including capacity charges for new customers and other treatment charges, increased by 0.2 percent or $100 thousand in 2012 to $56.6 million from $56.5 million in 2011. These revenues increased by 10.6 percent or $5.4 million in 2011 to $56.5 million from $51.1 million in 2010. Capacity charge early payoff revenues were 25.3 percent or $13.0 million of total capacity charge revenues in 2012, while in 2011, capacity charge early payoff revenues were 24.3 percent or $11.8 million of the annual total. Actual new capacity charge connections were 7915 in 2012 and 5855 in 2011.

- Net nonoperating revenues and expenses decreased by 31.1 percent or $32.4 million to $(136.7) million in 2012 from $(104.3) million in 2011. Net nonoperating revenues and expenses decreased by 14.9 percent or $13.5 million to $(104.3) million in 2011 from $(90.8) million in 2010.

- Capital grant revenues received from federal and state agencies decreased by $7.3 million in 2011 to zero in 2012. Capital grant revenues received from federal and state agencies increased by $4.9 million to $7.3 million in 2011 from $2.4 million in 2010. The lack of grant revenue was primarily due to exhausting the waste to energy grant for co-generation at the West Point Treatment plant in 2012. Low interest loans have largely replaced grants as the primary method of state agency support in recent years.

CAPITAL ASSETS

At December 31, 2012, Water Quality's investment in capital assets, net of accumulated depreciation, was $4.1 billion, an increase of $79.2 million or 1.9 percent over the balance at December 31, 2011. The increase from December 31, 2010 to December 31, 2011 was $203.1 million or 5.3 percent. These increases are a result of the Brightwater Treatment Plant and Conveyance project, replacement and additions to the interceptor and siphon systems, purchases of land, additional storage capacity, extension of sewer trunk lines, and continued efforts to control odor and improved sewage-handling technology.

The increases in net capital assets are directly related to continued implementation of Water Quality's Regional Wastewater Services Plan.

Large 2012 construction project expenditures include:

- $5.1 million for the Interbay Pumping Station;
- $6.3 million for the Murray CSO;
- $7.1 million for the Kirkland Pumping Station;
- $21.3 million for the Ballard Siphon;
- $82.4 million spent toward the Brightwater Treatment Plant and conveyance.

Large 2011 construction project expenditures include:

- $5.3 million for the Ballard Siphon;
- $5.6 million for the South Treatment Plant Control System;
- $11.5 million for the Interbay Pumping Station;
- $12.5 million for West Point Treatment Plant Waste to Energy;
- $174.7 million spent toward the Brightwater Treatment Plant and conveyance.

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

DEBT ADMINISTRATION

Water Quality issued $104.4 million of revenue and refunding bonds and $68.4 million of LTGO refunding bonds in April 2012 with an average life of 21.7 years at an average rate of 4.98 percent and an effective rate of 4.0 percent, $64.3 million of revenue refunding bonds and $41.7 million of LGTO refunding bonds in August 2012 with an average life of 16.7 years at an average rate of 4.86 percent and effective rate of 3.66 percent, and $65.4 million of revenue refunding bonds and $53.4 million in LTGO refunding bonds in September 2012 with an average life of 17.4 years at an average rate of 4.91 percent and an effective rate of 3.62 percent. In December 2012, Water Quality issued $100 million in variable rate revenue bonds.

Water Quality issued $175 million of revenue bonds in January 2011 with an average life of 19.5 years at an average rate of 5.19 percent and an effective rate of 4.90 percent, $494.3 million of revenue and refunding bonds in August with an average life of 12.8 years at an average rate of 4.99 percent and effective rate of 3.79 percent, and $32.5 million of revenue refunding bonds in October 2011 with an average life of 20 years at an average rate of 4.88 percent and an effective rate of 4.24 percent. In October 2011, Water Quality issued $100 million in variable rate revenue bonds.

Water Quality received $15.3 million in low-interest loans from the state of Washington in 2012 and $1.2 million in 2011. The loans carry below-market rates between 0.5 percent and 2.8 percent with repayment terms up to 20 years.

Water Quality has $2.8 billion of sewer revenue bonds and variable rate revenue bonds outstanding at the end of 2012 and $2.7 billion outstanding at the end of 2011. Revenue bonds are repaid from and secured by a pledge of earnings, revenues and money received by Water Quality from or on account of operation of the sewer system, including receipts from sewage treatment fees, and other income of Water Quality. Revenue bonds are not guaranteed by the full faith and credit of King County.

At the end of 2012, Water Quality has $821 million of general obligation bonds and variable rate general obligation bonds outstanding and $828 million of general obligation bonds and variable rate general obligation bonds outstanding at the end of 2011. Although repaid from a portion of receipts from sewage treatment fees and other income, the full faith and credit of King County guarantees repayment of principal and interest on general obligation bonds.

King County received long-term ratings of AAA from Standard and Poor's for the multimodal limited tax general obligation bond issued in January 2010 and "Aa1" from Moody's Investor's with short-term ratings of "VMIG 1" and "A-1+". At the time of the issuance of the sewer revenue bonds in 2012 and 2011, Water Quality's bond ratings were:

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

As required by bond covenant, Water Quality maintains a bond reserve account, which is funded by cash balances and surety policies. At December 31, 2012, the cash balance in the reserve account was $170.3 million and $153.2 million at the end of 2011. In addition to bond covenant reserves, Water Quality also maintains financial policy reserves. At December 31, 2012 and 2011, respectively, the rate stabilization, liquidity, and asset management financial policy reserves totaled $94.2 million and $107.5 million.

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

DEBT SERVICE COVERAGE RATIOS

	FY 2012	FY 2011
Parity Debt	1.36	1.42
Total Debt	1.28	1.32

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

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of Water Quality's financial condition as of the years ended December 31, 2012 and 2011. Questions concerning this report or requests for additional information should be addressed to Manny Cristobal, Interim Chief Accountant for King County, 500 Fourth Avenue, Room 653, Seattle, WA 98104.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011
(in thousands)

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 116,800	$ 4,052
Restricted cash and cash equivalents	135,449	234,673
Accounts receivable, net	42,569	33,274
Inventory of supplies	6,972	6,332
Due from other funds	2,321	3,175
Prepayments	144	77
	304,255	281,583
NONCURRENT ASSETS		
Revenue fund		
Cash and cash equivalents	79,200	76,523
Accounts receivable, net	325	325
Construction fund—cash and cash equivalents	-	1,167
Bond fund—cash and cash equivalents	170,259	153,204
	249,784	231,219
Capital assets		
Building and land improvements	1,872,943	1,730,562
Artwork	5,520	4,817
Infrastructure and right of way	2,131,466	1,353,990
Plant in service and other equipment	1,018,686	969,655
Less accumulated depreciation	(1,423,889)	(1,299,758)
	3,604,726	2,759,266
Land and easements	244,663	229,930
Construction work in progress	291,826	1,072,858
	4,141,215	4,062,054
Other noncurrent		
Regulatory assets - environmental remediation	46,918	48,536
Other utility assets, net of amortization	29,731	28,634
Deferred environmental remediation costs	4,675	4,912
Other deferred charges	21,145	26,966
	102,469	109,048
TOTAL ASSETS	$ 4,797,723	$ 4,683,904

See accompanying notes.

