OFFICIAL STATEMENT DATED SEPTEMBER 28, 2023

NEW ISSUE
BOOK-ENTRY ONLY

See "RATINGS"

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 2023 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 2023 Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that, for tax years beginning after December 31, 2022, interest on the 2023 Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate 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 2023 Bonds. See "TAX MATTERS" herein.

$17,885,000
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON
WATER SYSTEM REVENUE BONDS, SERIES 2023

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 Bonds, Series 2023 (the "2023 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 2023 Bonds. Individual purchases of the 2023 Bonds will be made in the principal amount of $5,000 or any integral multiple thereof within a maturity. Purchasers of the 2023 Bonds (the "Beneficial Owners") will not receive certificates representing their beneficial ownership interests in the 2023 Bonds.

Interest on the 2023 Bonds is payable on June 1 and December 1, commencing December 1, 2023, until maturity or prior redemption, by the Washington State Fiscal Agent, currently U.S. Bank Trust Company, National Association (the "Registrar"). As long as DTC or its nominee is the registered owner of the 2023 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 2023 Bonds as described in Appendix F—"BOOK-ENTRY SYSTEM."

The 2023 Bonds are subject to redemption prior to maturity. See "DESCRIPTION OF THE 2023 BONDS."

Maturity Schedule Located on Inside Cover

The 2023 Bonds are being issued to provide funds (i) to finance additions, betterments and improvements to and renewals, replacements and extensions of the Water System, including a portion of the costs associated with the District's 2021 Water System Plan and costs of advanced metering infrastructure for the District's Water System, and the design, construction and improvements to other facilities of the Water System; (ii) to fund a deposit to the Reserve Account; and (iii) to pay costs of issuance of the 2023 Bonds. See "PURPOSE AND APPLICATION OF 2023 BOND PROCEEDS."

The principal of and interest on the 2023 Bonds are payable solely from and secured by Revenues and other funds pledged thereto by the Resolution (as hereinafter defined), including Assessment Income (except as provided herein), after payment of Operating Expenses (including Resource Obligations). The 2023 Bonds are issued on a parity with $5,260,000 of outstanding Bonds (as defined 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 2023 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 2023 Bonds. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2023 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, Colin Willenbrock, Esq. Certain legal matters will be passed upon for the Underwriter by its counsel, Pacifica Law Group LLP, Seattle, Washington. Certain legal matters will be passed upon by Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, as Disclosure Counsel to the District. It is expected that delivery of the 2023 Bonds will be made through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer (FAST), on or about October 12, 2023.

BARCLAYS

MATURITY SCHEDULE

$17,885,000
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON
WATER SYSTEM REVENUE BONDS, SERIES 2023

Maturity Year (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP Number* (833105)
2024	$ 160,000	5.00%	3.79%	101.328	FS3
2025	185,000	5.00	3.73	102.579	FT1
2026	135,000	5.00	3.61	104.082	FU8
2027	160,000	5.00	3.60	105.331	FV6
2028	230,000	5.00	3.60	106.507	FW4
2029	245,000	5.00	3.63	107.471	FX2
2030	255,000	5.00	3.65	108.409	FY0
2031	270,000	5.00	3.69	109.130	FZ7
2032	1,025,000	5.00	3.71	109.914	GA1
2033	1,075,000	5.00	3.73	110.633	GB9
2034	1,130,000	5.00	3.82	109.835†	GC7
2035	1,185,000	5.00	3.95	108.695†	GD5
2036	1,245,000	5.00	4.04	107.915†	GE3
2037	1,265,000	5.00	4.14	107.055†	GF0
2038	1,370,000	5.00	4.24	106.204†	GG8
2039	1,440,000	5.00	4.32	105.528†	GH6
2040	1,510,000	5.00	4.40	104.858†	GJ2
2041	1,585,000	5.00	4.48	104.193†	GK9
2042	1,665,000	5.00	4.55	103.616†	GL7
2043	1,750,000	5.00	4.58	103.369†	GM5

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* CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. 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.

† Priced to the first optional redemption date of December 1, 2033.

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
Rebecca Wolfe	**Sidney Logan**	**Tanya Olson**

ADMINISTRATIVE MANAGEMENT

John Haarlow, Chief Executive Officer/General Manager

Scott Jones, Chief Financial Officer/Assistant General Manager—Finance

Colin Willenbrock, General Counsel

Brant Wood, Assistant General Manager—Water Utility

Christina Arndt, Manager, Water Utility Business Services

Angela Johnston, Treasurer/Senior Manager, Financing and Risk Management

Jason Zyskowski, Assistant General Manager—Generation, Power, Rates and Transmission Management

Guy Payne, Assistant General Manager—Distribution and Engineering Services

Kristi Sterling 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 Trust Company, 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 2023 Bonds.

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 2023 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 2023 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 2023 Bonds, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the 2023 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 2023 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, words such as "estimate," "project," "forecast," "anticipate," "expect," "intend," "plan," "believe" and similar expressions identify forward-looking statements. All projections, forecasts, assumptions, 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 2023 Bonds. No assurance can be given that the CUSIP numbers for the 2023 Bonds will remain the same after the date of issuance and delivery of the 2023 Bonds.

The 2023 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."

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 2023 Bonds.

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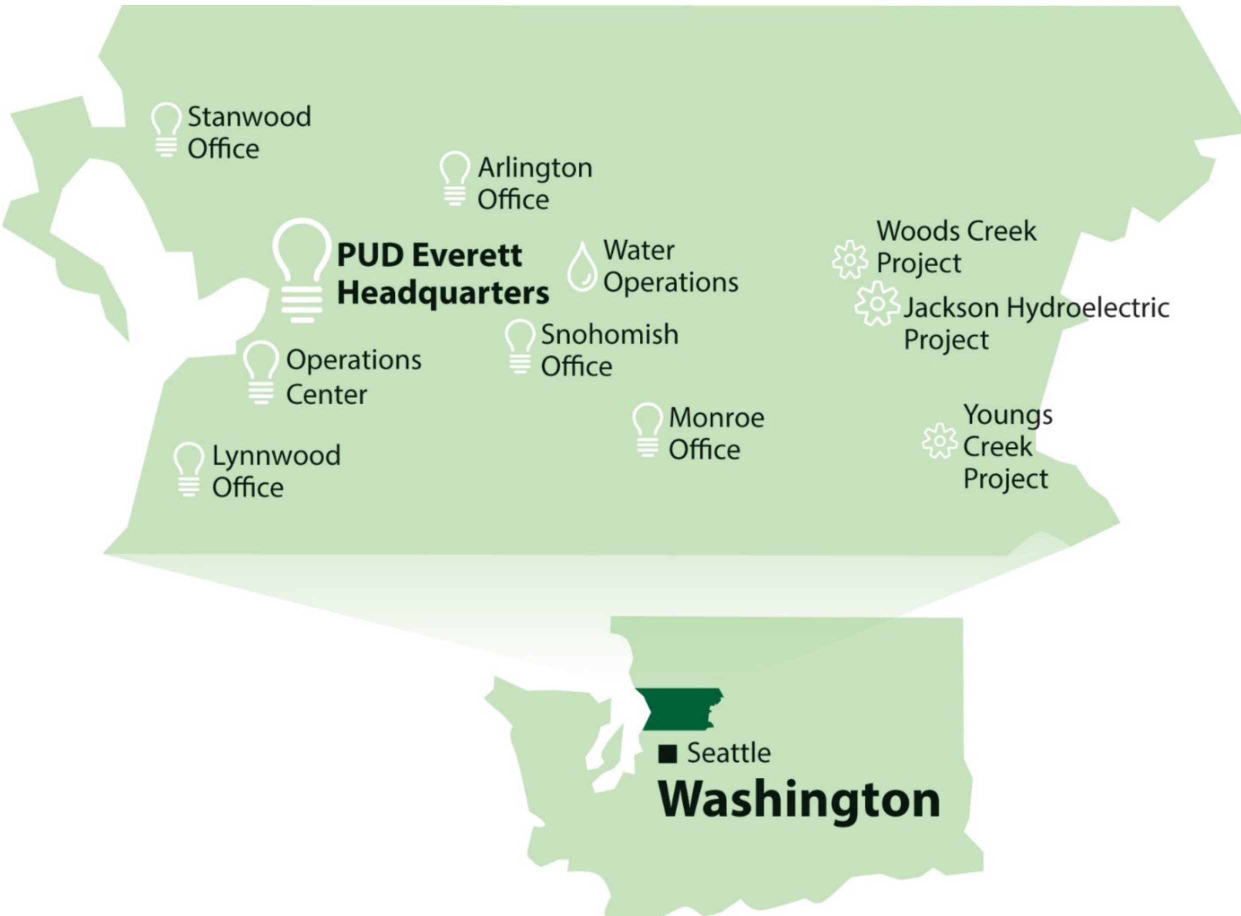
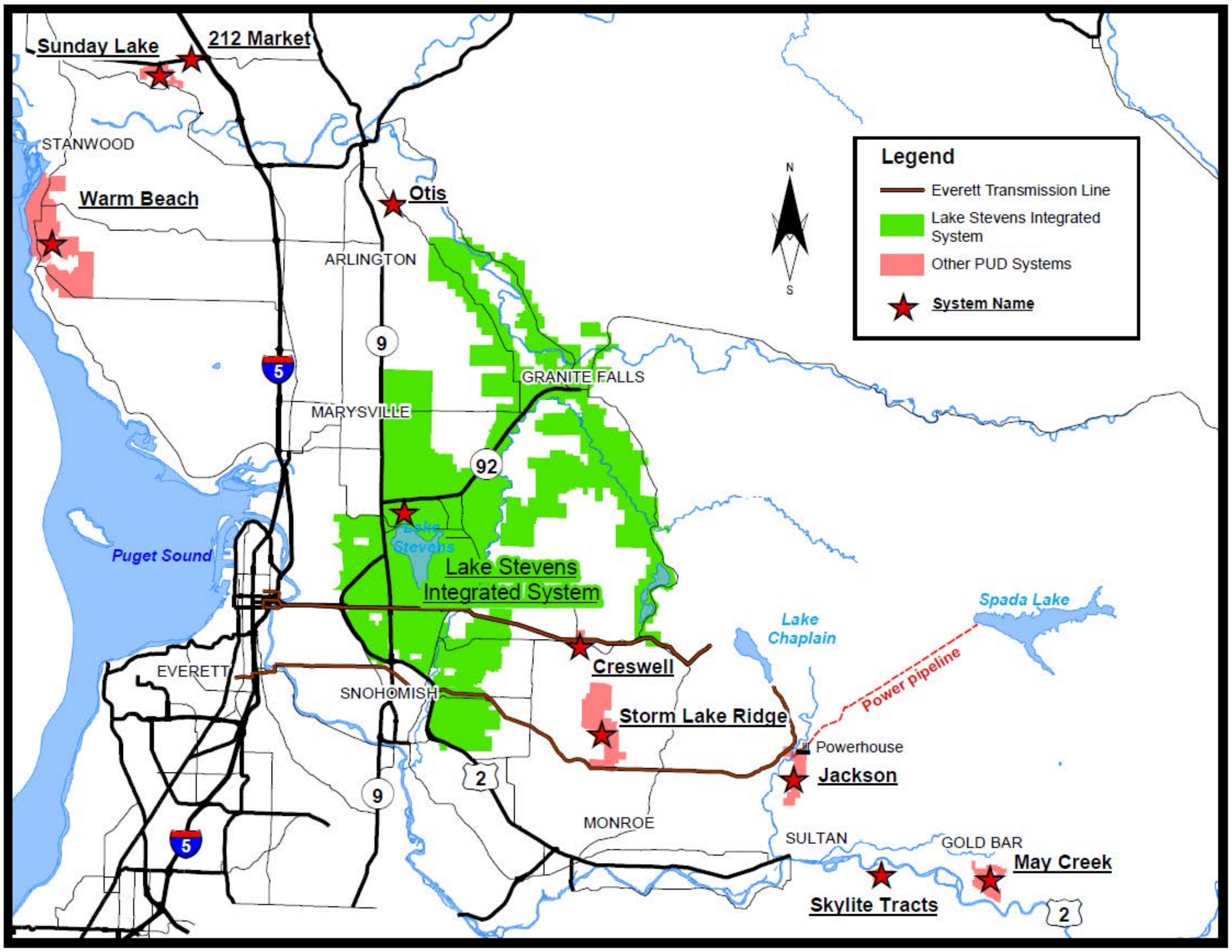
PUBLIC UTILITY DISTRICT NO. 1 OF
SNOHOMISH COUNTY, WASHINGTON

THE DISTRICT'S SERVICE AREA



PUBLIC UTILITY DISTRICT NO. 1 OF
SNOHOMISH COUNTY, WASHINGTON

LOCATION OF DISTRICT WATER SYSTEMS



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PUBLIC UTILITY DISTRICT NO. 1
OF SNOHOMISH COUNTY, WASHINGTON

$17,885,000
WATER SYSTEM REVENUE BONDS, SERIES 2023

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 $17,885,000 Water System Revenue Bonds, Series 2023 (the "2023 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 2023 Bonds are being issued pursuant to Title 54 and chapter 39.46 of the Revised Code of Washington ("RCW"), Resolution No. 3825 adopted by the Commission on August 25, 1992, as amended and supplemented, including as supplemented by Resolution Number 6138 adopted by the Commission on September 5, 2023 (collectively, the "Resolution"). The District previously issued its Water System Revenue Refunding Bonds, Series 2019 (the "2019 Bonds" or the "Outstanding Bonds"), of which $5,260,000 remains outstanding. The Outstanding Bonds, the 2023 Bonds and any additional bonds with an equal lien on the Revenues are referred to as "Bonds." The 2023 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 and descriptions of the terms of the 2023 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 the preparation of the forecasts and projections in this Official Statement, the District has made various assumptions with respect to conditions that may occur in the future. While the District believes these assumptions are reasonable for the purpose of the forecasts and projections, they are dependent upon future events, and actual conditions may differ from those assumed. The District does not represent or guarantee that actual results will replicate the forecasts and projections in this Official Statement. Potential purchasers of the 2023 Bonds should not rely on the forecasts and projections in this Official Statement as statements of fact, as they are subject to change, and will change from time to time. The District has not committed itself to provide investors with updated forecasts or projections.

The District's combined financial statements and individual statements for the Electric System, Generation System and Water Systems as of December 31, 2022 and 2021, and for the years ended December 31, 2022 and 2021, respectively, included herein as Appendix A, have been audited by Moss Adams LLP ("Moss Adams"), independent auditors, as stated in its report appearing herein. The audited financial statements of the District are public documents. The District has not requested that Moss Adams provide consent for inclusion of its audited financial statements in this Official Statement, and Moss Adams has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams has not participated in any way in the preparation or review of this Official Statement.

Springing Amendments

Resolution Number 6138 adopted by the Commission on September 5, 2023, contains a springing provision that will take effect immediately once the 2019 Bonds are no longer Outstanding. This amendment relates to the release of the pledge of Assessment Income under the Resolution upon the payment in full of a series of Bonds issued, in whole or in part, to finance the costs of improvements to a local utility district of the Water System (a "LUD") or any series of Bonds issued to refund such initial series of Bonds or refunding Bonds, or when such Bonds are otherwise no longer Outstanding. **By purchase of the 2023 Bonds, the owners of the 2023 Bonds shall be deemed to have consented to this springing amendment**. See "SECURITY FOR THE BONDS—Pledge of Revenues," "—Pledge of Assessments."

