OFFICIAL STATEMENT DATED DECEMBER 11, 2019

NEW ISSUE
BOOK-ENTRY ONLY

See "RATING."

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2019 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2019 Bonds. See "TAX MATTERS" herein.

$6,570,000
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON
WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2019

Dated: Date of Delivery **Due: December 1, as shown on the inside cover**

Public Utility District No. 1 of Snohomish County, Washington (the "District"), will issue its Water System Revenue Refunding Bonds, Series 2019 (the "2019 Bonds"), as fully registered bonds under a book-entry system, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2019 Bonds. Individual purchases of the 2019 Bonds will be made in the principal amount of $5,000 or any integral multiple thereof within a maturity. Purchasers of the 2019 Bonds (the "Beneficial Owners") will not receive certificates representing their beneficial ownership interests in the 2019 Bonds.

Interest on the 2019 Bonds is payable on June 1 and December 1, commencing June 1, 2020, until maturity, by the Washington State Fiscal Agent, currently U.S. Bank National Association (the "Registrar"). As long as DTC or its nominee is the registered owner of the 2019 Bonds, such payments will be made by the Registrar to DTC, which is obligated to remit such principal and interest to its broker-dealer Participants, which in turn are obligated to remit such payments to the Beneficial Owners of the 2019 Bonds as described in Appendix D—"BOOK-ENTRY SYSTEM."

The 2019 Bonds are not subject to redemption prior to maturity. See "DESCRIPTION OF THE 2019 BONDS."

Maturity Schedule Located on Inside Cover

The 2019 Bonds are being issued to provide funds to refund for savings certain of the District's Water System Revenue Bonds, Series 2009 and to pay costs of issuance of the 2019 Bonds. See "PURPOSE AND APPLICATION OF 2019 BOND PROCEEDS."

The principal of and interest on the 2019 Bonds are payable solely from and secured by Revenues and other funds pledged thereto by the Resolution (as hereinafter defined), including Assessment Income, after payment of Operating Expenses (including Resource Obligations). The 2019 Bonds are issued on a parity with $11,120,000 of Outstanding Water System Revenue Bonds, of which $8,715,000 are expected to be refunded by the 2019 Bonds as described herein. The District has exclusive authority to set rates and charges for water service provided by the Water System. See "SECURITY FOR THE BONDS."

THE 2019 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE DISTRICT AND ARE NOT OBLIGATIONS OF THE STATE OF WASHINGTON (THE "STATE") OR ANY POLITICAL SUBDIVISION OTHER THAN THE DISTRICT, AND NEITHER THE FULL FAITH AND CREDIT OF THE DISTRICT NOR THE TAXING POWER OF THE DISTRICT OR THE STATE IS PLEDGED TO THE PAYMENT THEREOF.

This cover page is not intended to be a summary of all of the terms of, or security for, the 2019 Bonds. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2019 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by its General Counsel, Anne Spangler, Esq. Certain legal matters will be passed upon for the Underwriter by its counsel, Kutak Rock LLP. It is expected that delivery of the 2019 Bonds will be made through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer (FAST), on or about December 18, 2019.

BARCLAYS

MATURITY SCHEDULE

$6,570,000
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON
WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2019

Maturity Year (December 1)	Principal Amount	Interest Rate	Yield	CUSIP Number*
2020	$425,000	5.00%	1.09%	833105FE4
2021	430,000	5.00	1.11	833105FF1
2022	455,000	5.00	1.14	833105FG9
2023	475,000	5.00	1.17	833105FH7
2024	500,000	5.00	1.23	833105FJ3
2025	525,000	5.00	1.34	833105FK0
2026	550,000	5.00	1.42	833105FL8
2027	580,000	5.00	1.51	833105FM6
2028	610,000	5.00	1.61	833105FN4
2029	640,000	5.00	1.69	833105FP9
2030	675,000	5.00	1.83	833105FQ7
2031	705,000	5.00	1.94	833105FR5

* CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright© 2019 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

PUBLIC UTILITY DISTRICT NO. 1
OF SNOHOMISH COUNTY, WASHINGTON
2320 California Street
Everett, Washington 98201
(425) 783-1000

www.snopud.com[(1)]

BOARD OF COMMISSIONERS

PRESIDENT	VICE PRESIDENT	SECRETARY
Sidney "Sid" Logan	**Tanya "Toni" Olson**	**Rebecca Wolfe**

ADMINISTRATIVE MANAGEMENT[(2)]

John Haarlow, Chief Executive Officer/General Manager

Anne Spangler, General Counsel

Brant Wood, Assistant General Manager—Water Utility

James Herrling, Treasurer

Tom DeBoer, Assistant General Manager—Generation, Power, Rates and Transmission Management

Guy Payne, Assistant General Manager—Distribution and Engineering Services

Dean Galvez, Chief Information Officer—Information Technology Services

Pam Baley, Assistant General Manager—Customer & Energy Services

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CONSULTANTS

Bond Counsel .... Orrick, Herrington & Sutcliffe LLP
Municipal Advisor .... PFM Financial Advisors LLC

REGISTRAR

Washington State Fiscal Agent .... U.S. Bank National Association

[(1)] Neither the information on the District's website, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the 2019 Bonds.
[(2)] The District's Chief Financial Officer position is currently vacant, and the District expects to make a public announcement of its selection to fill the position once the hiring process is complete. The District will update the final Official Statement with information about such an appointment if it occurs between the date of the Preliminary Official Statement and the date of the Official Statement; however, if the appointment occurs after the date of the Official Statement such information will be publicly available on the District's website and the District does not expect to update the Official Statement.

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the 2019 Bonds and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2019 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 provided by the District or obtained by the District from other sources that the District believes to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. The information herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

The Underwriter has provided the following paragraph for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In connection with the offering of the 2019 Bonds, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the 2019 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

This Official Statement is not to be construed as a contract with the purchasers of the 2019 Bonds.

Certain statements contained in this Official Statement do not reflect historical facts but are forecasts, projections and "forward-looking statements." The achievement of certain results or other expectations contained in forward-looking statements in this Official Statement involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that any future results discussed herein will be achieved, and actual results may differ materially from any forecasts or projections described herein. In this respect, the words such as "estimate," "project," "forecast," "anticipate," "expect," "intend," "plan," "believe" and similar expressions of opinion and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based occur.

The CUSIP numbers provided in this Official Statement are included for convenience of the holders and potential holders of the 2019 Bonds. No assurance can be given that the CUSIP numbers for the 2019 Bonds will remain the same after the date of issuance and delivery of the 2019 Bonds.

The 2019 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have they been registered under the securities laws of any state.

The District has undertaken to provide continuing disclosure on certain matters, including annual financial information and specific events, as more fully described herein. See "CONTINUING DISCLOSURE UNDERTAKING."

Information on website addresses set forth in this Official Statement is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor can it be relied upon in making investment decisions regarding the 2019 Bonds.

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SNOHOMISH COUNTY, WASHINGTON**

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PUBLIC UTILITY DISTRICT NO. 1 OF
SNOHOMISH COUNTY, WASHINGTON

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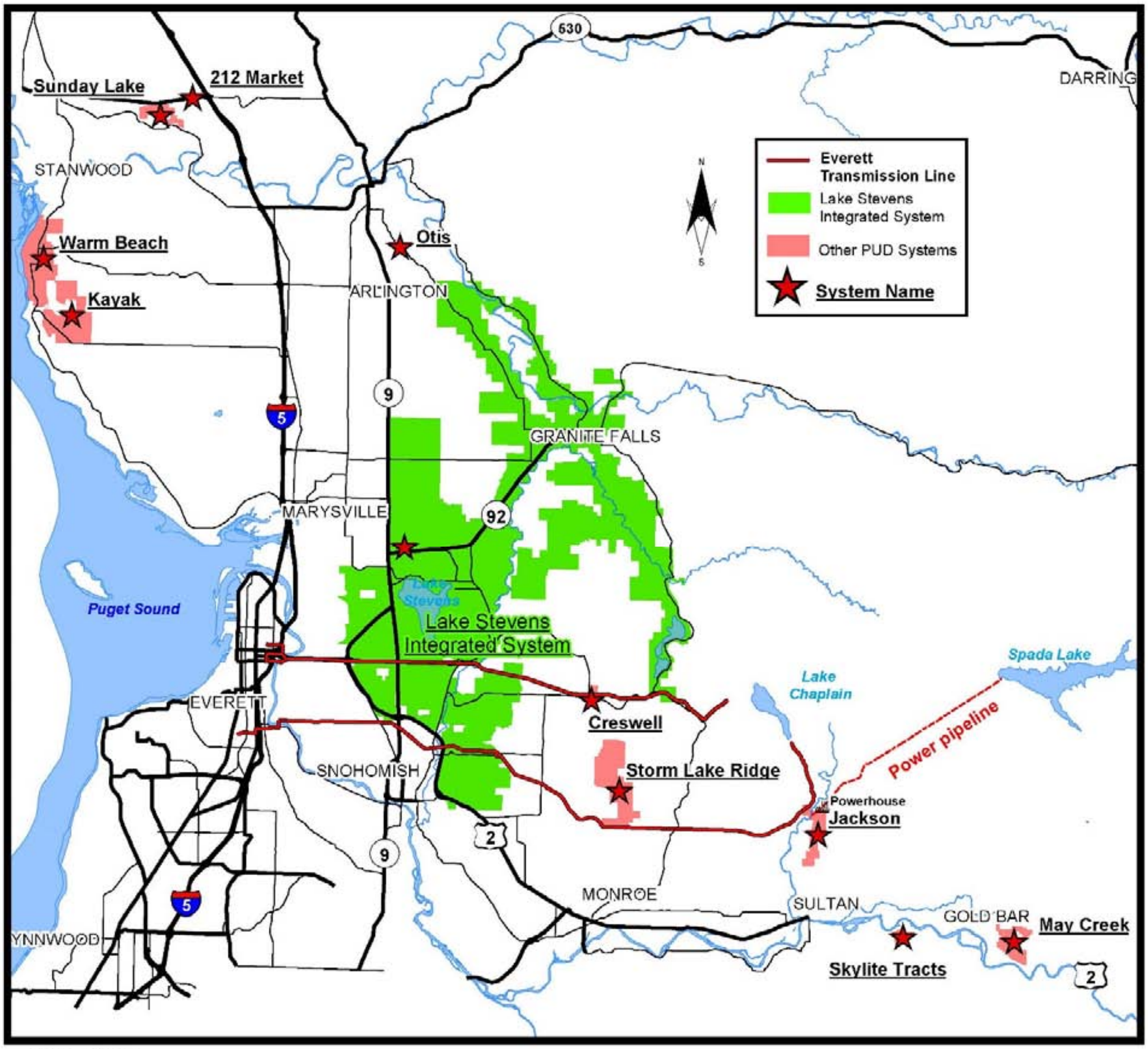

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PUBLIC UTILITY DISTRICT NO. 1
OF SNOHOMISH COUNTY, WASHINGTON

$6,570,000
WATER SYSTEM REVENUE REFNDING BONDS, SERIES 2019

INTRODUCTION

This Official Statement, which includes the cover page, the inside cover page and the appendices hereto, provides information concerning Public Utility District No. 1 of Snohomish County, Washington (the "District"), its water supply and distribution system (the "Water System"), and its $6,570,000 Water System Revenue Refunding Bonds, Series 2019 (the "2019 Bonds"). The capitalized terms used in this Official Statement have the same meanings given them in the Resolution (as hereinafter defined). Definitions of certain of those terms are summarized throughout the text of this Official Statement, and the definitions of a number of terms are set forth in Appendix B—"SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Certain Definitions."

The 2019 Bonds are being issued pursuant to Title 54 and chapters 39.46 and 39.53 of the Revised Code of Washington ("RCW"), Resolution No. 3825 adopted by the Commission on August 25, 1992, as supplemented, including as supplemented by Resolution No. 5933 adopted by the Commission on December 11, 2019 (collectively, the "Resolution"). The District previously issued its Water System Revenue Bonds, Series 2009 (the "2009 Bonds"), of which $8,715,000 remains Outstanding and is expected to be refunded by the 2019 Bonds, and its Water System Revenue Refunding Bonds, Series 2011 (the "2011 Bonds," and together with the 2009 Bonds, the "Outstanding Bonds"), of which $2,405,000 remains outstanding. The Outstanding Bonds, the 2019 Bonds and any additional bonds with an equal lien on the Revenues are referred to as "Bonds." The 2019 Bonds are special limited obligations of the District payable solely from and secured by the income, revenues and receipts derived by the District from the ownership and operation of the Water System. See "SECURITY FOR THE BONDS."

This Official Statement includes summaries of the terms of the 2019 Bonds, the Resolution and certain contracts and arrangements for the joint development and/or operation of water supply facilities. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

In preparation of the projections in this Official Statement, the District has made certain assumptions with respect to conditions that may occur in the future. While the District believes these assumptions are reasonable for the purpose of the projections, they are dependent upon future events, and actual conditions may differ from those assumed. To the extent actual future factors differ from those assumed or provided to the District by others, the actual results will vary from those forecasted.

PURPOSE AND APPLICATION OF 2019 BOND PROCEEDS

Purpose

Subject to market conditions, the proceeds of the 2019 Bonds will be used to refund certain of the outstanding maturities of the 2009 Bonds and to pay costs of issuing the 2019 Bonds. See "Refunding Plan" below.

Estimated Sources and Uses of Funds

The table below sets forth the estimated sources and uses of proceeds of the 2019 Bonds and other funds in connection with the issuance of the 2019 Bonds and the plan of refunding.

Sources of Funds	
Principal Amount of the 2019 Bonds	$6,570,000.00
Original Issue Premium	1,455,482.15
Debt Service Reserve Forward Delivery Agreement Partial Termination Payment	28,200.00
Reserve Account Contribution	1,219,192.25
Total Sources:	$9,272,874.40
Uses of Funds	
Deposit to Redemption Account	$8,732,100.54
Deposit to Reserve Account	417,637.50
Costs of Issuance(1)	123,136.36
Total Uses:	$9,272,874.40

(1) Includes fees of bond counsel, municipal advisor and rating agency, printing costs, underwriter's discount, refunding fees, if any, and other costs associated with issuing the 2019 Bonds and refunding the Refunded Bonds.

Refunding Plan

The net proceeds of the 2019 Bonds will be used to refund certain maturities of the 2009 Bonds, as set forth below (the "Refunded Bonds"): The issuance of the 2019 Bonds is subject to market conditions and to the District achieving in its discretion sufficient savings.

TABLE 1
REFUNDED BONDS

Year (December 1)	Principal Amount	Interest Rate	Redemption Date (at 100%)	CUSIP Number
2020	$580,000	4.000%	December 18, 2019	833105EF2
2021	600,000	4.000	December 18, 2019	833105EG0
2022	625,000	4.000	December 18, 2019	833105EH8
2023	650,000	4.000	December 18, 2019	833105EJ4
2024	675,000	4.000	December 18, 2019	833105EK1
2025	705,000	4.000	December 18, 2019	833105EL9
2026	730,000	4.125	December 18, 2019	833105EM7
2027	760,000	4.200	December 18, 2019	833105EN5
2028	795,000	4.250	December 18, 2019	833105EP0
2029	830,000	4.300	December 18, 2019	833105EQ8
2030	865,000	4.375	December 18, 2019	833105ER6
2031	900,000	4.375	December 18, 2019	833105ES4

On the date of the issuance of the 2019 Bonds, a portion of the net proceeds from the sale of the 2019 Bonds will be applied to redeem the Refunded Bonds.

DESCRIPTION OF THE 2019 BONDS

The following is a summary of certain provisions of the 2019 Bonds. See also Appendix B—"SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION." Reference is made to the Resolution for a more detailed description of such provisions. The discussion herein is qualified by such reference. Copies of the Resolution are available upon request from the District at its address shown on page i of this Official Statement.

General

The 2019 Bonds will be issued in the principal amount of $6,570,000. The 2019 Bonds will be dated the date of their delivery to the Underwriter. The 2019 Bonds will bear interest payable on June 1, 2020, and on each December 1 and June 1 thereafter until maturity or prior redemption at the rates per annum corresponding to those principal amounts maturing December 1 in each year as set forth on the inside cover page of this Official Statement. The 2019 Bonds will be issuable in registered form in the denomination of $5,000 or any integral multiple thereof. Interest is calculated based on a 360-day year consisting of 12 months of 30 days each. The principal of and interest on the 2019 Bonds are payable by the Fiscal Agent of the State of Washington, currently, U.S. Bank National Association (the "Registrar"). For so long as the 2019 Bonds remain in a "book-entry only" transfer system, the Registrar will make such payments to The Depository Trust Company ("DTC"), which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to the Beneficial Owners of the 2019 Bonds as further described in Appendix D—"BOOK-ENTRY SYSTEM."

Procedure in the Event of Discontinuation of Book-Entry Transfer System

If the District is unable to retain a qualified successor to DTC or the District determines to discontinue the book-entry system of transfer, the District will execute, authenticate and deliver at no cost to the Beneficial Owners of the 2019 Bonds or their nominees, 2019 Bonds in fully registered form, in the denomination of $5,000 or any integral multiple thereof. Thereafter, the principal of the 2019 Bonds will be payable at the principal office of the Registrar, and interest on the 2019 Bonds will be payable by check or draft mailed (on the date due) to the registered owners at their addresses as they appear on the registration books on the 15th day of the month preceding an interest payment date. Upon the request of a registered owner of at least $1,000,000 in principal amount of 2019 Bonds, payment thereof will be made by wire transfer in immediately available funds to an account designated (on or prior to 15th day of the month preceding an interest payment date) by such registered owner.

Transfer and Exchange

So long as Cede & Co. is the registered owner of the 2019 Bonds, the beneficial ownership of the 2019 Bonds may only be transferred on the records established and maintained by DTC and its Participants, as described in Appendix D—"BOOK-ENTRY SYSTEM."

If the book-entry transfer system for the 2019 Bonds is discontinued, any 2019 Bond may be transferred pursuant to its provisions at the principal office for such purpose of the Registrar by surrender of such 2019 Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner in person or by his or her duly authorized attorney.

No Optional Redemption

The 2019 Bonds are not subject to redemption prior to their stated dates of maturity.

Open Market Purchases

The District has reserved the right to purchase any of the 2019 Bonds in the open market at any time at prices deemed reasonable by the District. All 2019 Bonds so purchased will be cancelled by the Registrar.

SECURITY FOR THE BONDS

Pledge of Revenues

Under State law, the District has the authority to establish separate enterprise funds with respect to its various municipal utility business operations, each of which enterprise fund is accounted for separately. In addition, these utility business operations (referred to as "systems") can be separately financed through the issuance of debt by the District payable from revenues of that particular system. The District currently has three systems that are separately accounted for and through which it issues debt: the Water System, the Electric System and the Generation System. See "THE DISTRICT."

The 2019 Bonds are special limited obligations of the District payable from and secured solely by Revenues, subject to the prior payment of Operating Expenses. The principal, premium, if any, and interest on all Bonds, including the 2019 Bonds, are payable from and secured solely by a pledge of (1) the proceeds of the sale of Bonds to the extent held in the funds established by the Resolution (other than a refunding account), (2) the Revenues, (3) Assessment Income, if any, and (4) any other money and assets, if any, credited to the Revenue Fund, the Bond Fund, the Construction Fund and any Junior Lien Fund or Account created pursuant to the Resolution and income therefrom. The pledge of Revenues and other money and assets is subject to the provisions of the Resolution restricting or permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

The Revenues and other money and assets pledged to the payment of the Bonds are immediately subject to the lien of the pledge under the Resolution without any physical delivery thereof or further act, and the lien of such pledge will be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the District regardless of whether such parties have notice thereof.

The Outstanding Bonds, the 2019 Bonds, and any additional Bonds issued under the Resolution shall be equally and ratably payable and secured under the Resolution, except as to insurance that may be obtained by the District to insure the repayment of one or more series or maturities within a series.

Section 54.24.040 of the RCW provides that the revenue obligations and interest issued by a public utility district shall be a valid claim of the owner thereof only as against the special fund or funds provided for the payment of such obligations and the amount of the revenues pledged to such fund or funds, and that such pledge of the revenues or other money shall be valid and binding from the time made, that the revenues or other money so pledged and thereafter received by a district shall immediately be subject to the lien of such pledge without any physical delivery or further act, and that the lien of any such pledge shall be valid and binding as against any parties having claims of any kind in tort, contract or otherwise against a district irrespective of whether such parties have notice thereof.

Pledge of Assessments

The District has pledged the Assessment Income from certain local utility districts to the Bond Fund. See "THE WATER SYSTEM—Local Utility Districts."

Limitation of Liability

The Bonds do not in any manner or to any extent constitute general obligations of the District or of the State of Washington, or of any political subdivision of the State of Washington, or a charge upon any general fund or upon any money or other property of the District or of the State of Washington, or of any political subdivision of the State of Washington, not specifically pledged thereto by the Resolution, nor has the full faith and credit of the District or of the State of Washington, or of any political subdivision of the State of Washington, been pledged to the payment of principal, premium, if any, or interest on the Bonds.

Payment of Resource Obligations

The pledge of Revenues securing the Bonds is subject to the prior payment of Operating Expenses, which are all the District's expenses for operation and maintenance of the Water System and include, among other expenses, Resource Obligations (as hereinafter defined) for any month in which any water or other goods and services are made available to the Water System.

Upon compliance with certain requirements in the Resolution (See Appendix B—"SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Additional Indebtedness—Separate System Bonds; Resource Obligations"), the District may (1) enter into contracts for the purchase of water, conservation or services or (2) construct or acquire as a separate system facilities or resources for the supply, conservation or transmission of water (including any common undivided interest therein) and may declare costs associated with such contracts or separate system (including debt service on bonds) to be a Resource Obligation of the Water System to be paid as an Operating Expense for any month in which water, goods or services from such resource were made available to the Water System during such month (regardless of whether or not the Water System actually scheduled or received water, goods or services from such resource during that month). At all other times a Resource Obligation is an indebtedness of the Water System payable from Revenues on a parity of lien with the Bonds. There are currently no Resource Obligations outstanding.

Rate Covenants

General. The District has covenanted to establish, maintain and collect rates and charges for services, facilities and commodities sold, furnished or supplied through the facilities of the Water System that will be adequate to provide Revenues sufficient (i) for the proper operation and maintenance of the Water System, including all Resource Obligations required to be paid as an Operating Expense of the Water System and all necessary repairs, replacements and renewals of the Water System, including the payment of all taxes, assessments or other governmental charges lawfully imposed on the Water System or the revenues therefrom, or payment in lieu thereof, (ii) for the punctual payment of the principal of, premium, if any, and interest on the Bonds for which payment has not otherwise been provided, (iii) for all other payments that the District is obligated to make into the Bond Fund, (iv) for the payment of Parity Lien Obligations, and (v) for the payment of all other amounts that the District may now or hereafter become obligated to pay from the Revenues by law or contract.

Debt Service Coverage. The District also has covenanted to establish, maintain and collect rates and charges that will be adequate to provide in each Fiscal Year Net Revenues (after deducting therefrom amounts paid in such Fiscal Year to satisfy all Parity Lien Obligations and amounts transferred to the Rate Stabilization Account from the General Account and adding thereto amounts transferred to the General Account from the Rate Stabilization Account during such Fiscal Year) in an amount equal to at least the Coverage Requirement in such Fiscal Year.

The failure of the District to collect Revenues in any Fiscal Year sufficient to comply with the debt service coverage covenant described above will not constitute an Event of Default if the District, before the 120th day of the following Fiscal Year, (a) employs a Professional Utility Consultant to recommend changes in the District’s rates that are estimated to produce Revenues sufficient (once the rates recommended by the Professional Utility Consultant have been imposed by the District) to meet the requirements of such covenant and (b) promptly imposes rates at least as high as those recommended by such Professional Utility Consultant. In addition, if the District defaults in the observance and performance of such covenant for any Fiscal Year but achieves the required coverage for the immediately succeeding Fiscal Year; the default will conclusively be deemed cured.

Reserve Account

The Resolution establishes a Reserve Account in the Bond Fund to provide a reserve for the payment of the principal, premium, if any, and interest on the Bonds, and requires that, to the extent permitted under the Internal Revenue Code of 1986, there be deposited into the Reserve Account from the proceeds of each series of Bonds an amount sufficient, together with other money and investments and amounts insured by Qualified Insurance or guaranteed by a Qualified Letter of Credit, to meet the Reserve Account Requirement. As of September 30, 2019, the balance in the Reserve Account was $1,219,192, which meets the Reserve Account Requirement for the Outstanding Bonds. The District entered into a Debt Service Reserve Forward Delivery Agreement with Bank of America for the investment of a portion of the current Reserve Account Requirement, which agreement terminates on December 1, 2021.

Funds currently on deposit in the Reserve Account will satisfy the Reserve Account Requirement for the Outstanding Bonds and the 2019 Bonds. The Reserve Account Requirement at the time of issuance of the 2019 Bonds is expected to be $417,637.50.

Money in the Reserve Account, including any amounts drawn under a Qualified Letter of Credit or paid pursuant to Qualified Insurance, may be used only for the purpose of paying the principal of, premium, if any, or interest on any Bonds in the event that money in other accounts in the Bond Fund are insufficient therefor. Whenever money is withdrawn from the Reserve Account, the amount in the Reserve Account must be restored as described in Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Funds and Accounts–Bond Fund.”

Other Covenants

The District has covenanted in the Resolution to operate the properties and business of the Water System in an efficient manner and at reasonable cost; to maintain, preserve, and keep the properties of the Water System in good repair, working order and condition; and to make all necessary and proper repairs, renewals, replacements, additions, improvements, betterments and extensions of and to the Water System. See Appendix B—"SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Certain Covenants."

Flow of Funds

The District has covenanted that so long as any Bonds are Outstanding it will pay into the Revenue Fund all of the Revenues and all other money required to be paid into the Revenue Fund by the Resolution. The District has created two accounts in the Revenue Fund, the General Account and the Rate Stabilization Account, to be used for the purposes described below.

All Revenues paid into the Revenue Fund are first to be credited to the General Account and applied as follows:

First, to pay Operating Expenses;

Second, to pay amounts as follows equally and ratably and without priority of any one over the other: (i) to deposit in the Interest Account, Principal Account and Reserve Account in the Bond Fund the amounts required by the Resolution in the order of priority established by the Resolution; (ii) to pay all Parity Lien Obligations; and (iii) in the event the District has entered into a reimbursement agreement pursuant to the Resolution that ranks on a parity of lien with the Bonds, to make all payments required to be made pursuant to such reimbursement agreement in connection with a Qualified Letter of Credit, Qualified Insurance, or other credit facility, provided that if there is not sufficient money to make all payments under more than one reimbursement agreement, the payments shall be made on a pro rata basis;

Third, to make all payments required to be made into any Junior Lien Fund or Account in the order of priority, if any, set forth in the resolution of the Commission creating such Junior Lien Fund or Account; and

Fourth, to make additions, betterments, extensions, renewals, replacements and other capital improvements to the Water System.

To the extent that Revenues remain after the payments required to be made out of the General Account, the District may credit the full amount of such surplus to the Rate Stabilization Account to be applied as set forth in the Resolution. As of September 30, 2019, $1,523,000 was on deposit in the Rate Stabilization Account.

After all the above payments and credits have been made, amounts remaining in the Revenue Fund may be used for any other lawful purpose of the District, including the purchase of Bonds.

Additional Indebtedness

Under the Resolution the District is not permitted to issue bonds or other evidences of indebtedness of the Water System with a lien and charge upon Revenues prior to the lien and charge of the Bonds.

The District may issue additional Bonds from time to time in one or more series for any lawful purpose of the District upon compliance with the terms and conditions stated in the Resolution, including in most circumstances a debt service coverage requirement of 1.25 times. See the definition of "Coverage Requirement" in Appendix B and Appendix B—"SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Additional Indebtedness."

Upon compliance with certain terms and conditions set forth in the Resolution, the District may declare certain costs to be Resource Obligations to be paid as an Operating Expense or to be secured by a lien and charge on Revenues on a parity with the Bonds. See "SECURITY FOR THE BONDS—Payment of Resource Obligations." Appendix B—

"SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Additional Indebtedness—Separate System Bonds; Resource Obligations."

The District may issue bonds or other evidences of indebtedness for any corporate use or purpose of the District payable from, and having a lien and charge against Revenues that is junior to the Bonds. As of December 3, 2019, the Water System has outstanding loans in the principal amount of $3,882,000 that have a lien on Revenues junior to the lien of the Bonds. See "THE WATER SYSTEM—Management's Discussion of the Water System's Financial Results."

Authorized Investments

All moneys in any of the funds and accounts held and established pursuant to the Resolution may be invested in any obligation or investment in which the District may legally invest its funds. For a description of the District's current investment policies and practices, see "THE DISTRICT—Investment Policy."

No Acceleration Upon Default

Upon the occurrence and continuance of an Event of Default under the Resolution, payment of the principal of and accrued interest on the Bonds is not subject to acceleration. The District thus would be liable for principal and interest payments only as they became due. The inability to accelerate the Bonds upon an Event of Default could give rise to varying interests between holders of earlier and later maturing Bonds. The nature and extent of any such variance would depend in part upon the nature and duration of any default. In the event of multiple defaults in payment of principal or interest on the Bonds, the bondholders would be required to bring a separate action for each such payment not made. Any such action to compel payment or for money damages would be subject to the limitations on legal claims and remedies against public bodies under Washington law. The District has never defaulted in the payment of principal or interest on any of its bonds.

DEBT SERVICE

Debt service requirements for the Outstanding Bonds and the 2019 Bonds are shown below.