(in thousands)

LIABILITIES AND NET POSITION

	2012	2011
CURRENT LIABILITIES		
Accounts payable	$ 30,619	$ 33,043
Interest payable	80,520	74,399
Wages and benefits payable	4,471	3,643
Compensated absences	617	405
Taxes payable	4	-
Unearned revenue	865	-
Environmental remediation costs	6,246	5,104
Notes payable	100,000	100,000
State loans payable	8,841	8,599
Due to other funds	851	1,347
Interfund loans payable	20,158	39,583
General obligation bonds payable	3,435	2,730
Revenue bonds payable	39,290	39,005
	295,917	307,858
NONCURRENT LIABILITIES		
Retainage payable	-	18
Compensated absences	10,632	10,799
Other post-employment benefits	1,040	856
General obligation bonds payable	817,180	825,155
Revenue bonds payable	2,802,465	2,670,710
Deferred bond premium, discount, and refunding losses	70,877	50,954
Rate stabilization	62,600	76,500
Environmental remediation costs	28,955	32,318
State loans payable	127,161	120,677
	3,920,910	3,787,987
Total liabilities	4,216,827	4,095,845
NET POSITION		
Net investments in capital assets	221,227	298,014
Restricted for		
Debt service	221,825	265,305
Regulatory assets and environmental liabilities	32,992	32,017
Unrestricted	104,852	(7,277)
Total net position	580,896	588,059
TOTAL	$ 4,797,723	$ 4,683,904

See sccompanying notes.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011
(in thousands)

	2012	2011
OPERATING REVENUES		
Sewage disposal fees	$ 321,066	$ 280,907
Other operating revenues	60,809	56,523
Total operating revenues	381,875	337,430
OPERATING EXPENSES		
Sewage treatment, disposal, and transmission	92,595	77,019
General and administrative	22,344	26,976
Environmental related amortization	2,035	2,376
Depreciation and amortization	135,391	108,384
Total operating expenses	252,365	214,755
OPERATING INCOME	129,510	122,675
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	2,141	2,824
Interest	(140,153)	(103,807)
Amortization of debt related accounts	739	(144)
Loss on disposal and impairment of capital assets	(1,556)	(3,900)
Other	2,156	706
Total nonoperating expenses	(136,673)	(104,321)
INCOME (LOSS) BEFORE GRANTS AND CONTRIBUTIONS	(7,163)	18,354
CAPITAL GRANT REVENUES	-	7,311
CHANGE IN NET POSITION	(7,163)	25,665
NET POSITION		
Beginning of year	588,059	562,394
End of year	$ 580,896	$ 588,059

See accompanying notes.

KING COUNTY WATER QUALITY ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 368,413	$ 369,436
Cash payments to suppliers for goods and services	(71,257)	(89,356)
Cash payments for employee services	(39,541)	(41,573)
Net cash provided by operating activities	257,615	238,507
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grant and subsidy received	190	-
Transfers out	(275)	(11)
Interfund loan principal received	20,158	39,583
Interfund loan principal paid	(39,583)	(96,313)
Interest paid on short-term loans	-	(1,581)
Assistance to other agencies	(130)	-
Net cash used in noncapital financing activities	(19,640)	(58,322)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital and other utility assets	(198,764)	(270,797)
Proceeds from disposal of capital assets	36	-
Financing of environmental remediation	(2,401)	(3,930)
Principal paid on capital debt	(50,388)	(535,876)
Interest paid on capital debt	(159,750)	(114,692)
Proceeds of new bond issuance	187,915	801,715
Proceeds of state loans	15,325	1,177
Capital grants received	-	7,311
Other receipts	-	706
Net cash used in capital and related financing activities	(208,027)	(114,386)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and realized gains	2,141	2,824
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,089	68,623
CASH AND CASH EQUIVALENTS		
Beginning of year	469,619	400,996
End of year	$ 501,708	$ 469,619

See accompanying notes.

(in thousands)

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 129,510	$ 122,675
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	137,426	110,760
Other nonoperating revenue	8,734	-
Changes in assets		
Accounts receivable	(9,177)	(5,714)
Due from other funds	15	2,670
Due from other governments	-	9,550
Inventory of supplies	(640)	(574)
Prepayments	(68)	-
Changes in liabilities		
Accounts payable	2,855	(24,583)
Due to other funds	849	(721)
Retainage payable	19	(1,322)
Taxes payable	(31)	-
Unearned revenue	865	-
Rate stabilization	(13,899)	25,500
Wages and benefits payable	928	(47)
Compensated absences	45	130
Other post-employment benefits	184	183
Total adjustments	128,105	115,832
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 257,615	$ 238,507

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Water Quality issued bonds in 2012 to refund debt issued in 2004 and 2005. The $371,443 thousand proceeds were placed in escrow for the defeasance of $334,150 thousand of outstanding bond principal and $37,293 thousand of interest.

Note 1 - Operations and Accounting Policies

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

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

Water Quality has long-term sewage disposal agreements with the cities and sewer districts that operate sewage collection systems within its service area. The monthly sewage disposal charge to the contracting cities and districts is based on Water Quality's estimated annual monetary requirements, including operating costs and debt service. Revenues from Water Quality's largest customer, the City of Seattle (Seattle Public Utilities), represent approximately 40 percent of total sewage disposal fees in 2012 and in 2011.

Water Quality purchases goods and services from other County agencies, including reimbursement of the County's general fund for a share of general government. Expenses incurred in doing business with other County agencies amounted to $31.5 million and $24.4 million in 2012 and 2011, respectively.

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

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

b. *Due to/From Other Funds* - Due to/from other funds consists of current receivables/payables from or to other funds within the King County primary government. These typically arise from exchange transactions, reimbursements, and from authorized transfers to or from the other funds.

Note 1 - Operations and Accounting Policies (Continued)

c. *Interfund Loans Payable/Receivable* - Interfund loans consist of authorized short-term borrowing/lending between Water Quality and other funds within the King County primary government.

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

e. *Restricted Assets* - In accordance with Water Quality's bond resolutions, state law, King County codes, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes, including debt service payments and funding of capital projects. These funds are maintained in the revenue fund, construction fund, and bond fund on the statements of net position.

f. *Capital Assets* - Capital assets are stated at cost, less accumulated depreciation and amortization. Water Quality's capitalization threshold is: equipment at $5 thousand, software at $25 thousand, and buildings, infrastructure and improvements at $50 thousand. Provision for depreciation and amortization are made on a straight-line basis over the estimated useful lives of Water Quality's capital assets, which ranges from 3 to 75 years.

Description	Estimated Useful Life
Buildings and infrastructure	10 - 75 years
Cars, vans, and trucks	5 - 8 years
Data processing equipment	3 - 10 years
Heavy equipment	7 - 15 years
Sewer lines	50 years
Shop equipment	5 - 20 years

Water Quality capitalizes certain interest income and expense related to borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax free borrowings, applied to assets under construction. Total interest incurred was $165.7 million and $159.6 million during the years ended December 31, 2012 and 2011, respectively, of which $25.5 million and $55.8 million, respectively, was capitalized.