PURPOSE AND APPLICATION OF 2023 BOND PROCEEDS

General

The proceeds of the 2023 Bonds will be used to (i) finance additions, betterments and improvements to and renewals, replacements and extensions of the Water System, including a portion of the costs associated with the District's 2021 Water System Plan and costs of advanced metering infrastructure for the District's Water System, and the design, construction and improvements to other facilities of the Water System; (ii) fund a deposit to the Reserve Account; and (iii) pay costs of issuing the 2023 Bonds.

Estimated Sources and Uses of Funds

The table below sets forth the estimated sources and uses of proceeds of the 2023 Bonds.

Sources of Funds	
Principal Amount of the 2023 Bonds	$17,885,000
Original Issue Premium	1,141,759
Total Sources:	$19,026,759
Uses of Funds	
Construction Fund	$18,000,000
Deposit to Reserve Account	789,600
Costs of Issuance(1)	237,159
Total Uses:	$19,026,759

(1) Includes fees of bond counsel and disclosure counsel, municipal advisor and rating agency, printing costs, underwriter's discount, and other costs associated with issuing the 2023 Bonds as well as additional proceeds.

DESCRIPTION OF THE 2023 BONDS

The following is a summary of certain provisions of the 2023 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 2023 Bonds will be issued pursuant to the Resolution in the principal amount of $17,885,000. The 2023 Bonds will be dated the date of their delivery to the Underwriter. The 2023 Bonds will bear interest payable on December 1, 2023, 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 2023 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 2023 Bonds are payable by the Fiscal Agent of the State of Washington (the "State"), currently, U.S. Bank Trust Company, National Association (the “Registrar”). For so long as the 2023 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 2023 Bonds as further described in Appendix F—“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 2023 Bonds or their nominees, 2023 Bonds in fully registered form, in the denomination of $5,000 or any integral multiple thereof. Thereafter, the principal of the 2023 Bonds will be payable at the principal office of the Registrar, and interest on the 2023 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 2023 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 2023 Bonds, the beneficial ownership of the 2023 Bonds may only be transferred on the records established and maintained by DTC and its Participants, as described in Appendix F—“BOOK-ENTRY SYSTEM.”

If the book-entry transfer system for the 2023 Bonds is discontinued, any 2023 Bond may be transferred pursuant to its provisions at the principal office for such purpose of the Registrar by surrender of such 2023 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 their duly authorized attorney.

Optional Redemption

The 2023 Bonds maturing on or after December 1, 2034 are subject to redemption prior to their stated maturity dates at the option of the District, in whole or in part, in authorized denominations, at any time on or after December 1, 2033, at a redemption price equal to 100% of the principal amount thereof, plus accrued but unpaid interest thereon, if any, to the date fixed for redemption.

Partial Redemption

In the event that only part of the principal sum of a 2023 Bond is called for redemption, payment of the amount to be redeemed will be made upon surrender of such 2023 Bond to the Registrar. Upon surrender of such 2023 Bond, the District will execute and direct the Registrar to deliver to the registered owner thereof, at the principal corporate trust office of the Registrar, or to send to such registered owner by registered mail at their request and at their risk and expense, a new fully executed 2023 Bond or 2023 Bonds of authorized principal amounts equal in aggregate principal amount, maturity and interest rate to the unredeemed portion of the 2023 Bond surrendered.

Notice and Effect of Redemption; Conditional Redemption; Rescission

Notice of redemption of any 2023 Bonds is required to be mailed first class not less than 20 nor more than 60 days prior to the redemption date to the registered owner of each 2023 Bond called for redemption at their last address shown on the Bond Register. Neither failure of the registered owner of a 2023 Bond to receive such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the redemption of any 2023 Bond.

In the case of an optional redemption, the notice to the registered owner may state (1) that the redemption is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Registrar no later than the date fixed for redemption and/or (ii) that the District retains the right to rescind such notice on or prior to the date fixed for redemption (in either case, a “Conditional Redemption”) and that such notice shall be of no effect if such moneys are not so deposited or if the notice is rescinded.

So long as the 2023 Bonds are held in a book-entry only system, the Registrar will provide notices of redemption only to DTC as registered owner of all 2023 Bonds. DTC will provide notices of redemption in accordance with the letter of representations given by the District to DTC. See Appendix F—“BOOK-ENTRY SYSTEM.” The District makes no assurances that DTC participants or other nominees of the Beneficial Owners of 2023 will distribute such redemption notices to the Beneficial Owners of the 2023 Bonds or that they will do so on a timely basis.

If any 2023 Bond is subject by its terms to prior redemption and has been duly called for redemption and official notice of the redemption thereof has been duly given, such 2023 Bond (or the principal amount thereof to be redeemed) so called for redemption unless, in the case of Conditional Redemption, such notice is rescinded or any condition to redemption is not satisfied) will become due and payable, and if money for the payment of such 2023 Bond (or of the principal amount thereof to be redeemed) at the then applicable redemption price and interest to accrue to the redemption date on such 2023 Bond (or the principal amount thereof to be redeemed) are held for the purpose of such payment by the Registrar, interest on such 2023 Bond (or the principal amount thereof to be redeemed) so called for redemption will cease to accrue and said 2023 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Resolution (except for payment of particular 2023 Bonds for which moneys are being held by the Registrar and which money shall be pledged to such payment), and the owners of said 2023 Bonds shall have no rights in respect thereof except to receive payment of said principal, premium, if any, and interest accrued to the date fixed for redemption.

Open Market Purchases

The District has reserved the right to purchase any of the 2023 Bonds in the open market at any time at prices deemed reasonable by the District. All 2023 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 Bonds are obligations solely of the Water System.

The 2023 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 2023 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, (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. Once the 2019 Bonds are no longer Outstanding, the Resolution will be amended to provide that upon the payment in full of, whether at maturity, by redemption, prepayment or defeasance thereof as provided pursuant to the Resolution, the last of (x) a series of Bonds issued, in whole or in part, to finance the costs of improvements to a LUD of the Water System, and (y) any one or more series of refunding Bonds issued from time to time to refinance such costs of improvements to such LUD of the District, or when the last of any such Bonds are otherwise no longer Outstanding under the Resolution, any Assessments levied in connection with such improvements to such LUD of the Water System and pledged to be paid into the Bond Fund shall no longer be required to be paid into the Bond Fund, and any related Assessment Income shall be released from the pledge and lien of the Resolution.

By purchase of the 2023 Bonds, the owners of the 2023 Bonds shall be deemed to have consented to this springing amendment. As a result, the owners of the 2023 Bonds should expect that the springing amendments will become effective while the 2023 Bonds are Outstanding.

The Outstanding Bonds, the 2023 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.

RCW 54.24.040 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." The provisions of the Resolution related to the pledge of Assessment Income will be amended once the 2019 Bonds are no longer Outstanding. See "—Pledge of Revenues."

Limitation of Liability

The Bonds do not in any manner or to any extent constitute general obligations of the District or of the State, or of any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the District or of the State, or of any political subdivision of the State, not specifically pledged thereto by the Resolution, nor has the full faith and credit of the District or of the State, or of any political subdivision of the State, 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 "Coverage Requirement" is defined in the Resolution to mean (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.

The failure of the District to collect Revenues in any Fiscal Year sufficient to comply with the Rate Covenant 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 Rate 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 the Rate 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 June 30, 2023, the balance in the Reserve Account was $417,637.50, which meets the Reserve Account Requirement for the Outstanding Bonds.

The Reserve Account Requirement at the time of issuance of the 2023 Bonds is expected to be $894,250. Upon the issuance of the 2023 Bonds, the District expects to deposit proceeds of the 2023 Bonds in the amount of $789,600 into the Reserve Account.

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 June 30, 2023, $1,468,185 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 June 30, 2023, the

Water System has outstanding loans in the principal amount of $5,337,242 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 2023 Bonds are shown below.

TABLE 1
SCHEDULED DEBT SERVICE ON THE BONDS

Year	Debt Service on Outstanding Bonds	2023 Bonds Principal	2023 Bonds Interest	2023 Bonds Total(1)	Total Debt Service(1)
2023	$738,000	$ 0	$121,717	$ 121,717	$ 859,717
2024	739,250	160,000	894,250	1,054,250	1,793,500
2025	739,250	185,000	886,250	1,071,250	1,810,500
2026	738,000	135,000	877,000	1,012,000	1,750,000
2027	740,500	160,000	870,250	1,030,250	1,770,750
2028	741,500	230,000	862,250	1,092,250	1,833,750
2029	741,000	245,000	850,750	1,095,750	1,836,750
2030	744,000	255,000	838,500	1,093,500	1,837,500
2031	740,250	270,000	825,750	1,095,750	1,836,000
2032		1,025,000	812,250	1,837,250	1,837,250
2033		1,075,000	761,000	1,836,000	1,836,000
2034		1,130,000	707,250	1,837,250	1,837,250
2035		1,185,000	650,750	1,835,750	1,835,750
2036		1,245,000	591,500	1,836,500	1,836,500
2037		1,265,000	529,250	1,794,250	1,794,250
2038		1,370,000	466,000	1,836,000	1,836,000
2039		1,440,000	397,500	1,837,500	1,837,500
2040		1,510,000	325,500	1,835,500	1,835,500
2041		1,585,000	250,000	1,835,000	1,835,000
2042		1,665,000	170,750	1,835,750	1,835,750
2043		1,750,000	87,500	1,837,500	1,837,500
Total(1)	$6,661,750	$17,885,000	$12,775,967	$30,660,967	$37,322,717

(1) Totals may not foot due to rounding.

THE DISTRICT

General

The District is a municipal corporation of the State, 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, Washington ("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, 2022, the Water System served approximately 23,156 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, 2022, the Water System had water sales of 253 million cubic feet and gross operating revenues of $15,506,000. As of December 31, 2022, the total assets of the Water System were $170,553,000 and its total outstanding bond and loan principal amount was $10,547,000.

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, 2022, the Electric System served an average of 373,126 customers, had energy sales of 8,608,527 megawatt hours, and had operating revenues of $722,259,000. In 2022, the District purchased approximately 83% of its power from the Bonneville Power Administration, approximately 5% from long-term power contracts, approximately 5% combined from the Generation System, and 7% 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, 2022, the total assets of the Electric System were $2,226,177,000 and its total outstanding bond principal was $424,980,000. The revenues of the Electric System are not pledged or available to make payments on the 2023 Bonds.

The Generation System

In 1986 pursuant to the Generation System Bond Resolution, 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 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"), the Woods Creek Hydroelectric Project (the "Woods Creek Project") and the Biofuel Project (the "Biofuel 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. The Biofuel Project is a biogas generating facility with a nameplate capacity of 675kW.

As of December 31, 2022, the total assets of the Generation System were $239,463,000 and its total outstanding bond principal was $62,530,000. The revenues of the Generation System are not pledged or available to make payments on the 2023 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 present commissioners and certain administrative managers of the District are as follows:

Rebecca Wolfe, President

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.

Sidney "Sid" Logan, Vice 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 continued through December 31, 2020. He was subsequently re-elected for his first six-year term that will end on December 31, 2026.

Tanya "Toni" Olson, Secretary

Ms. Olson began her fourth six-year term as Commissioner on January 1, 2023. 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. Her six-year term will end December 31, 2028.

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.

Colin Willenbrock, General Counsel

Mr. Willenbrock joined the District as General Counsel in March 2023. Prior to joining the District, he spent nearly 10 years leading Public Utility District No. 1 of Pend Oreille County, Washington in a variety of roles including General Manager, Assistant General Manager – Power Production and General Counsel. During his tenure, he was responsible for energy contracts, FERC hydro licensing, capital construction, municipal bond financing, reliability compliance, government affairs, labor relations, and strategic planning. Mr. Willenbrock began his career as a senior judicial law clerk for the Honorable Dennis J. Sweeney at the Washington State Court of Appeals and then practiced commercial litigation at Winston & Cashatt, Lawyers in Spokane, Washington. He earned his Juris Doctor with honors from Gonzaga University School of Law and Bachelor of Arts in Government from the University of Redlands. He holds leadership certificates from Willamette University and the American Public Power Association.

Angela Johnston, Treasurer

Ms. Johnston started at the District in November of 2010 as a Financial Analyst focused on the management of the District's debt program. In 2016, she began to lead the District's cash management, and short- and long-term investment programs, being named as Deputy Treasurer in June of 2018. In October of 2019, Ms. Johnston began serving as Accounting Manager in charge of the District's financial reporting over the Water System and Generation System, payroll, and accounts payable, being named Deputy Auditor in May of 2020. Ms. Johnston was appointed by the Commission to serve as Treasurer in August 2022 and began her role as Senior Manager of Financing and Risk Management in September of 2022. Before joining the District, Ms. Johnston worked as an auditor in the public accounting industry focused on the utility, governmental and not-for-profit industries. Ms. Johnston holds a Bachelor of Arts Degree in Accounting from Western Washington University.

Scott Jones, Chief Financial Officer

Mr. Jones joined the District as Chief Financial Officer in January 2020, leading the organization's accounting and finance functions. He spent several years in public power working for the Municipal Electric Authority of Georgia (MEAG Power), serving as its Chief Administrative Officer. Most recently, Scott was the Chief Financial and Administrative Officer for the North American Electric Reliability Corporation (NERC), responsible for various functions including finance, information technology, human resources, and stakeholder relations. His early professional career included roles at PricewaterhouseCoopers and a natural gas company before moving into the electric utility industry. Mr. Jones attended the University of Tennessee where he earned Bachelor of Arts and Master of Accountancy degrees.

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 District'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. 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.

Kristi Sterling, Chief Information Officer – Information Technology Services

Ms. Sterling joined the District in December 2008 and has performed several leadership positions within the Information Technology Services Division. As a Senior Project Manager, she led several strategic technology projects. As an Applications Manager, she led a technical team supporting of operations systems. Ms. Sterling became a Senior Manager of the Information Technology Services Program Management Office in 2019. In 2021, she became the Senior Manager of Information Technology Services Applications, Data & Analytics, and Architecture. She holds a Bachelor of Arts degree from the University of Colorado and an MBA of Information Technology Management from Western Governors University. Ms. Sterling has 20 years of experience in the utility industry beginning at Colorado Springs Utilities as a Customer Service Representative, application analyst, and Lead Information Technology Services Analyst.

District Climate Change Policy, Principals and Strategy

The District was one of the first utilities in the region to adopt an official climate change policy, including supporting principles and strategies. In the policy, the District, among other things, (i) commits that it will provide electric, water and associated services to its customers in an environmentally responsible way while increasing economic value, financial stability and operational safety and security for its ratepayers; (ii) recognizes that climate change is a serious global problem that should be addressed through the development of thoughtful and forward-looking legislation that actually results in the reduction of greenhouse gas emissions in a workable and cost-effective manner; (iii) recognizes that the Pacific Northwest's investments in energy efficiency and renewable hydroelectricity have yielded substantial environmental benefits and this legacy should be continued by meeting customer growth through conservation and a diverse mix of renewable technologies including, but not limited to, wind, tidal, solar, biomass and geothermal; and (iv) recognizes that using natural resources more efficiently and wisely makes good environmental and economic sense. Since adoption of its initial climate change policy, the District has developed several "strategic priorities" guidance documents, beginning in 2015, as well as an Environmental Commitment document in 2019, that prominently feature environmental stewardship and environmental sustainability as fundamental principles in carrying out the District's business.