TABLE 2
SCHEDULED DEBT SERVICE ON THE BONDS

Year	Debt Service on Outstanding Bonds[(1)]	2019 Bonds Principal	2019 Bonds Interest	2019 Bonds Total[(2)]	Total Debt Service[(2)]
2020	$ 874,650	$ 425,000	$ 312,988	$ 737,988	$ 1,612,638
2021	863,850	430,000	307,250	737,250	1,601,100
2022	887,250	455,000	285,750	740,750	1,628,000
2023		475,000	263,000	738,000	738,000
2024		500,000	239,250	739,250	739,250
2025		525,000	214,250	739,250	739,250
2026		550,000	188,000	738,000	738,000
2027		580,000	160,500	740,500	740,500
2028		610,000	131,500	741,500	741,500
2029		640,000	101,000	741,000	741,000
2030		675,000	69,000	744,000	744,000
2031		705,000	35,250	740,250	740,250
Total	$2,625,750	$6,570,000	$2,307,738	$8,877,738	$11,503,488

(1) Does not include the Refunded Bonds.

THE DISTRICT

General

The District is a municipal corporation of the State of Washington and was established in 1936. The District maintains three systems: the Water System, the Electric System and the Generation System. Each of these systems is separately financed, and the District maintains separate books and records for each system. The District is the second largest municipally-owned utility in the Pacific Northwest and the twelfth largest in the nation in terms of customers served by its Electric System. The service area of the District consists of virtually all of Snohomish County and Camano Island in Island County, although the Water System does not provide service throughout the entire service area of the District. The administrative offices of the District are located in the City of Everett, which is the county seat of Snohomish County.

Pursuant to Title 54 RCW, the District is authorized to (1) acquire, construct and operate plants, water works and systems, (2) sell and regulate and control the use, distribution and price of water, and (3) issue revenue obligations for the purpose of financing the acquisition and construction of water properties and for other corporate purposes.

The District also is authorized and required to establish, maintain and collect rates and charges for services that will be fair, nondiscriminatory and adequate to provide revenues sufficient for (1) the payment of principal of and interest on its revenue obligations for which payment has not otherwise been provided, (2) the proper operation and maintenance of its water facilities, and (3) renewals and replacements thereto.

The Water System

The District's Water System was formed through the merger of the District's former Lake Stevens Water System and its former Sunnyside Water System and became operational in 1946. As of December 31, 2018, the Water System served approximately 21,393 customers. The revenues of the Electric System and the Generation System are not pledged to the payment of operating expenses or debt of the Water System. The Revenues of the Water System are not pledged to the payment of the expenses and obligations of the Electric System or Generation System. For the year ended December 31, 2018, the Water System had water sales of 222 million cubic feet and gross operating revenues of $13,530,000. As of December 31, 2018, the total assets of the Water System were $142,553,000 and its total long-term debt was $17,176,000.

The Electric System

The District began its electric utility operations in 1949 and currently serves most of Snohomish County and the Camano Island portion of Island County. The properties of the Electric System include the District's transmission lines, substations, distribution lines, transformers, meters and general plant. For the year ended December 31, 2018, the Electric System served an average of 350,000 customers and had energy sales of 8,503,000 megawatt hours and operating revenues of $682,185,000. In 2018, the District purchased approximately 85% of its power from the Bonneville Power Administration, approximately 6% from long-term power contracts, approximately 6% combined from the Henry M. Jackson Hydroelectric Project (the "Jackson Project"), the Youngs Creek Hydroelectric Project (the "Youngs Creek Project"), the Calligan Creek Hydroelectric Project (the "Calligan Creek Project"), the Hancock Creek Hydroelectric Project (the "Hancock Creek Project") and the Woods Creek Hydroelectric Project (the "Woods Creek Project") and 3% from the wholesale power market to balance resources with loads. The Electric System is primarily a distributor of power at retail rates. As of December 31, 2018, the total assets of the Electric System were $1,845,573,000 and its total long-term debt, net of unamortized premiums and discounts, was $342,106,000. The revenues of the Electric System are not pledged or available to make payments on the 2019 Bonds.

The Generation System

In 1986, the District established the Generation System, which is financed and accounted for as a system separate from the Electric System. The Generation System currently consists of the Jackson Project, the Youngs Creek Project, the Calligan Creek Project, the Hancock Creek Project and the Woods Creek Project. The Generation System could include any other electric generating, transmission and/or conservation facilities undertaken by the District in the future.

The Jackson Project is an operating hydroelectric generating facility with a nameplate capacity of 111.8 megawatts ("MW"). The Youngs Creek Project is a hydroelectric generating facility with a nameplate capacity of 7.5 MW. The Calligan Creek Project is a hydroelectric generating facility with a nameplate capacity of 6 MW. The Hancock Creek Project is a hydroelectric generating facility with a nameplate capacity of 6 MW. The Woods Creek Project is a small hydroelectric project with a nameplate capacity of 0.65 MW. As of December 31, 2018, the total assets of the Generation System were $274,045,000 and its total long-term debt, net of unamortized premiums and discounts, was $93,703,000. The revenues of the Generation System are not pledged or available to make payments on the 2019 Bonds.

Administration

The District is governed by the Board of Commissioners (the "Commission"), which is comprised of three members, each elected from a separate commissioner district. The commissioners are elected at large for staggered six-year terms. The legal responsibilities and powers of the District, including the establishment of rates and charges for services rendered, are exercised through the Commission.

The District's Chief Financial Officer position is currently vacant, and the District expects to make a public announcement of its selection to fill the position once the hiring process is complete. The District will update the final Official Statement with information about such an appointment if it occurs between the date of the Preliminary Official Statement and the date of the Official Statement; however, if the appointment occurs after the date of the Official Statement such information will be publicly available on the District's website and the District does not expect to update the Official Statement.

The present Commissioners and certain administrative managers of the District are as follows:

Sidney "Sid" Logan, President

Mr. Logan worked for eight years as the Executive Director of Operations for the Arlington School District. He also has worked as an engineer and consultant in the oil and gas industry, including for Shell Oil Company. His community service experience includes serving on the Arlington-Smokey Point Chamber of Commerce and several school PTAs and advisory committees. He holds a Bachelor of Science degree in petroleum engineering from the University of Alaska. Mr. Logan's first term began on March 28, 2017 and ran through December 31, 2018. He was elected for a subsequent two-year term that began in January 2019 and will continue through December 31, 2020.

Tanya "Toni" Olson, Vice-President

Ms. Olson began her third six-year term as Commissioner on January 1, 2017. Ms. Olson held a number of management positions at the District, the last as Assistant General Manager of Corporate Services. Ms. Olson retired in October 2003 after 22 years of service. In addition, Ms. Olson has extensive experience in public education and was the co-founder of a non-profit organization that delivered performing and visual arts programs to K-12 students throughout the state of Washington. Her six-year term will end December 31, 2022.

Rebecca Wolfe, Secretary

Ms. Wolfe began her term in January 2019. She holds degrees in English (Bachelor of Arts and Master of Arts), Organizational Leadership (PhD), and Environmental Law and Policy (Masters). She worked as a career educator in K-12, college, and university settings. Ms. Wolfe has served on the City of Edmonds' Economic Development Commission, Tree Board, and Mayor's Climate Protection Committee. Previous Board positions have included community service for music, art, and library programs. Ms. Wolfe's term expires December 31, 2024.

John Haarlow, Chief Executive Officer/General Manager

The Commission appointed Mr. Haarlow to serve as CEO/General Manager beginning October 8, 2018. He joined the District in February 2017 as Assistant General Manager of Distribution & Engineering Services, bringing nearly 30 years of experience in the electric utility industry. In that role, he was responsible for construction, engineering, operations and maintenance of the utility's transmission, substation and distribution assets. He also oversaw fleet, real estate and environmental functions. Before joining the District, Mr. Haarlow worked for the Public Service Company of New Mexico, serving as both Director of Safety and Transmission and Distribution Engineering and Operations. He began his career at the Central Illinois Light Company where he was an IBEW journeyman for 10 years. Mr. Haarlow also worked as Vice President of Power Delivery for the Indianapolis Power and Light Company. He attended University of Illinois and holds a Bachelor of Arts degree in accounting.

Anne Spangler, General Counsel

Ms. Spangler joined the District in 2008 after serving four years as the Chief Assistant City Attorney for Tacoma Public Utilities. Ms. Spangler's background includes practice with the Office of the Attorney General, representing the State Department of Transportation, and with the City of Seattle as a land-use litigation attorney. Ms. Spangler has a Bachelor of Arts degree in anthropology from Reed College, a juris doctorate, cum laude, from the University of California, Hastings College of the Law, and a utility management program certificate from Willamette University's Atkinson Graduate School of Management. She is a member of the Washington State Bar Association and the Energy Bar Association, a Washington, D.C. based organization of legal professionals in the energy industry.

James Herrling, Treasurer

Mr. Herrling was appointed by the Commission to serve as Treasurer in June 2018. He joined the District in 2000 as Senior Manager of Financing and Risk Management and was later named Senior Manager of Treasury, Risk Management and Supply Chain. Before joining the District, Mr. Herrling served as the Corporate Controller for Chelan PUD for seven years. Prior to that, Mr. Herrling worked for Arthur Andersen. Mr. Herrling holds a Bachelor of Arts Degree in Accounting from Seattle University and is a certified public accountant.

Brant Wood, Assistant General Manager—Water Utility

Mr. Wood started at the District in January 1992 as an Associate Engineer in the Water Utility. Prior to that, he worked several summers and breaks as a Summer Engineering Student for the District while still in college. Mr. Wood has designed, permitted, and managed the construction of numerous water main replacement and extension projects, water reservoirs, pump stations, the Water Supervisory Control and Data Acquisition system, and most recently the PUD's newest water treatment plant in Lake Stevens. Mr. Wood has led the Water Engineering group since 2000 and added the management of the Water Operations and Maintenance group in 2004. In 2014, Mr. Wood was asked to take on the overall management of the Water Utility for the District. He was named Assistant General Manager of the Water Utility in November 2016. Mr. Wood holds a B.S. in Mechanical Engineering from the University of Washington. He is a licensed professional Civil Engineer and holds certification as a Water Distribution Manager 4, Cross Connection Control Specialist, and Water Treatment Plant Operator in the State of Washington. He is the current chair of the North Snohomish County Water Utility Coordinating Committee and past chair of the Snohomish Health District's Public Health Advisory Council.

Labor Relations

The District had the full-time equivalent of approximately 1,038 employees as of December 31, 2018. Of those, 605 employees are covered by a three-year collective bargaining agreement with the International Brotherhood of Electrical Workers, Local 77 (IBEW), which expires on March 31, 2020. The District strives to promote sound labor relations policies that are beneficial to the District and its employees. The District has not experienced any work stoppages in the past 38 years.

Insurance

The District maintains a comprehensive insurance program. Property insurance coverage and retention levels under the District's insurance program are customary in the industry. The District's property insurance coverage has a $400 million per occurrence limit with a $250,000 deductible. The District's general liability coverage has a $50 million per occurrence limit, in excess of a $2 million self-insured retention. For the Water System, the District paid an additional premium to lower the self-insured retention to $250,000 for the Water System's general liability coverage. The District's self-insured retention fund balance at December 31, 2018, was approximately $10 million. The District's general liability coverage of $50 million includes acts of terrorism.

The District also has an insurance policy covering cyber events, which provides $2 million in coverage for event response, $5 million in coverage for first-party damages and $5 million in third-party liability coverage with a $100,000 deductible.

Pension and Other Post-Employment Benefits

Pension Plans

General. Substantially all of the District's full-time and qualifying part-time employees participate in the Washington State Public Employees Retirement System ("PERS"), administered by the State. The Legislature rather than participating local government employers determines pension benefits for participants in PERS.

The following information regarding PERS was derived from the 2018 Valuation Report, 2017 Valuation Report, 2016 Valuation Report, the Comprehensive Annual Financial Report for the Washington State Department of Retirement Systems Funds of the State of Washington (the "WDRS") for the fiscal year ended June 30, 2019 (the "2019 Retirement Fund Audit") prepared by the WDRS and the WDRS' Contribution Rate Tables Index available on the WDRS' website. *The District has obtained certain information in this section from the State of Washington. The District believes such information to be reliable, but the District does not guarantee the accuracy or completeness of such information*.

PERS Plans 1, 2 and 3. PERS is a multiple-employer, cost-sharing public employee retirement system operated by the State. PERS is comprised of three separate plans for membership and benefit purposes ("PERS 1," "PERS 2" and "PERS 3"). See APPENDIX A—"FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 AND INDEPENDENT AUDITOR'S REPORT, Note 7" for a description of PERS benefits and eligibility requirements for these plans.

PERS 1 is closed to employees hired after September 30, 1977. Eligible employees hired after that date are members of PERS 2 or PERS 3. Eligible employees hired after August 31, 2002, are members of PERS 2 unless they elect irrevocably to join PERS 3. The District is one of 1,357 governmental employers that participate in PERS as of June 30, 2019. As of June 30, 2019, 193,984 retirees and beneficiaries were receiving benefits under PERS, 64,377 terminated plan members were entitled to but not yet receiving benefits, there were 193,501 vested active plan members and there were 136,901 non-vested active plan members.

Benefits for active members in PERS 1 or PERS 2 vest after five years of service, and in PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years or after five years of service if 12 months of that service was earned after age 44.

PERS 1 and PERS 2 and a portion of PERS 3 are defined benefit plans in which member benefits are specified in advance and are payable from assets of the respective plans. PERS 1 and PERS 2 are funded by a combination of investment earnings and employer and employee contributions, and the defined benefit component of PERS 3 is funded by employer contributions and investment earnings. Unlike in a defined contribution plan, where the employer's liability is limited to making its specified contribution and the employee bears the risk that the contributions and investment income will generate sufficient retirement income, in a defined benefit plan the employer bears the risk that contributions and investment income will be sufficient in the future to pay the promised benefits. Employee contributions and investment earnings finance the defined contribution component of the PERS 3 plan.

Employers are not liable directly for and do not guarantee the obligations of PERS, but as described below employer contribution rates for defined benefit plans may increase if assets are, or are projected to be, insufficient to pay promised benefits. The Washington State Investment Board (the "WSIB") directs the investment of retirement system assets and invests all retirement funds in a single pool. Although in general the assets of one plan may not be used to fund benefits from another plan, the assets of PERS 2 and the defined benefit component of PERS 3 are accounted for in the same pension trust fund and all such assets may be used to pay defined benefits of PERS 2 or PERS 3 members.

Actuarial Valuation, Funding Policy and Assumptions

Actuarial Valuation. Actuarial valuations are prepared on a plan-wide basis and not for individual employers. The Office of the State Actuary (the "OSA") is required to provide an actuarial valuation of PERS every two years. In practice, however, the OSA provides valuations annually, although only the valuations for odd-numbered years (which are released during the following even-numbered year) are used to calculate contribution rates. In even-numbered years, the OSA provides its preliminary results and recommended contribution rates to the Select Committee on Pension Policy, a committee of the Legislature (the "SCPP"), and to the Pension Funding Council ("PFC"). See "—Contribution Rates" below.

In September 2019, the OSA released an actuarial valuation for June 30, 2018 (the "2018 Valuation Report"). The primary purposes of the 2018 Valuation Report are to determine contribution rates that would be sufficient to fund the State's retirement plans, including PERS, under the funding policy established by the Legislature and to provide information on the funding progress and developments in the plans over the State fiscal year ended June 30, 2019. Washington statutes require that valuation reports that are used in determining contribution rates be audited by independent actuaries selected by the PFC.

Funding Policy. The State's funding policy and methods for determining the contribution rates are set forth in chapters 41.40 and 41.45 RCW (collectively, the "Pension Act"). In 2009, the Pension Act was amended to provide for the amortizing in full of the unfunded accrued actuarial liability (the "UAAL") of PERS 1 over a rolling-10-year period, using methods and assumptions that balance the needs for increased benefit security, decreased contribution rate volatility and affordability of contribution rates. The Pension Act also requires that to the extent feasible all benefits for PERS 2 and PERS 3 members be funded over the working lives of those members. In preparing valuations and making recommendations regarding contribution rates, the OSA uses valuation methods, economic and demographic assumptions, including rates of retirement, rates at which members become disabled, turnover rates and mortality rates, and other assumptions, including assumptions about plan benefits.

Assumptions. As required by State law, OSA periodically prepares experience studies to assess the reasonableness of their assumptions and inform potential changes to those assumptions. Economic experience studies are prepared every two years. In August 2019, OSA released its 2019 Report on Financial Condition and Economic Experience Study. Every five to six years, OSA performs a demographic experience study, which compares demographic assumptions with actual experience to determine if any adjustments are necessary. The most recent Demographic Experience Study report was prepared in November 2014, using date from the 2007-2012 period. Updated demographic assumptions incorporating experience regarding mortality, retirement, disability, termination rates and other assumptions and are included in the determination of contribution rates. for a biennium. Economic assumptions are adopted by the PFC and/or prescribed by the Legislature. The Legislature used the following economic assumptions for the 2019-2021 biennium contribution rates: a rate of inflation of 2.75%; an assumed annual investment return of 7.5%; annual growth in membership of 0.95%; and interest on member contributions of 5.50% (annual rate, compounded quarterly).

Actuarial Funded Status. For purposes of determining the plans' funded status on an actuarial basis (but not to determine contribution requirements), the OSA determines the ratio of the actuarial value of assets (the "AVA") to the cost of plan benefits. The annual cost of benefits is comprised of (i) the "normal cost" of future benefits that will accrue in the subsequent year for current plan members, and (ii) the amount required to amortize the UAAL over a specified period. The UAAL is the difference between a plan's actuarial accrued liability ("AAL") and the actuarial value of the plan's assets. The AAL represents the present value of future benefits that have accrued as of the valuation date.

To determine a plan's AVA, the OSA determines the current Market Value of Assets (the "MVA"). To limit fluctuations in contribution rates and plan funded status, the OSA "smooths" the inherent volatility in the MVA by deferring a portion of annual investment gains or losses over a period of not to exceed eight years. To help ensure that the AVA maintains a reasonable relationship to the MVA, any valuation of the AVA may not exceed 130% of, nor drop below 70% of, the MVA.

As of June 30, 2018, the funded status for PERS 1 on an actuarial basis was 60% and for PERS 2/3 was 91%.

TABLE 3
PERS PUC Liability and Funded Ratio on an Actuarial Basis

	June 30, 2016		June 30, 2017		June 30, 2018	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Actuarial Liability	$12,323	$34,759	$12,341	$37,166	$11,942	$40,024
Valuation Assets	6,958	30,262	7,042	33,191	7,193	36,601
Unfunded Liability	$ 5,365	$4,497	$ 5,299	$3,975	$ 4,749	$ 3,421
Funded Ratio	56%	87%	57%	89%	60%	91%

Contribution Rates. The employee contribution rate for PERS 1 is established by statute at 6% of covered payroll for local government unit employees. The employee contribution rate for PERS 2, which is determined by the PFC, increased to 7.90% of covered payroll effective as of July 1, 2019. The range of permissible employee contribution rates for the defined contribution component of PERS 3 are determined by the Director of the WDRS and range from a minimum of 5.0% of covered salary to a maximum of 15.0%. Employees are not required to contribute to the defined benefit component of PERS 3.

Employer contribution rates are adopted for the State's two-year period ending on June 30 of an odd-numbered year. The current biennium began July 1, 2019 and ends June 30, 2020). Employer contribution rates for a biennium are adopted during even-numbered years according to a statutory rate-setting process. Based upon the statutory funding policy, the same contribution rate is charged to employers regardless of the plan in which employees hold membership. In even-numbered years, the OSA provides recommended contribution rates to the SCPP and to the PFC. The PFC, based on the recommendations of the OSA and the SCPP, adopts contribution rates.

As of July 1, 2019, the employer contribution rate for all PERS plans is 12.86% of covered payroll.

The District does not have any control over the determination of the employer contribution rates or the process for setting such rates. Employee and employer contribution rates are expected to increase over the next several years, and those increases may be significant.

District Contributions. For the year ended December 31, 2018, the District's total payroll for employees was $120 million, and virtually all of that was covered by PERS. Both the District and its employees made their required contributions to PERS in 2018, with the District contributing $15.0 million consisting of $6.0 million to PERS 1 and $9.0 million total to PERS 2 and PERS 3.

Other Post-Employment Benefits

The District provides post-employment health care and life insurance benefits to eligible retirees hired before July 1, 2009 and their dependents. The District implemented GASB No. 75 to recognize net liability related to other post-employment benefits. Based on an actuarial study completed as part of the disclosure requirements, the unfunded actuarial accrued liability for these benefits as of December 31, 2018 was $50.7 million. The District's annual post-employment healthcare benefit cost is calculated based on the annual required contribution (the "ARC") of the District. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize any unfunded liabilities (or funding excess) over a 30-year period. The District has established a separate fund to supplement the costs for the net post-employment obligation. That fund has $29.1 million as of December 31, 2018. In addition, the Commission has approved an additional $2.0 million in contributions to the net post-employment obligation in 2019. The post-employment healthcare program was changed for any employee hired by the District after July 1, 2009. Employees hired after July 1, 2009 receive post-employment health benefits under a defined contribution program that is funded on a pay-as-you-go basis. For a description of the post-employment related disclosures, see APPENDIX A—"FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 AND INDEPENDENT AUDITOR'S REPORT, Note 7."

Deferred Compensation Plan

In addition, the District offers its employees deferred compensation plans under Internal Revenue Code Sections 401(k), 457 and 401(a) (for employees that were previously employed by a first-class city), which permit employees to defer a portion of their compensation until future years.

Investment Policy

The District invests public funds in a manner that conforms with state and local statutes governing the investment of public funds providing for the preservation of principal, liquidity and market rate returns consistent with financial market indices. Eligible investments include: (i) obligations of the U.S. government including U.S. Treasury bonds, notes, and bills, (ii) obligations of U.S government agencies wholly-owned by the government or any government sponsored enterprises, (iii) banker's acceptances purchased on the secondary market, (iv) commercial paper, (v) certificates of deposit, (vi) liquid overnight funds held at a national financial institution that are under the Washington State Public Depository Protection Commission and (vii) State of Washington Local Government Investment Pool.

The District's investment policy also establishes issuer constraints and other guidelines of various types for these investments. As of September 30, 2019, the Water System's major investment portfolio holdings include the Washington State Local Government Investment Pool (15.6%), Federal Home Loan Bank Notes (9.1%), Federal Home Loan Mortgage Corporation ("Freddie Mac") Notes (8.9%), Federal National Mortgage Association ("Fannie Mae") Notes (6.7%), Federal Farm Credit Bank Notes (4.2%), U.S. Treasury Notes (51.5%), and Guaranteed Investment Contract Forward Delivery Agreements (4.0%). Freddie Mac and Fannie Mae remain under the conservatorship of the U.S. Government and continue to maintain the implied guarantee and support from the U.S. Government on outstanding debt. The Resolution provides that money in the Bond Fund be invested in any obligations or investments in which the District may legally invest its funds. See APPENDIX A—"FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 AND INDEPENDENT AUDITOR'S REPORT," Note 2, and Table 2 for a summary of the District's investments.

Local Government Investment Pool

The funds of the District that are invested in the Washington State Local Government Investment Pool (the "LGIP") are administered by the State Treasurer's Office. The LGIP is a pool having over 530 local government participants since its inception in 1986. The LGIP had approximately a $15.1 billion average balance under investment as of September 2019. In its management of the LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public funds. These are, in priority order, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) to provide a competitive interest rate relative to other comparable investment alternatives.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary investment vehicle that provides its participants the opportunity to safely benefit from the economies of scale available from a $10-16 billion pooled fund investment portfolio. It is also intended to offer participants increased safety of principal, access to liquidity, and the ability to achieve a competitive investment yield. The LGIP is restricted to investments with maximum maturities of 397 days, and the weighted average life shall not exceed 120 days. Investments permitted under the LGIP's investment policy include; 1) obligations of the U.S. government, 2) obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government, 3) obligations of supranational institutions provided that, at the time of investment, the institution has the United States government as its largest shareholder, 4) obligations of government-sponsored corporations which are, or may become, eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve, 5) certificates of deposit or demand deposits with financial institutions made in accordance with the provisions of chapter 39.58 RCW.

General Obligation Bonds and Taxing Power

The District by state law is authorized to issue nonvoter-approved general obligation bonds for any corporate purpose of the District in an amount up to 3/4 of 1% of the total assessed value of the taxable property within the District. In addition, the District is authorized to levy an annual tax on all taxable property within the District up to 45¢ per $1,000 of assessed value in any one year, exclusive of interest and redemption for general obligation bonds. The District has no outstanding general obligation bonds and does not levy a tax. The proceeds of any such tax would not be available to pay or secure the Bonds.

THE WATER SYSTEM

Since its inception as an operating water utility in 1946, the District's water service area had been located primarily in the Lake Stevens area of Snohomish County. The District's planned area of service expanded significantly in 1992 as a result of the North Snohomish County Coordinated Water System Plan and in 1996 with the adoption of the District's first Comprehensive Water System Plan by the Commission and the Washington State Department of Health. The total number of water customers has grown from 6,097 in 1992 to approximately 21,393 as of December 31, 2018. Over the past five years, the number of water customers has increased at an average rate of 2.1% per year. This growth has resulted in increases in operation and maintenance expenses and capital expenditures over the same period.

The District's 2011 Comprehensive Water System Plan, adopted by the Commission on July 19, 2011, was designed to be consistent with neighboring water utilities' plans, Snohomish County and Island County Land Use and Coordinated Water System Plans, and other applicable city and county plans and growth policies. The District is in the process of updating its Water System Plan with the scheduled completion of the revised plan by the end of 2020 and all review and approvals in place by June 2021.

The District's Water System

Service Areas. The District's Water System is a single financial entity that owns and operates ten separately regulated water systems. The systems are spread throughout Snohomish County and are grouped into (i) an Integrated Service Area, which is made up of three systems that will eventually combine into one, and (ii) seven stand-alone satellite systems. The District's Water System serves a population of approximately 56,000 people through approximately 21,393 metered customers. The District is also the preferred Satellite System Management Agency in Snohomish County, with first right of refusal to provide water service in any part of the county that is not already claimed by other water purveyors. See the maps showing the District's service area and location of the District's water systems included on pages iv and v of this Official Statement.

Integrated Service Area. The District's Integrated Service Area encompasses three water systems that are planned to merge into a single system over the next 20 years. The Integrated Service Area includes the Lake Stevens, Creswell, and Storm Lake Ridge systems. This combined area serves approximately 90% of the District's water customers. The separate water systems in the Integrated Service Area are supplied through a combination of treated water purchased from the City of Everett and the District's Lake Stevens Treatment Plant, which supplies approximately 25% of the system demand.

Warm Beach Water Association Transfer. In September 2018, ownership of the Warm Beach Water Association's (the "Association") water distribution system was transferred to the District at the request of the Association's membership after a multi-year process of study and public outreach. As part of this process, District staff identified improvements necessary to increase the reliability of the water system. These improvements are scheduled to be carried out over the next four years and will be funded by a combination of $6.2 million of federal and state grants and loans through the Drinking Water State Revolving Fund, $1 million contributed by the Association, and approximately $1.2 million from the District's Water System operating reserve. Customers of the District's Warm Beach water system will pay a capital improvement surcharge to reimburse the operating reserve. The transfer added approximately 600 new customers to the District's Water System.

Satellite Service Areas. The Water System also owns and operates seven separate satellite systems served by ground water wells, including May Creek, Skylite Tracts, Sunday Lake, Kayak, Otis, 212 Market & Deli, and Warm Beach. The District's Kayak and Warm Beach systems will be integrated in 2020 as part of the capital improvements planned for the Warm Beach system. The remainder of the District's remote systems are too distant from the Water System's primary water transmission and distribution facilities to merge into the Integrated Service Area or another satellite system. Therefore, they will continue as individual satellite water systems for the foreseeable future. The District has sufficient ground water rights to continue to provide service to these systems into the foreseeable future.

Water System Properties

The components of the Water System transmission and distribution facilities include 9 well sites with 13 active wells, 17 supply and booster pump stations, 17 reservoirs with approximately 15.34 million gallons of storage, 3 treatment plants, over 384 miles of water main ranging from 2" to 30" in diameter, and associated maintenance facilities and equipment.

The District completed the design and construction of a new water treatment facility in its Lake Stevens system at the end of 2012. The treatment plant is capable of producing 1,000 gallons per minute ("gpm") at full production and the District's groundwater rights allow for withdrawal of up to 1,400 acre-ft per year, enough to supply approximately 25% of the District's needs for its Integrated System. Since beginning full operation of the treatment plant in 2013 through December 31, 2018, the District has produced approximately 256 million cubic feet of treated water from the plant and reduced its purchased water costs from the City of Everett by approximately $3.2 million.

Water Supply

The District has sufficient water supply to maintain and allow for the foreseeable growth in its water systems well into the future. The water systems are supplied by either water purchased wholesale from the City of Everett or water produced and treated from ground water wells.

City of Everett. The District purchases most of the water needed to serve its water systems wholesale from the City of Everett. The District has a long-standing relationship with the City of Everett, as described below, and is guaranteed sufficient water to meet the demands of its current and future water service areas into the foreseeable future. The District purchases water from the City of Everett under a joint operating agreement for the Jackson Project, a hydroelectric project located about 24 miles east of Everett. The District's primary interest in the Jackson Project is power generation; however, the City of Everett has the right to use and sell water from the project for water supply purposes. The water supply agreement remains in effect so long as either of the parties holds a Federal Energy Regulatory Commission ("FERC") license for the project; provided that after 2031 the City of Everett and the District must renegotiate certain terms and conditions of the agreement.

The FERC license for the Jackson Project expired on May 30, 2011. Although the District and Everett were co-licensees of the Jackson Project, they agreed that the District alone would apply for the new license as the sole licensee and amended the water supply agreement to maintain water supply as one of the priorities. The District filed the application for a new FERC license in May 2009. The new license was issued by FERC on September 2, 2011, for a 45-year term. The new license will expire on August 31, 2056. Included in the license are operating requirements for the protection of water supply and environmental measures.