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

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

Note 1 - Operations and Accounting Policies (Continued)

g. *Compensated Absences* - Employees earn vacation based upon their date of hire and years of service. They may accumulate a maximum of 480 hours or as bargained for by represented employees. Unused vacation at retirement or normal termination is considered vested and payable to the employee.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees or their beneficiaries are paid 35 percent of the accrued unused sick leave upon retirement or death. No amounts are paid for unused sick leave upon termination.

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

h. *Debt-Related Amortization* - Bond premiums and discounts, refunding losses, as well as issuance costs, are deferred and amortized over the life of the bonds using the outstanding principal balance method. Bonds payable are reported net of the applicable bond premium or discount.

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

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

k. *Capital Grant Revenues* - Pursuant to GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, grant revenues are reported separately from operating and nonoperating revenues as capital grant revenues. Water Quality received capital grant revenues of $7.3 million for the year ended December 31, 2011.

Note 1 - Operations and Accounting Policies (Continued)

l. *Net Position* - Resources set aside for debt services and other obligations, net of related liabilities, are classified as restricted net position on the statements of net position as their use is limited by externally-imposed restrictions. Capital assets, net of related debt, are reported as a separate component of net position. Any net position not subject to classification as restricted or invested in capital assets are reported as unrestricted.

m. *Reclassification* – Certain reclassifications were made to 2011 amounts to conform to 2012 presentation. These reclassifications did not have an impact on total change in net position.

New Accounting Standards - GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*, was issued in December 2010, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The statement is effective for reporting periods beginning after December 15, 2011 and was adopted by Water Quality in 2012 without a material impact on its financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows and inflows of resources. The statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This statement is effective for reporting periods beginning after December 15, 2011 and was adopted by Water Quality in 2012 without a material impact on its financial statements.

GASB Statement No. 65, *Items Previously Reported as Asset and Liabilities*, was issued in March 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. Water Quality is currently evaluating the impact of the adoption of this standard on its financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, was issued in June 2012. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*. This statement applies to pension plan reporting and is effective for financial statements for periods beginning after June 15, 2013. Water Quality is currently evaluating the impact of the adoption of this standard on its financial statements.

Note 1 - Operations and Accounting Policies (Continued)

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, was issued in June 2012. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*. This Statement applies to pension reporting for the sponsoring state or local governmental entity, and is effective for fiscal years beginning after June 15, 2014. Water Quality is currently evaluating the impact of the adoption of this standard on its financial statements.

Note 2 - Deposits and Investments

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

The Pool is administered by the King County Treasury Operations Section and is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC consists of the Chair of the County Council, the County Executive, the Director of Office of Performance, Strategy and Budget, and the Director of the Finance and Business Operations Division, or their designees. All investments are subject to written policies adopted by the EFC. The EFC reviews Pool performance monthly.

The County has deposit and investment policies addressing risks that have the potential to result in losses of deposits and investments. All deposits not insured by the Federal Depository Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC), a statutory authority established under chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositaries within the state for their public deposits. PDPC protection is of the nature of collateral, not of insurance. The custodial credit risk for deposits is the risk that Water Quality's deposits may not be returned to it in the event of a bank failure. Assessing Water Quality's risk exposure, Water Quality's cash and cash equivalents balance of $501.7 million and $469.6 million were fully insured and collateralized as of December 31, 2012 and 2011, respectively.

Note 2 - Deposits and Investments (Continued)

Credit Risk - Investments: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of December 31, 2012, the Pool was not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office. The Pool's policies limit the maximum amount that can be invested in various securities. At 2012 and 2011 year-end the Pool was in compliance. The Pool's actual composition, as of December 31, 2012, consisted of Repurchase Agreements, 3.2 percent; U.S. Agency Discount Notes, 8.5 percent; U.S. Treasury Notes, 36.1 percent; U.S. Agency Notes, 34.8 percent; U.S. Agency Mortgage Backed Securities, 0.4 percent, and the State Treasury's Investment Pool, 17.0 percent. The December 31, 2011 composition comprised U.S. Treasury Notes, 20.7 percent; U.S. Agency Notes, 61.8 percent; U.S. Agency Mortgage Backed, 0.5 percent, and the State Treasurer's Investment Pool, 17.0 percent.

Custodial Credit Risk - Investments: Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. County policy mandates that all security transactions, including repurchase agreements, are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party custodian banks.

Concentration of Credit Risk - Investments: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issue. At 2012 year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issues: Federal Home Loan Mortgage Corporation-15.2 percent, Federal National Mortgage Association-13.6 percent, Federal Home Loan Bank-5.8 percent, and Federal Farm Credit Bank-9.0 percent. The issues with concentrations greater than 5 percent of the pool portfolio at 2011 year-end were as follows: Federal Home Loan Mortgage Corporation-15 percent, Federal National Mortgage Association-24 percent, Federal Home Loan Bank-15 percent, and Federal Farm Credit Bank-8 percent.

Interest Rate Risk - Investments: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The policy limit for the Pool's maximum effective duration is 1.5 years, and 40 percent of the Pool's total value in securities must have a maturity of 12 months or fewer. Securities in the portfolio cannot have an average life greater than five years at purchase. The combined effective duration of the liquidity and core portfolios was 1.357 years and 0.724 years, respectively, at December 31, 2012 and 2011.

Note 2 - Deposits and Investments (Continued)

As of December 31, 2012, the Pool has four impaired commercial paper investments which have completed enforcement events. The County completed the restructuring of three of the four securities in 2008 and completed the restructuring of the fourth security in 2009. The Pool has suspended investments in commercial paper securities since 2007. Water Quality's share of the unrealized loss from the Pool's impaired investments was $880 thousand at December 31, 2012 and $926 thousand at December 31, 2011. Losses from impaired investments are offset against other investment earnings.

Note 3 - Restricted Assets

A significant portion of Water Quality's assets is restricted as to use by legal and contractual provisions and by fiscal management policy. Restricted assets comprise $385.2 million in 2012 and $465.9 million in 2011 to comply with debt service, bond reserve, and other requirements. Current restricted assets consist of cash reserved to fund the current portion of long-term debt, prefunded interest payments, the current portion of the retainage held on contractual payments, and other obligations, totaling $135.4 million in 2012 and $234.7 million in 2011. The non-current restricted assets consist primarily of cash reserved to fund the non-current portion of the retainage held on contractual payments, $1.2 million in 2011, bond reserves of $170.3 million in 2012 and $153.2 million in 2011, and other requirements of $79.2 million in 2012 and $76.5 million in 2011.

Note 4 - Risk Management

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

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

During 2012 and 2011, Water Quality claims paid by the Insurance Fund of King County were $293 thousand and $376 thousand, respectively. In the past three years there was no occurrence that resulted in payment in excess of the self-insured retention of $7.5 million.

Note 4 - Risk Management (Continued)

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

Water Quality retains all risk associated with environmental claims.