Labor Relations

The District had the full-time equivalent of approximately 1,648 employees as of December 31, 2022. Of those, 589 employees are covered by a four-year collective bargaining agreement with the International Brotherhood of Electrical Workers, Local 77 (IBEW), which expires on March 31, 2024. 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 40 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, which includes acts of terrorism and $100 million in earth movement coverage. The District's general liability coverage has a $50 million per occurrence limit, in excess of a $2 million self-insured retention. The self-insured retention is $250,000 for the Water System's general liability coverage. The District's self-insured retention fund balance at December 31, 2023, was approximately $10 million, held within the Electric System, but is intended for the benefit of the District as a whole. The District's general liability coverage of $50 million includes acts of terrorism.

The District also has an insurance policy covering cyber events.

Pension Plans and Other Post-Employment Benefits

<u>Pension Plans</u>

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 2022 Valuation Report, the 2021 Valuation Report, the 2020 Valuation Report and the Annual Comprehensive 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, 2022 (the "2022 Retirement Fund Audit") prepared by the WDRS and the WDRS' Contribution Rate Tables Index. *The District has obtained certain information in this section from the State. 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, 2022 AND 2021 AND INDEPENDENT AUDITOR'S REPORT, Note 6" 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 either PERS 2 or PERS 3. Eligible employees hired after August 31, 2002, are members of PERS 2 unless they irrevocably elect to join PERS 3. As of June 30, 2022, the District is one of 259 governmental employers that participate in PERS 1, one of 986 governmental employers that participate in PERS 2, and one of 746 government employers that participate in PERS 3. As of June 30, 2022, 117,643 inactive plan members and beneficiaries were receiving benefits under PERS, 38,227 inactive plan members were entitled to, but not yet receiving, benefits, and there were 95,034 vested active plan members and 70,079 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 unless they qualify for early vesting after five years.

PERS 1 and PERS 2 are defined benefit plans, and PERS 3 is a hybrid plan that includes defined benefits and a defined contribution component. PERS 1 and PERS 2 and the defined benefit 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 thereon 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, and the defined contribution retirement benefits depend solely upon the results of investment earnings.

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 directs the investment of retirement system assets and invests all retirement funds in a single pool, referred to as the Commingled Trust Fund. Although in general assets from one plan may not be used to fund benefits from another plan, the defined benefit portions of PERS 2 and PERS 3 are accounted for in the same pension fund and all assets of the combined PERS 2 and PERS 3 defined benefit plans 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 each retirement system, including 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 those 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 August 2023, the OSA released an actuarial valuation for June 30, 2022 (the "2022 Valuation Report"). The primary purpose of the 2022 Valuation Report is to provide information on the funding progress and developments in the plans over the State fiscal year ended June 30, 2022.

Funding Policy. The State's funding policy and methods for determining the contribution rates are set forth in RCW Chapters 41.40 and 41.45 (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 2021, OSA released its 2021 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 June 2020, using data from the 2013-2018 period, and was not updated to reflect any effects to demographic assumptions related to COVID-19. Demographic assumptions incorporating experience regarding mortality, retirement, disability, termination rates, salary increases and other assumptions 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 2023-2025 biennium contribution rates: a rate of inflation of 2.75%; an assumed annual investment return of 7.0%; general salary growth of 3.25%; and annual growth in membership of 1.00.

Actuarial Funded Rate. 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, calculated using the Entry Age Normal ("EAN") cost method. The annual cost of benefits is comprised of (i) the "normal cost" of benefits that will accrue in the subsequent year for current plan members, and (ii) the amount required to amortize the unfunded accrued actuarial liability (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 or the present value of benefits earned at the valuation date not covered by current actuarial assets. The AAL represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

To determine a plan's AVA, the OSA determines the current Market Value of Assets (the "MVA"), taking into account the prior year's contributions, disbursements and investment returns. To limit fluctuations in contribution rates and plan funded status that would otherwise arise from short-term changes in the MVA, 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.

The funded status for the PERS plans, for all of the State is set forth below.

TABLE 2
PERS PUC Liability and Funded Ratio on an Actuarial Basis

	June 30, 2020		**June 30, 2021**		**June 30, 2021**	
	PERS 1	**PERS 2/3**	**PERS 1**	**PERS 2/3**	**PERS 1**	**PERS 2/3**
Actuarial Liability	$11,160	$45,559	$11,368	$52,039	$11,047	$55,247
Valuation Assets	7,686	44,497	8,064	49,451	8,294	53,863
Unfunded Liability	$ 3,474	$ 1,062	$ 3,303	$ 2,588	$ 2,753	$ 1,384
Funded Ratio	69%	98%	71%	95%	75%	97%

Source: Office of the State Actuary; 2022 Valuation Report, 2021 Valuation Report, 2020 Valuation Report; amount in millions.

Contribution Rates. Employer contribution rates are set for a biennium (the State's two-year period ending on June 30 of an odd-numbered year). Contribution rates for a biennium are adopted during even-numbered years according to a statutory rate-setting process. The process begins with the OSA performing an actuarial evaluation of each plan and determining recommended contribution rates. As discussed above in "Actuarial Valuation, Funding Policy and Assumptions," in even-numbered years, the OSA provides its preliminary results and 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. The rates adopted by the PFC are subject to revision by the Legislature each year when the Legislature is in session. All employers are required to contribute at the levels established by the Legislature.

The current biennium began July 1, 2023, and ends June 30, 2025. 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, is 6.36% of covered payroll. The range of permissible employee contribution rates for the defined contribution component of PERS 3 are determined by the Director of WDRS and range from a minimum of 5.0% of covered salary to a maximum of 15.0% of covered salary. Employees are not required to contribute to the defined benefit component of PERS 3, including an administrative expense rate of 0.0020. Effective September 1, 2023, the employer contribution rate for all PERS plans is 9.53% of covered payroll. The current rates are subject to change by the Legislature during future legislative sessions. Based upon the statutory funding policy, the same contribution rate is charged to employers regardless of the plan in which employees hold membership.

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 may increase over the next several years, and those increases may be significant.

District Contributions. For the year ended December 31, 2022, the District's total payroll for employees was $155.4 million, and virtually all of that was covered by PERS. Both the District and its employees made their required contributions to PERS in 2022, with the District contributing $15.8 million consisting of $5.8 million to PERS 1 and $10.0 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, 2022, was $47.1 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 $38.2 million as of December 31, 2022. In addition, the Commission has approved an additional $2.0 million in contributions to the net post-employment obligation in 2023. 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, 2022 AND 2021 AND INDEPENDENT AUDITOR'S REPORT, Note 6".

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. In January 2023 through the amendment of CEO John Haarlow's employment agreement, the Commission approved a single lump-sum deposit of $600,000 into a 457(f) deferred compensation plan. The benefit will vest upon Mr. Haarlow's fulfillment of the terms and conditions of the employment agreement, which is through January 12, 2029.

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) supranational securities with the U.S. government as its largest shareholder, (vi) municipal bonds, (vii) certificates of deposit, (viii) liquid overnight funds held at a national financial institution that are under the Washington State Public Depository Protection Commission and (ix) State of Washington Local Government Investment Pool.

The District's investment policy, updated in December of 2022, also establishes issuer constraints and other guidelines of various types for these investments. As of June 30, 2023, the Water System's major investment portfolio holdings include the Washington State Local Government Investment Pool (22.3%), Federal Home Loan Bank Notes (21.24%), Federal Farm Credit Bank Notes (21.9%), U.S. Treasury Notes (33.6%), and Municipal Bonds (1%). 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, 2022 AND 2021 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 $22.4 billion average balance under investment as of December 31, 2022. 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 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 "WSDOH"). The total number of water customers has grown from 6,097 in 1992 to approximately 23,156 as of December 31, 2022. Over the past five years, the number of water customers has increased at an average rate of 2.2% per year. This growth has resulted in increases in operation and maintenance expenses and capital expenditures over the same period.

The District's 2021 Comprehensive Water System Plan, adopted by the Commission on January 10, 2023, was designed to be consistent with neighboring water utilities' plans, Snohomish County Land Use and Coordinated Water System Plans, and other applicable city and county plans and growth policies.

The District’s Water System

Service Areas. The District’s Water System is a single financial entity that owns and operates nine 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) six stand-alone satellite systems. The District’s Water System serves a population of approximately 61,000 people through approximately 23,156 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 Everett and the District’s Lake Stevens Treatment Plant.

Satellite Service Areas. The Water System also owns and operates six separate satellite systems served by ground water wells, including May Creek, Skylite Tracts, Sunday Lake, Otis, 212 Market & Deli, and Warm Beach. The District’s Kayak and Warm Beach systems were integrated in 2020 under the name “Warm Beach” as part of the capital improvements completed for the original 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.

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 were completed in 2022 and were funded by a combination of $6.3 million of federal and state grants and loans through the Drinking Water State Revolving Fund, $0.8 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 through 2038 to reimburse the operating reserve and cover the Drinking Water State Revolving Fund loan repayments. The transfer added approximately 600 new customers to the District’s Water System.

Water System Properties

The components of the Water System transmission and distribution facilities include 9 well sites with 12 active wells, 17 supply and booster pump stations, 17 reservoirs with approximately 15.5 million gallons of storage, 4 treatment plants, over 412 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 the 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 ground water 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, 2022, the District has produced approximately 442 million cubic feet of treated water from the plant and reduced its purchased water costs from Everett by approximately $6.1 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 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 Everett. The District has a long-standing relationship with Everett and is guaranteed sufficient water to meet the demands of its current and future water service areas into the foreseeable future. The District and Everett are parties to a 1981 joint operating agreement (the "Everett Agreement") which sets out the rights and duties of each party to use the Sultan River water basin and water stored in the Spada Lake reservoir and released by the Jackson Project hydroelectric facility, located 24 miles east of Everett. The District's primary interest in the Jackson Project is power generation and Everett has the right to use and sell water from the Jackson Project for water supply purposes. The Everett Agreement remains in effect so long as either of the parties holds a Federal Energy Regulatory Commission ("FERC") license for the Jackson Project. The original 1981 Everett Agreement included a provision permitting the parties to renegotiate terms of the contract in 2031. However, the District and Everett have amended and supplemented the Everett Agreement periodically, most recently in 2017, and the District does not anticipate significant revisions in the near term that would impact the District's ability to purchase wholesale water from Everett.

The original 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 as a result amended the Everett 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.

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 Everett, see "THE WATER SYSTEM—Management's Discussion of the Water System's Financial Results—Results of Operations."

Ground Water Rights. In addition to the water purchased wholesale from Everett, the District also holds certificated ground water rights in its Lake Stevens, 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 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 to supplement the Lake Stevens water system, thereby reducing the Water System's reliance upon Everett.

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 16.6% of the capacity of the pipeline, or approximately 3.4 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 7.2% 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 the useful life of the JOA-1 pipeline, which is estimated to be through 2091.

Water Quality

All of the District's water systems maintain water quality that meets U.S. Environmental Protection Agency (the "EPA") and Washington State standards.

The District is closely monitoring regulatory and legislative actions that address Per- and poly-fluoroalkyl substances ("PFAS"). PFAS are a large and diverse group of chemicals used in many commercial applications due to their unique properties, such as resistance to high and low temperatures, resistance to degradation, and nonstick characteristics.

Although PFAS have been manufactured and used broadly in commerce since the 1940s, concern over potential adverse effects on human health grew in the early 2000s with the detection of perfluorooctanoic acid ("PFOA") and perfluorooctane sulfonate ("PFOS") in human blood. Since that time, hundreds of different PFAS have been found in water, soil, and air. The EPA issued health advisories for PFOA and PFOS in the spring of 2016. Exposure to PFAS over certain levels may result in adverse health effects. Currently, the WSDOH action limits are 10 and 15 ppt for PFAS. In March 2023, the EPA proposed regulations that would impose limits of 4 parts per trillion (the "EPA Proposed PFAS Limits"). If the EPA Proposed PFAS Limits are implemented as proposed, those limits will supersede the PFAS limits of the WSDOH. The District sampled all of its groundwater sources in 2019 and again in 2023 and the results showed no detectable levels of PFAS. Everett, a significant supplier of water to the Water System, has also sampled its drinking water for PFAS compounds, and PFAS compounds were not detected in such tests.

On January 15, 2021, the EPA issued Lead and Copper Rule Revisions (the "LCRR") that went into effect on December 16, 2021. Group A Community and nontransient noncommunity ("NTNC") water systems, including the District's Water System, are required to follow the LCRR. At the same time, the EPA announced that it was going to begin new rulemaking to update these same requirements, which they identified as the Lead and Copper Rule Improvements ("LCRI"). The part of the LCRR not expected to change in the LCRI are the requirements relating to the Lead Service Line Inventory. All other requirements of the LCRR are subject to change under the LCRI. While the EPA works on the LCRI, water systems are required to develop and submit a Lead Service Line Inventory ("LSLI") by October 16, 2024; while continuing to comply with the prior version of the EPA's lead and copper rules.

The District continues to comply with and meet the requirements of the LCRR in all of its water systems and is actively working to research and complete its LSLI by the October 16, 2024 timeline. Since most of the District's Water System infrastructure is relatively new and the District has no historical records or knowledge showing that lead service lines or goosenecks were ever specified, used, or observed in any of the District's infrastructure, the District anticipates being able to complete the required LCLI and comply with all of the current and potential future requirements of the LCRR.

The water purchased for the Lake Stevens, Storm Lake Ridge, and Creswell systems is treated by Everett's filtration plant. The water quality meets all current drinking water standards. In addition to the water purchased from 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 Sunday Lake well and the Warm Beach wells exceed secondary contaminant (aesthetic) standards for iron and manganese; however, the treated water meets all current state and federal drinking water standards. A water treatment plant was constructed in 1997 to remove iron and manganese from the Sunday Lake well water. An additional water treatment plant was constructed and brought on-line in July 2009 at one of the Warm Beach wells to remove iron and manganese. The Warm Beach system also has an existing treatment plant that removes iron and manganese that was taken over and optimized in connection with the acquisition of the system by the District in 2018. Additional upgrades to the Warm Beach Well 4 treatment plant and Well 2 are currently in design and permitting and expected to be constructed in 2024 and 2025 respectively. 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 LUDs to finance capital improvements to the Water System that specifically benefit properties within the LUD. In an LUD, special assessments may be levied on the properties to reimburse the District for the cost of the improvements. Such special 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 at times uses Revenues of the Water System to finance LUD improvements. Special assessments collected from those Revenue funded LUDs are then deposited into the General Fund to repay the District. If the District issues Bonds to finance the improvements in an LUD, Assessments from that LUD are deposited into the Bond Fund as Assessment Income for the payment of debt service on such Bonds. Proceeds of the sale of any property foreclosed upon up to the amount of the unpaid LUD Assessments, including interest and penalties for Bond funded LUDs are also deposited into the Bond Fund. The District currently has a number of small LUDs with outstanding Assessment principal of approximately $21,480 that is pledged to the Bonds as of December 31, 2022. The Resolution is being amended on a springing basis, to provide for the release of the pledge of the related Assessment Income under the Resolution once the Bonds issued, in whole or in part, to finance the costs of improvements to a LUD and any series of Bonds issued to refund such initial series of Bonds are no longer Outstanding. This springing amendment will become effective when the 2019 Bonds are no longer Outstanding. See "SECURITY FOR THE BONDS—Pledge of Revenues."