The City of Everett's water sales to the District are made pursuant to a rate schedule that is designed to recover costs, including filtration. For additional information on current rates charged to the District by the City of Everett, see "THE WATER SYSTEM—Management's Discussion of the Water System's Financial Results—Results of Operations."

The City of Everett and the District are also parties to a 1981 agreement that sets out the rights and duties of each to use Sultan Basin water and the water stored in Spada Lake.

Ground Water Rights. In addition to the water purchased wholesale from the City of Everett, the District also holds certificated ground water rights in its Lake Stevens, Kayak, May Creek, Skylite Tracts, Pilchuck 10 (merged into the Integrated System in 2011), Sunday Lake and Warm Beach service areas that total over 4,092 gpm maximum peak withdrawal and 2,637.1 acre-feet (859 million gallons) annual withdrawal. These certificated water rights are sufficient to serve the District's satellite systems into the foreseeable future and will also allow the District to supplement its reliance on the City of Everett for the Lake Stevens water system.

City of Marysville and Tulalip Tribes Agreement

The District, the City of Marysville, and the Tulalip Tribes are parties to a 1991 Joint Operating Agreement ("JOA") to supply water to the Integrated Service Area. The District owns 16.55% of the capacity of the pipeline, or approximately 3.42 million gallons per day. The JOA was supplemented and amended by a new agreement with the City of Marysville for water supply in 2003 to resolve a dispute related to the ownership of a smaller 7.21% share of the pipeline capacity that was left as undetermined in the original JOA and to add other operational terms. The District retained its purchased capacity in the pipeline in the 2003 agreement. The term of the JOA, as supplemented and amended in 2003, extends for the useful life of the JOA-1 pipeline, which is estimated to be 2091.

Water Quality

All of the District's water systems have water quality that meets Environmental Protection Agency and Washington State standards.

The water purchased for the Lake Stevens Integrated, Storm Lake Ridge, and Creswell systems has been treated by the City of Everett's filtration plant. The water quality meets all current drinking water standards. In addition to the water purchased from the City of Everett, the District also produces water from its Lake Stevens wells as a supplemental source for the Integrated Service Area. The raw water from the District's Lake Stevens wells exceed secondary contaminant (aesthetic) standards for iron and manganese; however, the treated water meets all current state and federal drinking water standards.

The raw water from the Sunday Lake well, the Kayak wells, and the Warm Beach wells exceed secondary contaminant (aesthetic) standards for iron and manganese. A water treatment plant was constructed in 1997 to remove iron and manganese from the Sunday Lake well water. A new water treatment plant was constructed and brought on-line in July 2009 at Kayak to remove iron and manganese. The Warm Beach system also has an existing treatment plant that removes iron and manganese that was taken over with the acquisition of the system in 2018. The District's Skylite Tracts system aerates and chlorinates the water prior to distribution to reduce the copper leaching from customers' plumbing.

Local Utility Districts

From time to time, the District establishes local utility districts ("LUDs") to finance capital improvements to the Water System that specifically benefit property within the LUD. In a LUD, special assessments may be levied on the property to pay all of the costs of the improvements. Assessments are paid, at the option of the property owner, within a 30-day prepayment period or in annual installments extending over a period not exceeding 20 years. LUD assessments become a lien on the property assessed, which lien is paramount to all other liens theretofore created except the lien for general property taxes.

The District finances some LUD improvements from revenues of the Water System. Assessments collected from those LUDs are deposited into the General Fund. However, if revenue bonds are issued to finance the improvements in a LUD, assessments from that LUD are deposited into the bond fund for those bonds. Proceeds of the sale of any property foreclosed upon up to the amount of the unpaid LUD assessments and interest and penalties are also deposited into the bond fund. The District currently has a number of small LUDs with approximately $66,821 principal amount of outstanding assessments pledged to Bonds as of December 31, 2018, scheduled to be collected through 2021.

If additional LUDs are formed and financed with the proceeds of additional Bonds, the District may pledge that the assessments levied in those LUDs be paid into the Bond Fund.

Water Rates and Fees

The Commission has exclusive authority to establish rates and fees free from regulation by the Washington Utilities and Transportation Commission. Under Washington State law, rates must be fair, nondiscriminatory and adequate to provide revenues sufficient for (1) the payment of principal of and interest on the District's water revenue obligations for which payment has not otherwise been provided, (2) the proper operation and maintenance of its water facilities, and (3) renewals and replacements thereto.

The following table presents the Water System's wholesale and retail rate increases for the calendar years 2014 through 2019.

TABLE 4
WATER SYSTEM RATE INCREASES

	2014	2015	2016	2017	2018	2019
Retail	4.3%	4.3%	4.3%	0.0%	2.0%	0.0%
Wholesale	0.4	12.0	6.0	0.0	2.0	1.5

Source: The District

There is no anticipated retail rate increase for the year 2020. The District may propose an increase in the wholesale rate in early 2020, but the amount of the proposed increase will not be known until after 2019 year-end.

The District also adjusts its General Facilities Charge ("GFC"), Distribution System Charge ("DSC") and Service Connection Fees, as necessary on an intermittent basis and as authorized by the Commission.

The GFC is paid by new customers and recovers the cost of obtaining capacity in the source, treatment, transmission and storage facilities of water needed to serve new customers' anticipated demand. The 2019 GFC is $3,645 per equivalent residential unit ("ERU") in all systems except Storm Lake Ridge and Sunday Lake, where the charge per ERU is $5,915. An ERU is the volume of water demand and use deemed by the District to be characteristic of a single-family residential unit, which currently equals an average water consumption of 800 cubic feet (one cubic foot is equal to 7.48 gallons) per month.

The DSC is paid by new customers and is used to recover the average cost of existing distribution mains when the new customer is connecting to an existing main, rather than extending a main to obtain service. It is also used as a means to recover such investments for developers who extend new mains by passing through to them 95% of the DSCs collected from those connecting to the new main extension for a period of 10 years from the date of completion of the main extension. The DSC is set at $38.00 per foot of frontage, or $4,210 per single-family household connection in 2019.

The Service Connection Fee charged to new customers for a 3/4-inch water service is currently $1,355 for all systems. This charge is intended to recover the actual cost of a new service installation.

Water System customers are billed for their water consumption on a monthly schedule immediately following the reading of their meter. Because nearly all Water System customers are also Electric System customers, the District bills the consumption of both services on the same invoice. District invoices are due in 15 days. Disconnection procedures begin after sufficient notice is given to customers, but not before 45 days after the invoice due date.

The following table compares the District's average monthly water bills for a single-family residential unit based on an average water consumption of 800 cubic feet per month with those of other nearby water utilities. The representative monthly water bills shown are based on specific rate schedules for each utility. Use of different schedules applicable to particular customers would yield different results.

TABLE 5
WATER SYSTEM MONTHLY RESIDENTIAL WATER BILLS COMPARISON
(Rates effective January 1, 2019)

	800 cubic feet per month
The District	**$51.14**
Seattle (In City/Peak)	64.27
Seattle (Out of City/Peak)	73.29
Clark Public Utilities	27.50
City of Arlington	46.85
City of Granite Falls	60.08
Skagit County PUD	64.08
North City Water District	55.69
Tacoma (in city)	42.35
Tacoma (out of city)	51.04
Woodinville Water District	72.66
City of Marysville (city customers)	28.29
City of Marysville (inside Urban Growth Area)	42.41
City of Marysville (outside Urban Growth Area)	56.58
Alderwood Water District (summer)	44.49
Mukilteo Water District	49.52
City of Everett (metered)	36.51
Cross Valley Water District	47.41
Sammamish Plateau Water	47.88
City of Snohomish	62.90
Silver Lake Water District (summer)	28.40

Source: District survey

Major Customers

The District's Water System serves primarily suburban and rural residential areas. The District's ten largest retail customers for the 12 months ended December 31, 2018 accounted for approximately $974,000, or approximately 7.2% of the Water System's operating revenues. The two largest wholesale customers, the cities of Granite Falls and Arlington, accounted for approximately $430,000, or 3.2%, of operating revenues in 2018.

Wholesale Water Sale Agreements

City of Granite Falls. The District and the City of Granite Falls entered into a wholesale water sales agreement in early 1996. Granite Falls is supplied water from the District through three master meters. Granite Falls retains retail service responsibility within the Granite Falls urban growth area. The agreement was renewed in 2009 and continues through 2026 and thereafter unless terminated by mutual agreement upon five years' written notice by either party.

City of Arlington. The District and the City of Arlington entered into a wholesale water sales agreement in July 1998. The City purchases wholesale water from the District for resale to its customers. The agreement allows Arlington to obtain a maximum of 1,000 gpm from the District's Integrated Water System. The agreement continues unless terminated by mutual agreement or upon five-year written notice by either party.

City of Snohomish. The District and the City of Snohomish entered into a temporary/seasonal wholesale water agreement in 2012. The District agreed to sell water to the City of Snohomish through a 2” master meter for the purpose of serving approximately 75-100 City of Snohomish customers along its transmission main that historically supplied the water from the City of Snohomish’s Pilchuck River treatment plant, when river conditions prevented the City of Snohomish from producing water at its plant. In 2017 the agreement was amended to allow the District to sell water on a full-time basis, when the City of Snohomish decided to decommission the Pilchuck River treatment plant in 2017. In both cases the City of Snohomish agreed to pay the District its current commercial rate for the water provided. The District and City of Snohomish are in the process of finalizing a permanent wholesale agreement that would incorporate a new wholesale rate for the City of Snohomish.

City of Gold Bar. The District and the City of Gold Bar entered into an emergency intertie agreement in November 2013. The City of Gold Bar operates its own public water system. This agreement allows for one utility to access water from the other utility through the intertie at the current commercial rate only in emergency situations where the parties agree public health and safety is at risk. The agreement continues through December 2026.

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Water System Operating Statistics

The following table presents the Water System's operating statistics for the calendar years 2014 through 2018.

TABLE 6
WATER SYSTEM OPERATING STATISTICS

	2014	2015	2016	2017	2018	2019[(1)]
Number of Customers (average)	19,185	19,436	19,895	20,293	20,808	21,570
Water Sales (000 cubic feet)						
Retail[(2)]	179,158	195,158	178,826	198,117	197,606	155,590
Wholesale[(3)]	20,370	18,962	16,802	22,189	24,003	21,086
Total Water Sales	199,528	214,120	195,628	220,306	221,609	176,676
System Use, Losses and Other (000 cubic feet)	7,700	9,331	18,783	22,727	27,767	9,225
Water Purchased and Pumped (000 cubic feet)	207,228	223,451	214,411	243,033	249,376	185,901

(1) Through September 30, 2019.
(2) Retail water sales generally exhibit annual increases based on a growing number of customers and changes in water rates; however, consumption is highest during summer periods and can fluctuate year-to-year due to variations in average temperatures and precipitation levels.
(3) Wholesale sales represent sales to the City of Granite Falls, the City of Arlington, the City of Snohomish and Other Emergency Intertie.
Source: The District

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Financial Results

The following table presents income statement information of the Water System for the five calendar years 2014 through 2018, and the first nine months of 2019. Appendix A hereto contains the audited financial statements for the District for the calendar years ended December 31, 2018 and 2017.

TABLE 7
WATER SYSTEM COMPARATIVE INCOME STATEMENTS
($000s)

	2014	2015	2016	2017	2018	2019[1]
Operating Revenues:						
Retail Water Sales	$10,180	$11,163	$11,406	$12,260	$12,588	$9,845
Wholesale Water Sales	366	358	343	493	545	473
Other	256	268	325	344	397	332
Total Operating Revenues	10,802	11,789	12,074	13,097	13,530	10,650
Operating Expenses:						
Purchased Water	1,899	2,009	2,096	2,585	2,438	2,077
Operations	3,384	3,277	3,434	3,927	3,574	2,904
Maintenance	894	933	1,382	1,253	1,517	1,378
Depreciation	2,780	2,931	2,794	2,875	2,932	2,260
Taxes	535	612	628	641	688	560
Total Operating Expenses	9,492	9,762	10,334	11,281	11,149	9,179
Net Operating Income (Loss)	1,310	2,027	1,740	1,816	2,381	1,471
Interest Charges	(860)	(799)	(735)	(705)	(614)	(482)
Other Income and Expense	1,032	1,241	1,148	1,165	464	523
Contributions						
Facilities/Connection Charges[2]	733	1,606	2,862	2,120	3,441	3,280
Plant Contributions[3]	2,104	786	658	1,609	2,277	3,290
Total Contributions	2,837	2,392	3,520	3,729	5,718	6,570
Net Income	$ 4,319	$ 4,861	$ 5,673	$ 6,005	$ 7,949	$8,082
Net Income Adjustments:						
Non-Cash Plant Contributions	(2,104)	(786)	(658)	(1,609)	(2,277)	(3,290)
Interest Charges	860	799	735	705	614	482
Depreciation	2,780	2,931	2,794	2,875	2,932	2,260
Settlement Amortization	(927)	(927)	(927)	(927)	0	0
Actuarial Adjustment due to Pension and OPEB Liability	0	(74)	4	(178)	(348)	0
Net increase (decrease) in the fair value of investments	15	(8)	(9)	26	(46)	(63)
Balance Available for Debt Coverage	$ 4,943	$ 6,796	$ 7,612	$ 6,897	$ 8,824	$ 7,471
Senior Lien Debt Service[4]	2,631	2,574	2,515	2,460	2,401	1,721
Less Assessment Payments Received[5]	(78)	(100)	(75)	(90)	(65)	(31)
Debt Service Paid from Revenues	2,553	2,474	2,440	2,370	2,336	1,690
Senior Lien Debt Service Coverage	1.9x	2.7x	3.1x	2.9x	3.8x	4.4x

(1) Based on actual results through September 30, 2019.
(2) Includes General Facilities Charges, Service Connection Fees and Distribution System Charges, which are charges paid by new connection to the Water System.
(3) Represents facilities donated to the District by developers and property owners.
(4) Represents regularly scheduled debt service for 2019, prorated through September 30, 2019. Includes debt service on the Outstanding Bonds.
(5) Assessment income shown is based on actual payments received including early payments of Assessments. See "THE WATER SYSTEM—Local Utility Districts."

Source: The District

Management's Discussion of the Water System's Financial Results

Results of Operations. The Water System's total operating revenue increased from $10,802,000 in 2014 to $13,530,000 in 2018, an increase of 25% and a compound annual increase of 6% over the period. During this period, retail water sales revenue increased 24% from $10,180,000 in 2014 to $12,588,000 in 2018. The increase in retail water sales revenue reflects the strong growth in the number of Water System customers and retail rate increases from 2014 to 2018. The growth in customers is illustrated below:

TABLE 8
AVERAGE NUMBER OF CUSTOMERS

2014	2018	Percent Change	Compound Annual Increase
19,185	20,808	8.5%	2.1%

Source: The District

The growth in customers reflects a strong population growth rate in the District's service territory and expansion of the Water System. Some of this expansion has come from the acquisition of small private water systems which cannot bear the cost of increasing regulatory requirements imposed by federal and state agencies. Additionally, increased operating revenues reflect retail water rate increases of 4.3% in 2014, 4.3% in 2015, 4.3% in 2016, 0.0% in 2017 and 2.0% 2018. The District does not anticipate making any increases to the retail water rate in 2019 and the District currently does not have an increase to the retail water rate scheduled in 2020.

Wholesale water sales revenue increased 49% from $366,000 in 2014 to $545,000 in 2018. The Water System has agreements with the Snohomish County cities of Granite Falls, Arlington, Snohomish and Gold Bar to provide wholesale water. The wholesale water agreements continue with the cities of Granite Falls until 2026 and with Arlington until mutually agreed upon termination. The agreements can be terminated after those dates with five years written notice. The District and the City of Snohomish originally entered into a temporary/seasonal wholesale water agreement, but are now in the process of finalizing a permanent wholesale agreement. The District also has an emergency intertie agreement with the City of Gold Bar until 2026. Wholesale rates are adjusted annually based on the average costs in the preceding year for each of the wholesale cost components. Cost components include: supply, conveyance, pumping, administration, and depreciation.

The facilities/connection charges and plant contributions vary annually based on the level of real estate development in the Water System's service territory. Facilities/connection charge revenues increased sharply beginning in 2014 and continued to do so through 2018 reflecting the national economic recovery and increase in real estate development in the region. Plant contributions also declined slightly in 2015 and further in 2016, reflecting the decrease in development and related decrease in the number of water mains being replaced or installed in connection with those developments. However, the plant contributions then increased sharply from 2017 through 2018. This was due to the strong increase in development within the Lake Stevens and Snohomish County areas served by the Water System. These contributions generally reflect development that began a year or more prior to the contribution.

The District purchases most of the water it sells (approximately 75% in 2018) from the City of Everett. Wholesale water rates from the City of Everett have increased from an average of $1.1386 per hundred cubic feet ("ccf") in 2014 to $1.4128/ccf in 2018. The remaining water supply is pumped from wells owned and operated by the District. Purchased water expense increased from $1,899,000 in 2014 to $2,438,000 in 2018, an increase of 28%, as a result of an 8.5% increase in the number of customers and an annual average 5.5% increase in the cost of water purchased from the City of Everett. Purchased water expense averaged approximately 18% of water sales revenue over the five-year period from 2014 to 2018.

Operations expense increased from $3,384,000 in 2014 to $3,574,000 in 2018, an increase of approximately 6%. Operations expense consists primarily of pumping, water treatment, transmission and distribution, customer service, and administrative expenses. Operations expenses can fluctuate from year to year based on the amount of capital construction performed. Maintenance expense increased approximately 70%, from $894,000 in 2014 to $1,517,000 in 2018. The increase in maintenance expenses is attributable to the growth of the system and the increased maintenance needs of the water mains and additional services related to this growth. As the Water System's service territory has expanded, so have the personnel and resources necessary to maintain and operate the system.

Depreciation expense increased 6% from $2,780,000 in 2014 to $2,932,000 in 2018. The increase is the result of a significant increase in capital assets during this period. Total capital additions were approximately $23,926,000 during the years 2014 through 2018, and consisted primarily of aging water main replacements consistent with the District's plan to replace aging water mains beginning in 2008.

Taxes increased from $535,000 in 2014 to $688,000 in 2018, an increase of 29%, due primarily to growth in total operating revenues. The District pays an excise tax levied by the State of Washington equal to 5.029% of retail water sales revenue. The District also pays a business and occupation tax on general facilities charges, distribution system charges, and service connection fees. The current business and occupation tax rate is 1.5%.

The Water System produced net income of $4,319,000 in 2014. Net income was $4,861,000 in 2015, an increase of $542,000 from 2014. Retail water sales increased by $983,000 due to higher retail rates and growth, and plant contributions decreased by $1,318,000 as a result of the decrease in development during this period and related decrease in the number of water mains being replaced or installed in connection with those developments.

In 2016, net income increased by $812,000 to $5,673,000 primarily as a result of a $1,256,000 increase in facilities and connection charge contributions.

Net income was $6,005,000 in 2017, an increase of $332,000 from 2016. Despite a $489,000 increase in purchased water due to higher wholesale rates experienced by the City of Everett, net income was higher in 2017 due to the housing market and new construction and development causing a $951,000 increase in plant contributions from developers.

In 2018, net income increased by $1,944,000 to $7,949,000 primarily as a result of a $328,000 increase in retail water sales due to higher retail rates and growth, a $1,321,000 increase in facilities and connection charge contributions, and a $668,000 increase in plant contributions due to the continuing strong development in the Water System's service area.

Financial Condition, Liquidity and Capital Resources. The District has several special funds. The use of amounts held in such special funds is restricted pursuant to the Commission, state law or other agreements. These funds, which consist of cash, cash equivalents and investments, are restricted for specific purposes, including debt service, debt service reserves, rate stabilization, qualifying capital expenditures, post-employment benefits, FERC license commitments, and other reserve requirements. In June 2018, the District adopted a revised financial reserve policy which made modest changes in the allocation of reserves between special funds and other cash and investments. It is the District's policy to use unrestricted funds prior to using restricted funds except for bond proceeds used for qualifying capital expenditures and funds set aside for debt service payments.

The District adheres to the following policies with respect to the Water System's reserve funds:

- Reserve funds have been structured to enable the District to prudently and consistently meet its financial obligations while allowing for flexible planning in the development and implementation of its capital plan and operations and maintenance budget.
- Reserve funds allow the District to mitigate risks from unforeseen financial variability, thereby minimizing the necessity for temporary rate surcharges.
- Areas that may warrant reserves include, but are not limited to, water cost variability, capital infrastructure investment, legal claims, operating cash flow needs, bond reserve covenant compliance, bond payment sinking requirements, future financial obligations, contingencies for significant known or estimated liabilities, and other areas as determined by the Commission from time to time.
- Levels for cash reserves will be established based on the nature of the risk or situation being managed.

The District has established the following cash reserves for the Water System. As of December 31, 2018, the Water System's cash and temporary investments totaled $19,974,000. Table 9 below shows the Water System's cash and temporary investments in the cash reserve funds, as of December 31 for years 2014 through 2018, and as of September 30 for 2019.

- Operating Reserve: funds set aside to provide adequate working capital for operational liquidity, seasonal revenue and expenditure fluctuations and unforeseen events not addressed by the other reserve funds.
- Sinking Reserve: funds set aside on a calculated schedule in order to meet known, significant, periodic payments.
- Project Reserves: funds that may be utilized to fund projects as approved by the Commission through the adopted District budget, as directed by the Commission or as required to comply with applicable requirements set forth in any resolution related to a series of the Water System's bonds.
- Contingency Reserve: funds set aside to mitigate the exposure of the Water System to risk, including natural disasters and water quality issues.
- Bond Debt Service Reserve: funds set aside to fulfill the District's obligation to establish debt service reserve funds to secure series of the Water System's bonds, to the extent required by a resolution authorizing such bonds.

TABLE 9
RESERVES
($000s)

	2014	**2015**	**2016**	**2017**	**2018**	**2019(1)(2)**
Operating Reserve	$10,150	$12,999	$9,566	$9,446	$9,520	9,353
Contingency Reserve	1,500	1,501	1,499	1,498	1,516	1,523
Sinking Reserve	325	310	299	294	282	1,592
Bond Debt Service Reserve	1,219	1,219	1,219	1,219	1,219	1,219
Project Reserve	99	1,052	3,271	4,601	7,437	10,309
Total Reserves	**$13,293**	**$17,081**	**$15,854**	**$17,058**	**$19,974**	**23,996**

(1) As of September 30, 2019.
(2) The District used $2,300,000 from the Operating Reserve to redeem all of the District's Outstanding Water System Revenue and Refunding Bonds, Series 2006 on December 1, 2019.
Source: The District

The District currently does not expect to issue additional Water System bonds to finance capital projects in the next three years. Principal outstanding on the Water System's long-term debt at December 3, 2019 was as follows:

Long-term Debt	**($000s)**
Senior Lien Debt	
Series 2009 Bonds	$ 8,715
Series 2011 Bonds	2,405
Junior Lien Debt	
State of Washington Drinking Water Revolving Fund loans	3,882
Total Principal Outstanding on Long-term Debt	$ 15,002

The 2009 Bonds were sold to finance the construction of a new Water System operations facility and certain capital improvements to the Water System. The 2011 Bonds were sold to refund outstanding Bonds.

Most of the junior lien debt represents loans obtained through the Drinking Water Revolving Fund loan programs. These loans are at very low interest rates (ranging from 0 – 5%) with approximately level debt service. Final maturities for the largest loans are in 2034 and 2042.

Capital construction costs for the full years 2014 through 2018, and through September 30, 2019 were as follows:

TABLE 10
Capital Construction
($000s)

Year	Actual
2014	$ 5,038,000
2015	4,725,000
2016	3,541,000
2017	5,188,000
2018	5,434,000
2019(1)	6,329,000

(1) Through September 30, 2019.

PROJECTED OPERATING RESULTS

Forecast Operating Results

The District does not, as a matter of course, make public projections as to future sales, earnings, or other results. However, the management of the District has prepared the prospective financial information set forth below to present the forecasted financial results of the Water System. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the District's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the District. The prospective financial information included herein, and the assumptions, forecasts and projections related thereto are not necessarily indicative of future performance of the Water System or the District, and the District cannot be responsible if actual results differ from those forecast. Certain assumptions related to the prospective financial information may be subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular set of facts or circumstances, and prospective purchasers of the 2019 Bonds are cautioned not to place undue reliance upon the prospective financial information, or any assumptions, forecasts or projections related thereto. If actual results are less favorable than the results forecast or projected or if the assumptions used in preparing such forecasts or projections prove to be incorrect, the District's ability to make timely payment of the principal of and interest on all of its obligations, including the 2019 Bonds, may be materially and adversely impaired. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and prospective investors should not place undue reliance on the forecasted information.

The District's independent auditors have not been engaged to compile, examine, or perform any procedures with respect to the District's forecasted financial information, nor have they expressed any opinion or any other form of assurance on such information or its achievability and assume no responsibility for, and disclaim any association with, the forecasted financial information.

In projecting the financial results for the Water System, the District has made certain assumptions regarding various factors that affect financial performance. Changes in these assumptions can have material effects on the projected financial performance. While numerous factors (or combinations of factors) could affect the District's financial performance, the factors most likely to affect the projections are forecasted customer growth affecting retail water sales revenues, as well as facilities and connection charges and non-cash contributions, and the projected impact of the transfer of the Warm Beach Water Association's water distribution system. Changes to the assumptions regarding these factors could have material effects on the outcome of the District's financial projections.

The forecast of Water System retail sales revenue results is based on the base case demand forecast. The base case demand forecast also impacts the projections for purchased water costs, capital expenditures, capital contributions, and taxes at current rates.

Estimated future retail water sales revenue also reflects the impact of projected annual retail rate increases of approximately 2% annually, effective January 1, 2021 through 2023. These increases are subject to adoption by the Commission. Estimated future retail water sales assume growth in demand between 1.75% and 2.0% per year.

The forecast for purchased water expense is based upon adopted rates by the City of Everett for 2020 and projected rate increases from 2021 through 2023. The forecast also reflects the base case demand forecast used for retail water sales revenue. In addition, purchased water expenditures reflect the effect of the water treatment plant, which is forecasted to reduce purchases of water from the City of Everett by up to 26%.

Operations and maintenance expenses for 2019 are forecast based on the financial results through September 2019. Operating and maintenance costs beyond 2019 are projected based on inflationary factors and known projects. Operations and maintenance expenses can fluctuate from year to year based on the amount of capital construction performed. As capital construction increases, allocated costs for administrative and general services are charged to the capital projects and capitalized rather than expensed in the period incurred. The annual increases in operation and maintenance expenses average 6.8% over the four-year forecast.

The forecast also includes estimated general facilities charges, distribution service charges, and service connection fees, which are one-time charges paid by new connections to the Water System. These estimated charges are projected based on estimated real estate development and construction growth in the service territory.

The forecast operating results for the period 2019 through 2022 are shown in the table below.

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TABLE 11
WATER SYSTEM PROJECTED OPERATING RESULTS
($000s)

	2019[1]	2020	2021	2022
Operating Revenues:				
Retail Water Sales[2]	$12,643	$12,326	$12,783	$13,020
Wholesale Water Sales	618	477	486	496
Other	416	363	371	379
Total Operating Revenues	13,677	13,166	13,640	13,895
Operating Expenses:				
Purchased Water[3]	2,544	3,240	3,201	3,374
Operations	3,958	4,370	4,736	5,088
Maintenance	1,406	1,553	1,683	1,808
Depreciation	2,996	3,024	3,085	3,147
Taxes	714	672	684	699
Total Operating Expenses	11,618	12,859	13,389	14,116
Net Operating Income (Loss)	2,059	307	251	(221)
Interest Charges	(687)	(471)	(453)	(418)
Other Income and Expense	625	163	169	173
Contributions				
Facilities/Connection Charges[4]	4,149	2,945	3,069	3,199
Plant Contributions[5]	4,650	1,000	1,000	1,000
Total Contributions	8,799	3,945	4,069	4,199
Net Income	$ 10,796	$ 3,944	$ 4,036	$ 3,733
Net Income Adjustments:				
Non-Cash Plant Contributions	(4,650)	(1,000)	(1,000)	(1,000)
Interest Charges	687	471	453	418
Depreciation	2,996	3,024	3,085	3,147
Settlement Amortization	0	0	0	0
Actuarial Adjustment due to Pension and OPEB Liability	0	0	0	0
Net increase (decrease) in the fair value of investments	0	0	0	0
Balance Available for Debt Coverage	$ 9,829	$ 6,439	$ 6,574	$ 6,298
Senior Lien Debt Service	2,295	1,613	1,601	1,628
Less Assessment Payments Received[6]	(64)	(6)	(3)	(0)
Debt Service Paid from Revenues	2,231	1,607	1,598	1,628
Senior Lien Debt Service Coverage	4.4x	4.0x	4.1x	3.9x

(1) Based on actual results through September 2019 and projected to year end.
(2) Projected retail sales revenues include projected annual rate increases of 2% beginning on January 1, 2021. These are subject to Commission approval.
(3) Purchased Water Costs include an adopted City of Everett rate increases of 3.5% on January 1 of 2020 and estimates of 2.0% in 2021 and 2.9% in 2022.
(4) Includes General Facilities Charges, Service Connection Fees and Distribution System Charges, which are charges paid by new connections to the Water System.
(5) Represents facilities donated to the District by developers and property owners.
(6) Includes principal and interest estimated to be received from Assessments pledged to be deposited in the Bond Fund. Assessment Income shown based on scheduled payments excluding early payments of Assessments. See "THE WATER SYSTEM—Local Utility Districts."

Source: The District

Forecast Construction Expenditures

Projects planned through 2023 include continuation of the main replacement program, Warm Beach improvements from 2020 to 2022, the Machias Pump Station and the Kayak Reservoir in 2021 and the Burn Road Reservoir in 2023.