Note 5 - Long-Term Liabilities and Notes Payable

Sewer Revenue Bonds - As of December 31, 2012, bonds outstanding include $2,841.8 million of serial and term bonds maturing from January 1, 2013 through January 1, 2052, bearing interest at stated rates of 1.00 percent to 5.75 percent per annum.

On April 18, 2012, Water Quality issued $104.4 million in sewer revenue and refunding bonds and $68.4 million in limited tax GO refunding bonds (payable from sewer revenues), Series A, with an effective interest cost of 2.7 percent to advance refund $26.1 million of outstanding sewer revenue bonds, 2004A, and $71.7 million of limited tax GO bond (sewer revenues) bonds, 2005A, with an effective interest rate of 4.8 percent. The reacquisition price exceeded the net carrying amount of the old debt by $10.7 million. This advance refunding was undertaken to reduce total debt service payments by $8.2 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $6.8 million.

On August 8, 2012, Water Quality issued $64.3 million in sewer revenue refunding bonds and $41.7 million in limited tax GO refunding bonds (payable from sewer revenues), Series B, with an effective interest cost of 3.7 percent to advance refund $67.9 million of outstanding sewer revenue bonds, 2004A, and $43.8 million of limited tax GO bond (sewer revenues) bonds, 2005A, with an effective interest rate of 4.8 percent. The reacquisition price exceeded the net carrying amount of the old debt by $8.8 million. This advance refunding was undertaken to reduce total debt service payments by $10.2 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $7.0 million.

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

On September 19, 2012, Water Quality issued $65.4 million in sewer revenue refunding bonds and $53.4 million in limited tax GO refunding bonds (payable from sewer revenues), Series C, with an effective interest cost of 3.6 percent to advance refund $69.1 million of outstanding sewer revenue bonds, 2004A and 2006, and $55.6 million of limited tax GO bond (sewer revenues) bonds, 2005A, with an effective interest rate of 4.8 percent. The reacquisition price exceeded the net carrying amount of the old debt by $11.6 million. This advance refunding was undertaken to reduce total debt service payments by $10.8 million over the life of the bonds, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $7.5 million.

In 2012, Water Quality issued $100.0 million in Sewer Jr Lien variable rate demand bonds to fund capital projects.

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

The bonds are secured by a pledge of the revenue of the sewer system subject to payment of all operating and maintenance expenses of the sewer system. Payments from revenues of Water Quality are required to be made to the sewer revenue bond fund in annual amounts sufficient to retire serial or term bonds on or before maturity. The amount required in the cash reserves and surety policies are based on the highest year of debt service over the life of all outstanding revenue bonds. As of December 31, 2012, Water Quality is in compliance with the combined amount required for the reserve and surety policies.

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

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2012
2001A-B Jr Lien Variable	1/1/32	(variable)	$ 100,000	$ 100,000
2003A Refunding	1/1/35	2.00-5.25%	96,470	89,380
2004B Refunding	1/1/35	2.00-5.00%	61,760	53,095
2006 Refunding	1/1/36	5.00%	124,070	102,970
2006 (2nd Series) Refunding	1/1/36	3.50-5.00%	193,435	179,870
2007	1/1/47	5.00%	250,000	250,000
2008	1/1/48	5.00-5.75%	350,000	350,000
2009	1/1/42	4.00-5.25%	250,000	250,000
2010	1/1/50	2.00-5.00%	334,365	334,215
2011	1/1/41	5.00-5.125%	175,000	175,000
2011 Series B	1/1/41	1.00-5.00%	494,270	490,660
2011 Series C	1/1/35	3.00-5.00%	32,445	32,445
2011 Sewer Jr Lien Variable	1/1/42	(variable)	100,000	100,000
2012A Refunding	1/1/52	5.00%	104,450	104,445
2012B Refunding	1/1/35	4.00-5.00%	64,260	64,260
2012C Refunding	1/4/33	2.50-5.00%	65,415	65,415
2012 Sewer Jr Lien Variable	1/1/43	(variable)	100,000	100,000
			$ 2,895,940	$ 2,841,755

General Obligation Bonds - As of December 31, 2012, bonds outstanding include $820.6 million of serial and term bonds maturing January 1, 2013 through 2040, bearing interest at stated rates of 2.20 percent to 5.25 percent per annum.

In 2012, Water Quality issued $3.0 million of Limited Tax General Obligation (LTGO) bonds maturing December 31, 2022. The bonds were issued to provide funding for Water Quality's construction plan.

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

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

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

	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at December 31, 2012
2005 LTGO	1/1/35	5.00%	$ 200,000	$ 28,925
2008 LTGO	1/1/34	3.25-5.25%	236,950	225,155
2009B LTGO	7/1/39	5.00-5.25%	300,000	300,000
2010A-B Multi-Modal LTGO	1/1/40	(variable)	100,000	100,000
2012A LTGO	1/1/25	2.00-5.00%	68,395	68,395
2012B LTGO	1/1/29	5.00%	41,725	41,725
2012C LTGO	1/1/34	5.00%	53,405	53,405
2012F LTGO	12/1/22	2.20%	3,010	3,010
			$ 1,003,485	$ 820,615

State Loans - Water Quality has received loans from the Washington Department of Ecology under the Water Pollution Control State Revolving Fund Loan Program and the Washington Public Works Trust Fund. The loans require annual payments of principal and interest from 2013 through 2033 and bear interest at stated rates from 0.00 percent to 3.10 percent. As of December 31, 2012, the balance due on all state loans is $136.0 million. Water Quality maintains separate cash reserves of $8.3 million. These reserves are treated as restricted, being required under the Revolving Fund Loan Program.

At December 31, 2012, the required principal and interest payments for all classes of long-term debt are as follows (in thousands):

	Revenue Bonds		General Obligation Bonds		State Loans		
Year(s) Beginning	Principal	Interest	Principal	Interest	Principal	Interest	Total
January 1, 2013	$ 39,290	$ 135,501	$ 3,435	$ 39,481	$ 8,841	$ 2,281	$ 228,829
January 1, 2014	47,320	134,339	8,750	39,969	9,261	2,153	241,792
January 1, 2015	49,485	132,137	9,000	39,527	9,696	2,009	241,854
January 1, 2016	51,845	129,739	9,420	39,089	9,838	1,858	241,789
January 1, 2017	42,225	127,537	21,000	38,353	9,909	1,705	240,729
January 1, 2018—2022	244,185	604,045	124,480	174,517	48,523	6,168	1,201,918
January 1, 2023—2027	310,470	536,458	154,700	139,601	29,893	2,610	1,173,732
January 1, 2028—2032	496,725	448,384	197,340	96,154	9,538	583	1,248,724
January 1, 2033—2037	450,185	311,364	152,900	48,152	503	7	963,111
January 1, 2038—2042	444,470	203,237	139,590	15,389	-	-	802,686
January 1, 2043—2047	540,670	79,776	-	-	-	-	620,446
January 1, 2048—2052	124,885	10,381	-	-	-	-	135,266
	$ 2,841,755	$ 2,852,898	$ 820,615	$ 670,232	$ 136,002	$ 19,374	$ 7,340,876

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

The future annualized interest payments for the variable rate revenue bonds are based on an interest rate of 5.175 percent, which represents 90 percent of the Revenue Bond Index assumed by the County for long-term financial planning purposes.