If the District forms additional LUDs and finances LUD improvements with the proceeds of additional Bonds, the District may pledge the assessments levied in those LUDs toward the payment of such Bonds. As of the date of this Official Statement, the District does not intend to finance LUDs with the proceeds of the 2023 Bonds.

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 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 2018 through 2023.

TABLE 3
WATER SYSTEM RATE INCREASES

	2018	2019	2020	2021	2022	2023
Retail	2.00%	0.00%	0.00%	0.00%	1.75%	2.75%
Wholesale	2.40	2.00	2.40	0.00	0.00	1.70

Source: The District

There is an anticipated retail rate increase of 3.0% for the year 2024. The District may propose an increase in the wholesale rate in 2024, but the amount of the proposed increase will not be known until after 2023 year-end. The District employes a rate recovery method based on cost components that are unavailable to evaluate until the preceding year's financial year has closed.

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, over a planning horizon of 20 years. The 2023 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 7.5 gallons) per month. The GFC funds collected are retained in a restricted fund within the Water System's Project Reserve, and used as eligible source, treatment, transmission or storage expenditures are made. See "—Management's Discussion of the Water System's Financial Results—*Financial Condition, Liquidity and Capital Resources*."

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 reimburse investments made by developers who extend new mains, by passing through to them 95% of the DSCs collected from customers connecting to the new main extension for a period of 10 years from the date of the main extension completion. The DSC was updated in 2019 to $38.00 per foot of frontage, or $4,210 per single-family household connection.

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 15 days after they are billed. 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 700 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 4
WATER SYSTEM MONTHLY RESIDENTIAL WATER BILLS COMPARISON
(Rates effective January 1, 2022)

	700 cubic feet per month
The District	**$49.54**
Clark Public Utilities	21.95
Mukilteo Water District	35.26
Silver Lake Water District (summer)	37.90
City of Granite Falls	40.52
City of Arlington	45.35
City of Marysville (city customers)	45.48
Alderwood Water District (summer)	52.28
Sammamish Plateau Water	52.64
Tacoma (in city)	52.72
Cross Valley Water District	53.39
City of Everett (metered)	57.90
Seattle (in city/peak)	58.97
North City Water District	60.65
City of Snohomish	60.79
Tacoma (out of city)	63.53
Woodinville Water District	66.39
Seattle (out of city/peak)	67.22
City of Marysville (inside Urban Growth Area)	68.27
Skagit County PUD	76.72
City of Marysville (outside Urban Growth Area)	90.97

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, 2022, accounted for approximately $1,353,000, or approximately 8.7% of the Water System's operating revenues. The two largest wholesale customers, the cities of Granite Falls and Arlington, accounted for approximately $688,000, or 4.4%, of operating revenues in 2022.

Wholesale Water Sale Agreements

City of Granite Falls. The District and the City of Granite Falls entered into a wholesale water 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 last renewed in 2020 and continues through 2040, 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 agreement in July 1998. The agreement allows the City to purchase wholesale water, up to a maximum of 1,000 gpm, from the District's Integrated Water System for resale to its customers. The agreement was renewed in 2023 and continues through 2043 and thereafter unless terminated by mutual agreement upon five years' 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 to serve approximately 75-100 City of Snohomish customers when river conditions prevented the City of Snohomish from producing water at its Pilchuk River treatment 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 2020, the agreement was amended further to include redundant supply to the southern portion of the City of Snohomish (the "218 Zone" as well as its transmission main customers, and included an updated wholesale rate that may be adjusted by the Commission from time to time. The agreement continues through 2040, unless terminated by written mutual agreement of the parties or upon three years' written notice by either party; provided, that the term of the agreement may be extended or renewed for up to five additional years by written notice from the City of Snohomish to the District.

City of Gold Bar. The City of Gold Bar operates its own public water system. The District and the City of Gold Bar entered into an emergency intertie agreement in November 2013. 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.

Sudden View Water System. The District entered into a wholesale agreement with the Sudden View water system to serve up to 48 homes in 2010. The agreement includes provisions whereby the Sudden View water system will pay the District's General Facilities Charge for each new connection made up to the limit of 48 and pay the District's current Commercial Water Rate as adjusted from time to time by the Commission. The agreement continues through December 2029.

Twin Falls Water System. Twin Falls is a small water system owned by the Seymour Water Company and is designed to serve up to 14 homes, with its own booster pump station and equalizing storage. The District preferred to provide water through a master meter, rather than owning and maintaining these water facilities. The District entered into a wholesale agreement with the Twin Falls water system originally in 2003. The agreement was renewed in 2010 and again in 2020. The wholesale rate for the system is the District's current Commercial Water Rate as adjusted from time to time by the Commission. The agreement continues through December 2029.

Water System Operating Statistics

The following table presents the Water System's operating statistics for the calendar years 2018 through 2022.

TABLE 5
WATER SYSTEM OPERATING STATISTICS

	2018	2019	2020	2021	2022
Number of Customers (average)	20,808	21,635	22,161	22,774	23,156
Water Sales (000 cubic feet)					
Retail[(1)]	197,606	196,688	204,000	220,504	218,913
Wholesale[(2)]	24,003	26,837	29,373	31,499	33,677
Total Water Sales	221,609	223,525	233,373	252,003	252,590
System Use, Losses and Other (000 cubic feet)[(3)]	27,767	13,614	17,039	14,901	21,513
Water Purchased and Pumped (000 cubic feet)	249,376	237,139	250,412	266,904	274,103

(1) 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. Higher consumption in 2021 was primarily due to extreme summer temperatures coupled with a larger customer base.

(2) Wholesale sales represent sales to the City of Granite Falls, the City of Arlington, the City of Snohomish and the City of Gold Bar emergency intertie.

(3) Includes water internally used by the Water System and system loss. Such amounts vary by year from operational demand and system needs.

Source: The District

Connect Up Project

In 2020, the Commission approved the District's Connect Up program. This program includes installation of advanced meter infrastructure and technology capable of two-way communication. The program's installation process is expected to begin in 2023 and continue through 2025 as each customer is slated to receive a new meter. The District will be using FCC-approved equipment that is the same as, or is similar to, that which is already used by many other utilities in the Pacific Northwest and nationally. The initial network will consist of 140 base stations dispersed throughout the service territory on existing or new poles or towers. Upon completion of the project, the District will have deployed more than 22,000 water meters. Water System customers will be able to identify leaks, track hourly and daily consumption, and better manage water usage more easily.

Financial Results

The following table presents income statement information of the Water System for the calendar years 2018 through 2022. Appendix A hereto contains the consolidated audited financial statements for the District for the calendar years ended December 31, 2022 and 2021.

TABLE 6
WATER SYSTEM COMPARATIVE INCOME STATEMENTS
($000s)

	2018	2019	2020	2021	2022
Operating Revenues:					
Retail Water Sales	$ 12,588	$ 12,727	$ 13,068	$ 13,896	$ 14,329
Wholesale Water Sales	545	634	687	731	769
Other	397	403	368	362	408
Total Operating Revenues	13,530	13,764	14,123	14,989	15,506
Operating Expenses:					
Purchased Water	2,438	2,596	2,925	3,217	3,600
Operations	3,574	3,527	3,840	3,692	4,594
Maintenance	1,517	1,712	1,924	1,755	2,047
Depreciation	2,932	3,028	3,191	3,269	3,497
Taxes	688	726	754	784	775
Total Operating Expenses	11,149	11,589	12,634	12,717	14,513
Net Operating Income (Loss)	2,381	2,175	1,489	2,272	993
Interest Charges	(614)	(743)	(312)	(266)	28
Other Income and Expense[(1)]	464	693	341	7	3,085
Contributions					
Facilities/Connection Charges[(2)]	3,441	4,286	4,273	3,425	1,724
Plant Contributions[(3)]	2,277	4,158	2,081	2,713	3,210
Total Contributions	5,718	8,444	6,354	6,138	4,934
Net Income	$ 7,949	$ 10,569	$ 7,872	$ 8,151	$ 9,040
Net Income Adjustments:					
Non-Cash Plant Contributions	(2,277)	(4,158)	(2,081)	(2,713)	(3,210)
Interest Charges	614	743	312	266	(28)
Depreciation	2,932	3,028	3,191	3,269	3,497
Actuarial Adjustment due to Pension and OPEB Liability	(348)	(354)	(446)	(1,184)	(538)
Net increase (decrease) in the fair value of investments	(46)	(55)	14	86	405
Balance Available for Debt Coverage	$ 8,824	$ 9,773	$ 8,862	$ 7,875	$ 9,166
Senior Lien Debt Service[(4)]	2,401	2,238	1,613	1,601	1,628
Less Assessment Payments Received[(5)]	(65)	(32)	(15)	(5)	(4)
Debt Service Paid from Revenues	2,336	2,206	1,598	1,596	1,624
Senior Lien Debt Service Coverage	3.8x	4.4x	5.5x	4.9x	5.6x

(1) As of December 31, 2022, the District processed final loan closeout documentation related to the Warm Beach Water System loans from the State of Washington Drinking Water Revolving Fund loans, allowing the District to recognize 50% loan forgiveness, directly reducing the outstanding loan liability by $3.1 million.

(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) 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 $13,530,000 in 2018 to $15,506,000 in 2022, an increase of 15% and a compound annual increase of 3% over the period. During this period, retail water sales revenue increased 14% from $12,588,000 in 2018 to $14,329,000 in 2022. The increase in retail water sales revenue reflects the strong growth in the number of Water System customers. The growth in customers is illustrated below:

TABLE 7
AVERAGE NUMBER OF CUSTOMERS

2018	2022	Percent Change	Compound Annual Increase
20,808	23,156	11.3%	2.2%

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 in 2022 reflect a single-family residential retail water rate increase of 1.5% and a 4% rate increase for multiple-family, commercial and industrial customers. In early 2023, the Commission approved an additional rate increase of 2.6% for single-family residential customers and 4.8% for multiple-family, commercial, industrial and wholesale customers effective on March 1, 2023.

Wholesale water sales revenue increased 41% from $545,000 in 2018 to $769,000 in 2022. The Water System has agreements with the Snohomish County cities of Granite Falls, Arlington, Snohomish and Gold Bar to provide wholesale water. See "—Wholesale Water Sales Agreements." Wholesale rates are adjusted annually based on the average costs in the preceding year for each of the wholesale 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 remained elevated through 2021 reflecting a strong economy and an increase in real estate development in the region. Facilities/connection charge revenues subsequently decreased in 2022 reflecting a slow-down in growth and development associated with a rising interest rate environment. Plant contributions generally reflect development that began a year or more prior to the contribution. Therefore, while facilities/connection charge fluctuations are a result of similar variables, the timing of the contributions vary. The elevated plant contributions from 2018 through 2022 are a result of a strong economy and substantial growth in the region observed during these years.

The District purchases most of the water it sells (approximately 75% in 2022) from Everett. Wholesale water rates from Everett have increased from an average of $1.4128 per hundred cubic feet ("ccf") in 2018 to $1.6054/ccf in 2022. The remaining water supply is pumped from wells owned and operated by the District. Purchased water expense increased from $2,438,000 in 2018 to $3,600,000 in 2022, an increase of 48%, as a result of an 11.3% increase in the number of customers and an annual average 2.7% increase in the cost of water purchased from Everett. During the second half of 2022, the Lake Stevens treatment facility experienced a shutdown which resulted in higher purchased water expense from Everett. Purchased water expense averaged approximately 20% of water sales revenue over the five-year period from 2018 to 2022.

Operations expense increased from $3,574,000 in 2018 to $4,594,000 in 2022, an increase of approximately 26%. 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 35%, from $1,517,000 in 2018 to $2,047,000 in 2022. 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 19% from $2,932,000 in 2018 to $3,497,000 in 2022. The increase is the result of a significant increase in capital assets during this period. Capital additions, net of depreciation, were approximately $17,776,000 during the years 2018 through 2022 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 $688,000 in 2018 to $775,000 in 2022, an increase of 13%, due primarily to growth in total operating revenues. The District pays an excise tax levied by the State 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 1.75%.

The Water System produced net income of $7,949,000 in 2018. Net income increased in 2019 to $10,569,000, primarily driven by an increase in total contributions resulting from greater real estate development in the area associated with expansionary economic conditions. In 2020, net income decreased by $2,697,000 to $7,872,000 primarily due to a $2,077,000 decrease in plant contributions in large part due to development slowdowns caused by COVID-19 related restrictions. Net income was $8,151,000 in 2021, an increase of $279,000 from 2020 due primarily to an increase in retail water sales during continued COVID restrictions resulting in many customers remaining at their homes and consuming more water. In 2022, net income increased by $889,000 to $9,040,000. Despite an increase in operating expenses and a decrease in contributions from 2021, the District earned favorable net income in 2022 primarily due to $3,100,000 recognized through other income as a result of 50% loan forgiveness applied by the State for the Warm Beach Drinking Water Revolving Fund loan closeout.

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. The District's policies permit the Electric System to hold reserve funds on behalf of the District as a whole. As of December 2022, the Electric System held approximately $10 million in a self-insurance fund and $38.2 million in the Benefits Reserve on behalf of the District as a consolidated entity. 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.

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 need 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.
- Sizing of 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, 2022, the Water System's cash and investments totaled $26,249,000. Table 9 below shows the Water System's cash investments in the reserve funds, as of December 31 for years 2018 through 2022.

- 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 8
RESERVES
($000s)

	2018	2019	2020	2021	2022
Operating Reserve	$ 9,520	$ 7,366	$ 7,994	$ 8,355	$ 7,077
Contingency Reserve	1,516	1,520	1,500	1,543	1,456
Sinking Reserve	282	218	232	261	176
Bond Debt Service Reserve	1,219	418	418	418	418
Project Reserve	7,437	11,130	14,748	16,930	17,122
Total Reserves	**$ 19,974**	**$ 20,652**	**$ 24,892**	**$ 27,507**	**$ 26,249**

Source: The District

Principal outstanding on the Water System's long-term debt at December 31, 2022 was as follows:

Long-term Debt	**($000s)**
Senior Lien Debt	
Series 2019 Bonds	$ 5,260
Junior Lien Debt	
State of Washington Drinking Water Revolving Fund loans	5,337
Total Principal Outstanding on Long-term Debt	$ 10,597

The 2019 Bonds were sold to refund Bonds then outstanding.

All of the junior lien debt is loans obtained through the Drinking Water Revolving Fund loan programs. Interest on these loans rages from 1 to 1.5%) with approximately level debt service. Final maturities for the largest loans are in 2034 and 2042.

Capital construction costs for the full years 2018 through 2022 were as follows:

TABLE 9
Capital Construction
($000s)

Year	Actual
2018	$ 5,934,000
2019	7,350,000
2020	4,765,000
2021(1)	9,014,000
2022(1)	9,951,000

(1) Increase in 2021 and 2022 is mainly attributable to work on the Warm Beach system that became a part of the District after ownership transfer in late 2018. A majority of these expenditures were financed through the Drinking Water State Revolving Fund loan program.

Impacts from the COVID-19 Pandemic

Community Support Plan. In March 2020, the District introduced the Community Support Plan (the "Plan") to provide needed relief to residential and small business customers impacted by the COVID-19 pandemic (the "Pandemic"). The Plan included an indefinite pause on disconnects and late fees, a one-time credit available to qualifying customers of up to $200 for residential customers and up to $500 for small business customers, as well as expansion of existing rate discount and payment plan programs. As of March 31, 2023, when the Plan was discontinued, the District had provided one-time credits to approximately 25,600 Water System and Electric System customers combined for a total of $5.1 million. In 2022, the District began to phase in disconnects and late fees for all customers who had not responded to enhanced payment options.