The following table shows the estimated uses of funds for construction projects from 2020 through 2022.

TABLE 12
WATER SYSTEM FORECAST OF CONSTRUCTION EXPENDITURES
($000s)(1)

	2020	2021	2022
General	$1,842	$1,981	$1,714
Pipe	4,499	5,122	3,215
Pumping Station	406	129	5
Reservoir	1,117	795	881
Total Annual Expenditures	$7,864	$8,027	$5,815

(1) Water System Forecast of Construction Expenditures does not include facilities that are forecast to be donated to the District by developers and property owners as non-cash plant contributions.

The District does not commit funds to capital construction or future growth until it is clear that forecast demands and new customer connections will develop. The District pays for its capital construction program from five sources: (i) cash and temporary investments, (ii) general facilities charges, service connection fees and distribution system charges, (iii) general rates, (iv) local utility district assessments, and (v) new debt proceeds. The Water System also has the ability to borrow from the Electric System up to $10 million to provide short-term financing for Water System improvements. Currently, no loans are outstanding from the Electric System.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Snohomish County (the "County") encompasses a land area of approximately 2,100 square miles in northwestern Washington. The County extends from Puget Sound to the crest of the Cascade Mountain range 70 miles to the east. The County includes a significant portion of the Puget Sound metropolitan area and is the third most populated county in Washington State, after King and Pierce Counties. As shown in the following table, since 2014, the County's population has grown 10.5% and the City of Everett's population has grown 6.6%.

TABLE 13
POPULATION ESTIMATES

Year	Snohomish County	City of Everett
2019	818,700	111,800
2018	805,120	111,200
2017	789,400	109,800
2016	772,860	108,300
2015	757,600	105,800
2014	741,000	104,900

Source: Washington State Office of Financial Management

Industry, Real Property and Employment. The County's economy is an urban-rural mix. Agriculture and logging predominate in the northern and eastern regions of the County while a high technology, urban job market predominates in the City of Everett and the southern part of the County. While forestry and wood products manufacturing are important industries locally, the economic base of the County has expanded due to diversification into major industries, including aircraft production, high technology, biotechnology, electronics and electrical equipment manufacturing.

The County has recently experienced a decrease in housing prices but an increase in closed sales. According to Northwest Multiple Listing Services, closed sales for houses and condos in the County increased from 1,180 closed sales in September 2018 to 1,255 in September 2019 and the median selling price for houses declined by approximately 2.66% from \$610,000 to \$593,750 for the same period.

The Boeing Company ("Boeing") remains the County's largest employer, with an estimated 35,000 workers in the County as of 2018. Boeing established an airplane manufacturing plant at the south end of the City of Everett in 1966. The plant was built to assemble wide-bodied 747 aircraft. In 1980 the plant was expanded for production of the new-generation 767 wide-body twin jet, and in the early 1990s Boeing completed a \$1.5 billion expansion project to accommodate 777 aircraft production. Located adjacent to the Snohomish County Airport ("Paine Field"), the complex presently includes the world's largest volume building with 472 million cubic feet together with nine office buildings and one 500,000 square foot supply building. As of 2018, Boeing employed approximately 69,813 in Washington State. On March 13, 2019, the Federal Aviation Administration ordered the grounding of Boeing's 737 MAX aircraft operated by U.S. airlines or in U.S. territory. The 737 MAX is manufactured in Boeing's Renton, Washington manufacturing facility. The District does not expect the grounding of the 737 MAX to have a material adverse effect on Revenues or the Water System.

In March 2019, a new two-gate commercial passenger terminal opened at Paine Field, which is located near the City of Everett. Alaska Air Group and United Airlines currently operate approximately 25 commercial passenger service flights per day at Paine Field.

The U.S. Navy operates a homeport for several naval vessels in the City of Everett. Naval Station Everett is home to five destroyers and two Coast Guard cutters. Naval Station Everett employed approximately 2,900 military personnel and civilian employees as of 2018.

Economic Indicators. Following are economic indicators for Snohomish County and the City of Everett. The major employers in the County are shown on the following table:

TABLE 14
MAJOR EMPLOYERS IN SNOHOMISH COUNTY (2018)

Employer	Product/Business	2018 Estimated Employment
The Boeing Company	Aircraft manufacturing	35,000
Providence Regional Medical Center	Medical services	4,906
Edmonds School District	School district	3,616
The Tulalip Tribes	Gaming, real estate, government services	3,500
State of Washington	State government	3,000
Naval Station Everett	U.S. Navy Base	2,900
The Everett Clinic	Health care	2,871
Snohomish County Government	County government	2,759
Everett School District	School district	2,443
Premera Blue Cross	Health insurer	2,200
Albertsons / Safeway (25 locations)	Retail - grocery	2,177
U.S. Federal Government	Government, federal	2,100
Mukilteo School District	School district	2,020
Philips	Ultrasound technology	2,000
Swedish Medical Center | Edmonds campus	Health care	1,850
Edmonds Community College	Higher education	1,635
Fred Meyer / QFC (19 locations)	Retail - grocery	1,351
Walmart (8 locations)	Retail	1,342
Marysville School District	School district	1,341
City of Everett	City government	1,225

Sources: Economic Alliance Snohomish County

TABLE 15
SNOHOMISH COUNTY AND CITY OF EVERETT
TAXABLE RETAIL SALES

Year	Snohomish County	City of Everett
2019(1)	$ 3,654,728,165	$ 709,732,960
2018	15,673,269,688	3,011,204,938
2017	14,509,899,633	2,934,305,078
2016	13,618,314,632	2,803,484,518
2015	12,641,937,656	2,704,459,177
2014	11,699,234,128	2,441,363,133

(1) Preliminary, through first quarter of 2019.
Source: Washington State Department of Revenue

TABLE 16
ASSESSED VALUATION OF SNOHOMISH COUNTY

Collection Year	Valuation
2019	$132,827,352,255
2018	118,417,725,917
2017	105,036,086,924
2016	96,080,092,915
2015	88,260,207,637
2014	79,448,742,407

Source: Snohomish County Assessor's Office

TABLE 17
SNOHOMISH COUNTY PERSONAL AND PER CAPITA INCOME

Year	Personal Income ($000s)	Per Capita Income
2017(1)	$42,009,224	$52,405
2016	39,426,775	50,101
2015	37,308,655	48,488
2014	35,500,050	46,888
2013	33,229,629	44,641

(1) Most recent data available.
Source: U.S. Bureau of Economic Analysis

TABLE 18
SNOHOMISH COUNTY EMPLOYMENT DATA

	Annual Averages					
	2019[1]	2018	2017	2016	2015	2014
Civilian Labor Force	439,191	430,470	422,511	412,294	401,650	395,565
Employed	423,949	414,289	405,449	394,461	382,890	374,903
Unemployed	15,242	16,181	17,062	17,833	18,760	20,662
County Unemployment Rate	3.5%	3.8%	4.0%	4.3%	4.7%	5.2%

(1) Preliminary, average through August 2019.
Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch

TABLE 19
SNOHOMISH COUNTY NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	Annual Averages					
NAICS Industry Title	2019[1]	2018	2017	2016	2015	2014
Goods Producing						
Mining, Logging, and Construction	23,800	24,200	22,700	21,500	19,600	17,500
Manufacturing	60,700	58,500	58,700	63,000	63,700	63,100
Total[2]	84,500	82,700	81,400	84,500	83,200	80,600
Services Providing						
Trade, Transportation and Utilities	48,600	48,400	48,200	47,700	47,400	45,400
Information	4,500	5,200	5,700	6,000	5,800	5,700
Financial Activities	12,900	13,000	12,800	12,600	12,300	12,200
Professional and Business Services	29,300	28,500	27,900	26,800	24,900	23,700
Education and Health Services	36,400	35,600	34,700	33,700	33,300	32,900
Leisure and Hospitality	26,400	26,500	26,100	26,000	24,900	24,100
Other Services	10,300	10,300	10,300	10,100	10,100	10,000
Government	40,400	40,000	40,000	39,600	38,800	38,200
Total[2]	208,800	207,400	205,600	202,500	197,400	192,100
Total Nonfarm[2]	293,300	290,100	287,100	287,000	280,600	272,200

(1) Preliminary, as of August 2019.
(2) Totals may not add due to rounding.
Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch

TABLE 20
SNOHOMISH COUNTY NUMBER OF HOUSING UNITS BY STRUCTURE TYPE

	Total Housing Units		One Unit Structures		Two or More Unit Structures		Mobile Homes, Trailers, Special Units	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
City of Everett	46,497	46,884	21,990	22,036	23,346	23,686	1,161	1,162
Other Incorporated	179,137	181,328	110,209	111,135	62,981	64,241	5,947	5,952
Unincorporated	133,581	135,620	97,190	98,144	22,772	23,823	13,619	13,653
Snohomish County	312,718	316,948	207,399	209,279	85,753	88,064	19,566	19,605

Note: Numbers are shown as of April 1, 2018 and April 1, 2019.
Source: Washington State Office of Financial Management

LIMITATIONS ON REMEDIES; BANKRUPTCY

Limitations on Remedies

Any remedies available to the owners of the 2019 Bonds upon the occurrence of an event of default under the Resolution are in many respects dependent upon judicial actions that are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the District fails to comply with its covenants under the Resolution or to pay principal of or interest on the 2019 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the 2019 Bonds.

In addition to the limitations on remedies contained in the Resolution, the rights and obligations under the 2019 Bonds and the Resolution may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Orrick, Herrington & Sutcliffe LLP, as Bond Counsel ("Bond Counsel") to the District, concurrently with the issuance of the 2019 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 2019 Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C.

Bankruptcy

A municipality such as the District must be specifically authorized under state law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). While an involuntary bankruptcy petition cannot be filed against the District, the District may be authorized to file for bankruptcy under certain circumstances. Should the District file for bankruptcy, there could be adverse effects on the holders of the 2019 Bonds.

To the extent that the Revenues are "special revenues" under the Bankruptcy Code, then Revenues collected after the date of the bankruptcy filing should secure the District's obligations under the Resolution and the 2019 Bonds. "Special revenues" are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide utility services. No assurance can be given that a court would hold that any or all Revenues are special revenues. In a case arising from the insolvency proceedings of Puerto Rico, the United States Court of Appeals for the First Circuit concluded that while a debtor has the right to voluntarily apply special revenues to the payment of debt service during the pendency of a bankruptcy case, the debtor is not obligated to do so, even though the special revenues are subject to the lien of the bond documents.

If any of the Revenues are determined not to be special revenues, then any such amounts collected after the commencement of the bankruptcy case will likely not secure the District's obligations under the Resolution or the 2019 Bonds. The holders of the 2019 Bonds may not be able to assert a claim against any property of the District other than the Revenues, and if any or all of the Revenues no longer secure the Resolution and 2019 Bonds, then there may be limited, if any, funds from which the holders of the 2019 Bonds are entitled to be paid.

The Bankruptcy Code provides that "special revenues" can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. It is not clear precisely which expenses would constitute necessary operating expenses and the definition of "Operating Expenses" in the Resolution may not be controlling.

If the District is in bankruptcy, the parties (including the holders of the 2019 Bonds) may be prohibited from taking any action to collect any amount from the District or to enforce any obligation of the District, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the paying agent from making payments to the holders of the 2019 from funds in the paying agent's possession. The rate covenants (see "SECURITY FOR THE BONDS—Rate Covenant") may not be enforceable in bankruptcy by the holders of the 2019 Bonds.

The District is permitted to commingle the Revenues with its own funds for certain periods of time before turning over the Revenues to the Paying Agent. See "SECURITY FOR THE BONDS—Flow of Funds." If the District goes into bankruptcy, the District may not be required to turn over any Revenues that are in its possession at the time of the bankruptcy filing and have been commingled with other moneys. If the District has possession of Revenues (whether collected before or after commencement of the bankruptcy) and if the District does not voluntarily turn over such Revenues, it is not entirely clear what procedures the holders of the 2019 Bonds would have to follow to attempt to obtain possession of such Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. The United States Court of Appeals for the First Circuit, in another case involving the insolvency proceedings of Puerto Rico, concluded that a bankruptcy court does not have the power order a debtor to comply with state law.

The District may be able to borrow additional money that is secured by a lien on any of its property (including the Revenues), which lien could have priority over the lien of the Resolution, or to cause some of the Revenues to be released to it, free and clear of lien of the Resolution, in each case as long as the bankruptcy court determines that the rights of the Trustee and the holders of the 2019 Bonds will be adequately protected.

If the District is in bankruptcy it may be able, without the consent and over the objection of the holders of the 2019 Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Resolution and the 2019 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the 2019 Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the 2019 Bonds, or result in losses to the holders of the 2019 Bonds. Regardless of any specific adverse determinations in a District bankruptcy proceeding, the fact of a District bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2019 Bonds.

The District may invest the Revenues in the State of Washington Local Government Investment Pool. Should those investments suffer any losses, the District may have insufficient funds to make payments on the 2019 Bonds.

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of Washington State, the voters of the State have the ability to propose referenda to modify, approve, or reject all or a part of recently enacted legislation or propose ballot initiatives to initiate legislation directly. Referenda can be required on recently-enacted legislation through a petition of the voters, or a referendum on new legislation may be required by the Legislature itself. Initiatives are new legislation proposed to the Legislature or for voter approval by petition of the voters. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. The State Constitution may not be amended by initiative or referendum. Any initiative or referendum approved 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 relevant statute is subject to amendment or repeal by the Legislature by a simple majority vote.

Tax and fee initiative measures may be filed in the future, but it cannot be predicted whether any such initiative might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, would ultimately be approved.

CYBERSECURITY

Cyberattacks continue to become more sophisticated and are increasingly capable of impacting control systems and components. To mitigate this threat, the District maintains layered cyber defenses consisting of policies, procedures, training, and technical controls to protect the reliability of systems, mitigate intrusions, and plan for business continuity and data recovery. The district also has insurance covering cyber events, see "THE DISTRICT—Insurance." These defenses conform to North American Electric Reliability Corporation Critical Infrastructure Protection Standards and best practices. While the threat of a cyberattack can never be completely eliminated, the District maintains a strong cybersecurity program to enhance cyberdefense and resilience, protecting critical infrastructure, information networks, and the data the District possesses and transmits. Notwithstanding these and other cybersecurity measures, a cybersecurity breach could damage District systems and cause material disruption to operations and services. The cost to remedy such damage or protect against future attacks could be substantial. Security breaches could expose the District to litigation and other legal risks, which could cause the District to incur costs related to the claims.

NATURAL DISASTER AND CLIMATE CHANGE

The District is located in a seismically active region. The Puget Sound region has experienced a number of major earthquakes. There have been four major earthquakes in the last 50 years, the most recent in 2001. The 2001 earthquake reportedly caused more than $2 billion in damage in the region, but caused minimal damage within the District's service area and to District facilities. The largest known earthquake in the region reportedly occurred in approximately 1700, and is estimated to have been of a magnitude 9.0 or greater. Such an earthquake could cause areas of liquefaction and landslide and could cause extensive and even catastrophic damage within the District's service area, including District facilities. Earthquakes of that magnitude are reportedly estimated to occur in the region every 400 to 600 years, according to the Pacific Northwest Seismic Network. Such an earthquake along the Washington coast or elsewhere in the Pacific rim could result in a major tsunami, which in turn could cause additional and extensive damage to areas within the District's service area adjacent to Puget Sound. The State has experienced various other natural disasters, including wildfires, mudslides, floods, droughts, windstorms and volcanic eruptions (Mt. St. Helens in 1980).

Climate change may intensify and increase the frequency of extreme weather events, such as drought, wildfires, floods and heat waves. The District cannot predict the timing, extent, or severity of climate change impacts or their effect on the District's operations and finances, and there can be no assurances that such effects will not be material or adverse. Under Washington law, any person, firm, or corporation may be liable if it negligently creates or allows extreme fire hazards to exist and which hazards contribute to the spread of fires.

SECONDARY MARKET AND PRICES

It has been the practice of the Underwriter to maintain a secondary market in municipal securities that it sells. The Underwriter presently intends to engage in secondary market trading of the 2019 Bonds, subject to applicable securities laws. However, the Underwriter is not obligated to engage in secondary trading or to repurchase any of the 2019 Bonds at the request of the Registered Owners thereof. No assurance can be given that a secondary market for the 2019 Bonds will be available and no assurance can be given that the initial offering prices for the 2019 Bonds will continue for any period of time.

LITIGATION

No Litigation Affecting the 2019 Bonds

There is no litigation now pending or threatened restraining or enjoining the issuance and delivery of the 2019 Bonds or the power and authority of the District to impose, prescribe or collect rates or charges for the services of the Water System, or in any manner questioning the power and the authority of the District to impose, prescribe or collect such rates or charges or issue and deliver the 2019 Bonds or affecting the validity of the 2019 Bonds.

Other Litigation

The District is a party to other lawsuits and claims arising out of its normal course of business, but the District does not believe any of such litigation will have a material adverse effect upon the District. In addition, the District is a party to certain litigation relating to the Electric System and the Generation System, but any payments as a result of such litigation would not be an obligation of the Water System.

TAX MATTERS

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2019 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth as APPENDIX C hereto.

To the extent the issue price of any maturity of the 2019 Bonds is less than the amount to be paid at maturity of such 2019 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2019 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2019 Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2019 Bonds is the first price at which a substantial amount of such maturity of the 2019 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2019 Bonds accrues daily over the term to maturity of such 2019 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2019 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2019 Bonds. Beneficial Owners of the 2019 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2019 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2019 Bonds in the original offering to the public at the first price at which a substantial amount of such 2019 Bonds is sold to the public.

2019 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2019 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2019 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2019 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2019 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2019 Bonds may adversely affect the value of, or the tax status of interest on, the 2019 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2019 Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2019 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2019 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2019 Bonds. Prospective purchasers of the 2019 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2019 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2019 Bonds ends with the issuance of the 2019 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the 2019 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2019 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2019 Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE UNDERTAKING

General. In accordance with Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time (the "Rule"), the District has agreed in the Resolution to provide or cause to be provided to the Municipal Securities Rulemaking Board (the "MSRB"), in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2020 for the fiscal year ending December 31, 2019):

1. Annual financial statements showing ending fund balances for the Water System prepared in accordance with generally accepted accounting principles as promulgated for municipalities (and as modified as may be required by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statutes)) and generally, of the type included in this Official Statement under "Comparative Income Statements";

2. Principal amount of outstanding Bonds;

3. Debt service coverage for outstanding Bonds;

4. Aggregate cubic feet of water usage per year for, and gross revenue from, the Water System's ten largest customers; and

5. Water System operating statistics showing average number of customers, water sales, system use and losses and water purchased.

Items 2 through 5, shall be required only to the extent that such information is not included the annual financial statements provided pursuant to item 1 above.

Such annual information and operating data described above shall be provided on or before 9 months after the end of the District's fiscal year. The District's current fiscal year ends December 31. The District may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the District may cross-reference to other documents available to the public on the MSRB's Internet website or filed with the Securities and Exchange Commission.

If not provided as part of the annual financial information discussed above, the District will provide to the MSRB the District's audited annual financial statement prepared in accordance with generally accepted accounting principles (and as modified as may be required by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute)), when and if available.

The District 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 described above on or before the date set forth above.

Specified Events. The District 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 2019 Bonds:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. 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 2019 Bonds, or other material events affecting the tax status of the 2019 Bonds;

7. Modifications to the rights of 2019 Bond owners, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of the 2019 Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the District;

13. The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, 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;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;

15. Incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect 2019 Bond owners, if material; or

16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

No real property secures repayment of the 2019 Bonds. The only debt service reserve is the Reserve Account.

For purposes of the event identified in item 12 above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

For purposes of the events specified in items 15 and 16 above, the term "Financial Obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or source of payment for, an existing or planned debt obligation; or (C) guarantee of (A) or (B). The term "Financial Obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Termination and Modification. The District's obligations to provide annual financial information and notices of specified events will terminate upon the legal defeasance, prior redemption or payment in full of all of the 2019 Bonds. Such undertaking, or any provision thereof, shall be null and void if the District (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule that require this undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the 2019 Bonds; and (2) notifies the MSRB of such opinion and the cancellation of such undertaking.

Notwithstanding any other provision of the Resolution, the District may amend such undertaking with an opinion of nationally recognized bond counsel in accordance with the Rule. In the event of any amendment or waiver of a provision of this undertaking, the District shall describe such amendment in the next annual report, and shall include, 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 District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change will be given in the same manner as for a material 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.

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 (which is not incorporated into this Official Statement by reference). All notices, financial information and operating data required by this 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 this undertaking must be accompanied by identifying information as prescribed by the MSRB.

Remedies. In the event of a failure of the District to comply with any provision of its continuing disclosure obligations described in this section, the dissemination agent may (and, at the request of the Participating Underwriters or the owners of at least 25% of aggregate principal amount of the 2019 Bonds then Outstanding, shall), or any owner or Beneficial Owner of the 2019 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its continuing disclosure undertaking; provided, that any such action may be instituted only in a Washington State Court sitting in Snohomish County or in U.S. District Court for the Western District of Washington. Any failure by the District to comply with the provisions of this undertaking will not be an event of default with respect to the 2019 Bonds under the Resolution, and the sole remedy hereunder in the event of any failure of the District to comply with its continuing disclosure obligations hereunder shall be an action to compel performance, and no person shall be entitled to recover monetary damages for such failure to comply. 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 2019 Bonds, including persons holding 2019 Bonds through nominees or depositories.

RATING

Moody's Investors Service ("Moody's") has assigned a rating of "Aa2" to the 2019 Bonds. Such rating reflects only the views of Moody's and is not a recommendation to buy, sell or hold the 2019 Bonds. An explanation of the significance of such rating should be obtained directly from Moody's. The District has furnished to Moody's certain information and materials with respect to the 2019 Bonds. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the rating that has been assigned to the 2019 Bonds will continue for any given period of time or that such rating will not be revised or withdrawn entirely by Moody's if, in the judgment of Moody's, circumstances so warrant. A downward revision or withdrawal of the rating may have an adverse effect on the market price of the 2019 Bonds. The District has undertaken to provide timely notice of any change in such rating. See "CONTINUING DISCLOSURE UNDERTAKING" above.

UNDERWRITING

Barclays Capital Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase the 2019 Bonds from the District at an aggregate purchase price of $7,991,210.15, representing the aggregate principal amount of the 2019 Bonds, plus original issue premium of $1,455,482.15 and less Underwriter's discount of $34,272.00. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligation to purchase all 2019 Bonds if any 2019 Bonds are purchased.

The Underwriter may offer and sell the 2019 Bonds to certain dealers (including dealers depositing 2019 Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the inside cover page hereof, and such initial offering prices may be changed, from time to time, by the Underwriter.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion, estimates or projections, whether or not so expressly stated, are set forth as such and not as representations of fact. No representation is made that any of such estimates will be realized. The descriptions contained in this Official Statement of the 2019 Bonds, the Resolution, and certain legislation do not purport to be complete and are qualified in their entirety by reference to the respective documents and laws. Copies of the Resolution are available at the offices of the District. The execution and delivery of this Official Statement by its Treasurer and Assistant General Manager-Finance have been duly authorized by the District.

Conflicts. Some of the fees of the Underwriter, Bond Counsel and Underwriter's Counsel are contingent upon the sale of the 2019 Bonds. From time to time Bond Counsel may serve as counsel to the Underwriter with respect to transactions other than the issuance of the 2019 Bonds.

MUNICIPAL ADVISOR

PFM Financial Advisors LLC has acted as municipal advisor to the District in connection with the issuance of the 2019 Bonds.

CERTAIN LEGAL MATTERS

The validity of the 2019 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix C. Bond Counsel takes no responsibility for the accuracy, completeness or fairness of this Official Statement. Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, will provide certain legal services for the District. Certain legal matters in connection with the issuance of the 2019 Bonds will be passed upon for the District by Anne Spangler, General Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Kutak Rock LLP. Any opinion of Kutak Rock LLP will be addressed solely to the Underwriter and may not be relied upon by owners of the 2019 Bonds.

This Official Statement is not to be construed as a contract with the owners of any of the 2019 Bonds.

**PUBLIC UTILITY DISTRICT NO. 1 OF
SNOHOMISH COUNTY, WASHINGTON**

/s/ James Herrling
Treasurer

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APPENDIX A

FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 AND INDEPENDENT AUDITOR'S REPORT

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Independent Auditors' Report

MOSSADAMS

Report of Independent Auditors

The Board of Commissioners
Public Utility District No. 1 of Snohomish County

Report on the Financial Statements

We have audited the accompanying financial statements of Public Utility District No. 1 of Snohomish County, Washington (the District), which comprise the District's combined and individual statements of net position of the Electric, Generation, and Water Systems as of December 31, 2018, the related District's combined and the individual statements of revenues, expenses and changes in net position and cash flows for the Electric, Generation, and Water Systems for the year ended December 31, 2018, the combined statements as of and for the year ended December 31, 2017, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the District as of December 31, 2018 and 2017, and the individual financial positions of the Electric, Generation and Water Systems as of December 31, 2018, and the changes in their financial positions and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of proportionate share of the net pension liability, schedule of employer contributions, and schedule of total other post-employment benefits liability and related ratios, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the combined financial statements. The accompanying schedules of Electric System – statements of revenues, expenses, and debt service coverage, Electric System – revenue and statistical data, and Water System – statements of revenues, expenses, debt service coverage, and statistical data are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss Adams LLP

Everett, Washington
March 28, 2019

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Management's Discussion and Analysis (Unaudited)

The following discussion provides an overview of Public Utility District No. 1 of Snohomish County (the PUD) financial activities for the years ended December 31, 2018 and 2017. This unaudited discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS

Combined Operating Results

Snohomish County PUD's operating results for 2018 improved from 2017 as combined net income increased from $76 million in 2017 to $80 million in 2018. This was a 5% increase compared to a 25% increase in 2017. This net income increase was primarily due to stronger than expected revenue from the sale of excess transmission capacity and lower operations expenses in 2018.

The PUD continued to exhibit growth in its customer base in 2018. The average number of Electric System customers increased 1.3% from 345,982 in 2017 to 350,418 in 2018, following a 1.4% increase in 2017. New electric service connections decreased slightly from 5,132 in 2017 to 4,341 in 2018. New connections in 2017 were the highest recorded at the PUD since 2007. Similarly, the average number of Water System customers increased 2.5% from 20,293 in 2017 to 20,808 in 2018, following a 2.0% increase in 2017. The transfer of the Warm Beach water system to the PUD in 2018 added approximately 600 customers to the Water Utility.

Despite the growth in customers, retail MWh sales decreased 1.6% from 6,594,137 MWh in 2017 to 6,487,390 MWh in 2018, compared to a 4.9% increase in 2017. Weather in the Puget Sound area was colder than usual in 2017 and closer to average in 2018, and as a result retail energy consumption was reduced from 2017 levels.

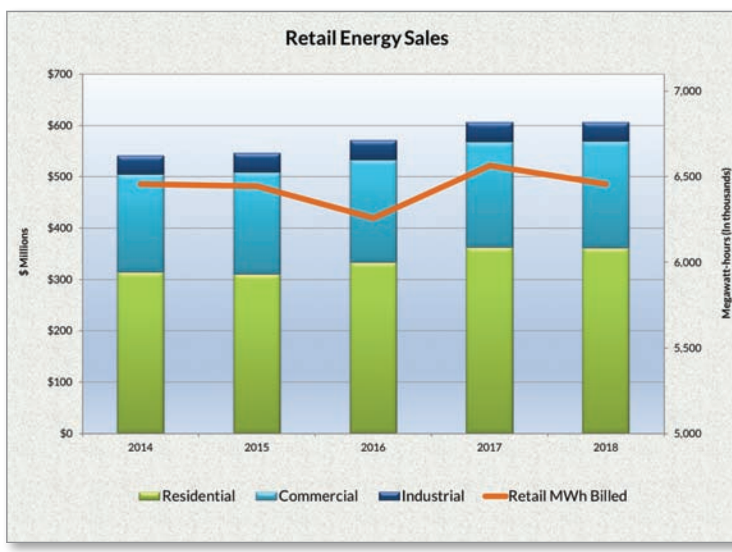

Figure 1

Combined retail sales were $623 million in 2018, slightly higher than the $622 million in 2017 and $586 million in 2016 despite the lower consumption. This was the result of an Electric System 2.9% general rate increase in April 2017 and a 1.6% Electric System rate increase in October 2017 to match an increase in power resource and transmission costs from the Bonneville Power Administration (BPA). The Water System residential rate increased 1.8% effective January 2018.

Combined wholesale sales revenue was virtually the same in 2018 and 2017 at $35 million, compared to $37 million in 2016. The volume sold into the wholesale market in 2018 decreased 9%, offset by a 10% increase in wholesale power market prices. Combined other operating revenue was $37 million in 2018, $8 million higher than the $29 million in 2017 and $2 million higher than the $35 million in 2016. The Electric system was able sell $11 million of excess transmission capacity in 2018 which led to this variance.

Combined operating expenditures were $628 million in 2018, $4 million higher than the $624 million spent in 2017, a less than 1% increase following a 2.3% increase in 2017. The primary driver of the operating expenditure increase in 2018 is a $10 million increase in maintenance costs, primarily caused by a two wind events in December 2018 following no major wind events in 2017.

Combined operations expenses declined to $198 million in 2018 from $205 million in 2017 as a result of an $11 million reduction in the PUD's share of state pension liability. A similar $7 million state pension liability reduction was recorded in 2017. Combined maintenance costs increased $10 million, from $24 million in 2017 to $34 million in 2018. This increase was primarily due to two powerful wind storms in mid-December. The wind storms caused trees and branches to fall and outages throughout Snohomish County and Camano Island. PUD crews, along with contract and mutual-aid crews, spent several days repairing transmission and distribution lines throughout the county to restore power. The PUD recorded $5 million in maintenance costs as a result of the storms. The PUD also devoted additional resources to vegetation management and other maintenance programs in 2018, leading to greater maintenance expenses.