Commercial Paper (Notes Payable) - In December 1995, Water Quality initiated a commercial paper program that gives Water Quality the ability to issue up to $100.0 million. The program is supported by an annually renewable line of credit that expires November 30, 2015. As of December 31, 2012, $100.0 million was issued and outstanding under this program. The commercial paper has maturities ranging between 62 and 94 days and is classified as a current liability of Water Quality's operating fund. Changes in short-term note payables for the year ended December 31, 2012 and 2011 were as follows (in thousands):

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012
Commercial paper	$ 100,000	$ 1,173,650	$ (1,173,650)	$ 100,000

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
Commercial paper	$ 100,000	$ 909,110	$ (909,110)	$ 100,000

Variable Rate General Obligation and Revenue Bonds - The variable rate bonds, 2001 Series A and Series B revenue bonds are supported by a periodically renewable letter of credit that expires December 31, 2015. The variable rate bonds, 2010 Series A and Series B general obligation bonds are supported by a Standby Bond Purchase Agreement that expires January 21, 2013. The variable rate bonds, 2011 and 2012 Sewer Jr Lien variable rate demand bonds, do not have a liquidity facility.

Financial Policy Reserves - In addition to bond reserves related to Sewer Revenue Bonds, Water Quality maintains liquidity and asset management reserves totaling $31.6 million at December 31, 2012.

Compliance with Bond Resolutions - With respect to the year ended December 31, 2012, Water Quality complied with all financial covenants stipulated by its bond resolutions.

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

Changes in Long-Term Liabilities - Long-term liability activity for the years ended December 31, 2012 and 2011 was as follows (in thousands):

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Bonds payable	$ 3,537,600	$ 500,655	$ (375,885)	$ 3,662,370	$ 42,725
Bond premiums and discounts	122,365	52,891	(9,950)	165,306	-
Refunding losses	(71,411)	(31,055)	8,037	(94,429)	-
Total bonds payable	3,588,554	522,491	(377,798)	3,733,247	42,725
Retainage payable	1,167	683	(1,485)	365	365
State loans	129,276	15,325	(8,599)	136,002	8,841
Compensated absences	11,204	744	(699)	11,249	617
Other post-employment benefits	856	246	(62)	1,040	-
Environmental remediation	37,422	180	(2,401)	35,201	6,246
Rate stabilization	76,500		(13,900)	62,600	-
Total long-term liabilities	$ 3,844,979	$ 539,669	$ (404,944)	$ 3,979,704	$ 58,794

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011	Due Within One Year
Bonds payable	$ 3,263,865	$ 801,715	$ (527,980)	$ 3,537,600	$ 41,735
Bond premiums and discounts	64,634	65,087	(7,356)	122,365	-
Refunding losses	(57,172)	(18,546)	4,307	(71,411)	-
Total bonds payable	3,271,327	848,256	(531,029)	3,588,554	41,735
Retainage payable	19,446	89	(18,368)	1,167	1,149
State loans	135,995	1,177	(7,896)	129,276	8,599
Compensated absences	11,074	690	(560)	11,204	405
Other post-employment benefits	673	245	(62)	856	-
Environmental remediation	37,756	3,595	(3,929)	37,422	5,104
Rate stabilization	51,000	25,500	-	76,500	-
Total long-term liabilities	$ 3,527,271	$ 879,552	$ (561,844)	$ 3,844,979	$ 56,992

Note 6 - Changes in Capital Assets

Changes in capital assets for the years ended December 31, 2012 and 2011 are shown in the following table (in thousands):

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
Land	$ 218,461	$ 14,734	$ (1)	$ 233,194
Easements	11,469	-	-	11,469
Construction work in progress	1,072,858	164,276	(945,308)	291,826
Total nondepreciable assets	1,302,788	179,010	(945,309)	536,489
Buildings	1,671,702	144,069	(7,518)	1,808,253
Land improvements	58,860	6,383	(553)	64,690
Right of way	7,635	-	-	7,635
Infrastructure	1,346,355	777,924	(448)	2,123,831
Artwork	4,817	703	-	5,520
Major equipment and vehicles	9,904	52	-	9,956
Shop and other equipment	927,083	56,773	(8,365)	975,491
Software development	32,668	2,967	(2,396)	33,239
Total depreciable assets	4,059,024	988,871	(19,280)	5,028,615
Accumulated depreciation and amortization:				
Building	(464,351)	(48,045)	500	(511,896)
Land improvements	(16,068)	(2,389)	-	(18,457)
Right of way	(55)	(473)	255	(273)
Infrastructure	(360,756)	(30,413)	57	(391,112)
Artwork	(157)	(177)	-	(334)
Major equipment and vehicles	(8,075)	(231)	-	(8,306)
Shop and other equipment	(432,428)	(45,255)	3,017	(474,666)
Software development	(17,868)	(3,252)	2,275	(18,845)
Total depreciation and amortization	(1,299,758)	(130,235)	6,104	(1,423,889)
Depreciable assets - net	2,759,266	858,636	(13,176)	3,604,726
Total capital assets - net	$ 4,062,054	$ 1,037,646	$ (958,485)	$ 4,141,215

Note 6 - Changes in Capital Assets (Continued)

	Balance January 1, 2011	Increases	Decreases	Balance December 31, 2011
Land	$ 129,952	$ 88,509	$ -	$ 218,461
Easements	21,475	27	(10,033)	11,469
Construction work in progress	1,992,454	273,735	(1,193,331)	1,072,858
Total nondepreciable assets	2,143,881	362,271	(1,203,364)	1,302,788
Building	1,194,050	495,517	(17,865)	1,671,702
Land improvements	24,687	34,173	-	58,860
Right of way	-	7,635	-	7,635
Infrastructure	1,064,898	281,871	(414)	1,346,355
Artwork	418	4,399	-	4,817
Major equipment and vehicles	9,936	1	(33)	9,904
Shop and other equipment	638,712	315,727	(27,356)	927,083
Software development	12,482	20,186	-	32,668
Total depreciable assets	2,945,183	1,159,509	(45,668)	4,059,024
Accumulated depreciation and amortization:				
Building	(439,314)	(31,956)	6,919	(464,351)
Land improvements	(14,947)	(1,121)	-	(16,068)
Right of way	-	(55)	-	(55)
Infrastructure	(336,624)	(26,927)	2,795	(360,756)
Artwork	(92)	(65)	-	(157)
Major equipment and vehicles	(7,872)	(231)	28	(8,075)
Shop and other equipment	(418,900)	(46,130)	32,602	(432,428)
Software development	(12,329)	(5,551)	12	(17,868)
Total depreciation and amortization	(1,230,078)	(112,036)	42,356	(1,299,758)
Depreciable assets - net	1,715,105	1,047,473	(3,312)	2,759,266
Total capital assets - net	$ 3,858,986	$ 1,409,744	$ (1,206,676)	$ 4,062,054

Note 7 - Environmental Remediation

Water Quality operations are subject to rules and regulations enacted by the Washington State Department of Ecology (DOE) and the U.S. Environmental Protection Agency (EPA). In years prior to 2008, Water Quality evaluated and accrued for environmental remediation based on engineering studies and estimates of future potential costs. Water Quality settled lawsuits related to certain environmentally damaged sites and agreed to pay its portion of remediation and cleanup costs. The initial settlement costs were capitalized as deferred environmental remediation costs and are being amortized over 40 years as offsetting revenues are collected from Water Quality’s customers.