Financial Impact. The District did not experience significant impacts to revenue from the Pandemic. The District's service territory consists of approximately 91% residential customers. Accordingly, the Water System noted an increase in retail revenues during the Pandemic as customers remained home and consumed more water. During the beginning of the Pandemic, several capital and maintenance projects were temporarily delayed. The delays experienced were transient and did not have significant impacts to operations of the District. The District has since resumed normal capital and maintenance operations and does not have any outstanding delays related to the Pandemic.

As a result of economic impacts from the Pandemic, the District experienced a significant increase in the aging of its accounts receivable. As of December 31, 2021, the total active customer accounts of the Water System with receivables over 90 days past due was approximately $262,000, or 20% of total accounts receivable. In December of 2022, the District received an $11 million grant from the Washington State Department of Commerce to aid electric and water utility customers who accumulated arrearages during the Pandemic. Approximately $252,000 of the grant was allocated to Water System customer arrearages. In June of 2023, the District received another distribution from the grant from the Washington State Department of Commerce of $5.2 million to further assist utility customers. As of June 30, 2023, the total active customer accounts of the Water System with receivables over 90 days past due was approximately $54,000, or 5% of total accounts receivable.

The District is currently experiencing minor impacts on expenses from inflation and a rise in construction costs. In addition, the District continues to monitor and take efforts to mitigate supply chain risks in its continued operations. It implemented an emergency declaration in the fall of 2021 to suspend certain procurement requirements in order to manage the procurement of equipment needed in the day-to-day operations of the water and electric systems. Through these and other efforts to reuse equipment, the District has been able to procure a supply of equipment adequate to maintain operations. However, it is possible that the District will experience shortages and project delays, including delays in certain phases of the District's Advanced Metering Infrastructure projects.

Despite the economic disruption globally and regionally, the District has remained resilient, continuing efforts of cost containment and shifting project priorities to adapt to the unprecedented times brought on from the Pandemic.

The District has provided the information contained in this Official Statement to describe certain of the impacts that the COVID-19 Pandemic and related orders have had on the District's finances and operations, and to describe some of the actions that the District is taking in response. The District cannot predict the duration and extent of the COVID-19 pandemic or any future declarations of a public health emergency or quantify the magnitude of the impact on the global, national, State and regional economy or on the other revenues and expenses of the District. The outbreak of COVID-19 within the District's operating territory is ongoing, and its dynamic nature leads to many uncertainties, including (i) the geographic spread of the virus; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) additional actions that may be taken by governmental authorities to contain or mitigate the outbreak; (v) the continued development of medical therapeutics or vaccinations and vaccination rates; (vi) travel restrictions; (vii) the impact of the outbreak on the local or global economy; (viii) whether and to what extent the Governor may order additional public health measures; and (ix) the impact of the outbreak and actions taken in response to the outbreak on District revenues, expenses, and financial condition. Prospective investors may consider assuming that the restrictions and limitations instituted related to COVID-19 may be reimposed, and the current uncertainties in the national and global economies, including supply chains, will continue and/or be exacerbated, at least over the near term, and the recovery may be prolonged.

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 2023 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 2023 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. 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 2.75% and 3.00% respectively per year, effective March 1, 2023 through 2024. These increases are subject to adoption by the Commission. Estimated future retail water sales assume growth in demand of 1.5% per year.

The forecast for purchased water expense is based upon adopted rates by Everett for 2023 and projected rate increases from 2024 through 2026. The forecast also reflects the base case demand forecast used for retail water sales revenue.

Operating and maintenance costs beyond 2023 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 8.5% 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 2023 through 2026 are shown in the table below.

TABLE 10
WATER SYSTEM PROJECTED OPERATING RESULTS
($000s)

	2023[1]	2024	2025	2026
Operating Revenues:				
Retail Water Sales[2]	$ 13,584	$ 13,744	$ 14,174	$ 14,399
Wholesale Water Sales	799	511	519	526
Other	362	377	385	392
Total Operating Revenues	14,745	14,632	15,078	15,317
Operating Expenses:				
Purchased Water[3]	4,055	3,877	4,051	4,226
Operations and Maintenance[4]	7,978	8,379	9,680	10,171
Depreciation	3,616	3,830	3,906	3,985
Taxes	778	735	757	765
Total Operating Expenses	16,427	16,821	18,394	19,147
Net Operating Income (Loss)	(1,682)	(2,189)	(3,316)	(3,830)
Interest Charges	(267)	(840)	(823)	(804)
Other Income and Expense	1,562	1,624	1,204	745
Contributions				
Facilities/Connection Charges[5]	2,994	2,511	2,549	2,363
Plant Contributions[6]	1,153	2,200	2,200	2,200
Total Contributions	4,147	4,711	4,749	4,563
Net Income	$ 3,760	$ 3,306	$ 1,814	$ 674
Net Income Adjustments:				
Non-Cash Plant Contributions	(1,153)	(2,200)	(2,200)	(2,200)
Interest Charges	267	840	823	804
Depreciation	3,616	3,830	3,906	3,985
Balance Available for Debt Coverage	$ 6,490	$ 5,776	$ 4,343	$ 3,263
Senior Lien Debt Service	881	1,767	1,758	1,769
Less Assessment Payments Received[7]	(22)	0	0	0
Debt Service Paid from Revenues	859	1,767	1,758	1,769
Senior Lien Debt Service Coverage	7.6x	3.3x	2.5x	1.8x

(1) Based on actual results through June 30, 2023 and projected through the calendar year end.
(2) Projected retail sales revenues include projected annual rate increases of 3% each year beginning March 1, 2023 through 2026. These are subject to Commission approval.
(3) Purchased Water Costs includes an adopted Everett rate increases of 7.9 % in January 2023 and 8.1% in January 2024.
(4) Operations and Maintenance are a result of daily operations for the water system. These costs may fluctuate between years driven by programmatic planning and capital schedules.
(5) Includes General Facilities Charges, Service Connection Fees and Distribution System Charges, which are charges paid by new connections to the Water System.
(6) Represents facilities donated to the District by developers and property owners.
(7) 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 2025 include continuation of the main replacement program, Warm Beach Well 4 and Well 2 Treatment Plant improvements, upgrades to the Granite Falls Pump Station, the Burn Road Reservoir, the Kayak Reservoir #2 (part of the Warm Beach system), a new joint decant facility for the use of the Water System and the Electric System and the Connect Up project meter deployment scheduled from 2023 through 2025.

The following table shows the estimated uses of funds for construction projects from 2023 through 2025.

TABLE 11
WATER SYSTEM FORECAST OF CONSTRUCTION EXPENDITURES
($000s)[(1)]

	2023	2024	2025
General	$ 6,171	$ 6,258	$ 8,692
Pipe	2,968	1,439	750
Pumping Station	0	0	307
Reservoir	2,390	5,396	1,300
Total Annual Expenditures	$ 11,529	$ 13,093	$ 11,049

(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.

LIMITATIONS ON REMEDIES; BANKRUPTCY

Limitations on Remedies

Any remedies available to the owners of the 2023 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 2023 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the 2023 Bonds.

In addition to the limitations on remedies contained in the Resolution, the rights and obligations under the 2023 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 Bond Counsel to the District, concurrently with the issuance of the 2023 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 2023 Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D.

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 2023 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 2023 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 2023 Bonds. The holders of the 2023 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 2023 Bonds, then there may be limited, if any, funds from which the holders of the 2023 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 2023 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 2023 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 2023 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, then the holders of the 2023 Bonds may not have a lien on such moneys and 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 2023 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 to 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 the collateral for the 2023 Bonds (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 2023 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 2023 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 2023 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the 2023 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 2023 Bonds, or result in losses to the holders of the 2023 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 2023 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 2023 Bonds.

CERTAIN INVESTMENT CONSIDERATIONS

Federal and Local Regulations

Federal, state and local standards and procedures that regulate the operations and environmental impacts of water systems, including water quality standards, are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the Water System will remain subject to the regulations currently in effect, will be in compliance with current or future regulations or will always be able to obtain all required operating permits. Compliance with applicable environmental standards could result in additional capital and operating expenditures and reduced operating and efficiency levels, as well as possible fines, penalties or liabilities for noncompliance.

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.

The District is in the process of reviewing its policies related to generative artificial intelligence ("Gen AI") technology, which is a rapidly evolving technology. Advances of Gen AI may create benefits and new risks related to data protection and cybersecurity. The technology will require careful consideration and focus on enforcing cybersecurity defenses. The District has taken a multifaceted approach to address current threats and support changes as the technology evolves. The District issued a moratorium on employee use of Gen AI in April 2023 pending further assessment and revisions of policies and procedures. The District has established a cross functional team represented by the District's Cybersecurity, Data and Information Governance, and Risk departments. The team is engaged in analysis of monitoring, protection, use case reviews, and industry best practices. The District's existing governance and policies address appropriate use of technologies. However, the District is reviewing these tools, policies, and procedures to update corporate strategies and governance policies as appropriate. The current governance approach includes ongoing review and updates as the technology evolves. The District is actively engaged with industry peers who are also working through Gen AI strategies and mitigation.

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 significant 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 District has insurance covering earthquakes, see "THE DISTRICT—Insurance." 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, as well as affect the timing of runoff. Although the territory comprising the District does not have a history of significant wildfires, regions in the Pacific Northwest that historically did not experience large or frequent wildfires have begun to experience wildfires, or are experiencing larger or more frequent, wildfires. The District has a preliminary wildfire mitigation plan, developed with a consultant, that includes such components as mapping for risk and magnitude of potential damage, operational protocols to limit risk during high-risk periods, construction standard modifications, training and vegetation management enhancements. The District has also adopted a climate change policy. See "THE DISTRICT—District Climate Change Policy, Principles and Strategy."

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 State 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.

Infectious Disease Outbreak

The financial and operating condition of the District, including the District's ability to collect Revenues, may be materially affected by a national or localized outbreak of an infectious disease, such as the COVID-19 Pandemic, or other highly contagious or epidemic diseases (an "Outbreak").

As described above in "THE DISTRICT—Impacts from the COVID-19 Pandemic" in connection with the COVID-19 Pandemic, the District has a policy in place to address the Pandemic, including protocols to maintain essential staffing and services and to coordinate the District's response with other agencies.

Despite the policies of the District and the existence of governmental aid programs, there can be no assurances that an Outbreak, including the COVID-19 Pandemic, will not materially affect the regional economy of the District or the national or global economies and, accordingly, materially adversely affect the financial or operating condition of the District, including the District's collection of Revenues.

The District cannot predict (i) the duration or extent of the COVID-19 Pandemic or of other Outbreaks; (ii) the scope, duration or effect on the District of government restrictions related to commercial or other activity by businesses and individuals; (iii) whether and to what extent the COVID-19 Pandemic or other Outbreaks may disrupt the local or global economy or financial markets, or whether any such disruption may adversely affect the District's activities; or (iv) whether any of the foregoing may have a material adverse effect on the finances and operations of the District, including, without limitation, the ability to collect Revenues and meet its debt service obligations, changes to pension contribution rates and other budgetary considerations.

Physical Security

Certain physical security concerns present a risk to the District's facilities, such as sabotage, terrorist attacks and other crime. The District relies on comprehensive security systems and measures to ensure critical assets are protected. Many of these security measures are required by federal law due to the nature of the District's facilities, specifically its hydroelectric facilities. The District has carefully implemented a number of integrated security measures, including but not limited to, strategically placed security cameras, electronic access control, security lighting, restricted access areas, perimeter intrusion alarms, 24/7 monitoring, fencing, signage, policies, procedures and employee training programs.

Loss of Premium from Early Redemption

Any person who purchases a 2023 Bond at a price in excess of its principal amount should consider the fact that certain maturities of the 2023 Bonds are subject to early redemption at a redemption price equal to the principal amount of such 2023 Bonds plus accrued interest, if any, under certain circumstances as described herein under the heading "DESCRIPTION OF THE BONDS."

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 2023 Bonds, subject to applicable securities laws. However, the Underwriter is not obligated to engage in secondary trading or to repurchase any of the 2023 Bonds at the request of the Registered Owners thereof. No assurance can be given that a secondary market for the 2023 Bonds will be available and no assurance can be given that the initial offering prices for the 2023 Bonds will continue for any period of time.

INITIATIVE AND REFERENDUM

Under the State Constitution, 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.

LITIGATION

No Litigation Affecting the 2023 Bonds

There is no litigation now pending or threatened restraining or enjoining the issuance and delivery of the 2023 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 2023 Bonds or affecting the validity of the 2023 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 Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District ("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 2023 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 2023 Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that, for tax years beginning after December 31, 2022, interest on the 2023 Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate 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 2023 Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth as Appendix D hereto.

To the extent the issue price of any maturity of the 2023 Bonds is less than the amount to be paid at maturity of such 2023 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2023 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 2023 Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2023 Bonds is the first price at which a substantial amount of such maturity of the 2023 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 2023 Bonds accrues daily over the term to maturity of such 2023 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 2023 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2023 Bonds. Beneficial Owners of the 2023 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2023 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2023 Bonds in the original offering to the public at the first price at which a substantial amount of such 2023 Bonds is sold to the public.

2023 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 2023 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2023 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 2023 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2023 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 2023 Bonds may adversely affect the value of, or the tax status of interest on, the 2023 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 2023 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 2023 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 2023 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 2023 Bonds. Prospective purchasers of the 2023 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 expresses 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 2023 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 2023 Bonds ends with the issuance of the 2023 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 2023 Bonds in the event of an audit examination by the IRS. Under current procedures 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 2023 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 2023 Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Payments on the 2023 Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate Beneficial Owner of 2023 Bonds may be subject to backup withholding with respect to "reportable payments," which include interest paid on the 2023 Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the 2023 Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against a Beneficial Owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain Beneficial Owners (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

CONTINUING DISCLOSURE

The District will covenant for the benefit of Owners and Beneficial Owners of the 2023 Bonds to provide certain financial information and operating data relating to the Water System (the "Annual Report") by not later than nine months following the end of the District's fiscal year (which fiscal year currently ends on December 31), commencing with the Annual Report for the fiscal year ended December 31, 2023, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and the notices of listed events is set forth in APPENDIX E—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants will be made in order to assist the Underwriter for the 2023 Bonds in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission, promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12").

The District omitted the table entitled "Electric System Power Costs" from the District's Fiscal Year 2020 Operating Results posted to the Municipal Securities Rulemaking Board's Electronic Market Access ("EMMA") website on July 30, 2021. The District has since posted a corrected version of the District's Fiscal Year 2020 Operating Results to EMMA including the omitted table.

RATINGS

Moody's Investors Service, Inc. and S&P Global Ratings have assigned their ratings of "Aa2," and "AA," respectively, to the 2023 Bonds. Such rating reflects only the views of the respective rating agency and are not a recommendation to buy, sell or hold the 2023 Bonds. An explanation of the significance of such rating should be obtained directly from the rating agency furnishing the same. The District has furnished to each rating agency certain information and materials with respect to the 2023 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 ratings that have been assigned to the 2023 Bonds will continue for any given period of time or that such ratings will not be revised or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the

2023 Bonds. The District has undertaken to provide timely notice of any change in such rating. See "CONTINUING DISCLOSURE" above.