ELECTRIC SYSTEM

Electric System Rates

General Rates

The PUD Board of Commissioners approved a 2.9% general electric rate increase, effective April 1, 2017. Financial impacts that led to the decision to raise electric rates included maintenance costs for a growing customer base, ongoing wood pole and underground cable replacement programs, major infrastructure projects underway including several substations, the change to reading meters on a monthly basis, projects to upgrade aging facilities, information system upgrades, and the impact of inflation on material and labor costs. The 2018 financial results reflect a full-year impact of the rate change.

Bonneville Power Administration (BPA) Rates

BPA announced wholesale power and transmission rate increases effective October 2017. BPA markets wholesale electricity generated from the federally owned hydroelectric projects in the Columbia River basin and one non-federal nuclear power plant. BPA provides approximately 86% of the long-term energy resources used by the PUD to serve its customers. Power purchases from BPA were $238 million in 2018.

BPA passes its costs of power, transmission, and ancillary services to customers through its wholesale rates. These wholesale rates are reviewed biannually and adjusted on October 1. Subject to approval by the Board of Commissioners, the PUD adjusts retail electric rates to reflect BPA rate adjustments. As a result of the increased cost of power and transmission purchases from BPA, the PUD's Board of Commissioners increased retail power rates 1.6% to match the higher costs effective October 1, 2017.

Capital Investments – Customer Growth

The PUD makes significant investments in capital programs each year to maintain, expand and enhance its electric distribution system. The number of customers continues to grow in the PUD's service area, and in July 2018 the number of customers served passed 350,000. The need for electric distribution infrastructure and facilities to serve customers and assure reliability is expected to continue to expand. Electric System capital expenditures were $100 million in 2018 and $124 million in 2017.

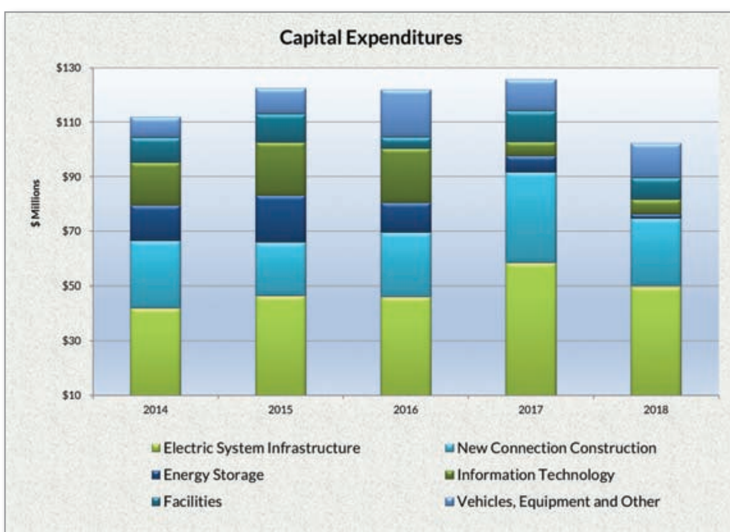

Figure 2

Key projects in 2018 included the completion of the Beverly Park 230kV substation, a two-year construction project that included installation of 15 new 115,000 volt circuit breakers, one new 230,000 volt circuit breaker, and a 300 MVA transformer. These additions reinforce the PUD's transmission system, add capacity for future growth, and improve transmission system reliability. Other projects included transformer, circuit breakers, controls replacement and other substation improvements. In order to increase reliability in north Snohomish County, the

PUD installed four miles of distribution cable to create circuit ties between the Smokey Point and Edgecomb substations. The PUD continued its ongoing replacement of aging poles and cables, including approximately 454 distribution poles, 50 street light poles, 35 transmission poles and 30 miles of underground distribution cable.

Capital Funding and Lower Debt Levels

The PUD utilizes a combination of revenues, cash reserves, and revenue bonds to fund investments in the electric distribution and transmission system infrastructure. In addition, the PUD receives capital contributions from developers to fund infrastructure construction directly related to growth.

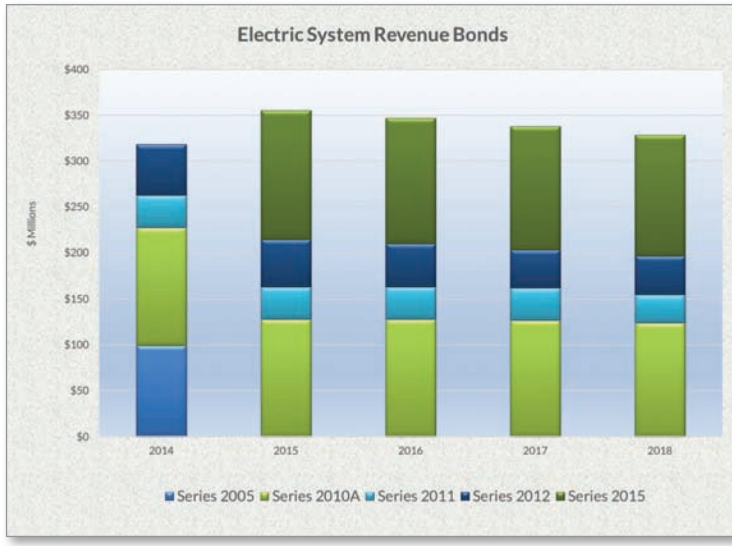

Figure 3

Revenue bonds to fund capital expenditures were last issued in 2015, with a final maturity in 2040. The proceeds of the bond sale were used to fund qualifying additions, replacements and improvements to the Electric System, including construction and upgrades relating to the electric distribution system, smart grid infrastructure, replacement and consolidation of the PUD's local offices and utility pole replacements. The PUD fully allocated all proceeds of the Series 2015 revenue bonds as of 2018. The Electric System utilized bond proceeds for capital expenditures of $29 million in 2018 and $49 million in 2017.

Growth in capital infrastructure provides additional debt capacity and flexibility for future financing activity. Strong operating results over the past several years and the use of cash reserves to refund older, higher interest rate debt have enabled the PUD to reduce Electric System debt levels. Long-term debt for the Electric System, including current maturities, totaled $328 million as of December 31, 2018, compared to $338 million in 2017.

Energy-Efficiency Programs

The PUD and its customers continue to demonstrate their commitment to energy-efficiency through their active participation in numerous energy-efficiency programs. These programs include residential customer incentives for installation of weatherization measures, lighting modifications, purchases of energy-efficient washing machines, heat pump programs, and solar power systems, as well as commercial incentives for new construction projects that incorporate energy-efficiency measures and rebates for retrofit projects that include installation of energy efficient lighting, HVAC equipment or equipment control devices. In 2018, the PUD sought to reduce peak demand by initiating pilot programs and restructuring a portion of the customer incentives.

Operations expenses in 2018 and 2017 include $14 and $19 million, respectively, related to energy-efficiency measures. Lighting incentive programs were reduced by $2.6 million in 2018 due to an increasing focus on Demand Response (DR)-ready controls and on-peak lighting. Program restructuring resulted in a decrease of $1.1 million in the Master Retail Program in 2018. Cost savings in the Energy Smart Industrial (ESI) program and labor also contributed to the overall lower expenditures in 2018. Some of these energy-efficiency programs are funded through an agreement with BPA. In 2018, the PUD recorded $9 million of energy-efficiency reimbursements from BPA as compared to $7 million in 2017.

Post-employment Benefits Reporting Requirements

The Governmental Accounting Standards Board required governmental entities such as the PUD to make changes in its recognition of the liability related to post-employment benefits other than pensions (OPEB) in 2018. This liability is prepared by an actuarial consultant, and future changes in the liability will be recognized as expense on the Statements of Revenues, Expenses, and Changes in Net Position or reported as deferred inflows/outflows of resources on the Statements of Net Position, depending on the nature of the change.

The implementation of this requirement resulted in the recording of a $26 million increase in the OPEB liability, and an adjustment to net position in the beginning of 2018. The PUD reported a net OPEB liability of $46 million as of December 31, 2018 as compared to $20 million in 2017. The PUD contributed $2.2 million to retiree healthcare expense in 2018 and $2.4 million in 2017.

This requirement had a similar impact on retiree life insurance and the PUD reported a net liability of $4.9 million related to retiree life insurance benefits for 2018.

Changes to Financial Reserve Policy

In 2018, the PUD's Board of Commissioners modified its financial reserve policies for the Electric, Generation and Water Systems after reviewing the PUD's current risk profile and identifying specific reserve requirements for each of its operational systems. Six reserve categories were established by the Board, and the policy allows the CEO/General Manager to establish or terminate individual funds within each category.

Financial Reserve Policy Categories	
Operating Reserves	Funds that provide for adequate working capital and operating liquidity
Contingency Reserves	Funds set aside to mitigate risks associated with the wholesale market exposure from power supply portfolio imbalances and other contingent liabilities
Bond Debt Service Reserves	Funds set aside to fulfill the PUD's obligation to maintain revenue bond reserves at required levels
Benefit Reserves	Funds set aside to meet future retiree benefit obligations
Project Reserves	Funds to be utilized on projects approved by the Board of Commissioners
Sinking Reserves	Funds set aside on a calculated schedule in order to meet known periodic payments

Investment Income

During 2018, the PUD's income from investing activities increased to $9.8 million as compared to $5.9 million in 2017, consistent with the financial market indices. A majority of the PUD's cash reserve portfolio is invested in securities guaranteed or supported by State and Federal Governments with yields that generally follow closely to the Federal Funds target rate.

GENERATION SYSTEM

Calligan and Hancock Creek Hydroelectric Projects

The PUD completed construction of two Federal Energy Regulatory Commission (FERC) licensed, low-impact hydropower projects in 2018, the Calligan Creek and Hancock Creek projects. Both creeks are tributaries to the Snoqualmie River near North Bend in King County, Washington, south of the PUD's Henry M. Jackson hydroelectric project. Generation and commercial operation began on February 16, 2018. Each project has a capacity of 6 megawatts, enough power to serve about 5,000 homes each at peak output. Calligan and Hancock are both environmentally responsible, run-of-the-river projects, similar to the PUD's Youngs Creek project.

Final project costs were $60 million for the two projects. In 2018 and 2017, the PUD recorded $3 million and $18 million, respectively, in capital construction costs related to these two projects.

Lower Generation System Debt Levels

The PUD sold $45 million of Series 2015 Generation System Revenue bonds to fund a portion of the design and construction of the Calligan Creek and Hancock Creek hydroelectric projects. The PUD utilized bond proceeds of $2 million and $14 million in 2018 and 2017, respectively, to fund qualifying capital expenditures.

Debt levels in the Generation System have been declining in recent years as older revenue bonds have been repaid at a faster rate than the value of the newer Series 2015 bonds. Long-term debt for the Generation System, including current maturities, totaled $108 million as of December 31, 2018, compared to $134 million in 2017.

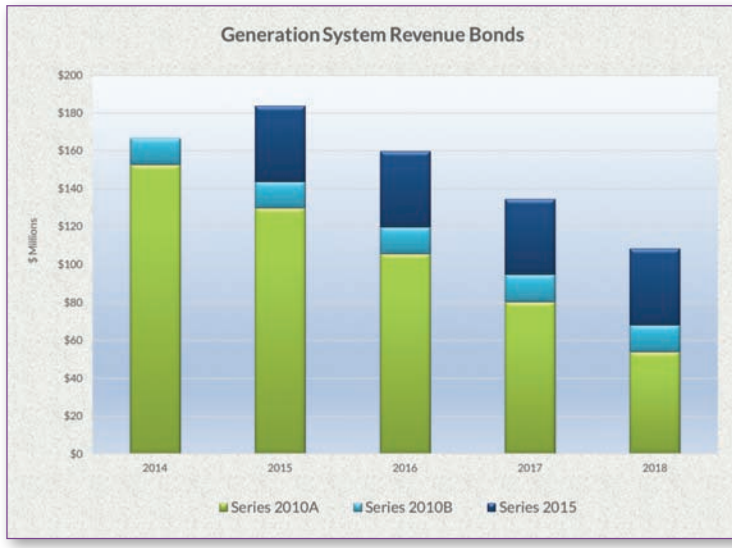

Figure 4

Sunset Falls Project Disposition

In April 2018, the PUD Commissioners decided not to pursue a final application with the FERC for the Sunset Falls Hydropower Project. The plan was for a proposed 30-MW hydroelectric project above an existing fish passage barrier, Sunset Falls, located on the south fork of the Skykomish River. The PUD studied and assessed the viability and potential for a hydroelectric project beginning in July 2010. After a thorough review of the new Integrated Resource Plan (IRP), the Board concluded that additional energy generated by Sunset Falls on an annual basis would not be required.

As a result of the project termination, the Electric system recorded a $9 million charge in other income and expense. Generation System utility plant includes land and easement assets purchased in connection with the Sunset Falls project, valued at $0.7 million.

WATER SYSTEM

Water System Operating Results

Retail sales revenue for the Water System increased from $12.2 million in 2017 to $12.6 million for 2018 following a $0.8 million increase in 2017. The revenue increase in 2018 was the result of a 1.8% residential rate change, while the 2017 increase was the result of a higher level of customer consumption.

Operating expenses decreased from $11.3 million in 2017 to $11.1 million in 2018, following an increase of $0.9 million in 2017. The 2017 increase was the result of higher water purchases due to the shutdown of the PUD's Lake Stevens water treatment plant for four months of 2017 and higher meter reading costs due to the impact of monthly reading and billing.

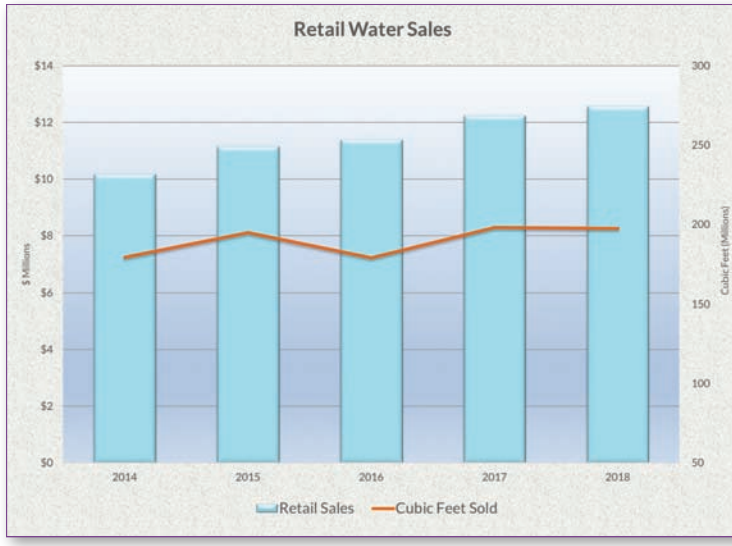

Figure 5

Water System capital contributions were $5.7 million in 2018, $2.0 million higher than the $3.7 million in 2017 reflecting strong developer activity in the central Snohomish County area the Water System serves.

Capital Funding and Lower Debt Levels

The PUD utilizes State of Washington grants and loans, revenue bonds, revenues and cash reserves to fund capital infrastructure improvements. In addition, the Water System receives capital contribution fees from developers to address growth in the Water System service area.

Growth in capital infrastructure provides additional debt capacity and flexibility for future financing activity. Strong operating results over the past several years have enabled the PUD to reduce Water System debt levels. Long-term debt for the Water System, including current maturities, totaled $18.8 million as of December 31, 2018, compared to $20.8 million in 2017.

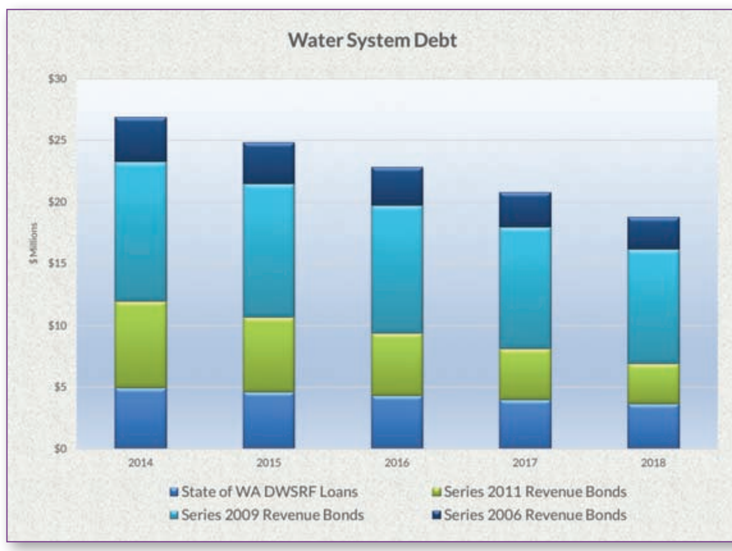

Figure 6

Water System Rate Change

In December 2017, the Board of Commissioners approved revisions to the Water System's service rate schedule including a January 2018 overall rate increase of 1.8%. Several factors led to the rate increase, including a 3.5% increase in wholesale water purchase prices, increased operations and maintenance costs, and other necessary system infrastructure improvements to replace the aging water mains.

Warm Beach Water Association Transfer

In September 2018, ownership of the Warm Beach Water Association's (the Association) water distribution system was transferred to the PUD at the request of the Association's membership after a multi-year process of study and public outreach. As part of this process, PUD staff identified improvements necessary to increase the water system reliability. These improvements will be carried out over the next four years and will be funded by a combination of $6.2 million of federal and state grants and loans through the Drinking Water State Revolving Fund, $1 million contributed by the Association, and approximately $1.2 million from PUD's Water System operating reserve. Customers of the PUD's Warm Beach water system will pay a capital improvement surcharge to reimburse the operating reserve. The transfer added approximately 600 new customers to PUD's Water System.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

The Combined Statements of Net Position present the PUD's net position as the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The Combined Statements of Net Position provide information about the nature and amount of investments in resources (assets), the consumption of net assets in one period that are applicable to future periods (deferred outflows of resources), the obligations to creditors (liabilities), and the acquisition of net assets that are applicable to future periods (deferred inflows of resources).

The Combined Statements of Revenues, Expenses, and Changes in Net Position report the revenues and expenses during the periods indicated and identify operating activity separately from non-operating activity.

The Combined Statements of Cash Flows provide information about the PUD's cash flows from operating activities, capital and related financing activities, investing activities, and noncapital financing activities, and presents a reconciliation of net operating income to net cash provided by operating activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the figures provided in the basic financial statements.

Financial Analysis

Analysis of the comparative financial information is provided in the following table.

Condensed Combined Financial Information

(In millions)

	2018	2017	2016
Current Assets, Investments, and Special Funds	$ 621	$ 618	$ 655
Net Utility Plant	1,552	1,505	1,437
Other Assets	19	30	31
Total Assets	2,192	2,153	2,123
Deferred Outflows of Resources	22	26	37
Current Liabilities	142	133	137
Long-Term Debt	453	496	537
Other Liabilities	142	135	159
Total Liabilities	737	764	833
Deferred Inflows of Resources	31	24	12
Net Investment in Capital Assets	1,069	1,019	985
Restricted	152	183	172
Unrestricted	224	189	158
Net Position	**$ 1,445**	**$ 1,391**	**$ 1,315**
Operating Revenues	$ 695	$ 687	$ 658
Operating Expenses	628	624	610
Net Operating Income	67	63	48
Interest Charges	(22)	(23)	(25)
Other Income and Expense	5	10	14
Net Income before Capital Contributions	50	50	37
Capital Contributions	30	26	24
Net Income	80	76	61
Net Position – beginning of year	1,391	1,315	1,254
OPEB liability adjustment	(26)	–	–
Net Position	**$ 1,445**	**$ 1,391**	**$ 1,315**

Assets

Current assets, investments, and special funds increased $3 million in 2018 as strong operating results led to slightly higher operating reserves. Current assets, investments, and special funds declined $33 million in 2017 primarily due to spending a portion of the Series 2015 Electric System and Generation System bond proceeds on qualifying capital expenditures.

The PUD had $1,552, $1,505, and $1,437 million invested in a broad range of net utility capital assets as of December 31, 2018, 2017, and 2016, respectively. Utility capital assets include five operating hydroelectric power generation plants, electric transmission and distribution lines and substations, water transmission and distribution pipes, storage and pump station facilities, buildings and equipment. Utility plant additions were $117 million in 2018 and $154 million in 2017, reflecting the construction of the new hydroelectric projects, investments in the distribution and transmission systems, including construction associated with growth and general facilities of the PUD. The increase in utility plant was offset by $25 million and $30 million in routine plant asset retirements in 2018 and 2017, respectively. Accumulated depreciation increased $45 million and $56 million related to routine plant asset activity in 2018 and 2017, respectively.

Other assets decreased $11 million in 2018 reflecting the collection of long-term receivables, and the termination of a project in 2018. Other assets decreased $1 million in 2017, reflecting the collection of long-term receivables, including residential conservation loans.

Deferred Outflows of Resources

Deferred outflows of resources decreased $4 million in 2018, and $11 million in 2017. Amortization of the book loss on defeasance of debt decreased deferred outflows of resources by $4 million in 2018, and $5 million in 2017. A $6 million decrease in pension plan net deferrals was recognized in 2017.

Liabilities

Current liabilities increased $9 million in 2018 reflecting somewhat higher vendor payable balances, and a slightly higher level of long-term debt principal payments due in 2019. Current liabilities decreased $4 million in 2017 as a result of lower vendor payable balances.

Long-term debt decreased $43 million in 2018, and $41 million in 2017 as a result of scheduled principal repayments.

Other liabilities increased $7 million in 2018 and decreased $24 million in 2017 primarily due to actuarial valuation changes in the post retirement benefit liabilities.

Deferred Inflows of Resources

Deferred inflows increased $8 million in 2018 and $12 million in 2017 as the result of an increase in the net pension plan deferrals.

Net Position

Net investment in capital assets increased $50 and $34 million in 2018 and 2017, respectively, reflecting primarily the growth in net utility plant. The PUD added 4,209 and 5,132 Electric System customer connections in 2018 and 2017, respectively. The Water System added 961 and 289 customer connections in 2018 and 2017, respectively.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements, and resources restricted by Board resolution. Restricted net assets decreased $31 million in 2018 due to the required changes in recognition of post-employment liabilities. Restricted net assets increased $11 million in 2017 due to the amortization of bond premiums.

Unrestricted net position is available to finance day-to-day operations without constraints established by covenants, legal requirements, or board resolutions. Unrestricted net position increased $35 million in 2018, and $31 million in 2017 due to strong operating results leading to higher cash reserves.

Operating Revenues

Operating revenues increased $8 million in 2018, from $687 million in 2017 to $695 million in 2018. Retail revenues increased $1 million in 2018, but other operating revenue increased $8 million in 2018 related to increased revenue earned from the sale of transmission capacity and a higher level of BPA energy conservation program reimbursements.

Operating revenues increased $29 million in 2017, from $658 million in 2016 to $687 million in 2017. Retail revenues increased $36 million in 2017 due to lower than average temperatures in the first quarter of 2017 resulting in higher customer consumption, an April 2017 general rate increase of 2.9%, and an October 2017 1.6% power contract pass-through rate increase.

Operating Expenses

Operating expenses increased $4 million in 2018, from $624 million in 2017 to $628 million in 2018. The primary cause of this increase was higher maintenance expenses due to two strong wind events in 2018.

Operating expenses increased $14 million in 2017, from $610 million in 2016 to $624 million in 2017. This increase was the result of several factors, including a $2 million increase in depreciation due to higher net utility plant values, a $3 million increase in taxes consistent with higher retail energy sales and capital contributions, and a $10 million increase in combined operations and maintenance expenses resulting from higher BPA transmission and ancillary costs, an increase in distribution system projects, a change to monthly meter reading, higher information system maintenance costs , a greater number of claims paid or received in 2017, and additional facility expansion and maintenance projects.

Interest Charges

Interest charges decreased $1 million from 2017 to 2018, and $2 million from 2016 to 2017, as a result of declining debt levels since 2015.

Other Income and Expense

A $5 million decrease in other income and expense in 2018 was due to the recognition of $9 million in costs related to a project that was terminated in 2018, partially offset by a $5 million increase in interest income reflecting favorable market conditions. A $4 million decrease in other income and expense in 2017 was due to a lower level of grant revenue recorded versus 2016.

Capital Contributions

Capital contributions increased $4 million in 2018, compared to $2 million in 2017. Capital contributions are collected from property developers when they request to connect to the PUD's electric or water distribution systems or request engineering or construction services. The capital contributions increases in 2018 and 2017 reflect increased property development in the PUD's service area.

Adjustment for OPEB Expense

The Governmental Accounting Standards Board required changes to the recognition of post-employment benefits other than pensions (OPEB) as of January 1, 2018. A $26 million adjustment was recorded to reflect the impact of the required change on the PUD's net position at the beginning of 2018.

Requests for Information

The basic financial statements, notes, and management's discussion and analysis are designed to provide a general overview of the PUD's finances. Questions concerning any of the information provided in this report should be directed to the PUD at 2320 California Street, Everett, WA 98201.

Combined Statements of Net Position

December 31, 2018 and 2017

(In thousands)

Assets	2018 Electric System	2018 Generation System	2018 Water System	2018 Combined	2017 Combined
Current Assets:					
Cash and cash equivalents	$ 80,324	$ 10,980	$ 2,590	$ 93,894	$ 153,493
Temporary investments	72,816	3,920	4,974	81,710	95,516
Total Cash and Temporary Investments	153,140	14,900	7,564	175,604	249,009
Accounts and other receivables, net	87,978	80	1,509	89,567	94,057
Intersystem loans receivable	3,718	1,987	–	–	–
Materials and supplies	24,440	–	298	24,738	24,589
Prepayments and other	7,182	174	97	6,952	5,213
Total Current Assets	276,458	17,141	9,468	296,861	372,868
Long-Term Investments & Special Funds:					
Long-term investments	113,184	959	1,956	116,099	–
Special funds – bond funds and other	174,963	22,859	10,454	208,276	244,588
Total Long-Term Investments & Special Funds	288,147	23,818	12,410	324,375	244,588
Utility Plant:					
Plant in service	1,852,899	346,764	154,177	2,353,840	2,150,862
Construction work in progress	100,266	2,181	1,989	104,436	214,967
Total utility plant	1,953,165	348,945	156,166	2,458,276	2,365,829
Accumulated depreciation	(729,248)	(140,289)	(36,448)	(905,985)	(860,756)
Net Utility Plant	1,223,917	208,656	119,718	1,552,291	1,505,073
Other Assets:					
Conservation loans and other receivables, net	1,099	8	452	1,559	3,241
Intersystem loans and receivables	42,124	–	–	–	–
FERC licenses	–	16,125	–	16,125	16,662
Other assets	1,022	5	–	1,027	9,935
Total Other Assets	44,245	16,138	452	18,711	29,838
Total Assets	1,832,767	265,753	142,048	2,192,238	2,152,367
Deferred Outflows of Resources					
Unamortized loss on refunding debt	1,525	7,995	221	9,741	13,333
Net pension and OPEB deferrals	11,281	297	284	11,862	12,451
Total Deferred Outflows of Resources	12,806	8,292	505	21,603	25,784
Total Assets and Deferred Outflows	$1,845,573	$ 274,045	$ 142,553	$2,213,841	$2,178,151

The accompanying notes are an integral part of these combined financial statements.

Combined Statements of Net Position

December 31, 2018 and 2017

(In thousands)

	2018				2017
Liabilities	Electric System	Generation System	Water System	Combined	Combined
Current Liabilities:					
Accounts payable	$ 51,673	$ 1,122	$ 920	$ 53,715	$ 48,950
Accrued taxes	17,373	106	59	17,538	17,551
Accrued interest	1,521	951	65	2,036	2,149
Other accrued liabilities	24,360	4	2	24,366	21,900
Customer deposits	4,785	–	23	4,808	4,343
Current maturities of long-term debt	9,880	27,605	1,979	39,464	37,804
Intersystem loans payable - current portion	1,987	3,718	–	–	–
Total Current Liabilities	**111,579**	**33,506**	**3,048**	**141,927**	**132,697**
Long-Term Debt:					
Revenue bonds	342,106	93,703	13,825	449,634	492,240
Other notes payable	–	–	3,351	3,351	3,670
Total Long-Term Debt	**342,106**	**93,703**	**17,176**	**452,985**	**495,910**
Other Liabilities:					
Intersystem loans and payables	–	42,124	–	–	–
FERC license obligations	–	16,125	–	16,125	16,662
Net pension liability	54,628	1,419	1,430	57,477	79,205
Other liabilities	64,570	2,427	1,776	68,773	39,207
Total Other Liabilities	**119,198**	**62,095**	**3,206**	**142,375**	**135,074**
Total Liabilities	**572,883**	**189,304**	**23,430**	**737,287**	**763,681**
Deferred Inflows of Resources					
Unearned FERC license contributions	–	6,000	–	6,000	6,500
Net pension deferrals	22,224	543	618	23,385	14,947
Other deferred inflows	1,908	–	–	1,908	2,238
Total Deferred Inflows of Resources	**24,132**	**6,543**	**618**	**31,293**	**23,685**
Net Position					
Net investment in capital assets	873,457	95,343	100,784	1,069,584	1,019,403
Restricted:					
Reserve funds	401	8,026	–	8,427	8,924
Rate stabilization	114,543	–	1,516	116,059	116,027
Debt service and other	7,895	11,955	7,410	27,260	57,600
Unrestricted	252,262	(37,126)	8,795	223,931	188,831
Total Net Position	**1,248,558**	**78,198**	**118,505**	**1,445,261**	**1,390,785**
Total Liabilities, Deferred Inflows and Net Position	**$1,845,573**	**$ 274,045**	**$ 142,553**	**$ 2,213,841**	**$ 2,178,151**

The accompanying notes are an integral part of these combined financial statements.