Note 7 - Environmental Remediation (Continued)

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

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

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

There are no estimated recoveries at this time that will reduce the amount of Water Quality's pollution remediation obligations. However, the State of Washington has indicated that it intends to fund grants in support of Water Quality's LDW cleanup. The total environmental remediation liability at December 31, 2012 stands at $35.2 million and $37.4 million in 2011.

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

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

Note 8 - Regulatory Deferrals

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

Rate Stabilization - In 2005, the Council established a Rate Stabilization Reserve. This action created a regulatory liability which deferred operating revenue to be set aside in a reserve and recognized in subsequent years to maintain stable sewer rates. The reserve was $76.5 million in 2011 and decreased by $13.9 million to $62.6 million in 2012.

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

Note 9 - Employee Benefit Plans

Defined Benefit Pension Plans - All full-time and qualifying part-time employees of Water Quality participate in the Public Employees' Retirement System (PERS). PERS is a statewide governmental retirement system administered by the State of Washington's Department of Retirement Systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees Retirement System - The Washington State Legislature established PERS in 1947 under RCW Chapter 41.40. PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by August 31, 2002 (for local government employees), are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after September 1, 2002 (for local government employees), have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Note 9 - Employee Benefit Plans (Continued)

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased three percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. The benefit is reduced to offset the cost of this annual adjustment.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age for each year before age 65. PERS plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions: with a benefit that is reduced by 3 percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Note 9 - Employee Benefit Plans (Continued)

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65 or they may retire early with the following conditions and benefits: If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age for each year before age 65; if they have 30 service credit years and at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65 or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6.0 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee’s age.

Note 9 - Employee Benefit Plans (Continued)

Water Quality's contribution rates expressed as a percentage of covered payrolls as of December 31, 2012 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	7.21%	7.21%	7.21%
Employee	6.00%	4.64%	5.00%-15.00%

The employer rates include the employer administrative expense fee currently set at 0.16 percent. PERS Plan 3 is the defined benefit portion only. The employee rates for PERS Plan 3 may vary from 5 percent to 15 percent based on the rate selected by the PERS 3 member.

Water Quality's required employer contributions for the years ended December 31 were (in thousands):

	PERS	
	Plan I	Plans II and Ill
2012	$ 98	$ 3,657
2011	$ 124	$ 3,665
2010	$ 119	$ 3,107

Note 10 - Operating Subsidies and Grant Revenues

Various federal and state government agencies make grants to Water Quality to aid in financing construction costs (capital grants), including those on various projects included in the comprehensive plan, and for operating costs (operating subsidies). Operating subsidies are recorded as revenues in the statements of revenues, expenses, and changes in net position. Capital grants amounted to $7.3 million for the year ended December 31, 2011.

Note 11 - Other Post-Employment Benefits

In 2007, the County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, which requires the County to accrue other post-employment benefits (OPEB) expenses related to its post-retirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded accrued liabilities. The liability is included in noncurrent liabilities on the statements of net position for Water Quality.

Note 11 - Other Post-Employment Benefits (Continued)

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

Funding Policy - Law Enforcement Officers' and Fire Fighters' Retirement System Plan (LEOFF) 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan. Water Quality contributed an estimated $62 thousand to the Health Plan during both 2012 and 2011. The contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to advance fund the cost of benefits.

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

Water Quality's allocated annual OPEB costs, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for the years ended December 31, 2012 and 2011 were as follows (in thousands):

	2012	2011
Normal cost - Unit Credit Method	$ 216	$ 215
Amortization of unfunded actuarial accrued liability (UAAL)	33	33
Annual Required Contribution (ARC)	249	248
Interest on net OPEB obligation	3	3
Adjustment to annual required contribution	(6)	(6)
Annual OPEB cost (expense)	246	245
Contributions made	(62)	(62)
Increase in net OPEB obligation	184	183
Net OPEB obligation - beginning of year	856	673
Net OPEB obligation - end of year	$ 1,040	$ 856

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$ 246	25.2%	$ 1,040
12/31/2011	$ 245	25.3%	$ 856
12/31/2010	$ 252	32.5%	$ 673

Note 11 - Other Post-Employment Benefits (Continued)

Required Supplementary Information: Funded Status and Funding Progress - The funded status of the Health Plan as of December 31, 2012 and 2011 was as follows (in thousands):

	2012	2011	2010
Actuarial Value of Plan Assets	$ -	$ -	$ -
Actuarial Accrued Liability (AAL)	178,502	178,502	149,390
Unfunded Actuarial Accrued Liability (UAAL)	$ 178,502	$ 178,502	$ 149,390
Funded Ratio (actuarial value assets/AAL)	0%	0%	0%
Covered Payroll (active plan members)	$ 961,982	$ 969,750	$ 969,082
UAAL as a percentage of covered payroll (AAL less actuarial value of assets/UAAL)	18.6%	18.7%	15.4%

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

The December 31, 2011 valuation used the projected unit credit actuarial cost method. The actuarial assumption included a 2.8 percent investment rate of return (net of administrative expenses) and an initial healthcare cost trend rate of 10.0 percent for KingCare medical, 8.0 percent for KingCare pharmacy, and 10.0 percent for HMO medical/pharmacy, each reduced by decrements to an ultimate rate of 4.2 percent after 71 years and 12 years for medical and pharmacy, respectively. The vision trend rate is 4.0 percent, the miscellaneous trend rate is 7.0 percent, and the Medicare premium trend rate is 7.0 percent, for all years. All trend rates include a 3.0 percent inflation assumption, with the exception of vision trends. The amortization of the UAAL at transition uses a level dollar amount on an open basis. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

Note 12 - Interfund Borrowing and Transfers

At December 31, 2012 and 2011, Water Quality had outstanding interfund short-term loans in the amount of $20.2 million and $39.6 million, respectively, borrowed from the King County Public Transportation Enterprise as authorized by the King County Executive Finance Committee. The loan proceeds were used to: 1) reimburse the operating fund that financed the early retirement of certain sewer revenue bonds, and 2) reimburse the construction fund for capital expenses incurred in anticipation of bond issuance in 2013 and 2012.

The King County Council approves ordinances and/or motions authorizing Water Quality to contribute and receive amounts to and from various County funds. During 2012 and 2011, the transfers to other funds from Water Quality were $275 thousand and $11 thousand, respectively.

Note 13 - Net Position Deficit

The deficit of $7.3 million in unrestricted net position in 2011 was the result of short-term borrowings by Water Quality from other County funds. Water Quality revenue bonds were issued in 2012 to cover the capital construction loans.