UNDERWRITING

Barclays Capital Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase the 2023 Bonds from the District at an aggregate purchase price of $18,957,602.76, representing the aggregate principal amount of the 2023 Bonds, plus original issue premium of $1,141,759.00 and less Underwriter's discount of $69,156.24. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all 2023 Bonds if any 2023 Bonds are purchased.

The Underwriter may offer and sell the 2023 Bonds to certain dealers (including dealers depositing 2023 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 2023 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/Senior Manager, Financing and Risk Management have been duly authorized by the District.

Conflicts. Some of the fees of the Underwriter, Bond Counsel, Disclosure Counsel, the Bond Registrar and Underwriter's Counsel are contingent upon the sale of the 2023 Bonds. From time to time, and currently, Bond Counsel serves as counsel to the Underwriter with respect to transactions other than the issuance of the 2023 Bonds.

MUNICIPAL ADVISOR

PFM Financial Advisors LLC has acted as municipal advisor to the District in connection with the issuance of the 2023 Bonds.

CERTAIN LEGAL MATTERS

The validity of the 2023 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's opinion is contained in Appendix D. 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 2023 Bonds will be passed upon for the District by Colin Willenbrock, General Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Pacifica Law Group LLP. Any opinion of Pacifica Law Group LLP will be addressed solely to the Underwriter, will be limited in scope and may not be relied upon by owners of the 2023 Bonds.

This Official Statement is not to be construed as a contract with the owners of any of the 2023 Bonds.

PUBLIC UTILITY DISTRICT NO. 1 OF
SNOHOMISH COUNTY, WASHINGTON

/s/ Angela Johnston

Angela Johnston
Treasurer/Senior Manager, Financing and Risk Management

APPENDIX A

FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 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
Everett, Washington

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, and the related combined and individual statements of revenues, expenses and changes in net position and cash flows of the Electric, Generation, and Water Systems, as of and for the year ended December 31, 2022, and the District's combined statements as of and for the year ended December 31, 2021, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the combined financial position of the District as of December 31, 2022 and 2021, and the individual financial positions of the Electric, Generation, and Water Systems as of December 31, 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 4 to the financial statements, the District adopted the provisions of Government Accounting Standards Board Statement No. 87, *Leases*, effective January 1, 2021. The combined financial statements for the year ended December 31, 2021, have been retroactively restated in accordance with the requirements of the new accounting standard. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audits.

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 – PERS, schedule of employer contributions – PERS, and schedule of changes in total other post-employment benefits (OPEB) liability and related ratios, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audits 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 an opinion on the financial statements that collectively comprise the District's basic 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 April 4, 2023, 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
April 4, 2023

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, 2022 and 2021. 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

The PUD's combined net operating income for 2022 was $72 million, a $1 million decrease from $73 million in 2021. Combined net income increased from $93 million in 2021 to $94 million in 2022. This was a 0.7% increase. The increase in net income was primarily due to increased revenues from wholesale energy sales. Predominately this was from excess availability of water in the Pacific Northwest. This resulted in additional available energy from Bonneville Power Administration (BPA).

Combined net operating income increased from $43 million in 2020 to $73 million in 2021. The increase in net operating income was primarily due to a $43.1 million decrease in net pension expenses as accounted for under the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

The average number of Electric System customers increased from 367,096 in 2021 to 373,127 in 2022, resulting in a 1.6% increase in 2022. New electric service connections were 6,030 in 2022, the highest recorded at the PUD, compared to 5,934 in 2021. The increase in 2022 was primarily due to an increase in new connections in residential units. The average number of Water System customers increased 1.5% from 22,774 in 2021 to 23,156 in 2022, following a 2.3% increase from 2020 to 2021.

Retail MWh sales increased 2.5% from 6,593,771 MWh in 2021 to 6,761,419 MWh in 2022, compared to a 2.2% increase from 2020 to 2021. The increase was primarily caused by a 3.4% increase in residential MWh sales and a 1.5% increase in commercial and industrial MWh sales in 2022.

Combined retail sales were $670 million in 2022, higher than the $647 million in 2021 and $621 million in 2020. This was primarily the result of an increase of $23 million in residential and commercial retail energy sales due to increased MWh sales and a rate increase implemented in April 2022. The increase in 2021 as compared to 2020 is primarily due to an increase of $26 million in commercial and industrial energy sales.

The PUD sells surplus power into the wholesale power markets to balance resources with customer loads. Combined wholesale revenue was $74 million in 2022 compared to $43 million in 2021 and $39 million in 2020. Global demand of energy remained consistent while availability of energy was diminished with respect to the prices paid for natural gas. This caused wholesale prices to increase, which contributed to the PUD's $30 million increase in wholesale revenue from 2021. The Electric System sold $10 million of excess transmission capacity in 2022 and $11 million in 2021. Combined other operating revenue was $37 million in 2022, an increase from the relatively consistent 2021 and 2020 at $33 million.

Combined operating expenses were $709 million in 2022. These expenses include $335 million in combined purchased power costs, an increase of $24 million from the prior year. This increase was driven by extreme heat in July 2022 and cold weather in December 2022. In total, combined operations expenses increased from $188 million in 2021 to $204 million in 2022. This increase was partially offset by decreases in bad debt expense with an overall decrease of $15 million. Combined maintenance expenses were $13.2 million higher in 2022 due to several storms throughout the year. Total operating expenses of $650 million were relatively unchanged in 2021 as compared to 2020.

During 2022, the PUD's income from investing activities increased to $7.7 million as compared to $4.2 million in 2021, consistent with the financial market indices. This was an 83.1% increase compared to a 45.0% decrease in 2021. The cash reserve portfolio is invested in securities and deposits authorized by Washington state statute. The portfolio is managed to reflect the PUD's current risk profile and other cash reserve policies and regulatory requirements.

Capital contributions decreased by $1 million in 2022 to $33 million from $34 million in 2021, reflecting a slight decline in real estate development activities.

ELECTRIC SYSTEM

Electric System Rates

General Rates

Effective April 1, 2022, the PUD implemented a 2.1% system-wide average rate increase. This was done in combination with the implementation of a base charge that is dependent on the size of connection that the customer is using. The base charge is being implemented over the next several years; the PUD will reduce the per kWh charge as the base charge increases.

Bonneville Power Administration (BPA) Rates

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 80% of the energy resources used by the PUD to serve its customers. Power purchases from BPA were $234 million in 2022 and $236 million in 2021, respectively. As a response to provide relief due to COVID-19, BPA suspended its financial reserves surcharge through September 2021.

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 Commission, the PUD may adjust retail electric rates to reflect BPA rate adjustments. As a result of the increased cost of power and transmission purchases from BPA, the Commission increased retail power rates 0.54% to match the higher costs effective October 1, 2021.

In December 2022, the PUD received a $3 million credit from BPA as approved by its Board for the Reserve Distribution Clause. The PUD recorded this as other service revenue offsetting purchase power costs.

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. The need for electric distribution infrastructure and facilities to serve customers and assure reliability is expected to continue. Electric System capital expenditures were $124 million in 2022 and $110 million in 2021.

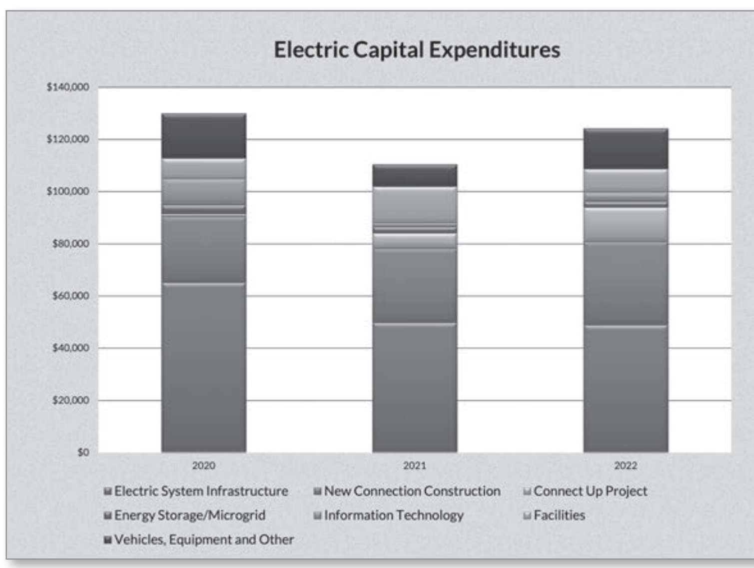

Figure 1

Key projects in 2022 included site civil and electrical construction completed on the Edgecomb and Harbour Pointe substations and the new Sky Valley switching station. PUD installed 2.5 miles of underground feeder cable and 2.5 miles of distribution cable, as well as installation of ten submersible trayer switches. The PUD also energized the electrical infrastructure for a new 2.8 million square foot warehouse for Amazon in Arlington. The PUD continued its ongoing replacement of aging poles. In 2022, approximately 522 distribution poles, 54 transmission poles, and 2.6 miles of underground distribution cables were replaced.

Capital Funding and Debt Levels

The PUD utilizes a combination of revenues, cash reserves, grants, 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.

In July 2022, the Electric System issued $61 million of Series 2022A Revenue bonds. The new bonds, which have a final maturity of 2052, were sold at an average interest rate of 3.4%. The proceeds of the bond sale are currently being used to fund qualifying additions, replacements, and improvements to the Electric System, including construction and upgrades relating to the electric distribution system, the Connect Up smart meter project, and development of the PUD's North County community office.

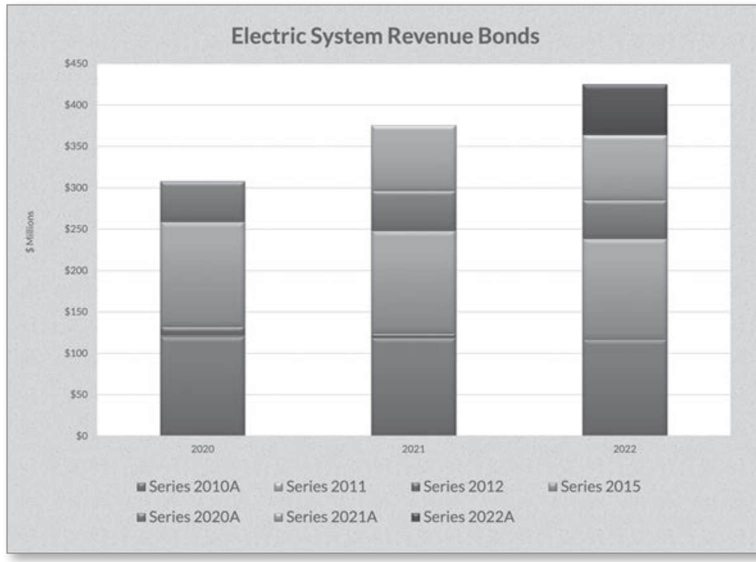

Figure 2

In June 2021, the Electric System issued $79 million of Series 2021A Revenue bonds, the first sale of new money tax-exempt bonds since 2015. The new bonds, which have a final maturity of 2051, were sold at an average interest rate of 1.5% as the PUD benefitted from historically low long-term interest rate and strong bond ratings. The bond proceeds of the bond sale are currently being used to fund qualifying additions, replacements, and improvements to the Electric System, including construction and upgrades relating to the electric distribution system, the Connect Up smart meter project, and development of the PUD's North County community office.

In conjunction with the bond sales, Fitch and Moody's, two major bond rating agencies, affirmed the PUD's bond ratings. Fitch Rating rated the PUD AA-, while Moody's provided a Aa2 rating.

In October 2020, the PUD issued $49.1 million of Series 2020A Electric System Revenue Refunding Bonds to partially advance refinance the Series 2011 and 2012 Electric System Revenue Bonds at lower long-term interest rates. This transaction resulted in $5.5 million of net present value savings and will lower annual debt service costs by an average of $1.2 million per year from 2021 to 2028.

Long-term debt for the Electric System, including current maturities, totaled $425 million as of December 31, 2022, compared to $375 million in 2021 and $308 million in 2020.

Modular Energy Storage Architecture 2 (MESA 2) Project Disposition

The PUD has two different Modular Energy Storage Architecture (MESA) battery energy storage systems that were classified as experimental projects. MESA 1 utilizes a lithium-ion battery technology, while MESA 2 uses a vanadium electrolyte technology in a flow battery system. In 2014, the PUD received a grant from the Clean Energy Fund (CEF) through the Washington State Department of Commerce to develop the use of the flow battery system. At that time, the flow battery systems were considered an emerging technology and not widely available. The MESA 2 project at the Everett substation was installed in 2016, and the flow battery containers were filled with vanadium electrolyte. After commissioning and testing began in 2017, several leak incidents were noted and reported. In August 2018, a spill occurred which required significant effort to mitigate, causing the PUD to discontinue the MESA 2 operation. The MESA 2 system was not viable for long-term reliability.

Due to inherent risk of potential vanadium electrolyte spills and lack of system reliability, the MESA 2 equipment was decommissioned, and as a result, the Electric System recorded a $2.0 million asset write-off in the 2021 financial statements and an $8.5 million asset write-off in the 2020 financial statements. Since this project was deemed to be emerging technology the PUD is not required to reimburse the Washington State Department of Commerce for the grant funds previously received.

Connect Up Project

In 2020, the Commission approved the utility's Connect Up program. This infrastructure and technology project includes installation of new meters capable of two-way communication. The project's installation process is scheduled to take two years as every PUD customer is slated to receive a new meter. The initial network will consist of 140 base stations dispersed throughout the service territory on existing or new poles or towers. Upon completion of the project the PUD will have deployed more than 367,000 new electric meters and 23,000 water meters.

Benefits for the Electric System include improved system visibility, improved outage responses, and improved system efficiency. The PUD's Water System customers will be able to identify leaks, track hourly and daily consumption, and better manage water usage.

The total project costs are currently estimated at $93 million and will be primarily funded by bond proceeds. As of December 31, 2022, the PUD has expended $27.3 million on this project.

Arlington Microgrid

In 2021 the PUD completed construction of the Arlington Microgrid project. The project consists of a community solar array of 8,100 panels, a 1 MW/1.4 MWh lithium-ion battery energy storage system, and a pair of Vehicle-to-Grid (V2G) bi-directional chargers, and the Clean Energy Technology Center and Modular Data Center, which will support the larger microgrid project. This will allow the PUD to study and demonstrate the effectiveness of battery energy storage, solar power, and vehicle-to-grid charging technology.

Completed construction costs were $12 million, $3 million below initial estimates. The PUD received a CEF Grant of $3.5 million to help fund the project.

Approximately 500 PUD customers purchased rights to the 8,100 solar panel units to receive rebates from the Washington State Renewable Energy System Incentive program. The incentive is based on electricity generated by the solar array.

GENERATION SYSTEM

Henry M. Jackson Scheduled Shutdown

In March 2022, the PUD completed the largest scheduled shutdown in the history of the Henry M. Jackson Hydroelectric project which had been postponed since 2020 as a result of the COVID-19 Pandemic. The shutdown lasted 20 days. The tasks performed included replacing valve rings, removing 4 miles of fiber optic cable in the tunnel and maintenance to the powerhouse substation. All of the maintenance work performed was critical for the continued reliable operation of the Jackson project. The cost of this maintenance was approximately $1.8 million.

Qualco Biofuel Generator Project

The PUD completed the installation of a new 675-kilowatt generator in September 2022. The new generator will be owned and operated by the PUD, but will be housed on property leased from Qualco Energy. The generator runs on biogas that is produced by the Qualco Energy digester and subsequently sold to the PUD.