Combined Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2018 and 2017

(In thousands)

	2018				2017
	Electric System	Generation System	Water System	Combined	Combined
Operating Revenues:					
Retail sales	$ 610,322	$ –	$ 12,588	$ 622,910	$ 621,934
Wholesale sales	34,985	41,934	545	35,530	35,440
Other	36,878	84	397	37,359	29,270
Total Operating Revenues	**682,185**	**42,018**	**13,530**	**695,799**	**686,644**
Operating Expenses:					
Purchased power	333,705	–	–	291,771	293,444
Purchased water	–	–	2,438	2,438	2,585
Operations	190,239	4,067	3,574	197,880	205,263
Maintenance	30,986	2,437	1,517	34,940	24,354
Depreciation	53,624	5,307	2,932	61,863	59,765
Taxes	38,668	106	688	39,462	38,736
Total Operating Expenses	**647,222**	**11,917**	**11,149**	**628,354**	**624,147**
Net Operating Income	**34,963**	**30,101**	**2,381**	**67,445**	**62,497**
Interest Charges:					
Interest	17,639	8,200	745	24,785	26,335
Amortization of debt related costs	(1,233)	1,735	(40)	462	1,879
Allowance for funds used during construction	(1,951)	(907)	(91)	(2,949)	(5,206)
Total Interest Charges	**14,455**	**9,028**	**614**	**22,298**	**23,008**
Other Income and Expense:					
Interest income	10,681	1,508	464	10,854	5,502
Other income and expense, net	(7,090)	955	–	(6,135)	4,785
Total Other Income and Expense	**3,591**	**2,463**	**464**	**4,719**	**10,287**
Net Income Before Capital Contributions	**24,099**	**23,536**	**2,231**	**49,866**	**49,776**
Capital Contributions	**24,651**	**46**	**5,718**	**30,415**	**26,181**
Net Income	**48,750**	**23,582**	**7,949**	**80,281**	**75,957**
Net Position, Beginning of year	1,224,337	55,233	111,215	1,390,785	1,314,828
OPEB liability adjustment (see Note 1)	(24,529)	(617)	(659)	(25,805)	–
Net Position, End of year	**$1,248,558**	**$ 78,198**	**$ 118,505**	**$ 1,445,261**	**$ 1,390,785**

The accompanying notes are an integral part of these combined financial statements.

Combined Statements of Cash Flows

Years ended December 31, 2018 and 2017

(In thousands)

	2018				2017
	Electric System	Generation System	Water System	Combined	Combined
Cash Flows From Operating Activities:					
Cash received from customers	$ 658,587	$ 42,063	$ 13,378	$ 672,292	$ 654,464
Cash payments to suppliers	(462,562)	(7,050)	(6,392)	(434,268)	(446,806)
Cash payments to employees	(92,023)	(1,781)	(1,693)	(95,497)	(84,743)
Cash payments for taxes	(38,458)	(101)	(683)	(39,242)	(37,865)
Other cash received (paid)	26,043	(345)	96	25,794	29,839
Net Cash Provided by Operating Activities	**91,587**	**32,786**	**4,706**	**129,079**	**114,889**
Cash Flows From Capital & Related Financing Activities:					
Capital construction, including interest paid on debt charged to capital projects	(85,495)	(11,750)	(2,960)	(100,205)	(130,688)
Repayment of debt	(9,460)	(26,315)	(2,029)	(37,804)	(36,274)
Interest paid on debt	(15,685)	(8,403)	(662)	(21,948)	(21,241)
Capital contributions	20,335	46	3,441	23,822	20,341
Capital grants received	631	–	–	631	2,750
Intercompany loans	(2,330)	2,330	–	–	–
Net Cash Used for Capital & Related Financing Activities	**(92,004)**	**(44,092)**	**(2,210)**	**(135,504)**	**(165,112)**
Cash Flows From Investing Activities:					
Sale of special funds and investment securities	357,307	42,050	21,980	421,337	357,559
Purchase of special funds and investment securities	(418,108)	(41,110)	(27,073)	(486,291)	(220,161)
Interest on investment securities	12,421	1,752	374	11,745	8,764
Net Cash Provided by (Used for) Investing Activities	**(48,380)**	**2,692**	**(4,719)**	**(53,209)**	**146,162**
Cash Flows From Non-Capital Financing Activities:					
Non-capital grants received	35	–	–	35	5,122
Net Cash Provided by Non-Capital Financing Activities	**35**	**–**	**–**	**35**	**5,122**
Net Increase (Decrease) in Cash & Cash Equivalents	(48,762)	(8,614)	(2,223)	(59,599)	101,061
Beginning of Year	129,086	19,594	4,813	153,493	52,432
Cash & Cash Equivalents - End of Year	**$ 80,324**	**$ 10,980**	**$ 2,590**	**$ 93,894**	**$ 153,493**
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:					
Net Operating Income	$ 34,963	$ 30,101	$ 2,381	$ 67,445	$ 62,497
Adjustments to net operating income:					
Depreciation	53,624	5,307	2,932	61,863	59,765
Pension and OPEB Related	(12,964)	(326)	(348)	(13,638)	(7,244)
Other cash received (paid)	(349)	(61)	–	(410)	2,287
(Increase) decrease in receivables	5,287	44	108	5,637	(982)
(Increase) decrease in other assets	(880)	(166)	(24)	(1,070)	1,391
Increase (decrease) in payables	7,126	(2,074)	(287)	4,567	(5,798)
Increase (decrease) in other liabilities	4,780	(39)	(56)	4,685	2,973
Total adjustments	**56,624**	**2,685**	**2,325**	**61,634**	**52,392**
Net Cash Provided by Operating Activities	**$ 91,587**	**$ 32,786**	**$ 4,706**	**$ 129,079**	**$ 114,889**
Non-cash Investing, Capital and Related Financing Activities:					
Non-cash contributions	$ 6,598	$ –	$ 2,277	$ 8,875	$ 6,619
Allowance for funds used during construction	1,951	907	91	2,949	5,206
Changes in valuation of financial instruments	1,002	(24)	46	1,024	(493)
Amortization of debt related costs	1,233	(1,735)	40	(462)	(1,879)

The accompanying notes are an integral part of these combined financial statements.

Notes to Combined Financial Statements

December 31, 2018 and 2017

Note 1
Summary of Significant Accounting Policies

GENERAL

Public Utility District No. 1 of Snohomish County, Washington, (the PUD) is a public electric and water utility serving Snohomish County and Camano Island in Island County, Washington. The PUD's operations consist of three systems: the Electric System, the Generation System and the Water System. The PUD is governed by a three-member Commission, which is elected for staggered six-year terms. The legal responsibilities and powers of the PUD, including the establishment of rates and charges for services rendered, are exercised through the Commission.

The Electric System is made up of the PUD's electric transmission and distribution system. The Generation System is composed of the PUD's Henry M. Jackson Hydroelectric Project and four smaller hydroelectric projects. The Water System is made up of the PUD's water distribution system.

The accompanying financial statements for 2018 include the individual and combined statements of net position for the Electric System, Generation System and Water System, and the statements of revenues, expenses, and changes in net position and cash flows for each system. System columns presented in the financial statements and notes may not add to the combined totals due to the elimination of intercompany transactions, which consist of intersystem loans and routine intercompany transactions.

The PUD's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred. Revenues and costs that are directly related to the generation, purchase, transmission and distribution of electricity or water are reported as operating revenues and expenses. All other revenues and expenses are reported as non–operating revenues and expenses.

The accompanying financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard–setting body for establishing governmental accounting and financial reporting principles.

The PUD's other significant accounting and financial policies are described in the following sections.

Retail Sales

The PUD bills Electric and Water System customers for their consumption on a monthly basis. The accompanying financial statements include estimated unbilled revenues for energy and water delivered to customers between the last billing date and the end of the year. Unbilled energy revenue was $40.0 million and $42.0 million as of December 31, 2018, and 2017, respectively. Unbilled water revenue was $644,000 and $599,000 as of December 31, 2018, and 2017, respectively. Power sales and purchase transactions are recognized over the duration of the contracts as a component of retail and wholesale revenue and purchased power operating expenses.

Capital Contributions

The PUD records capital contributions from customers and developers, primarily relating to expansions to the PUD's distribution facilities, as a separate category of non-operating revenue.

Cash Equivalents

The PUD considers highly liquid, short–term investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. A reserve is established for uncollectible accounts receivable based upon historical write–off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. The allowance for doubtful accounts was $3.1 million as of December 31, 2018 and 2017.

Material and Supplies

Material and supplies are recorded at average cost and consist primarily of materials for construction and maintenance of utility plant.

Special Funds

Special funds are restricted or limited–use funds that have been established in accordance with Board of Commissioner resolutions, bond resolutions, state law or other agreements. These funds, which consist of cash, cash equivalents and investments, are restricted for specific purposes, including debt service, bond reserves, rate stabilization, qualifying capital expenditures, post-employment benefits, FERC license commitments, and other reserve requirements. In June 2018, the PUD adopted a revised financial reserve policy which made modest changes in the allocation of reserves between special funds and other cash and investments. It is the PUD's policy to use unrestricted funds prior to using restricted funds except for bond proceeds used for qualifying capital expenditures and funds set aside for debt service payments.

Utility Plant

Utility plant is stated at cost, including an allowance for funds used during construction (AFUDC). The PUD's capitalization threshold for utility plant is $5,000. Depreciation is calculated using the straight–line method over the estimated useful lives of the assets, ranging from 5 to 77 years. When utility plant assets are retired, the original cost together with removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. See Table 1 for additional utility plant details.

The PUD periodically reviews the carrying value of its utility plant and other equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Unamortized Loss on Refunding Debt

The difference between the cost to defease outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the straight–line or effective–interest method. This difference for bonds defeased by operating funds is charged in the current period.

Net Position

Net position consists of the following components:

Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation reduced by the net outstanding debt balances related to capital assets, net of unamortized debt related costs.

Restricted – This component consists of assets and liabilities with constraints placed on use. Constraints include those imposed by bond covenants or third–party contractual agreements, and resources restricted by Board resolution.

Unrestricted – This component consists of assets and liabilities that do not meet the definition of "net investment in capital assets" or "restricted."

Compensated Absences

Employees accrue paid time off (PTO) or vacation in varying amounts according to their years of service. Accrued liability for PTO and vacation was $12.0 million and $11.9 million at December 31, 2018 and 2017, respectively. These liabilities are presented as part of Other Accrued Liabilities.

Table 1
Utility Plant
(In thousands)

	2016	2017			2018		
	Ending Balance	Additions	Retirements & Transfers	Ending Balance	Additions	Retirements & Transfers	Ending Balance
Electric System							
Transmission	$ 117,853	$ 28,014	$ (4,339)	$ 141,528	$ 21,306	$ (974)	$ 161,860
Distribution	1,108,584	59,930	(22,130)	1,146,384	85,337	(20,233)	1,211,488
General Plant & Other	348,145	28,055	(2,530)	373,670	38,592	(3,121)	409,141
Land & Non-Depreciable Assets	64,574	3,180	(169)	67,585	2,863	(38)	70,410
Plant in Service	1,639,156	119,179	(29,168)	1,729,167	148,098	(24,366)	1,852,899
Construction Work in Progress	143,762	4,448	–	148,210	(47,944)	–	100,266
Utility Plant	1,782,918	123,627	(29,168)	1,877,377	100,154	(24,366)	1,953,165
Less Accumulated Depreciation	(640,791)	(57,957)	6,819	(691,929)	(44,771)	7,452	(729,248)
Net Utility Plant	**$1,142,127**	**$ 65,670**	**$ (22,349)**	**$ 1,185,448**	**$ 55,383**	**$ (16,914)**	**$1,223,917**
Generation System							
Generation/Production	$ 227,908	$ 7,740	$ (803)	$ 234,845	$ 58,973	$ 271	$ 294,089
Transmission	2,742	47	(8)	2,781	–	–	2,781
Distribution	9,652	–	(4,117)	5,535	862	25	6,422
General Plant & Other	11,432	1,385	4,070	16,887	10,600	2,158	29,645
Land & Non-Depreciable Assets	14,030	729	–	14,759	1,576	(2,508)	13,827
Plant in Service	265,764	9,901	(858)	274,807	72,011	(54)	346,764
Construction Work in Progress	46,340	16,031	–	62,371	(60,190)	–	2,181
Utility Plant	312,104	25,932	(858)	337,178	11,821	(54)	348,945
Less Accumulated Depreciation	(132,062)	(2,908)	5	(134,965)	(5,325)	1	(140,289)
Net Utility Plant	**$ 180,042**	**$ 23,024**	**$ (853)**	**$ 202,213**	**$ 6,496**	**$ (53)**	**$ 208,656**
Water System							
Generation/Production	$ 9,300	$ –	$ –	$ 9,300	$ –	$ –	$ 9,300
Transmission & Distribution	116,316	3,496	(299)	119,513	7,754	(340)	126,927
General Plant & Other	13,664	405	(26)	14,043	–	(125)	13,918
Land & Non-Depreciable Assets	4,032	–	–	4,032	–	–	4,032
Plant in Service	143,312	3,901	(325)	146,888	7,754	(465)	154,177
Construction Work in Progress	3,942	444	–	4,386	(2,397)	–	1,989
Utility Plant	147,254	4,345	(325)	151,274	5,357	(465)	156,166
Less Accumulated Depreciation	(32,015)	(2,730)	883	(33,862)	(2,691)	105	(36,448)
Net Utility Plant	**$ 115,239**	**$ 1,615**	**$ 558**	**$ 117,412**	**$ 2,666**	**$ (360)**	**$ 119,718**

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The PUD has used estimates in determining reported amounts including unbilled revenue, allowance for doubtful accounts receivable, accrued liability for injuries and damages, depreciable lives of utility plant, pensions and other contingencies. Actual results could differ from these estimates.

Accounting Changes and Reclassifications

A new accounting standard requires governments providing defined post-employment benefits other than pensions (OPEB) to recognize the net OPEB liability on their statements of net position. This standard identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The PUD provides retiree health and life insurance benefits and has reflected the impact of this requirement in the financial statements. As provided by the standard, 2017 results have not been restated.

The financial impact resulting from this implementation is the adjustment of 2018 beginning net position balance by $25.8 million for the PUD's OPEB liability. The OPEB liability is $50.7 million as of December 31, 2018.

Other new accounting standards, including those impacting debt extinguishment and disclosures related to unused lines of credit, collateral pledges, and default consequences, have no impact on the financial results of the PUD.

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

Note 2
Special Funds and Cash and Temporary Investments

The PUD's investment policy authorizes the investment of funds in U.S. Treasury, federal and state agency obligations, interest–bearing demand or time deposits, repurchase agreements, bankers' acceptances and certain other investments. Interest–bearing demand or time deposits with a qualified public depository of the State of Washington are protected and collateralized under the Washington State Public Deposit Protection Act. In all instances, the PUD evaluates the credit-worthiness of the financial institutions with which it invests.

All PUD investments are in compliance with the State of Washington statutes and PUD bond resolutions. Substantially all PUD investments are recorded at fair value based on quoted market prices. The relative type of PUD's investments at December 31, 2018 and 2017 are summarized in Table 2.

Table 2
Special Funds and Cash and Temporary Investments

	Electric System		Generation System		Water System	
	2018	2017	2018	2017	2018	2017
U.S. Treasury Notes	15%	8%	11%	–	39%	–
U.S. Agency Obligations						
Federal Home Loan Bank	31%	17%	21%	15%	27%	36%
Federal Farm Credit Bank	8%	13%	–	–	5%	–
Federal National Mortgage Association	2%	7%	–	–	–	–
Federal Home Loan Mortgage Corporation	19%	12%	–	–	5%	–
Tennessee Valley Authority	2%	1%	–	–	–	–
Cash and Interest-bearing Demand or Time Deposits	6%	15%	31%	32%	7%	6%
Washington State Local Government Investment Pool	17%	27%	37%	53%	17%	58%

The PUD invests funds consistent with the following objectives: conform with state and local statutes, preserve principal, maintain adequate liquidity and maximize yield. The PUD's investments are purchased with the objective of holding the security until maturity.

Investment securities owned by the PUD are registered in the PUD's name and held in trust by banks or trust companies.

Repurchase agreements are fully collateralized by eligible securities registered in the PUD's name. Other PUD investments are insured by federal depository insurance or protected against loss since they are on deposit with financial institutions recognized as qualified public depositories of the State of Washington.

The Washington State Local Government Investment Pool (LGIP) is an investment vehicle operated by the Washington State Treasurer, offering governmental agency investors the economies of scale available from a multi-billion-dollar pooled fund investment portfolio. As of December 31, 2018, LGIP investments include primarily U.S. Agency Securities, U.S. Treasury Securities and Repurchase Agreements. Assets held in LGIP are invested in a manner consistent with the U.S. Securities and Exchange Commission's rule 2a-7 of the Investment Company Act of 1940. The PUD records these investments at amortized cost.

The PUD must give notice to the LGIP if the PUD plans to withdraw over $1.0 million on the same day. The LGIP may suspend withdrawals or liquidate if the difference between the amortized cost per share and the market net asset value per share results in material dilution or other unfair results. The LGIP may suspend redemptions if the New York Stock Exchange suspends trading or closes, if the US bond markets are closed, and if the Securities and Exchange Commission declares an emergency.

In order to address custodial credit risk, all investments except cash, interest–bearing demand or time deposits, and funds held in the LGIP, which are not evidenced by securities, are held in the PUD's name by a third–party custodian. The PUD addresses concentration of credit risk by investing in a diversified portfolio.

The PUD manages its exposure to decreases in the fair value of its investments arising from increasing interest rates by setting maturity limits for its investments. While some bond reserves are invested in U.S. agency obligations that approximate the term of the related bonds, all other funds are invested in instruments with maturities of less than five years, and most are invested for terms of two years or less. The PUD's investment policy specifies that the investment portfolio be structured so maturing investments match projected cash flow needs in order to mitigate interest rate risk. Investment maturities for combined special funds and cash and temporary investments as of December 31, were as follows:

	2018		2017	
Term	Amount Invested *(in thousands)*	Percent of Invested Fund	Amount Invested *(in thousands)*	Percent of Invested Fund
Less than 30 days	$ 115,820	24%	$ 198,981	40%
30 to 90 days	34,955	7%	42,516	9%
90 days to 1 year	120,613	24%	129,525	26%
1 year to 5 years	196,475	39%	81,123	16%
Bond reserves invested to bond maturity	32,116	6%	41,452	9%
	$ 499,979	100%	$ 493,597	100%

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The PUD's investments, at fair value, can be categorized by valuation techniques into two levels. Level 1 investments are traded on a national securities exchange and are valued at the last reported sales price on the last business day of the year. Level 2 investments are valued using pricing models maximizing the use of observable inputs for similar securities.

The table below shows the fair value hierarchy for each system, as of December 31 (in thousands):

	2018						2017	
	Electric		Generation		Water		Combined	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
U.S. Treasury Notes	$ 65,904	$ –	$ 4,429	$ –	$ 7,766	$ –	$ 34,970	$ –
Tennessee Valley Authority	–	9,966	–	–	–	–	–	5,001
Federal Home Loan Mortgage Corporation	–	82,258	–	–	–	1,004	–	51,193
Federal Farm Credit Bank	–	33,109	–	–	–	979	–	54,386
Federal Home Loan Bank	–	137,969	–	7,969	–	5,488	–	88,913
Federal National Mortgage Association	–	9,485	–	–	–	–	–	28,936
Assets Valued at Fair Value	$ 65,904	$272,787	$ 4,429	$ 7,969	$ 7,766	$ 7,471	$ 34,970	$228,429

Note 3
Long-Term Debt

Debt service (principal and interest) payments on the PUD's revenue bonds and other notes payable to maturity, excluding intersystem borrowing, are set forth in Table 3.

TABLE 3
Debt Service (Principal & Interest)

(In thousands)

	Electric System		Generation System		Water System	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 9,880	$ 16,975	$ 27,605	$ 5,407	$ 1,979	$ 679
2020	10,335	16,520	5,310	4,059	1,959	607
2021	10,820	16,033	5,505	3,841	2,009	536
2022	11,305	15,550	5,765	3,565	2,104	463
2023	11,850	15,002	6,035	3,275	1,251	378
2024-2028	58,525	65,761	12,410	13,137	6,022	1,217
2029-2033	68,205	49,554	9,600	10,729	3,301	256
2034-2038	97,235	14,252	12,380	7,941	125	1
2039-2043	49,930	1,279	15,940	4,378	–	–
2044-2046	–	–	7,555	571	–	–
Total	**$ 328,085**	**$ 210,926**	**$ 108,105**	**$ 56,903**	**$ 18,750**	**$ 4,137**

The Electric, Generation and Water Systems' revenues, net of specified operating expenses, are pledged as security for the systems' revenue bonds until their respective bonds are defeased or repaid. Principal and interest paid for both 2018 and 2017 was $62.3 million. Total revenues available for debt service as defined for the same periods were $151.4 million and $145.9 million. At December 31, 2018, annual principal and interest payments are expected to require between 41% and 51% of revenues.

Tax-exempt revenue bonds make up the majority of the PUD's long-term debt and are subject to Internal Revenue Service Code (the Code) requirements for arbitrage rebate. Rebates are calculated based on earnings on gross proceeds of the bonds that are in excess of the amount prescribed by the Code. The arbitrage liability as of December 31, 2018 and 2017 was $1.0 million and $0.7 million, respectively.

Electric System

A summary of principal outstanding on Electric System long-term debt follows:

	December 31, 2018	December 31, 2017
	(In thousands)	
Series 2015 Revenue bonds, 5.0%, due 2019-2040, earliest call 2025	$ 131,755	$ 134,200
Series 2012 Revenue Refunding bonds, 3.0-5.0%, due 2019-2028, earliest call 2022	41,495	41,495
Series 2011 Revenue Refunding bonds, 3.0-5.0%, due 2019-2024, earliest call 2021	31,125	35,115
Series 2010A Revenue bonds, 3.7-5.6%, due 2019-2035, currently callable	123,710	126,735
Total Principal Outstanding on Long-Term Debt	**$328,085**	**$337,545**

Changes in the Electric System long-term debt during the years ended December 31, 2018 and 2017, follow (in thousands):

	2016	2017			2018		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 346,590	$ –	$ (9,045)	$ 337,545	$ –	$ (9,460)	$ 328,085
Unamortized bond premium	27,525	–	(1,771)	25,754	–	(1,772)	23,982
Unamortized bond discount	(91)	–	5	(86)	–	5	(81)
Total Debt	374,024	–	(10,811)	363,213	–	(11,227)	351,986
Less: Current maturities	(9,045)			(9,460)			(9,880)
Total Long-Term Debt	**$ 364,979**			**$ 353,753**			**$ 342,106**

The PUD is obligated as part of its bond resolution to purchase for use in its Electric System all power available to the Electric System from the Generation System. The PUD is also unconditionally obligated by the bond resolution to set aside revenues in amounts sufficient to pay, to the extent not otherwise paid, all the debt service on the Generation System bonds on a parity of lien with the Electric System Senior bonds.

The PUD is required to maintain a cash reserve for certain Electric System bonds. At December 31, 2018 and 2017, the PUD maintained the reserve requirement of $18.8 million and $25.1 million in the Electric System.

The fair value of the Electric System's long-term debt was $373.1 million and $392.4 million, respectively, at December 31, 2018 and 2017. The fair value of the Electric System's long-term debt is estimated based on quoted market prices for the same or similar issues.

The PUD provided an irrevocable $1.6 million letter of credit to Bonneville Power Administration to secure transmission projects under an agreement. The letter of credit expired on October 31, 2018, and the PUD did not have any draws on this letter of credit.

Generation System

A summary of principal outstanding on Generation System long-term debt follows:

	December 31, 2018	December 31, 2017
	(In thousands)	
Series 2015 Revenue bonds, 5.0%, due 2025-2045, earliest call 2025	$ 39,985	$ 39,985
Series 2010A Revenue Refunding bonds, 3.5-5.0%, due 2017-2024, earliest call 2020	54,070	$80,385
Series 2010B Revenue bonds, 5.3-5.7%, due 2020-2040, currently callable	14,050	14,050
Total Principal Outstanding on Long-Term Debt	**$ 108,105**	**$ 134,420**

Changes in the Generation System long-term debt during the years ended December 31, 2018 and 2017, follow (in thousands):

	2016 Balance	2017 Additions	2017 Reductions	2017 Balance	2018 Additions	2018 Reductions	2018 Balance
Revenue bonds, face amount	$ 159,625	$ –	$ (25,205)	$ 134,420	$ –	$ (26,315)	$ 108,105
Unamortized bond premiums	16,407	–	(1,597)	14,810	–	(1,598)	13,212
Unamortized bond discounts	(10)	–	–	(10)	–	1	(9)
Total Debt	176,022	–	(26,802)	149,220	–	(27,912)	121,308
Less: Current maturities	(25,205)			(26,315)			(27,605)
Total Long-Term Debt	**$ 150,817**			**$ 122,905**			**$ 93,703**

The PUD is required to maintain a cash reserve for certain Generation System bonds. At December 31, 2018 and 2017, the PUD maintained the reserve requirement of $12.1 million and $15.1 million in the Generation System.

At December 31, 2018, $7.0 million of the Series 1989 Generation System Revenue bonds and $24.3 million of the Series 1986A Generation System Revenue Refunding bonds were considered defeased. At December 31, 2017, $10.0 million of the Series 1989 Generation System Revenue bonds and $24.3 million of the Series 1986A Generation System Revenue Refunding bonds were considered defeased.

The fair value of the Generation System's long-term debt was $117.2 million and $147.8 million, respectively, at December 31, 2018 and 2017. The fair value of the Generation System's long-term debt is estimated based on quoted market prices for the same or similar issues.

Water System

A summary of principal outstanding on Water System long-term debt follows:

	December 31, 2018	December 31, 2017
	(In thousands)	
Series 2011 Revenue Refunding bonds, 3.0-5.0%, due 2017-2022, earliest call 2021	$ 3,235	$ 4,145
Series 2009 Revenue bonds, 4.0-4.4%, due 2017-2031, earliest call 2019	9,270	9,805
Series 2006 Revenue and Refunding bonds, 4.3%, due 2020-2026, currently callable	2,575	2,840
State of Washington Drinking Water Revolving Fund loans:		
equal principal payments plus 1.0% interest due annually through 2034	1,993	2,118
equal principal payments plus 1.5% interest due annually through 2029	909	991
equal principal payments plus 1.5% interest due annually through 2027	577	641
equal principal payments plus 2.5% interest due annually through 2022	191	239
Total Principal Outstanding on Long-Term Debt	**$ 18,750**	**$ 20,779**

Changes in the Water System long-term debt during the years ended December 31, 2018 and 2017, follow (in thousands):

	2016	2017			2018		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 18,495	$ –	$ (1,705)	$ 16,790	$ –	$ (1,710)	$ 15,080
Unamortized bond premiums	599	–	(97)	502	–	(97)	405
Other notes payable	4,308	–	(319)	3,989	–	(319)	3,670
Total Debt	23,402	–	(2,121)	21,281	–	(2,126)	19,155
Less: Current maturities	(2,024)			(2,029)			(1,979)
Total Long-Term Debt	**$ 21,378**			**$ 19,252**			**$ 17,176**

The Water System periodically enters into low-interest loan agreements with the Washington State Public Works Trust Fund and the State of Washington Drinking Water Revolving Fund. These funds have provided various loans to the PUD for the repair, replacement, rehabilitation and reconstruction of water facilities.

The PUD is required to maintain a cash reserve for certain Water System bonds. At December 31, 2018 and 2017, the PUD maintained the reserve requirement of $1.2 million in the Water System.

The fair value of the Water System's long-term debt was $19.1 million and $21.4 million, respectively, at December 31, 2018 and 2017. The fair value for the Washington State Public Works Trust Fund loan and the State of Washington Drinking Water Revolving Fund loans approximate the carrying amounts since such loans are exclusive and have no market.

Note 4
BPA Power Purchase Agreement

The PUD is a preference customer of the Bonneville Power Administration (BPA), from which it acquired approximately 86% of its energy purchases in both 2018 and 2017.

The PUD purchases power from BPA under power supply contracts offered pursuant to the Pacific Northwest Electric Planning and Conservation Act. These contracts provide the PUD with the ability to purchase power in excess of its declared resources on an as-needed basis. The PUD entered into contracts with BPA to purchase approximately 75-85% of its power requirements from the federal agency through 2028.

Energy Northwest Nuclear Projects Nos. 1, 2 and 3

The PUD entered into participation agreements in Energy Northwest's Nuclear Projects Nos. 1, 2 and 3. The PUD, Energy Northwest and BPA have entered into separate Net Billing Agreements with respect to Energy Northwest's Project No. 1, Project No. 2 and 70% ownership share of Project No. 3. The PUD is obligated to purchase from Energy Northwest, and BPA is obligated to purchase from the PUD, a maximum of approximately 20%, 15% and 19%, respectively, of the capacity of Project Nos. 1 and 2 and Energy Northwest's 70% ownership share of Project No. 3. BPA is unconditionally obligated to pay Energy Northwest the PUD's pro rata share of the total annual costs of the projects, including debt service on revenue bonds issued to finance the projects. The effect of these net billing agreements is that the cost of power sold by BPA to all of its customers, including the PUD, includes the cost of these projects.

Notwithstanding the assignment of the PUD's share of the capability of a net billed project to BPA, the PUD remains unconditionally obligated to pay to Energy Northwest its share of the total annual costs of the projects to the extent payment is not received by Energy Northwest from BPA. The PUD has not made payments under this contract.

Note 5
Generation System Projects

The Generation System consists of the PUD's Henry M. Jackson Hydroelectric Project (Jackson Project) and four smaller hydroelectric projects.