Note 14 - Commitments and Contingencies

Construction and Maintenance Programs - To ensure the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities, Water Quality is committed to expending approximately $63.2 million on active construction contracts as of December 31, 2012.

Contingencies and Claims - There is no litigation or claims currently pending against the King County Water Quality Enterprise Fund in which, to management's knowledge, the likelihood of an unfavorable outcome with material damages assessed against the enterprise is considered "probable."

Note 14 - Commitments and Contingencies (Continued)

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

- An administrative order from the EPA that requires the County, the City of Seattle, the Boeing Company, and the Port of Seattle to conduct a feasibility study to determine the nature and extent of the contamination in the Lower Duwamish Waterway. The feasibility study has been issued in final form by EPA. The proposed plan is subject to public comment and may be changed by EPA as a result. EPA has stated that it will issue a Record of Decision (ROD) in the first quarter of 2014. Due to the high level of regulatory review, the County is unable to determine the particular remediation alternative that may be required, the schedule and cost of any required remediation, or the extent of County responsibility.

- A potential requirement for more cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. The King County Wastewater Treatment Division (WTD) has already performed interim cleanup costing $3.6 million to comply with a formal agreement with the Washington State Department of Ecology, who reserves its rights to require additional remediation.

- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The parties have also agreed to share the cost of a supplemental investigation and feasibility study required by the EPA. The agreement states that WTD has only a one-third pro rata share of the study costs and that portion is still potentially allocable among the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the study is completed.

- A series of requests for change orders and claims for damages from the prime contractor for the Brightwater Treatment Plant central conveyance system alleging differing site conditions and defective specifications. The County vigorously defended against the claims and filed suit alleging contract default by the contractor for failure to complete the contract work within time limits. Contractor asserted damages of approximately $66 million. The County estimated its damages at $158 million. The County received a jury verdict of $155 million on December 21, 2012. The contractor received a verdict of $26.2 million. Rulings on post-trial motions were issued on April 19, 2013, leaving in place the verdict amounts. In addition, the rulings awarded the County its legal fees and denied motions for a new trial by the contractor. In April 2013, Water Quality received a net amount of $144.3 million related to this matter.

Note 14 - Commitments and Contingencies (Continued)

- In March 2011, a contractor initiated a suit against the County in the amount of $3.7 million related to the Juanita Bay Pump Station Replacement project alleging defective specifications. The County issued counterclaims in the amount of over $11.0 million. Prior to the December 2012 trial, the contractor settled with the County for a net payment of $4.8 million, which was paid in 2013.

- A claim by a vendor for additional compensation of approximately $427 thousand to cover unexpected tariff increases on imported construction materials. The dispute is still being handled through contract administration.

Note 15 - Subsequent Event

Water Quality issued $122.9 million of sewer revenue refunding bonds in April 2013. The proceeds of these bonds were used to refund all of the sewer revenue bonds, series 2003A, a portion of sewer revenue bonds, series 2006, and all of the outstanding limited tax general obligation bonds (payable from sewer revenues), series 2005.

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

Coverage (1.15 required by covenant, adopted policy 1.25)	1.36

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

Coverage (1.15 adopted target)	1.28

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

Coverage (1.00 required by covenant)	1.22

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

Coverage (1.10 required by covenant)	22.60

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APPENDIX D

SUMMARY OF KING COUNTY'S INVESTMENT POLICY

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SUMMARY OF KING COUNTY'S INVESTMENT POLICY

The Treasury Operations Section of the King County Finance and Business Operations Division (the "Finance Division") administers the County's investments. Under Section 4.10 of the County Code, the Executive Finance Committee (the "Committee") oversees the County's investment practices. The Committee consists of the Chair of the County Council or his or her designee, the County Executive or his or her designee, the Chief Budget Officer, and the County Director of the Finance Division.

The County's own funds are invested in the County's Investment Pool (the "Investment Pool"). All investments of County funds are subject to written policies and procedures adopted by the Committee. The Committee reviews the performance of the Investment Pool on a monthly basis.

In addition to investing the County's own funds, the Treasury Operations Section also invests the funds of more than 120 special purpose districts within the County for which the Treasury Operations Section serves as treasurer, including all school districts, fire protection districts, water districts, sewer districts, and hospital districts. Each district has the option either to invest in the Investment Pool or to direct the term and amount of each of its investments. However, to participate in the Investment Pool a district must sign an inter-local agreement that governs its participation in the Investment Pool, and a district may only exit the Investment Pool by providing the required notice prior to its anniversary date. The Treasury Operations Section selects the particular investment instruments.

The Investment Pool must maintain an effective duration of less than 1.5 years and 40% of its total value must be held in securities that mature in 12 months or less. As of June 30, 2013, the Investment Pool had a balance of $5.1 billion and an effective duration of 1.48 years, and 49% of the portfolio had a maturity of 12 months or less.

Under State law and the County's current investment policy, the County may invest in the following instruments:

(i) Up to 100% of the portfolio in U.S. Treasury or Agency securities with maturities of five years or less;

(ii) Up to 25% of the portfolio in certificates of deposit (CDs) with institutions that are public depositaries in the State. 2.5% of the portfolio can be held with a single CD issuer, provided that deposit limitation established by the State are not exceeded. In addition, all CDs must be purchased from institutions on the County's approved credit list and have a maturity of one year or less;

(iii) Up to 25% of the portfolio in bankers' acceptances. 2.5% of the portfolio can be held in a single issuer, provided the issuer has the highest ratings from two nationally recognized rating agencies, and further that the issuer is also on the County's approved credit list. Maturity is also limited to 180 days;

(iv) Up to 40% of the portfolio in repurchase agreements, subject to the following limitations:

- (a) the repurchase agreement may not exceed a period of 60 days;
- (b) the underlying security must be a U.S. Treasury or U.S. Agency;
- (c) all underlying securities used in repurchase agreements are held by a third party; and
- (d) counterparties must come from the County's approved credit list, have a minimum rating of at least A-1/P-1/F1 by at least two rating agencies and have at least $25 billion in assets and $350 million in capital;

(v) Up to 25% in commercial paper with the highest short-term rating from at least two nationally recognized credit rating agencies. Maturity is limited to 180 days, and no more than 2.5% of the County's portfolio may be invested in commercial paper of a single issuer;

(vi) Up to 20% in general obligation municipal bonds, subject to the following limitations: bonds must be:

- (a) rated in one of the three highest credit rating categories by a nationally recognized credit rating agency, and the issuer must be on the County's approved issuer list; and
- (b) maturity of five years or less and no more than 2.5% with any one issuer;

In addition, bonds must have one of the three highest credit ratings of a nationally recognized credit rating agency (“A” or better);

(vii) Up to 25% in mortgage-backed securities, subject to the following limitations:

(a) must be issued by agencies of the U.S. government;

(b) must pass the FFIEC (Federal Financial Institutions Examination Council) suitability test which banks use to determine lowest risk securities; and

(c) average life must be limited to five years at time of purchase;

(viii) Up to 20% in bank notes, subject to the following limitations:

(a) must be a note, bond or debenture of a savings and loan association, bank, mutual savings bank, or savings and loan service corporation operating with the approval of the Federal Home Loan Bank with a maturity of 5 years or less; and

(b) 2.5% maximum per issuer and the issuer must be on the County’s approved credit list, and at the time of purchase must be rated “A” or better by two nationally recognized credit rating agencies or insured or guaranteed by the federal government or one of its agencies; and

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

The combined total of repurchase agreements greater than seven days, bankers’ acceptances, CDs, commercial paper, and bank notes must not exceed 50% of Investment Pool assets. In addition, there is a 5% limitation on issuer exposure applied across investment types.