Lower Generation System Debt Levels

In October 2020, the PUD issued $19.7 million of Series 2020A Generation System Revenue Refunding Bonds to refinance the Series 2010A Generation System Revenue Bonds at lower long-term interest rates. This transaction resulted in a $2.5

million net present value savings and will lower annual debt service costs by an average of $747,000 per year from 2021 to 2024.

Debt levels in the Generation System have been declining in recent years. Long-term debt for the Generation System, including current maturities, totaled $63 million as of December 31, 2022, compared to $68 million in 2021, and $73 million in 2020.

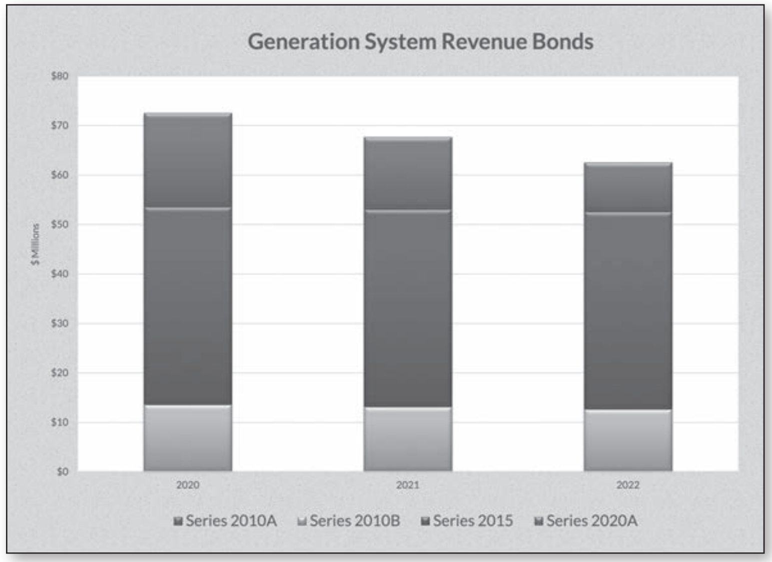

Figure 3

WATER SYSTEM

Water System Operating Results

Retail sales revenue for the Water System increased to $14.3 million in 2022 from $13.9 million in 2021, following an increase from $13.1 million in 2020. The revenue increase in 2022 was the result of a 1.5% residential rate change, while the 2021 increase was due to an increased customer base.

Operating expenses increased slightly from $12.7 million in 2021 to $14.5 million in 2022, following an increase of $0.1 million in 2020. The 2022 increase was the result of higher purchased water of $0.4 million due to the shutdown of the Lake Stevens Well in the latter half of the year, as well as higher operations and maintenance expenses of $1.3 million.

Water System capital contributions were $4.9 million in 2022, $1.2 million lower than the $6.1 million in 2021 and $1.5 million lower than the $6.4 million in 2020 reflecting slower developer activity, rising interest rates and supply chain constraints.

Capital Funding and 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.

Strong operating results over the past several years have provided adequate cash for the funding of capital projects in the short-term. In 2022, the Water System initiated a draw of $2.2 million from the Drinking Water State Revolving Fund (DWSRF) in support of on-going capital improvements of the Warm Beach Water Association project. Forgiveness on the DWSRF Loans, along with the continued payment of outstanding debt, have enabled the PUD to reduce Water System Debt levels. Long-term debt for the Water System, including current maturities, totaled $10.6 million as of December 31, 2022, compared to $13.2 million as of December 31, 2021.

Warm Beach Water Association Transfer

Improvements to the Warm Beach Water Association's system was funded by a combination of $6.3 million of federal and state grants and loans through the DWSRF, $0.8 million contributed by the Association, and approximately $1.2 million from the PUD's Water System operating reserve. Customers of the PUD's Warm Beach water system pay a capital improvement surcharge to reimburse the operating reserve.

The PUD initiated a drawdown of $2.2 million and $3.1 million from the DWSRF in 2022 and 2021, respectively. Of the $2.2 million drawdown initiated in 2022, $0.6 million was recorded as a receivable at December 31, and subsequently received in January 2023.

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 non-capital 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)

	2022	As restated 2021	2020
Current Assets, Investments, and Special Funds	$ 764	$ 677	$ 585
Net Utility Plant	1,756	1,688	1,638
Other Assets	85	166	20
Total Assets	2,605	2,531	2,243
Deferred Outflows of Resources	51	25	25
Current Liabilities	157	127	119
Long-Term Debt	525	485	400
Other Liabilities	112	96	127
Total Liabilities	794	708	646
Deferred Inflows of Resources	83	163	30
Net Investment in Capital Assets	1,361	1,299	1,226
Restricted	124	199	174
Unrestricted	294	187	192
Net Position	**$ 1,779**	**$ 1,685**	**$ 1,592**
Operating Revenues	$ 781	$ 723	$ 693
Operating Expenses	709	650	650
Net Operating Income	72	73	43
Interest Charges	(14)	(16)	(19)
Other Income and Expense	3	2	6
Net Income (Loss) before Capital Contributions	61	59	30
Capital Contributions	33	34	35
Net Income	94	93	65
Net Position – beginning of year	1,685	1,592	1,527
Net Position	**$ 1,779**	**$ 1,685**	**$ 1,592**

Assets

Current assets, investments, and special funds increased $87 million in 2022 and $92 million in 2021 as a result of an increase to inventory costs due to supply chain challenges and construction bond issuances in July 2022 and June 2021.

The PUD had between $1.6 billion and $1.8 billion invested in a broad range of net utility capital assets as of December 31, 2022, 2021, and 2020. Utility capital assets include five operating hydroelectric power generation plants, one biofuel generator, electric transmission and distribution lines, and substations, water transmission and distribution pipes, storage and pump station facilities, buildings, and equipment. Utility plant additions were $142 million in 2022 and $122 million in 2021, reflecting 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 $11 million and $14 million due to routine retirements in 2022 and 2021, respectively. Accumulated depreciation increased $63 million and $58 million related to routine plant asset activity in 2022 and 2021, respectively.

Other assets decreased $81 million in 2022 and increased $145 million in 2021 due primarily to the recording of a net pension asset as well as a grant receivable from the Federal Emergency Management Administration (FEMA) related to restoration work associated with declared major storm events in January 2021.

Deferred Outflows of Resources

Deferred outflows of resources increased to $51 million in 2022. This resulted from net increases of $28 million in the other post-employment benefits (OPEB) and net pension liability deferrals in 2022.

Deferred outflows of resources remained stable at $25 million in 2021. This resulted from a $1 million decrease in Unamortized Losses on Debt and increases of $2 million in the OPEB and net pension liability deferrals in 2021.

Liabilities

Current liabilities increased $30 million in 2022 resulting from higher vendor payable balances primarily from market power purchases. Current liabilities increased $8 million in 2021 due to higher vendor payable balances, an increase in the current portion of long-term debt principal payments, and a decrease in customer deposits.

Long-term debt increased $40 million in 2022 and $85 million in 2021 as a result of Electric System revenue bond issuances in July 2022 and June 2021.

Other liabilities increased $15 million in 2022 and decreased $31 million in 2021 primarily due to actuarial valuation changes in post-employment liabilities.

Deferred Inflows of Resources

Deferred inflows decreased $79 million in 2022 and increased $133 million in 2021 as the result of changes in the valuation of the net pension plan deferrals.

Net Position

Net investment in capital assets increased $62 million and $73 million in 2022 and 2021, respectively, reflecting the growth in net utility plant. The PUD added 6,030 and 5,934 Electric System customer connections in 2022 and 2021, respectively. The Water System added 350 and 519 customer connections in 2022 and 2021, 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 the Board of Commissioners' resolution. Restricted net position decreased $75 million in 2022 and increased $121 million in 2021 due to changes in the actuarial valuation of a net pension asset.

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 $106 million in 2022 due to the changes in recognition of post-employment liabilities and higher cash reserves in long-term investments. Unrestricted net position decreased $73 million in 2021.

Operating Revenues

Operating revenues increased to $781 million in 2022, from $723 million in 2021. Retail revenues increased $23 million in 2022 due to increases in billed residential and commercial revenues. Wholesale revenues increased $30 million due to increases in the sales price and power available for sale in the wholesale market.

Operating revenues increased to $723 million in 2021, from $693 million in 2020. Retail revenues increased $26 million in 2021 due to increases in both billed and unbilled residential and commercial revenues. Wholesale revenues increased $4 million due to an overall increase in power available for sale in the wholesale market.

Operating Expenses

Operating expenses increased $59 million in 2022 to $709 million from $650 million in 2021. In 2022 and 2021 the PUD recorded reductions in the net pension liability of $14.4 million and $43 million, respectively. The net impact of these reductions resulted in a $25 million increase to operating expenses in 2022. During 2022, purchased power costs increased by $24 million as a result of weather events that led to higher market power prices. Operating and maintenance expenses increased by $16 million which can be attributed to repairs from significant weather events that occurred in November and December 2022.

Operating expenses were comparable in both 2021 and 2020 as a result of the 2021 reduction in the net pension liability while other costs increased by a similar amount. During 2021, purchased power costs increased by $21 million as a result of significant weather events that led to higher market power prices. Operating and maintenance expenses increased due to changes in supply chain costs, as well as $12 million attributed to repairs resulting from significant weather events and emergency work.

Interest Charges

Interest charges decreased $2 million from 2021 to 2022 and $3 million from 2020 to 2021 as a result of declining debt levels.

Other Income and Expense

Other income and expense remained relatively flat in 2022 due to a decrease of $4 million in interest income reflecting unfavorable market conditions. This was offset by an increase in nonoperating income of $2 million as a result of a Warm Beach Loan Subsidy and FEMA storm, as well as an increase of $2 million in other deductions as a result of the final decommissioning of the MESA 2 battery energy storage system assets in 2021.

Other income and expense decreased $4 million in 2021 due to a decrease of $11 million in interest income reflecting unfavorable market conditions. This was offset by an increase of $6 million in other deductions as a result of the final decommissioning of the MESA 2 battery energy storage system assets.

Capital Contributions

Capital contributions decreased by $1 million in 2022 and 2021. 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.

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, 2022 and 2021

(In thousands)

	2022				As restated 2021
Assets	Electric System	Generation System	Water System	Combined	Combined
Current Assets:					
Cash and temporary investments:					
Cash and cash equivalents	$ 31,667	$ 4,723	$ 2,926	$ 39,316	$ 49,294
Temporary investments	78,635	3,199	3,423	85,256	78,939
Total Cash and Temporary Investments	**110,302**	**7,922**	**6,349**	**124,572**	**128,233**
Accounts and other receivables, net	117,845	268	2,668	120,782	110,597
Intersystem loans receivable	3,338	–	–	–	–
Materials and supplies	46,993	–	1,636	48,629	33,487
Prepayments and other	6,974	296	161	7,431	6,870
Total Current Assets	**285,452**	**8,486**	**10,814**	**301,414**	**279,187**
Long-Term Investments & Special Funds:					
Long-term investments	119,685	3,903	728	124,316	97,509
Special funds - bond funds and other	306,278	13,073	19,172	338,523	300,480
Total Long-Term Investments & Special Funds	**425,963**	**16,976**	**19,900**	**462,839**	**397,989**
Utility Plant:					
Plant in service	2,153,992	354,851	181,325	2,690,168	2,590,107
Construction work in progress	155,155	6,230	3,731	165,116	134,289
Total utility plant	2,309,147	361,081	185,056	2,855,284	2,724,396
Accumulated depreciation	(889,383)	(162,063)	(47,562)	(1,099,008)	(1,035,934)
Net Utility Plant	**1,419,764**	**199,018**	**137,494**	**1,756,276**	**1,688,462**
Other Assets:					
Conservation loans and other receivables, net	3,183	–	281	3,464	9,109
Lease receivable	22,268	–	805	23,073	25,817
Intersystem loans and receivables	27,538	–	–	–	–
FERC licenses	–	13,969	–	13,969	14,511
Net pension assets	42,009	844	1,259	44,112	116,646
Other assets	–	170	–	170	139
Total Other Assets	**94,998**	**14,983**	**2,345**	**84,788**	**166,222**
Total Assets	**2,226,177**	**239,463**	**170,553**	**2,605,317**	**2,531,860**
Deferred Outflows of Resources					
Unamortized loss on refunding debt	851	1,877	–	2,728	4,086
Net pension and OPEB deferrals	46,213	1,341	1,207	48,761	20,914
Total Deferred Outflows of Resources	**47,064**	**3,218**	**1,207**	**51,489**	**25,000**
Total Assets and Deferred Outflows	**$2,273,241**	**$ 242,681**	**$ 171,760**	**$2,656,806**	**$2,556,860**

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

Combined Statements of Net Position

December 31, 2022 and 2021

(In thousands)

	2022				As restated 2021
Liabilities	Electric System	Generation System	Water System	Combined	Combined
Current Liabilities:					
Accounts payable	$ 80,301	$ 1,011	$ 1,850	$ 83,162	$ 56,445
Accrued taxes	18,760	93	100	18,953	17,791
Accrued interest	1,673	267	35	1,975	1,790
Other accrued liabilities	31,683	1	5	31,689	29,893
Customer deposits	3,191	–	9	3,200	3,360
Current maturities of long-term debt	11,985	5,355	893	18,233	18,436
Intersystem loans payable	–	3,338	–	–	–
Total Current Liabilities	**147,593**	**10,065**	**2,892**	**157,212**	**127,715**
Long-Term Debt:					
Revenue bonds	453,398	61,267	5,628	520,293	478,346
Other notes payable	–	–	4,919	4,919	6,127
Total Long-Term Debt	**453,398**	**61,267**	**10,547**	**525,212**	**484,473**
Other Liabilities:					
Intersystem loans and payables	–	27,538	–	–	–
FERC license obligations	–	13,969	–	13,969	14,511
Net pension liability	24,368	665	638	25,671	11,285
Lease liability	4,251	152	–	4,403	1,827
Other liabilities	65,237	1,161	1,217	67,616	68,425
Total Other Liabilities	**93,856**	**43,485**	**1,855**	**111,659**	**96,048**
Total Liabilities	**694,847**	**114,817**	**15,294**	**794,083**	**708,236**
Deferred Inflows of Resources					
Unearned FERC license contributions	–	4,000	–	4,000	4,500
Net pension deferrals	43,907	835	1,287	46,028	121,811
Other deferred inflows	29,707	2,769	1,042	33,518	36,837
Total Deferred Inflows of Resources	**73,614**	**7,604**	**2,329**	**83,546**	**163,148**
Net Position					
Net investment in capital assets	1,099,776	134,273	126,858	1,360,907	1,299,188
Restricted:					
Reserve funds	745	6,378	854	7,977	8,172
Rate stabilization	111,550	–	1,456	113,007	117,896
Net pension assets (liabilities)	(49,160)	(1,563)	(1,254)	(51,977)	20,556
Debt service and other	31,730	6,428	16,817	54,975	52,112
Unrestricted	310,139	(25,256)	9,406	294,288	187,552
Total Net Position	**1,504,780**	**120,260**	**154,137**	**1,779,177**	**1,685,476**
Total Liabilities, Deferred Inflows and Net Position	**$2,273,241**	**$ 242,681**	**$ 171,760**	**$2,656,806**	**$ 2,556,860**

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, 2022 and 2021

(In thousands)