Henry M. Jackson Hydroelectric Project

The Jackson Project is a multipurpose hydroelectric project with a capacity of 111.8 megawatts. In 2018 and 2017, the Jackson Project supplied 5% of the PUD's energy needs.

The project is currently operating under a 45-year license issued by the Federal Energy Regulatory Commission (FERC) that will expire in 2056. The license agreement includes requirements for fish, wildlife and recreation enhancement in the Jackson Project area. The PUD has also negotiated settlement agreements with the cities of Everett and Sultan, Washington Department of Fish and Wildlife, United States Forest Service and the Tulalip Tribes that call for funding commitments over the course of the 45-year license.

Small Hydroelectric Projects

The Generation System owns two small hydroelectric projects located near Sultan, Washington, in Snohomish County: the Youngs Creek Hydroelectric Project (Youngs Creek) and the Woods Creek Hydroelectric Project (Woods Creek). Completed in 2011, Youngs Creek has a capacity of 7.5 MW, and its FERC license expires in 2042. Woods Creek was purchased by the PUD in 2008, has a capacity of 650 kW, and was upgraded by the PUD to meet current operating standards.

Two new small hydroelectric projects, Calligan Creek Hydroelectric Project (Calligan Creek) and Hancock Creek Hydroelectric Project (Hancock Creek) were completed and began operation in 2018. These 6.0 MW run-of-the-river hydroelectric projects are situated north of North Bend, Washington in King County. The 50-year FERC licenses for each project will expire in 2065. The PUD recorded development, engineering and construction costs of $3.1 million and $18.3 million in 2018 and 2017, respectively, related to the projects.

The PUD has committed the Electric System to purchase the output of its Generation System projects at the cost of the power produced.

Note 6
Related Party Transactions

The Generation System sells power to the Electric System at the cost of power produced including debt service and any other cash transactions. The Generation System sold $42.0 and $39.9 million of power in 2018 and 2017, respectively, to the Electric System.

The Electric and Generation Systems periodically enter into loan transactions between the systems for various purposes including to defease bonds, to fund energy generation project construction, and to fund energy generation project studies, including the purchase and development of small hydroelectric projects. These loans are assigned terms consistent with the associated asset acquired, and interest rates are set at tax–exempt bond market rates at the time of the loan.

Electric System loans to the Generation System were $32.4 million and $41.7 million at December 31, 2018 and 2017, respectively. The Generation System recorded interest expense on these loans of $1.6 million in 2018 and $1.2 million in 2017.

A Generation System loan to the Electric System was $2.0 million and $3.1 million at December 31, 2018 and 2017, respectively. The Electric System recorded interest expense on this loan of $193,000 in 2018 and $260,000 in 2017.

Note 7
Retirement and Deferred Compensation Plans

DEFINED BENEFIT PENSION PLANS

The Public Employee Retirement System (PERS) is a cost-sharing multiple-employer retirement system comprised of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component. PERS members include elected officials, state employees, and employees of governmental agencies in the State of Washington.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined after that date are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes. Plan 1 accounts for defined benefits of Plan 1 members; Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members; and Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portion of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

General Benefits Provided

PERS provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they terminated their public service.

Substantially all full-time and qualifying part-time PUD employees participate in PERS which is administered by the Washington State Department of Retirement Systems, (DRS). The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

Both the PUD and the employees made the required contributions. The PUD's required contributions for the years ended December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
		(In thousands)	
2018	$ 81	$ 12,667	$ 2,572
2017	71	11,143	2,124
2016	98	10,117	1,808

PERS Plan 1 Description

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

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

Actual Contribution Rates	*Employer*	*Employee*
July 2015 through June 2017	11.18%	6.00%
July 2017 through August 2018	12.70	6.00
September 2018 through December 2018	12.83	6.00

The PUD's contributions as reported by PERS to the plan were $6.0 million, and $5.5 million for the years ended December 31, 2018, and 2017, respectively.

PERS Plan 2/3 Description

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

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

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

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

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

Actual Contribution Rates	*Employer Plan 2/3*	*Employee Plan 2*	*Employee Plan 3*
July 2015 through June 2017	11.18%	6.12%	varies
July 2017 through August 2018	12.70	7.38	varies
September 2018 through December 2018	12.83	7.41	varies

The PUD's contributions as reported by PERS to the plan were $9.0 million, and $7.7 million for the years ended December 31, 2018, and 2017, respectively.

Pension Financial Statement Balances

At June 30, 2018 and 2017, the PUD reported a total pension liability of $57.5 million and $79.2 million for its proportionate share of the net pension liabilities. The pension liability was $38.8 million and $41.1 million for PERS Plan 1 and $18.7 million and $38.1 million for PERS Plan 2/3 at June 2018 and 2017, respectively.

The PUD's proportionate share of the net pension liabilities for PERS Plan 1 was 0.87% for both June 30, 2018 and 2017. The PUD's proportionate share of the PERS Plan 2/3 was 1.10% for both June 30, 2018 and 2017.

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

The collective net pension liability was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

For the years ended December 31, 2018 and 2017, the PUD recognized pension credit of $2.5 million and $5.2 million, respectively, for PERS Plan 1 and a pension credit of $9.0 million and $2.0 million, respectively, for PERS Plan 2/3.

At December 31, the PUD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2018				2017			
	PERS 1		*PERS 2/3*		*PERS 1*		*PERS 2/3*	
	Deferred Outflow	*Deferred Inflow*	*Deferred Outflow*	*Deferred Inflow*	*Deferred Outflow*	*Deferred Inflow*	*Deferred Outflow*	*Deferred Inflow*
Differences between expected and actual experience	$ –	$ –	$ 2,293	$ 3,275	$ –	$ –	$ 3,860	$ 1,253
Net difference between projected and actual investment earnings on pension plan investments	–	1,541	–	11,480	–	1,534	–	10,155
Changes of assumptions	–	–	219	5,324	–	–	405	–
Changes in proportion and differences between contributions and proportionate share of contributions	–	–	697	1,765	–	–	1,183	2,005
Contributions subsequent to the measurement date	3,059	–	4,467	–	2,862	–	4,141	–
	$ 3,059	$ 1,541	$ 7,676	$ 21,844	$ 2,862	$ 1,534	$ 9,589	$ 13,413

Deferred outflows of resources related to pensions resulting from the PUD's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019 and 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension (income) expense as follows (in thousands):

Year ended December 31:	PERS 1	PERS 2/3
2019	$ 68	$ (1,776)
2020	(337)	(4,014)
2021	(1,011)	(7,270)
2022	(261)	(2,845)
2023	–	(1,206)
2024 - 2025	–	(1,524)
	$ (1,541)	$ (18,635)

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the Washington Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments. Assumptions included:

- Inflation: 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.40%

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

The discount rate used to measure the total pension liability for all DRS plans was 7.4%. To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

The long-term expected rate of return on DRS pension plan investments of 7.4% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected annual return, standard deviation of the annual return, correlations between the annual returns of each asset class with every other asset class) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7	4.90
Real Estate	18	5.80
Global Equity	32	6.30
Private Equity	23	9.30

The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Sensitivity of Net Pension Liability

The table below presents the PUD's proportionate share of the net pension liability/(asset) calculated using the current discount rate, as well as the PUD's proportionate share of the net pension liability if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

($ Millions)

	2018			2017		
	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS Plan 1	$ 47.6	$ 38.8	$ 31.1	$ 50.1	$ 41.1	$ 33.3
PERS Plan 2/3	85.6	18.7	(36.1)	102.6	38.1	(14.8)

Pension Liability Allocation

The pension liability has been allocated to the Electric, Generation and Water Systems, based on percentages of staffing levels between the systems. The PUD's proportionate share of net pension liability for each plan, as of December 31, is as follows (in thousands):

	December 31, 2018		December 31, 2017	
	PERS Plan 1	PERS Plan 2/3	PERS Plan 1	PERS Plan 2/3
Electric System	$ 36,843	$ 17,785	$ 39,069	$ 36,214
Generation System	938	481	994	944
Water System	988	442	1,047	937

Pension Plan Fiduciary Net Position

The pension plans' fiduciary net position has been determined on the same basis used by the pension plan accounted for in pension trust funds using the flow-of-economic-resources measurement focus and the accrual basis of accounting. Investments are reported at fair value. Unrealized gains and losses are included as investment income in the Statement of Changes in Fiduciary Net Position. The net assets of the retirement funds are valued using the publicly traded securities, limited partnerships, private equity limited partnerships and real estate limited partnerships.

Detailed information about each defined benefit pension plans' fiduciary net position is available in the separately issued DRS 2018 CAFR financial report. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia WA 98504-8380.

POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The PUD implemented GASB No. 75 to recognize net liability related to OPEB and its disclosure requirements. There are two OPEB plans, healthcare and life insurance. They are a single-employer defined benefit OPEB plan administered by the PUD. There are no stand-alone financial statements presented for either of these plans.

Plan Descriptions

Healthcare Plan

The PUD administers retiree self–insured medical and vision insurance and Health Reimbursement arrangement (HRA) benefits for eligible retirees hired before July 1, 2009, and their dependents. Retiree benefit provisions are established by Commission resolution.

In general, the PUD pays a contribution toward the retiree's PUD group health plan premiums or to a Health Reimbursement Arrangement (HRA). For retirees and their dependents under age 65 who elect a PUD group medical plan, the PUD contribution is based on 75% of the premium for the most commonly elected retiree health plan during the prior year. Retirees and their dependents under age 65 who waive PUD group medical plan coverage receive a $180 monthly contribution into their HRA. When a retiree or dependent becomes eligible for Medicare at age 65, the retiree is no longer eligible for the group medical plan; however, the PUD contributes $180 a month to the retiree's HRA. This OPEB plan is closed to employees hired after July 1, 2009. In 2018 and 2017, the PUD contributed $2.2 and $2.4 million, respectively, to the plans. Plan members receiving benefits contributed $0.6 million in both 2018 and 2017.

Retiree Life Insurance

The PUD administers life insurance benefits related to a term life insurance plan terminated in 1986 for eligible retirees. The retiree life insurance benefit provisions were established by Commission resolution.

Employees who were covered by the PUD's group term life insurance prior to November 1986 may reinstate this insurance at the time of retirement subject to a $60,000 maximum benefit. Retiree insurance premium contribution amounts are established by the Commission. The PUD entered into an insurance contract to fully insure the life insurance obligation, and contributed $321,000 and $308,000 towards the premium in 2018 and 2017, respectively.

Valuation Date, Measurement Date and Reporting Date

The Valuation Date of OPEB liability is January 1, 2017. This is the date as of which the census data is gathered and the actuarial valuation is performed. The Measurement Date is December 31, 2017. This is the date as of which the total OPEB liability is determined. The Reporting Date is December 31, 2018, the PUD's fiscal year ending date. GASB Statement No. 75 allows a lag of up to one year between the measurement date and the reporting date. There have been no significant changes between the valuation date and fiscal year ends. No adjustment is required between the measurement date and the reporting date.

Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30% based on Actuary's capital market expectations.
Salary increases	3.05% for which the assumption above inflation is based upon the most recent pension valuation for Plan 2 of the Public Employees Retirement System (PERS), a subset of the Washington State Retirement Systems.
Discount rate	3.44%
Healthcare cost trend rates	5.4 % for 2019-2020, decreasing to an ultimate rate of 5.0 % for 2024 and later years.
Retirees' share of health benefit-related costs	25% of projected health insurance premiums for retirees.
Life insurance cost trend rates	4.5% for 2019-2027.
Retirees' share of life benefit-related costs	23% of projected life insurance premiums for retirees in 2019, 25% in 2020.

The discount rate was based on 20-Year Tax-Exempt Municipal Bond Yield, as required by GASB Statement No. 75.

Mortality rates were based on the RP-2000 Healthy Mortality Table for Males or Females, as appropriate, with 100% of Scale BB fully generational offset one year.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period ending January 1, 2017.

OPEB Liability

As of December 31, 2018, the PUD's total OPEB liability for retiree healthcare was $45.8 million, and $4.9 million for retiree life benefits, recorded in other accrued and other liabilities. The annual payroll of active employees covered by the plan was $71.7 million in 2018, compared to $71.4 million in 2017.

The following census of membership was used in the actuarial valuation:

	Healthcare	Life
Retirees (and beneficiaries for healthcare)	682	254
Active employees	634	27
	1,316	281

The following table shows the changes in the PUD's net OPEB liability (in thousands):

	2018 Healthcare			2018 Life		
	Electric	Generation	Water	Electric	Generation	Water
Net OPEB liability – beginning of year	$ 17,917	$ 460	$ 464	$ 4,615	$ 119	$ 119
Actuarial beginning of year adjustment	24,560	618	660	(31)	(1)	(1)
Changes for the year:						
Service Cost	1,013	26	27	12	–	–
Interest on total OPEB liability	1,590	40	43	168	4	5
Effect of assumptions changes or inputs	1,326	33	36	169	4	5
Expected benefit payments	(2,753)	(123)	(131)	(291)	(7)	(7)
Net Changes	1,176	(24)	(25)	58	1	3
Net OPEB liability – end of year	**$ 43,653**	**$ 1,054**	**$ 1,099**	**$ 4,642**	**$ 119**	**$ 121**

Changes of assumptions and other inputs reflect a change in the discount rate from 3.5 percent in 2017 to 3.44 percent in 2018. The schedule of changes in the PUD's total OPEB liability and related ratios is included in the Required Supplementary Information.

Sensitivity Analysis

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the PUD, calculated using the discount rate of 3.44%, as well as what the PUD's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.44%) or 1 percentage point higher (4.44%) than the current rate (in millions):

	2018		
	1% Decrease (2.44%)	Current Discount Rate (3.44%)	1% Increase (4.44%)
Healthcare	$ 50.3	$ 45.8	$ 41.9
Life	5.5	4.9	4.4

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate

The following presents the total OPEB liability of the PUD, calculated using the current healthcare cost trend rates as well as what the PUD's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates (in millions):

		2018	
	1% Decrease	Current Trend Rate	1% Increase
Healthcare	$ 43.6	$ 45.8	$ 48.4

OPEB Financial Statement Balances

For the year ended December 31, 2018, the PUD recognized $3.0 million of OPEB healthcare expenses, and $0.4 million of OPEB life insurance expenses. At December 31, 2018, the PUD reported deferred outflows of resources and deferred inflows of resources related to OPEB healthcare from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	$ 1,127	$ –

There were no deferred outflows and deferred inflows of resources related to OPEB life plan.

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other post-employment benefits will be recognized in OPEB income (expense) as follows (in thousands):

Measurement Period Ending December 31:	
2018	$ (268)
2019	(268)
2020	(268)
2021	(268)
2022	(55)
Thereafter	–
	$ (1,127)

POST-EMPLOYMENT DEFINED CONTRIBUTION HEALTHCARE PLAN

Employees hired after July 1, 2009, are not eligible for the post-employment defined benefit healthcare plan but are instead eligible for a defined contribution health care plan. Under this plan, the PUD currently contributes $53.86 per month into an employee's individual HRA account, also known as the Retirement Health Savings (RHS) Plan. These funds are available to the employee for qualified health care costs upon termination of employment or retirement from the PUD.

DEFERRED COMPENSATION PLANS

The PUD administers an Internal Revenue Code Section 457 deferred compensation program, covering eligible employees as defined in the plan document. Participants may contribute and defer, up to defined limits, a portion of their current year's salary. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and as such are not included on the PUD's financial statements.

The PUD administers a 401(k) Savings Plan (the Plan) effective May 1, 1985. Participation in the Plan is offered to eligible employees of the PUD as defined in the plan document. The Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, up to a maximum amount as indexed for cost–of–living adjustments. The PUD makes matching contributions in an amount equal to 50% of the first 4% of a participant's compensation contributed as a salary deferral. The PUD made matching contributions of $1.8 million and $1.7 million in 2018 and 2017, respectively.

Note 8
Self–Insurance Fund

The PUD maintains a comprehensive insurance program that includes liability insurance coverage of $50 million in excess of a $2 million self-insured retention per occurrence. This coverage insures against certain losses arising from property damage or bodily injury damage claims filed by third parties against the PUD. At December 31, 2018, the PUD's $2 million self-insured retention was fully funded. Self-insurance funds are included in special funds at market value, with a balance of $10.0 million and $12.7 million as of December 31, 2018 and 2017, respectively.

Note 9
Contingencies

The PUD is involved in various claims arising in the normal course of business. The PUD does not believe that the ultimate outcome of these matters will have a material adverse impact on its financial position or results of operations.

The PUD has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – PERS

As of June 30 *(In thousands)*

PERS 1	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.87%	0.87%	0.91%	0.89%
Employer's proportionate share of the net pension liability	$38,769	$41,111	$48,809	$46,613
Employer's covered employee payroll	$608	$768	$1,059	$1,481
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	6,376.48%	5,352.03%	4,610.37%	3,147.32%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

PERS 2/3	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	1.10%	1.10%	1.14%	1.11%
Employer's proportionate share of the net pension liability	$18,707	$38,094	$57,276	$39,776
Employer's covered employee payroll	$114,293	$107,494	$106,886	$98,786
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	16.37%	35.44%	53.59%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

Notes to Schedule:

Factors that significantly affect trends in the amounts reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PERS

As of December 31 *(in thousands)*

PERS 1	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contributions	$ 81	$ 71	$ 98	$ 124	$ 155	$ 152	$ 158	$ 160	$ 148	$ 197
Contributions in relation to the contractually required contributions	(81)	(71)	(98)	(124)	(155)	(152)	(158)	(160)	(148)	(197)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Covered Employer Payroll	632	594	879	1,221	1,611	1,854	2,196	2,574	2,780	2,876
Contributions as a percentage of covered employee payroll	12.82%	11.95%	11.15%	10.14%	9.62%	8.20%	7.19%	6.22%	5.32%	6.85%

PERS 2/3	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contributions	$ 15,239	$ 13,267	$ 11,925	$ 10,581	$ 8,989	$ 7,668	$ 6,619	$ 5,337	$ 4,393	$ 5,270
Contributions in relation to the contractually required contributions	(15,239)	(13,267)	(11,925)	(10,581)	(8,989)	(7,668)	(6,619)	(5,337)	(4,393)	(5,270)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Covered Employer Payroll	119,564	110,945	106,716	103,383	97,703	93,277	92,171	85,198	83,012	78,025
Contributions as a percentage of covered employee payroll	12.75%	11.96%	11.17%	10.23%	9.20%	8.22%	7.18%	6.26%	5.29%	6.75%

SCHEDULE OF CHANGES IN TOTAL OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY AND RELATED RATIOS

As of December 31, 2018 *(in thousands)*

Total OPEB Liability	Post retirement Health	Post retirement Life
Service cost	$ 1,066	$ 12
Interest on total OPEB liability	1,673	177
Effect of assumption changes or inputs	1,395	178
Expected benefit payments	(3,007)	(305)
Net change in total OPEB liability	1,127	62
Total OPEB liability, beginning, as adjusted	44,679	4,820
Total OPEB liability, ending	$ 45,806	$ 4,882
Covered employee payroll	$ 71,696	N/A
Total OPEB liability as a % of covered employee payroll	63.89%	N/A

Notes to Schedule:

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period.

The PUD has established a fund to address the unfunded portion of future post-employment benefits. The balance of this account was $29.1 million and $22.6 million as of December 31, 2018 and 2017, respectively, and is included in special funds on the statements of net position. Since these funds have not been placed in an irrevocable trust, the PUD has not reduced the unfunded actuarial liability by these funds. The PUD has entered into an insurance product that is expected to fund the remaining post-retirement life insurance liability.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following summary is an outline of certain provisions of the Resolution, is not to be considered a full statement thereof and is qualified by reference to the complete Resolution. All capitalized words or phrases (other than those conventionally capitalized) used in this summary and elsewhere in this Official Statement are defined in the Resolution. Certain of these definitions are summarized below.

Certain Definitions

"Annual Debt Service" for any Fiscal Year means the sum of the amounts required to be paid in such Fiscal Year to pay: (a) the interest due in such Fiscal Year on all Outstanding Bonds, excluding interest to be paid from the proceeds of sale of Bonds or other bonds; and (b) the principal of all Outstanding Serial Bonds due in such Fiscal Year; and (c) the Sinking Fund Requirement, if any, for such Fiscal Year. The Resolution specifies how debt service is calculated for Capital Appreciation Bonds, Deferred Income Bonds, Tender Option Bonds and Variable Interest Rate Bonds.

"Assessment Income" means the principal of and interest on Assessments.

"Assessments" means assessments, including interest and penalties, levied in any local utility district of the District for the acquisition or construction of additions and improvements to and extensions of the Water System, if such assessments are pledged to be paid into the Bond Fund.

"Code" means the Internal Revenue Code of 1986, as the same may be amended from time to time, and the regulations promulgated thereunder.

"Coverage Requirement" means (a) for purposes of the Rate Covenant, for any Fiscal Year the product of 1.25 times Annual Debt Service on all Outstanding Bonds in such Fiscal Year after deducting Assessments actually collected for such year and (b) for purposes of the test for issuing additional Bonds, for any Fiscal Year the product of l.25 times Annual Debt Service on all Outstanding Bonds and the additional Bonds proposed to be issued after deducting Assessments allocated to the years in which they would be received if the unpaid balance of each assessment roll were paid in equal principal and interest installments or in the remaining number of installments with interest on the declining balance at the times and at the rate provided in the resolution confirming the assessment roll, as applicable.

"Net Revenues" means, for any period, the excess of Revenues over Operating Expenses for such period excluding from the computation of Operating Expenses any expenses paid from insurance proceeds and excluding from the computation of Revenues (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets of the Water System, or resulting from the early extinguishment of debt; and (b) any other extraordinary, nonrecurring income or donation other than the proceeds of insurance intended to replace Revenues.

"Operating Expenses" means all the District's expenses for operation and maintenance of the Water System, including all operation and maintenance expenses as defined by generally accepted accounting principles and shall include, without limiting the generality of the foregoing, (a) all amounts required to be paid to the United States with respect to the Bonds pursuant to Section l48 of the Code and (b) Resource Obligations for any month in which any water or other goods and services from such Resource Obligation was made available to the Water System during such month (regardless of whether or not the Water System actually scheduled or received water from the Resource Obligation during such month). Operating Expenses shall not include any extraordinary, nonrecurring expenses of the Water System, any judgments or amounts to be paid in settlement of claims against the Water System, any costs or expenses for new construction for the Water System, interest on bonds or other obligations of the Water System, amortization or any allowance for depreciation.

“Outstanding” when used with respect to Bonds means, as of any date, Bonds theretofore or thereupon issued pursuant to the Resolution except: (i) any Bonds cancelled by the Registrar or paid at or prior to such date; (ii) Bonds for which other Bonds have been substituted; and (iii) Bonds that have been defeased.

“Parity Lien Obligations” means all charges and obligations against Revenues ranking on a parity of lien with the Bonds, including but not limited to Resource Obligations for any month such costs or other obligations are not eligible for payment as Operating Expenses. Parity Lien Obligations do not include Bonds.

“Permitted Investments” means the following to the extent the same are legal for investments of funds of the District: (a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States, including obligations of any of the federal agencies set forth in clause (b) below to the extent unconditionally guaranteed by the United States; (b) obligations of the Export-Import Bank of the United States, the Government National Mortgage Association, the Federal National Mortgage Association to the extent guaranteed by the Government National Mortgage Association, the Federal Financing Bank, the Farmers Home Administration, the Federal Housing Administration, the Private Export Funding Corporation, the Federal Home Loan Bank, and the Federal Home Loan Mortgage Bank, or any agency or instrumentality of the Federal Government which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefor; (c) new housing authority bonds issued by the public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States; (d) direct and general obligations of any State within the territorial United States, to the payment of the principal of and interest on which the full faith and credit of such State is pledged, provided, that at the time of their purchase, such obligations are rated in one of the two highest rating categories by either Moody’s Investors Service (“Moody’s”) or Standard & Poor’s Ratings Services (“S& P”) or in the event each of such rating agencies rates such obligations, by each of them; (e) certificates of deposit, whether negotiable or nonnegotiable, issued by any bank, savings and loan association, or trust company, provided that such certificates of deposit shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (ii) issued by a recognized qualified public depositary of the State of Washington under RCW chapter 39.58, as amended, or (iii) continuously and fully secured by such securities as are described above in clauses (a) or (b), which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit or (iv) certificates of deposit with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-l” or “A-1+” by S&P and “P-l” by Moody’s; (f) any written repurchase agreement with any bank, savings institution or trust company which is insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or with any brokerage dealer with retail customers which falls under Securities Investors Protection Corporation protection, provided that such repurchase agreements are fully secured by direct obligations of the United States of America, and provided further that (i) such collateral is held by the District or its agent or trustee during the term of such repurchase agreement, (ii) such collateral is not subject to liens or claims of third parties, (iii) such collateral has a market value (determined at least once weekly) at least equal to 100% of the amount invested in the repurchase agreement, (iv) the District or its agent or trustee has a perfected first security interest in the collateral, (v) the agreement shall be for a term not longer than 270 days and (vi) the failure to maintain such collateral at the level required in (iii) above will require the District or its agent or trustee to liquidate the collateral; (g) Refunded Municipals; (h) banker’s acceptances with commercial banks that have a rating on their short-term certificates of deposit on the date of purchase of “A-l” or “A-1+” by S&P or “P-1” by Moody’s, or in the event each of such rating agencies rates such obligations, by each of them, and that mature no more than 360 days after the date of purchase; and (i) any investments or investment agreements permitted under the laws of the State of Washing ton as amended from time to time.

“Qualified Insurance” means any municipal bond insurance policy or surety bond issued by any insurance company that at the time of issuance of the policy or surety bond is rated in one of the two highest rating categories by Moody’s or S&P, or if rated by both, by each of them.

“Qualified Letter of Credit” means any letter of credit issued by a financial institution for the account of the District on behalf of the registered owners of the Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit is currently rated in one of the two highest rating categories by Moody's or S&P or their comparably recognized business successors, or in the event each of such rating agencies rates such institution, by each of them.

"Reserve Account Requirement" means (a) with respect to a series of Bonds, the lesser of (i) 10% of the proceeds of such series of Bonds or (ii) the maximum amount of interest due in any Fiscal Year on such series of Bonds, calculated as of their date of issuance and recalculated as of the date of issuance of any series of additional Bonds that are Refunding Bonds issued for the purpose of refunding a portion of such series of Bonds; and (b) with respect to all Bonds, the sum of the Reserve Account Requirement for all series of Bonds. The Resolution specifies bow interest is calculated for Variable h1terest Rate Bonds.

"Resource Obligation" means an obligation of the District to pay the following costs associated with a resource from Revenues as (a) Operating Expenses for any month in which any water, goods or services from such resource were made available to the Water System during such month (regardless of whether or not the Water System actually scheduled or received water, goods or services from such resource during such month) and (b) at all other times as an indebtedness of the Water System payable from Revenues on a parity of lien with the Bonds and any other obligation required or permitted pursuant to the Resolution or any Supplemental Resolution to be paid on a parity of lien with the Bonds; (i) costs associated with facilities or resources for the conservation, transmission or distribution of water (including any common undivided interest therein) acquired, purchased or constructed by the District and declared by the Commission to be a separate system after the adoption of the Resolution, which such costs shall include but are not limited to costs of normal operation and maintenance, renewals and replacements, additions and betterments and debt service on the bonds or other obligations of such separate system but shall exclude costs paid or to be paid from the proceeds of the sale of bonds or other obligations of such separate system, or (ii) costs associated with the purchase of water, conservation or services under a contract.

"Revenues" means all income, revenues, receipts and profits derived by the District through the ownership and operation of the Water System, including general facilities charges, together with the proceeds received by the District directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the Water System and together with the investment income earned on money held in any fund or account of the District, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Water System, exclusive of (i) insurance proceeds compensating the District for the loss of a capital asset; (ii) income derived from investments irrevocably pledged to the payment of any Bonds defeased or other bonds defeased, or the payment of which is provided for, under any similar provision of any other bond resolution of the District; (iii) investment income earned on money in any fund or account created for the purpose of complying with the rebate provision of Section 148 of the Code; and (iv) income restricted to a particular purpose inconsistent with its use for the payment of debt service.

"Serial Bonds" means Bonds falling due by their terms in specified years, for which no Sinking Fund Requirements are mandated.

"Sinking Fund Requirement" means, for any Fiscal Year, the principal amount and premium, if any, of Term Bonds required to be purchased, redeemed or paid at maturity or paid into any sinking fund account for such Fiscal Year as established by the Supplemental Resolution authorizing the issuance of such Term Bonds.

"Term Bonds" means Bonds of any principal maturity that are subject to mandatory redemption or for which Sinking Fund Requirements are mandated.

"Water System" means the water utility properties, rights and assets, real and personal, tangible and intangible, now owned and operated by the District and used or useful in the supply, storage, transmission, distribution or conservation of water and all properties, rights and assets, real and personal, tangible and intangible, constructed or acquired by the District after the adoption of the Resolution as additions, betterments, improvements or extensions to said water utility properties, rights and assets and declared by the Commission to be included in the Water System, but shall not include any other properties, rights or assets, real or personal, tangible or intangible that may be purchased, constructed or otherwise acquired by the District as a system that is declared by the Commission after the adoption of the Resolution to be separate from the Water System, the revenues of which may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire or expand such separate system or otherwise may be pledged to the payment of the bonds of another such separate system of the District.

"Water System Costs" means costs of additions, betterments, extensions, renewals, repairs, replacements and extraordinary operating expenses of the Water System and all costs incident thereto, including but not limited to engineering, financing, or legal costs.

Effect of Saturdays, Sundays and Legal Holidays

Whenever the Resolution requires any action to be taken on a Saturday, Sunday, legal or banking holiday, such action shall be taken on the first business day occurring thereafter. Whenever in the Resolution the time within which any action is required to be taken or within which any right will lapse or expire shall terminate on a Saturday, Sunday, legal or banking holiday, such time shall continue to run until midnight on the next succeeding business day.