The County currently does not purchase structured notes or inverse floating rate notes, and has no intention of doing so in the near future.

Reverse Repurchase Agreements. The County enters into reverse repurchase agreements with respect to securities held in the Investment Pool in accordance with a policy adopted by the Committee. A reverse repurchase agreement involves the sale of a security to a provider for a specified price with a simultaneous agreement to repurchase such security from the provider at a specified future date at the same price plus a stated rate of interest. Under the County’s current policy:

(i) the County does not spend the proceeds received under its reverse repurchase agreements, but rather invests the proceeds in other securities;

(ii) the County does not enter into reverse repurchase agreements with a term of more than 180 days;

(iii) the County invests the proceeds of such reverse repurchase agreements only in securities which have the same maturity date as the end date of the reverse repurchase agreement; and

(iv) the County does not enter into reverse repurchase agreements in an aggregate amount in excess of 20% of the total balance in the Investment Pool at any one time.

All of the County’s reverse repurchase agreements are with dealers that meet the credit standards established by the County and which have signed a master repurchase agreement with the County. There have been no reverse repurchase agreements in effect since 2007.

The County’s entire investment policy is located on the County’s website at the following link, which is not incorporated into this Official Statement by reference:

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

APPENDIX E

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Population

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

POPULATION

Year	Washington	King County	Seattle	Bellevue	Unincorporated King County
1980 (1)	4,130,163	1,269,749	493,846	73,903	503,100
1990 (1)	4,866,692	1,507,319	516,259	86,874	NA
2000 (1)	5,894,121	1,737,034	563,374	109,827	349,773
2007 (2)	6,488,800	1,861,300	586,200	118,100	368,255
2008 (2)	6,587,600	1,884,200	592,800	119,200	341,150
2009 (2)	6,668,200	1,909,300	602,000	120,600	343,180
2010 (1)	6,724,540	1,931,249	608,660	122,363	325,000
2011 (2)	6,767,900	1,942,600	612,100	123,400	285,265
2012 (2)	6,817,770	1,957,000	616,500	124,600	255,720
2013 (2)	6,882,400	1,981,900	626,600	132,100	253,100

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

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

Per Capita Income

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

PER CAPITA INCOME

	2006	2007	2008	2009	2010	2011
Seattle MD	$ 50,202	$ 53,327	$ 54,621	$ 50,644	$51,370	$53,391
King County	54,641	57,735	58,628	53,933	54,927	57,837
State of Washington	39,570	42,192	44,106	41,504	42,024	43,878
United States	37,725	39,506	40,947	38,637	39,791	41,560

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

Construction

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

RESIDENTIAL BUILDING PERMIT VALUES

	New Single Family Units		New Multi-Family Units		
Year	**Number**	**Value($)**	**Number**	**Value($)**	**Total Value($)**
2008	3,029	866,565,304	7,427	1,009,669,531	1,876,234,835
2009	2,003	538,910,481	1,183	137,161,103	676,071,584
2010	2,532	694,969,240	3,425	325,068,029	1,020,037,269
2011	2,765	785,840,283	3,378	431,699,572	1,217,539,855
2012	3,864	1,133,343,731	7,750	1,118,023,021	2,251,366,752
2012*	1,826	540,549,632	3,440	525,287,103	1,065,836,735
2013*	2,301	742,544,426	2,761	348,180,112	1,090,724,538

* Estimated through June.

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	Seattle
2008	$ 45,711,920,389	$ 17,096,581,492
2009	39,594,903,520	15,101,407,742
2010	39,275,353,182	14,783,168,934
2011	40,846,119,020	15,751,585,858
2012	43,506,804,227	17,162,539,275
2012*	9,545,267,856	3,788,547,973
2013*	10,265,549,558	4,059,322,375

* Through first quarter. Source: Quarterly Business Review

Source: Washington State Department of Revenue

Industry and Employment

The following table presents State-wide employment data in 2012 for certain major employers in the Puget Sound area.

PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	Employees*
The Boeing Company	85,000
Joint Base Lewis-McChord	56,000
Navy Region Northwest	43,000
Microsoft	41,700
University of Washington	29,800
Providence Health and Services	20,200
Wal-Mart Stores	18,000
Fred Meyer Stores	14,600
King County Government	13,000
U.S. Postal Service	11,900
Starbucks	10,800
City of Seattle	10,500
MultiCare Health System	10,300
Franciscan Health System	9,900
Nordstrom	9,300
Costco	8,900
PeaceHealth	8,800

* Does not include part-time or seasonal employment figures.

Source: Puget Sound Book of Lists, 2013 (rounded)

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT*

	Annual Average				
	2008	**2009**	**2010**	**2011**	**2012**
Civilian Labor Force	1,094,310	1,115,900	1,107,060	1,105,550	1,181,930
Total Employment	1,042,790	1,021,540	1,006,000	1,015,970	1,042,540
Total Unemployment	51,520	94,360	101,060	89,580	76,390
Percent of Labor Force	4.7	8.5	9.1	8.1	6.8%

NAICS INDUSTRY	2008	2009	2010	2011	2012
Total Nonfarm	1,133,200	1,151,950	1,217,567	1,200,600	1,181,900
Total Private	966,233	984,750	1,051,158	1,037,175	1,016,467
Goods Producing	148,158	160,442	186,475	188,358	154,375
Natural Resources and Mining	467	508	583	692	425
Construction	49,675	57,142	73,883	74,525	50,625
Manufacturing	98,017	102,792	112,000	113,133	103,308
Services Providing	985,042	991,508	1,031,092	1,012,242	1,027,525
Trade, Transportation, and Utilities	206,350	209,175	224,667	224,392	216,975
Information	79,408	80,192	79,767	75,642	81,058
Financial Activities	67,658	71,192	77,525	78,683	68,458
Professional and Business Services	176,675	176,792	194,242	189,925	192,408
Educational and Health Services	138,142	137,683	133,258	127,683	144,867
Leisure and Hospitality	108,700	108,117	113,358	111,750	114,933
Other Services	41,142	41,158	41,867	40,742	43,392
Government	166,967	167,200	166,408	163,425	165,433
Workers in Labor/Management Disputes	-	-	958	-	-

	Jun. 2013
Civilian Labor Force	1,160,460
Total Employment	1,100,690
Total Unemployment	59,770
Percent of Labor Force	5.2%

* Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department

APPENDIX F

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

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

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

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

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

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

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

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

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

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

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

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