Funds and Accounts

Revenue Fund. The District has pledged to pay all Revenues into the Revenue Fund except as specifically provided in the Resolution. The Revenue Fund consists of the General Account and the Rate Stabilization Account. The Revenues paid into the Revenue Fund shall first be credited to the General Account and applied as specified under "SECURITY FOR THE BONDS—Flow of Funds."

Bond Fund. The District has covenanted, as long as any Bonds are Outstanding, to make payments as follows:

(a) Into the Interest Account, not later than the day on which any installment of interest falls due, an amount sufficient to pay such installment of interest falling due.

(b) Into the Principal Account, not later than the day on which any installment of principal on Serial Bonds or any Sinking Requirement on Term Bonds falls due, an amount sufficient to pay such installment of principal or such Sinking Fund Requirement.

(c) Into the Reserve Account from money received upon the delivery of each series of Bonds (but not to exceed the amount permitted by the Code), the amount that together with other money meets the Reserve Account Requirement. The District has reserved the rights to substitute Qualified Insurance or a Qualified Letter of Credit (as defined in the Resolution) to satisfy the Reserve Account Requirement for any Bonds provided that the letter of credit or insurance is not cancelable on less than five years notice. If the amount in the Reserve Account is less than the Reserve Account Requirement, the District shall have 12 months to restore the Reserve Account to the Reserve Account Requirement. Money in the Reserve Account is to be applied to make up a deficiency in the Interest Account or the Principal Account.

Money in the Bond Fund shall be invested in Permitted Investments (as defined in the Resolution).

Construction Fund. The proceeds from the sale of the Bonds (other than any accrued interest received and amounts deposited into the Reserve Account) issued to pay Water System Costs or to repay advances for Water System Costs are to be deposited in the Construction Fund.

Reserve Account. Any Supplemental Resolution providing for the issuance of Bonds may provide for payments into the Bond Fund for credit to the Reserve Account from any other moneys lawfully available therefor (in which event, in providing for deposits and credits required by the Resolution, allowance shall be made for any such amounts so paid into such account) or may provide for the District to obtain Qualified Insurance or a Qualified Letter of Credit for specific amounts required by the Resolution to be paid out of the Reserve Account. The amount available to be drawn upon under such Qualified Insurance or Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Reserve Account by the Resolution to the extent that such payments and credits to be made are insured by an insurance company, or guaranteed by a letter of credit from a financial institution. Such Qualified Letter of Credit or Qualified Insurance is required to be not be cancelable on less than five years notice. In the event of receipt of any such notice of cancellation, the District is required to substitute Qualified Insurance or a Qualified Letter of Credit in the amount required pursuant the Resolution or in the alternative is required to create a special account in the Revenue Fund and deposit therein, on or before the twenty-fifth (25th) day of each of the sixty (60) succeeding calendar months one-sixtieth of the amount sufficient, together with other money and investments on deposit in the Reserve Account, to equal the Reserve Account Requirement on the date any such cancellation shall become effective. Such amounts shall be transferred from the sources (other than the Construction Fund) and in the order of priority specified by the Resolution providing for payments to the Reserve Account in the event of a deficiency therein. Amounts on deposit in such special account shall not be available to pay debt service on Bonds or for any other purpose of the District, except as provided in the following sentence. All amounts in such account shall be transferred to the Reserve Account on the effective date of any cancellation of a Qualified Letter of Credit or Qualified Insurance to make up the deficiency caused thereby.

For the purpose of determining the amount credited to the Reserve Account, obligations in which moneys in the Reserve Account shall have been invested shall be valued at the market value thereof. The term "market value" shall mean, in the case of securities that are not then currently redeemable at the option of the registered owner, the current bid quotation for such securities, as reported in any nationally circulated financial journal, and the current redemption value in the case of securities that are then redeemable at the option of the holder. For obligations that mature within six (6) months, the market value shall be the par value thereof. The valuation shall include accrued interest thereon. The valuation of the amount in the Reserve Account shall be made by the Treasurer as of the close of business on each December 31 (or on the next preceding business day if December 31 does not fall on a business day) and after any withdrawal pursuant to the Resolution and may be made on each June 30 (or on the next preceding business day if June 30 does not fall on a business day).

If the amount in the Reserve Account is less than the Reserve Account Requirement, the District shall have twelve (12) months within which to make transfers to the Reserve Account in amounts sufficient to restore the Reserve Account to the Reserve Account Requirement. The District shall transfer such amounts first from moneys in the Revenue Fund (after making provision for payment of Operating Expenses and for the required payments into the Interest and Principal Accounts) and only thereafter from moneys in the Construction Fund. If the amount in the Reserve Account shall be greater than the Reserve Account Requirement, then and only then may the District withdraw at any time prior to the next date of valuation from the Reserve Account the difference between the amount in the Reserve Account and the Reserve Account Requirement and deposit such difference in the Revenue Fund.

Money in the Interest Account and the Principal Account shall be transmitted by the District to the Paying Agent in amounts sufficient to meet the next maturing installments of principal, interest and premiums, if any, at or prior to the time upon which any interest, principal or premium, if any, is to become due. In the event there shall be a deficiency in the Interest Account or the Principal Account for such purpose, the District shall make up any such deficiency from the Reserve Account by the withdrawal of cash therefrom for that purpose, and, if necessary, by sale or redemption of any authorized investments in such amount as will provide cash in said Reserve Account sufficient to make up any such deficiency. If a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the District shall then draw from any Qualified Letter of Credit, Qualified Insurance, or other credit enhancement instrument. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide.

Whenever and so long as amounts on deposit in the Bond Fund, including the Reserve Account, are sufficient to provide moneys to pay the Bonds then Outstanding, including such interest as may thereafter become due thereon and any premiums upon redemption, no payments need be made into the Bond Fund pursuant to the Resolution.

Money transferred from the Bond Fund to the Paying Agent for the Bonds and the interest thereon shall be held in trust for the registered owners of such Bonds. Until so set aside for the retirement of principal, payment of sinking fund installments, payment of. interest and premium, if any, as aforesaid, moneys in the Bond Fund shall be held in trust for the benefit of the registered owners of the Bonds then Outstanding and payable equally and ratably and without preference or distinction as between different installments or maturities.

Additional Indebtedness

Additional Bonds. Additional series of Bonds may be issued for a lawful corporate purpose of the District only if at the time of the delivery of each series of Bonds to the initial purchasers:

(a) There is no deficiency in the Bond Fund or in any of the accounts therein, provision has been made to meet the Reserve Account Requirement with respect to such series of Bonds, and no Event of Default has occurred and is continuing; and

(b) One of the two following certificates has been filed with the Secretary of the Commission:

(i) a certificate of the Treasurer stating that Net Revenues in any 12-consecutive months out of the most recent 24 months preceding the delivery of the Bonds then proposed to be issued (the "Base Period"), after deducting amounts paid in the Base Period to satisfy all Parity Lien Obligations were not less than the maximum Coverage Requirement in any future Fiscal Year on all Outstanding Bonds and the Bonds then proposed to be issued (provided that (A) in the event that any adjustment in the rates, fees and charges for the services of the Water System will be effective at any time on or prior to the date of delivery of the Bonds then proposed to be issued or within 60 days subsequent to the delivery, the Treasurer shall reflect in bis or her certificate the Net Revenues be or she calculates would have been collected in the Base Period if such new rates, fees and charges had been in effect for the entire Base Period and (B) with respect to any Variable Interest Rate Bonds Outstanding on the date such certificate is delivered, the Treasurer must estimate the debt service on such Bonds in accordance with the Resolution), or

(ii) a certificate of the Professional Utility Consultant setting forth:

(A) the amount of the Adjusted Net Revenues computed as provided in the Resolution, after deducting amounts paid from Revenues in the Base Period to satisfy all Parity Lien Obligations;

(B) the amount of the maximum Coverage Requirement in any Fiscal Year thereafter on account of all Bonds to be Outstanding in such Fiscal Year, including the Bonds proposed to be issued, and stating that the amount shown in (A) above is not less than the amount shown in this paragraph (B).

The District may contract with the entity providing a Qualified Letter of Credit or Qualified Insurance for the Reserve Account that the District's reimbursement obligation to such entity ranks on a parity of lien with the Bonds. In the event that the District elects additionally to secure any issue of Variable Interest Rate Bonds or Tender Option Bonds through the use of a letter of credit or other credit enhancement device, the District may contract with the entity providing such credit enhancement device that the District's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Bonds; provided that the payments due under such reimbursement obligation are such that if such reimbursement obligation were a series of additional Bonds and assuming that such credit enhancement device were to be drawn upon for the full amount available, such Bonds could be issued in compliance with the provisions described above for issuing additional Bonds.

Refunding Bonds. The District may issue Refunding Bonds if it complies with the requirements set forth in paragraph (b) above or if there is on file a certificate of the Treasurer of the District stating that immediately after the issuance of such Refunding Bonds the Annual Debt Service in any Fiscal Year that Bonds (other than such Refunding Bonds) are then Outstanding shall not be increased by more than $5,000 by the issuance of such Refunding Bonds.

Junior Lien Bonds. The District may issue bonds, notes, certificates or other evidences of indebtedness for any corporate use or purpose of the District payable from Revenues subordinate to the payments required to be made from the Revenue Fund into the Bond Fund for the Bonds.

Separate System Bonds; Resource Obligations. The District may enter into contracts to purchase water, conservation or services or authorize and issue bonds, notes, certificates or other obligations or evidences of indebtedness, other than Bonds, to acquire or construct facilities or resources for the supply, or for the conservation or transmission of water, and any incidental properties to be constructed or acquired in connection therewith, which facilities or resources shall be a separate system and which contractual obligations, bonds or other obligations or evidences of indebtedness must be payable solely from the revenues or other income derived from the ownership or operation of such separate system. Costs associated with any such contracts or separate system may be declared by resolution of the Commission to be a Resource Obligation of the Water System provided that the following requirements must be met at the time of such declaration:

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

(b) There must have been filed with the Secretary of the Commission a certificate of the Professional Utility Consultant stating that the additional source of water, conservation or services from such Resource Obligation is consistent with sound water utility planning.

(c) There must have been filed with the Secretary of the Commission a report of the Professional Utility Consultant stating that estimated annual Net Revenues for the second full Fiscal Year after the date of initial operation of the facilities, costs of which are to be financed as a Resource Obligation, or after the date of first delivery of water, conservation or services pursuant to a contract, costs of which are declared to be a Resource Obligation, as the case may be, shall be at least equal to the maximum Coverage Requirement in any future Fiscal Year. In estimating Net Revenues, the Professional Utility Consultant shall base such estimate on factors the Professional Utility Consultant deems to be reasonable, provided that the Professional Utility Consultant shall for purposes of such estimate include all Resource Obligations in Operating Expenses.

(d) ln the event that the Resource Obligation is a contract to purchase water supply, there must have been filed with the Secretary of the Commission opinions of counsel to the District and all other parties to the contract, respectively, which respective opinions state that each party to the contract bas all requisite right, power and authority to execute and deliver the contract and to perform its obligations thereunder and that the contract constitutes a legally valid and binding obligation of such party thereto.

Defeasance of Bonds

The District may refund or defease all or a portion of the then Outstanding Bonds by setting aside with a trustee or escrow agent in a special account, Government Obligations and/or Refunded Municipals and/or securities permitted by chapter 39.53 RCW sufficient, together with the earnings thereon, to provide funds to pay when due the interest on such Bonds and to redeem or retire such Bonds at or prior to maturity in accordance with their terms. In such event no further payment need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for and such Bonds shall cease to be entitled to any lien, benefit or security of the Resolution except the right to receive payment from such special account, and such Bonds shall not be deemed to be Outstanding for any purpose of the Resolution or the supplemental resolution authorizing their issuance. Notwithstanding the defeasance of any Bonds as described in this paragraph, the District shall remain obligated to make any payments with respect to such Bonds required to be made to the United States by Section 148 of the Code.

Certain Covenants

In addition to the covenants previously described under the headings "SECURITY FOR THE BONDS—Rate Covenants" and "SECURITY FOR THE BONDS—Other Covenants," the District bas covenanted as follows:

1. No Free Service; Enforcement of Accounts Owing. The District will not furnish or supply water free of charge to any other system of the District or to any person or entity, and the District will promptly enforce the payment of all accounts owing to the District by reason of the Water System.

2. Disposition of All or Part of the Water System. The District will not, nor will it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System except:

(a) The District may dispose of all or substantially all of the Water System, provided that simultaneously the District shall cause all of the Bonds to be, or deemed to be, no longer Outstanding.

(b) Except as provided below, the District will not dispose of any part of the Water System in excess of 10% of the value of the net utility plant of the District in service unless prior to such disposition:

(i) there has been filed with the Secretary of the Commission a certificate of the Professional Utility Consult ant stating that such disposition will not impair the ability of the District to comply with the rate covenants previously set forth under the heading "SECURITY FOR THE BONDS—Rate Covenants"; or

(ii) provision is made for the payment, redemption or other retirement of a principal amount of Bonds equal to the greater of the following amounts:

(A) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Bond Fund) that the Revenues attributable to the part of the Water System sold or disposed of for the 12 preceding months bears to the total Revenues for such period; or

(B) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding that the book value of the part of the Water System sold or disposed of bears to the book value of the entire Water System immediately prior to such sale or disposition.

(c) The District may dispose of any portion of the Water System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary, material or useful in the operation of the Water System.

(d) If the ownership of all or part of the Water System is transferred from the District through the operation of law, the District shall reconstruct or replace the portion using any proceeds of the transfer unless the Commission determines that such reconstruction or replacement is not in the best interests of the District and the bond owners, in which case any proceeds shall be used to retire Bonds prior to maturity.

3. Insurance. The District will keep the Water System insured, and will carry such other insurance, with responsible insurers, with policies payable to the District, against risks, accidents or casualties, at least to the extent that insurance is usually carried by municipal corporations operating like properties; provided, however, that the District may, if deemed advisable by the Commission, institute or continue a self-insurance program with respect to any or all of the aforementioned risks. In the event of any loss or damage, the District will promptly deposit any insurance proceeds compensating the District for losses related to business interruption into the Revenue Fund and will promptly deposit any insurance proceeds compensating the District for losses related to capital assets into the Construction Fund, or any construction fund created by the Resolution, and use such funds to repair or replace the damaged portion of the insured property and apply the proceeds of any insurance policy or self-insurance funding for such purposes. In the event the District should determine not to repair or reconstruct any damaged portion of the properties of the District, the proceeds of such insurance or self-insurance funding shall be transferred to the Reserve Account to the extent that such transfer shall be necessary to make up any deficiency in said Reserve Account and the balance, if any, shall either (a) be used for repairs, renewals, replacements, or additions to or extension of the Water System or (b) be used in the retirement of Bonds prior to maturity, either by purchase at prices not to exceed the next applicable redemption price or by call for redemption.

4. Books of Account. The District will keep proper books of account, which will be audited annually by a Certified Public Accountant or by the Washington State Auditor's office. Any registered owner may obtain at the office of the District copies of the District's balance sheet and statement of income and retained earnings showing in reasonable detail the financial condition of the Water System as of the close of each Fiscal Year.

5. To Make Economically Sound Improvements and Extensions. The District will not expend any of the revenues derived by it from the operation of the Water System or the proceeds of Bonds for any renewals, replacement, capital additions, improvements, betterments or extensions that are not economically sound or that will not properly and advantageously contribute to the conduct of the business of the Water System in an efficient and economical manner unless required to do so by or pursuant to law so as to permit the continued operation of the Water System.

6. To Pay Principal, Premium and Interest on the Bonds. The District will duly and punctually pay, or cause to be paid, solely from the Revenues and other moneys pledged in the Resolution to the payment thereof, the principal, premium, if any, and interest on each and every Bond on the date and at the places and in the manner provided in the Bonds, according to the true intent and meaning thereof, and will faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in the Bonds and in the Resolution.

7. Protection of Security. The Revenues and other moneys, securities and funds pledged by the Resolution are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, except as otherwise expressly provided in the Resolution, and all corporate action on the part of the District to that end has been duly and validly taken. The Bonds and the provisions of the Resolution are and will be valid and legally enforceable obligations of the District in accordance with their terms and the terms of the Resolution. The District shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues, other moneys, securities and funds pledged under the Resolution and all the rights of the bondowners under the Resolution against all claims and demands of all persons whomsoever.

8. Authority of the District to provide for the Operation and Maintenance of the Water System and to Fix and Collect Rates and Charges. The District has good, right and lawful power to provide for the operation and maintenance of the Water System and to fix, establish, maintain and collect rates and charges for the power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Water System.

9. Payment of Taxes, Assessments and Other Governmental Charges and Payments in Lieu Thereof; Payment of Claims. The District shall, from time to time, duly pay and discharge, or cause to be paid or discharged, all taxes, assessments or other governmental charges, or payments in lieu thereof, lawfully imposed upon the Water System, or on the revenues, income, receipts, profits or other moneys derived by the District therefrom when the same become due, and all lawful claims for labor and materials and supplies that, if not paid, might become a lien or charge upon such properties, or any part thereof, or upon the Revenues and other moneys derived by the District directly or indirectly from the Water System, or that might in any way impair the security of the obligations issued by the District payable from the Revenues and other moneys, except those assessments, charges or claims that the District shall in good faith contest by proper legal proceedings.

10. Tax Covenants for the 2019 Bonds. The District will not take any action that will cause the 2019 Bonds to be "arbitrage bonds" or "private activity bonds" under the Code.

Trustee

If an Event of Default has occurred and is continuing, the owners of 25% of the Bonds Outstanding may appoint a Trustee for the registered owners of all Bonds as set forth in the Resolution. The Trustee so appointed may resign upon 45 days' notice and may be discharged at any time by the owners of a majority in aggregate principal amount of the Bonds then Outstanding.

The Trustee may resign, and thereby become discharged from the trusts created by the Resolution, by notice in writing to be given to the District and mailed to each registered bondowner by the Trustee or published once by the Trustee, in a daily newspaper of general circulation or a financial journal published in New York, New York, not less than forty-five (45) days before such resignation is to take effect. Such resignation shall take effect immediately upon the appointment of a new Trustee under the Resolution, if such new Trustee shall be appointed and shall have accepted the trust before the time stated in such notice.

The Trustee may be discharged at any time by the registered owners of a majority in aggregate principal amount of the Bonds then Outstanding.

If at any time the Trustee shall resign, be discharged, or if the position of Trustee shall become vacant for any other reason the registered owners of 25% in aggregate principal amount of the Bonds then Outstanding may appoint a successor Trustee. Every successor Trustee appointed under the Resolution shall execute, acknowledge and deliver to its predecessor and the District an instrument in writing accepting appointment under the Resolution.

The Trustee may exercise any powers under the Resolution and perform any duties required of it through its attorneys, agents, officers or employees, and shall be entitled to advice of counsel (which may be bond counsel) concerning all questions under the Resolution. The Trustee shall not be answerable for the exercise of any discretion or power under the Resolution nor for anything whatever in connection with the trust under the Resolution, except only its own willful misconduct or gross negligence. Gross negligence shall include but not be limited to failure to make a debt service payment when due if the Trustee has sufficient funds on hand with which to make such payment. The Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care under the Resolution.

The duties and obligations of each Trustee appointed by or pursuant to the provisions of the Resolution shall be determined solely by the express provisions of the Resolution, and such Trustee shall not be liable except for the performance of its duties and obligations as specifically set forth in the Resolution and to act in good faith in the performance thereof, and no implied duties or obligations shall be incurred by such Trustee other than those specified in the Resolution, and such Trustee shall be protected and shall have no liability when acting or omitting to act in good faith upon the advice of counsel, who may be counsel to the District. In case an Event of Default has occurred which has not been waived or cured, such Trustee shall exercise such of the rights and powers vested in it by the Resolution and use the same degree of care and skill in the exercise thereof as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

None of the provisions contained in the Resolution shall require any Trustee appointed by or pursuant to the provisions of the Resolution to take any action or exercise any remedies, including but not limited to spending or risking its own funds or otherwise incurring individual financial responsibility in the performance of any of its duties or in the exercise of any of its rights or powers if in the Trustee's judgment there are reasonable grounds for believing that the prompt repayment thereof is not reasonably assured to it under the terms of the Resolution.

Events of Default and Remedies

<u>Events of Default</u>. The following constitute “Events of Default” under the Resolution:

(a) Default in the due and punctual payment of the principal of any of the Bonds within five days when the same becomes due;

(b) Default in the due and punctual payment of interest on any of the Bonds within five days when the same becomes due;

(c) Failure to provide for any required Sinking Fund Requirements within five days when the same becomes due;

(d) Default under any agreement with respect to a Qualified Letter of Credit or Qualified Insurance or other credit enhancement device providing security for the Bonds, which results in suspension, expiration or termination of the payment obligations of the issuer of the device and the District within ten days of such suspension, expiration or termination of payment obligations fails to obtain a substitute credit enhancement device or take other measures to remedy such default;

(e) Default in the observance of any other of the covenants, conditions and agreements in the Resolution and such default continues for 90 days after the District receives from the Trustee or from the registered owners of not less than 25% in principal amount of any series of Bonds Outstanding a written notice specifying and demanding the cure of such default; or

(f) If the District shall admit in writing its inability to pay its debts as they become due, file a petition in bankruptcy, make an assignment for the benefit of its creditors, or consent to the appointment of a receiver for the Water System.

Payment of Funds to Trustee. If an Event of Default is not remedied, the District, upon demand of the Trustee, shall pay to the Trustee, only to the extent necessary to cure the Event of Default, all funds held by the District and pledged under the Resolution and Revenues upon receipt. The Trustee shall apply the funds in accordance with the Resolution.

Application of Funds by Trustee. If During the continuance of an Event of Default the Revenues received by the Trustee pursuant to the provisions of the Resolution described in "—Payment of Funds to Trustee" above shall be applied by the Trustee, first, to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Trustee (including the cost of securing the services of any engineer or firm of engineers selected for the purpose of rendering advice with respect to the operation, maintenance, repair and replacement of the necessary to prevent any loss of Revenues, and with respect to the sufficiency of the rates and charges for water sold, furnished or supplied by the Water System), and second, in accordance with the provisions of the Resolution as described in this "—Application of Funds by Trustee."

If at any time the funds held by the Trustee and the Paying Agent for the Bonds are insufficient for the payment of the principal of, premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and all Revenues and other moneys received or collected for the benefit or for the account of registered owners of the Bonds by the Trustee shall be applied as follows:

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

Second, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Bonds that become due, whether at maturity or by call for redemption, in the order of their due dates, earliest maturities first, and, if the amount available is not sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

Relinquishment of Funds upon Remedy of Default. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee and the registered owners of Bonds, their respective agents and attorneys, and all other sums payable by the District under the Resolution, including the principal of, premium, if any, and accrued unpaid interest on all Bonds that are then payable (with interest upon such principal and premium, if any, and, to the extent that payment of such interest is enforceable under applicable law, on overdue installments of interest, at the same rate as the rate of interest specified in the Bonds, to the date of such payment or deposit), shall either be paid by or for the account of the District, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the District all moneys, securities, funds and Revenues then remaining unexpended in the hands of the Trustee and thereupon all Revenues shall thereafter be applied as provided in the Resolution. No such payment over to the District by the Trustee or resumption of the application of Revenues as provided in the Resolution shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

Remedies. The Trustee may, if an Event of Default has occurred and is not remedied, take such necessary steps and institute such proceedings as it deems appropriate to collect all sums owing and to protect the rights of registered owners. The registered owners of the Bonds shall be deemed to irrevocably appoint the Trustee as the lawful trustee of the registered owners. The registered owners of at least 60% of the Outstanding Bonds may, in certain circumstances, direct the time, method and place of conducting any proceedings for any remedy available to the Trustee or exercising any power conferred upon the Trustee.

No registered owner may institute any proceeding for the enforcement of the Resolution unless an Event of Default is continuing and the registered owners of not less than 60% of the Outstanding Bonds have given the District and the Trustee written notice to institute such proceeding and the Trustee has refused or neglected to comply within a reasonable time.

No delay or omission of the Trustee or of any registered owner of Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by the Resolution to the Trustee or to the registered owners of Bonds may be exercised from time to time and as often as may be deemed expedient by the Trustee or by such registered owners.

The Trustee or the registered owners of not less than sixty percent (60%) in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the registered owners of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto.

No remedy conferred by the Resolution upon or reserved to the Trustee or the registered owners of the Bonds is intended to be exclusive of any other remedy, but each remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or existing at law or in equity or by statute on or after the date of adoption of the Resolution.

Amendments

Amending and Supplemental Resolution without Consent of Bondowners. The District from time to time and at any time and without the consent or concurrence of any registered owner of any Bond, may adopt a resolution by the Resolution or supplementary to the Resolution: (i) for the purpose of providing for the issuance of Bonds pursuant to the Resolution; or (ii) if the provisions of such Supplemental Resolution do not adversely affect the rights of the registered owners of the Bonds then Outstanding, for any one or more of the following additional purposes:

> (A) to add to the covenants and agreements of the District contained in the Resolution, other covenants and agreements thereafter to be observed, which shall not adversely affect the interest of the registered owners of any Bonds in any material way, or to surrender any right or power reserved to or conferred upon the District by the Resolution;
>
> (B) to make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provisions contained in the Resolution or any supplemental resolution in regard to matters or questions arising under such resolutions as the District may deem necessary or desirable and which shall not adversely affect the interest of the registered owners of such Bonds in any material way.

Amending and Supplemental Resolutions with Consent of Bondowners. With the consent of the registered owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, the District, from time to time and at any time may adopt a resolution amendatory to the Resolution or supplemental to the Resolution for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Resolution, or modifying or amending the rights and obligations of the District and the Trustee under the Resolution, or modifying in any manner the rights of the registered owners of the Bonds then Outstanding and in determining whether the registered owners of not less than sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding consent thereto; provided, however, that, without the specific consent of the registered owner of each such Bond that would be affected thereby, no such Supplemental Resolution amending or supplementing the provisions of the Resolution shall: (i) change the fixed maturity date for the payment of the principal of any Bond or the date for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the redemption price (or the redemption premium) payable upon the redemption or prepayment thereof; (ii) reduce the aforesaid percentage of Bonds the registered owners of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Resolution; (iii) give to any Bond or Bonds any preference over any other Bond or Bonds secured by the Resolution; (iv) authorize the creation of any pledge of the Revenues and other moneys pledged under the Resolution prior, superior or equal to the pledge of and lien and charge for the payment of the Bonds; or (v) deprive any registered owner of the Bonds of the security afforded by the Resolution. Nothing contained in the Resolution, however, shall be construed as making necessary the approval of the registered owners of the Bonds of the adoption of any Supplemental Resolution authorized by the provisions of the Resolution described in "—Amending and Supplemental Resolution without Consent of Bondowners."

<u>Supplemental Resolution Affecting Trustee and Registrar</u>. No supplemental resolution changing, amending or modifying any of the rights, duties and obligations of any Trustee or Registrar appointed by or pursuant to the provisions of the Resolution may be adopted by the District or be consented to by the registered owners of the Bonds without written consent of such Trustee or Registrar affected thereby."

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APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

December 18, 2019

Public Utility District No. 1 of
Snohomish County, Washington
Everett, Washington

$6,570,000
Public Utility District No. 1 of Snohomish County, Washington
Water Revenue Refunding Bonds, Series 2019
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to Public Utility District No. 1 of Snohomish County, Washington (the "District") in connection with the issuance of $6,570,000 aggregate principal amount of Public Utility District No. 1 of Snohomish County, Washington Water Revenue Refunding Bonds, Series 2019 (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 3825, adopted by the Commission of the District (the "Commission") on August 25, 1992, as amended and Resolution No. 5933, adopted by the Commission on December 11, 2019 (collectively, the "Resolution"). The District has appointed U.S. Bank National Association to serve as registrar and paying agent (the "Paying Agent") for the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate of the District, dated the date hereof (the "Tax Certificate"), an opinion of counsel to the District, certificates of the District, the Paying Agent and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public utility districts in the State of Washington. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special limited obligations of the District.

2. The Resolution has been duly adopted by, and constitutes the valid and binding obligation of, the District. The Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and certain other funds and accounts as provided by the Resolution, subject to the provisions of the Resolution permitting the application thereof for the purposes, in the order of priority, and on the terms and conditions set forth in the Resolution.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,
ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX D

DESCRIPTION OF DTC AND ITS BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2019 Bonds. The 2019 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each series of the 2019 Bonds, each in the aggregate principal amount of such series, 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 and www.dtc.org.

Purchases of 2019 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2019 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2019 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 2019 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 2019 Bonds, except in the event that use of the book-entry system for the 2019 Bonds is discontinued.

To facilitate subsequent transfers, all 2019 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 2019 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 2019 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2019 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2019 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2019 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents relating to the 2019 Bonds. For example, Beneficial Owners of 2019 Bonds may wish to ascertain that the nominee holding the 2019 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Certificate Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2019 Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2019 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 State 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 2019 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments represented by the 2019 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 State or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2019 Bonds at any time by giving reasonable notice to the State or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

To the extent permitted by law, the State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The above information concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof. Neither the State nor the Fiscal Agent will have any responsibility or obligation to Participants or the persons for whom they act as nominees or Beneficial Owners with respect to DTC's record keeping, payments by DTC or Participants, notices to be delivered by DTC, or any other action taken by DTC as Registered Owner of the 2019 Bonds.

So long as Cede & Co. is the registered owner of the 2019 Bonds, as nominee for DTC, references herein to the holders or registered owners of the 2019 Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2019 Bonds. When reference is made to any action, which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given the State or the Fiscal Agent shall send them to DTC only.

For every transfer and exchange of the 2019 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

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