	2022				2021
	Electric System	Generation System	Water System	Combined	Combined
Operating Revenues:					
Retail sales	$ 655,785	$ –	$ 14,329	$ 670,114	$ 647,009
Wholesale sales	73,375	28,743	769	74,144	43,423
Other	36,161	221	408	36,790	32,978
Total Operating Revenues	**765,321**	**28,964**	**15,506**	**781,048**	**723,410**
Operating Expenses:					
Purchased power	363,509	–	–	334,766	310,693
Purchased water	–	–	3,600	3,600	3,217
Operations	193,586	5,415	4,594	203,596	188,233
Maintenance	48,624	4,476	2,047	55,147	39,608
Depreciation	60,948	5,784	3,497	70,229	68,063
Taxes	40,732	93	775	41,600	40,424
Total Operating Expenses	**707,399**	**15,768**	**14,513**	**708,938**	**650,238**
Net Operating Income	**57,922**	**13,196**	**993**	**72,110**	**73,172**
Interest Charges:					
Interest	18,842	4,752	369	22,653	20,156
Amortization of debt related costs	(5,587)	(2,269)	(397)	(8,253)	(3,484)
Total Interest Charges	**13,255**	**2,483**	**(28)**	**14,400**	**16,672**
Other Income and Expense:					
Interest income, fair value adjustments, net	(3,115)	93	(38)	(4,369)	(840)
Other income and expense, net	3,585	287	3,123	6,997	3,319
Total Other Income and Expense	**472**	**380**	**3,085**	**2,628**	**2,479**
Net Income Before Capital Contributions	**45,139**	**11,093**	**4,107**	**60,338**	**58,979**
Capital Contributions	**28,294**	**135**	**4,934**	**33,363**	**34,037**
Net Income	**73,433**	**11,228**	**9,040**	**93,701**	**93,016**
Net Position, Beginning of year	1,431,347	109,032	145,097	1,685,476	1,592,460
Net Position, End of year	**$1,504,780**	**$ 120,260**	**$ 154,137**	**$ 1,779,177**	**$ 1,685,476**

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

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Combined Statements of Cash Flows

Years ended December 31, 2022 and 2021

(In thousands)

	2022				2021
	Electric System	Generation System	Water System	Combined	Combined
Cash Flows from Operating Activities:					
Cash received from customers	$731,465	$ 28,844	$ 15,224	$746,790	$668,474
Cash payments to suppliers	(587,455)	(6,502)	(8,013)	(573,227)	(469,836)
Cash payments to employees	(101,306)	(5,941)	(4,284)	(111,531)	(106,414)
Cash payments for taxes	(39,202)	(107)	(781)	(40,090)	(36,876)
Other cash received (paid)	104,413	1,551	1,347	107,311	27,520
Net Cash Provided by Operating Activities	**107,915**	**17,845**	**3,493**	**129,253**	**82,868**
Cash Flows from Capital & Related Financing Activities:					
Capital construction	(118,059)	(6,234)	(6,562)	(130,855)	(107,639)
Proceeds from debt	68,519	–	1,620	70,139	107,745
Repayment of debt	(11,510)	(5,120)	(1,716)	(18,346)	(17,551)
Debt issuance costs	(543)	–	–	(543)	(615)
Interest paid on debt	(18,629)	(4,774)	(375)	(22,468)	(19,971)
Capital contributions	26,290	135	1,724	28,149	26,994
Intercompany loans	3,585	(3,585)	–	–	–
Other cash received (paid)	4,443	155	660	5,258	–
Net Cash Provided by (Used for) Capital & Related Financing Activities	**(45,904)**	**(19,423)**	**(4,649)**	**(68,666)**	**(11,037)**
Cash Flows from Investing Activities:					
Sale of special funds and investment securities	314,954	16,386	23,142	354,482	288,673
Purchase of special funds and investment securities	(398,572)	(17,924)	(21,224)	(437,720)	(390,858)
Interest on investment securities	10,079	629	302	9,700	7,101
Net Cash Provided by (Used for) Investing Activities	**(73,539)**	**(909)**	**2,220**	**(73,538)**	**(95,084)**
Cash Flows from Non–Capital Financing Activities:					
Non–capital grants received	2,889	84	–	2,973	1,209
Net Cash Provided by Non–Capital Financing Activities	**2,889**	**84**	**–**	**2,973**	**1,209**
Net Increase (Decrease) in Cash & Cash Equivalents	**(8,639)**	**(2,403)**	**1,064**	**(9,978)**	**(22,044)**
Beginning of Year	40,306	7,126	1,862	49,294	71,338
Cash & Cash Equivalents – End of Year	**$ 31,667**	**$ 4,723**	**$ 2,926**	**$ 39,316**	**$ 49,294**

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

Combined Statements of Cash Flows (continued)

Years ended December 31, 2022 and 2021

(In thousands)

	2022				2021
	Electric System	Generation System	Water System	Combined	Combined
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:					
Net Operating Income (Loss)	$ 57,922	$ 13,195	$ 993	$ 72,110	$ 73,172
Adjustments to net operating income					
Depreciation Expense	60,948	5,784	3,496	70,228	68,063
Pension and OPEB Related	(20,587)	(637)	(539)	(21,763)	(46,347)
Other cash received (paid)	(593)		(3)	(596)	(2,872)
(Increase) decrease in receivables	(4,771)	(119)	(28)	(4,918)	(16,889)
(Increase) decrease in other assets	(14,244)	(105)	(1,191)	(15,540)	(2,053)
Increase (decrease) in payables	25,071	232	1,414	26,717	7,516
Increase (decrease) in other liabilities	4,169	(505)	(649)	3,015	2,278
Total Adjustments	**49,993**	**4,650**	**2,500**	**57,143**	**9,696**
Net Cash Provided by Operating Activities	**$ 107,915**	**$ 17,845**	**$ 3,493**	**$ 129,253**	**$ 82,868**
Non–cash Investing, Capital and Related Financing Activities					
Non–cash contributions	$ 3,977		$ 3,210	$ 7,188	$ 9,089
Changes in valuation of financial instruments	(11,390)	(276)	(405)	(12,071)	(5,046)
Amortization of debt related costs	5,587	2,269	397	8,254	3,484

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 1
Summary of Significant Accounting Policies

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 Board of Commissioners (the 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 and the microgrid system that went into service in 2022. The Generation System is composed of the PUD's Henry M. Jackson Hydroelectric Project and four smaller hydroelectric projects, and a biofuel generator that went in to service in 2022. The Water System is made up of the PUD's water distribution system.

The accompanying financial statements for 2022 include the individual and combined statements of net position for the Electric System, Generation System, and Water System, and the individual and combined statements of revenues, expenses, and changes in net position, and the individual and combined statements of 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 electricity and water delivered to customers between the last billing date and the end of the year. Unbilled electric revenue was $47.4 million and $40.5 million as of December 31, 2022, and 2021, respectively. Unbilled water revenue was $731 and $607 thousand as of December 31, 2022, and 2021, 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.

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 $3.4 million and $14.1 million as of December 31, 2022 and 2021, respectively. In 2022, the PUD resumed the practice of disconnecting service for non-payment and reduced the allowance for doubtful accounts to reflect the change in accounts receivable. In December 2022, the PUD received a grant of $11.2 million to help alleviate customer accounts in arrears.

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 Commission 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, postemployment benefits, FERC license commitments, and other reserve requirements. 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.

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 $17.6 million and $16.9 million at December 31, 2022 and 2021, respectively. These liabilities are presented as part of other liabilities.

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, 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, accrued liability for injuries and damages, depreciable lives of utility plant, pensions, and other contingencies. Actual results could differ from these estimates.

During 2022, a change in accounting estimate was made for the provision of outstanding damage claims. The newly adopted accounting estimate is preferable over the prior method used bringing the provision balance closer to the five-year actual average uncollectible. The impacted accounts are bad debt expense and provision for uncollectible accounts.

In 2022, the PUD implemented a new reporting module for long-term debt which improved the precision of related bond premium and discount amortization calculations. The implementation and associated change in estimate for amortization calculations resulted in a $5 million increase in net position for the period.

Accounting Changes and Reclassifications

In June 2017, the GASB issued Statement No. 87 *Leases*, which establishes a standard for lease accounting based on the fact that leases are a financial exchange for the right to use an underlying asset. The PUD has adopted the provisions of GASB Statement No. 87 effective January 1, 2021, which resulted in the restatement of financial position as of December 31, 2021. (Note 4)

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 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 United States government-sponsored enterprise agency obligations, interest-bearing demand or time deposits, municipal bonds, supranational securities, 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 creditworthiness 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 observable market prices or indices. The relative type of PUD's investments at December 31, 2022 and 2021 are summarized in Table 1.

Table 1
Special Funds and Cash and Temporary Investments

	Electric System		Generation System		Water System	
	2022	2021	2022	2021	2022	2021
U.S. Treasury Securities	56%	53%	43%	44%	38%	50%
U.S. Agency Obligations						
Federal Home Loan Bank	14%	12%	3%	–	25%	4%
Federal Farm Credit Bank	8%	7%	–	–	21%	17%
Federal National Mortgage Association	3%	5%	–	–	–	2%
Federal Home Loan Mortgage Corporation	4%	6%	–	–	–	–
Private Export Funding Corporation	–	1%	–	–	–	–
Cash and Interest–bearing Demand or Time Deposits	4%	3%	–	–	1%	1%
Washington State Local Government Investment Pool	11%	13%	54%	56%	15%	26%

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. Other PUD investments are insured by federal depository insurance or protected against loss as 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, 2022, LGIP investments include primarily U.S. Agency Securities, U.S. Treasury Securities, repurchase agreements, and interest-bearing bank deposits. 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. All funds are invested in instruments with maturities of less than five years, with the weighted average maturity of the invested portfolio remaining below three years. 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 (in thousands):

	2022		2021	
Term	Amount Invested	Percent of Invested Fund	Amount Invested	Percent of Invested Fund
Less than 30 days	$ 94,097	16%	$ 88,520	17%
30 to 90 days	45,572	8%	35,555	7%
90 days to 1 year	136,977	23%	155,510	29%
1 year to 5 years	283,099	48%	221,938	42%
Bond reserves invested to bond maturity	27,667	5%	24,698	5%
	$ 587,412	100%	$ 526,221	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's investments subject to fair value measurement, as of December 31 (in thousands):

	2022						2021	
	Electric		Generation		Water		Combined	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
U.S. Treasury Notes	$ 301,502	$ –	$ 10,701	$ –	$ 9,993	$ –	$ 276,974	$ –
Federal Home Loan Mortgage Corporation	–	22,934	–	–	–	–	–	27,954
Federal Farm Credit Bank	–	40,641	–	–	–	5,439	–	36,501
Federal Home Loan Bank	–	77,768	–	730	–	6,460	–	57,357
Federal National Mortgage Association	–	14,887	–	–	–	–	–	26,494
Private Export Funding Corp.	–	–	–	–	–	–	–	2,421
Assets valued at fair value	$301,502	$ 156,230	$10,701	$ 730	$ 9,993	$ 11,899	$ 276,974	$150,727

Note 3
Capital Assets

Utility Plant

Utility plant is stated at cost. 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 2 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.

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.

Table 2
Utility Plant
(In thousands)

	2020	2021			2022		
	Ending Balance	Additions	Retirements & Transfers	Ending Balance	Additions	Retirements & Transfers	Ending Balance
Electric System							
Transmission	$ 182,706	$ 4,395	$ (802)	$ 186,299	$ 3,566	$ (687)	$ 189,178
Distribution	1,317,397	72,529	(8,698)	1,381,228	62,066	(6,354)	1,436,940
General Plant & Other	417,967	11,140	(3,644)	425,463	29,085	(3,986)	450,562
Land & Non-depreciable assets[1]	74,806	649	(1)	75,454	1,861	(3)	77,312
Plant in Service	1,992,876	88,713	(13,145)	2,068,444	96,578	(11,030)	2,153,992
Construction Work in Progress	103,177	21,430	–	124,607	30,548	–	155,155
Utility Plant	2,096,053	110,143	(13,145)	2,193,051	127,126	(11,030)	2,309,147
Less Accumulated Depreciation	(784,514)	(56,383)	6,523	(834,374)	(57,638)	2,629	(889,383)
Net Utility Plant	**$1,311,539**	**$ 53,760**	**$ (6,622)**	**$1,358,677**	**$ 69,488**	**$ (8,401)**	**$1,419,764**

[1] *Plant in service includes right-to-use assets of $4.1 million and $2.2 million December 31, 2022 and 2021 respectively.*

	2020	2021			2022		
	Ending Balance	Additions	Retirements & Transfers	Ending Balance	Additions	Retirements & Transfers	Ending Balance
Generation System							
Generation/Production	$ 295,025	$ 1,413	$ (331)	$ 296,107	$ 1,940	$ (280)	$ 297,767
Transmission	2,811	–	–	2,811	326	(221)	2,916
Distribution	6,820	15	–	6,835	1,979	–	8,814
General Plant & Other	30,387	786	–	31,173	855	(524)	31,504
Land & Non-depreciable assets[2]	13,822	–	–	13,822	28	–	13,850
Plant in Service	348,865	2,214	(331)	350,748	5,128	(1,025)	354,851
Construction Work in Progress	3,300	1,823	–	5,123	1,107	–	6,230
Utility Plant	352,165	4,037	(331)	355,871	6,235	(1,025)	361,081
Less Accumulated Depreciation	(151,742)	(5,600)	39	(157,303)	(5,254)	494	(162,063)
Net Utility Plant	**$ 200,423**	**$ (1,563)**	**$ (292)**	**$ 198,568**	**$ 981**	**$ (531)**	**$ 199,018**

[2] *Plant in service includes right-to-use assets of $0.2 million and $0 December 31, 2022 and 2021 respectively.*

	2020	2021			2022		
	Ending Balance	Additions	Retirements & Transfers	Ending Balance	Additions	Retirements & Transfers	Ending Balance
Water System							
Generation/Production	$ 9,356	$ 45	$ (4)	$ 9,397	$ 21	$ –	$ 9,418
Transmission & Distribution	139,001	4,550	(398)	143,153	10,421	(52)	153,522
General Plant & Other	14,207	–	–	14,207	91	(82)	14,216
Land & Non-depreciable assets	4,054	104	–	4,158	–	11	4,169
Plant in Service	166,618	4,699	(402)	170,915	10,533	(123)	181,325
Construction Work in Progress	1,230	3,330	–	4,560	–	(829)	3,731
Utility Plant	167,848	8,029	(402)	175,475	10,533	(952)	185,056
Less Accumulated Depreciation	(42,182)	(3,239)	1,164	(44,257)	(3,540)	235	(47,562)
Net Utility Plant	**$ 125,666**	**$ 4,790**	**$ 762**	**$ 131,218**	**$ 6,993**	**$ (717)**	**$ 137,494**

Note 4
Leases

In June 2017, the GASB issued Statement No. 87 Leases, which established a standard to enhance consistency in accounting and financial reporting for leases based on the fact that leases are a financial exchange for the right-to-use an underlying asset. To comply with the statement the lessor and lessee involved in the lease agreement are required to recognize on their financial statements a lease receivable and deferred inflow of resources or a lease liability and intangible right-to-use lease asset, respectively. The PUD adopted the provisions of GASB Statement No. 87 on January 1, 2021, and restated the individual and combined statements of net position as of December 31, 2021, accordingly, to reflect the implementation of this statement as summarized below (in thousands):

	Electric	Water
December 31, 2021, balances previously reported		
Right-to-use asset	$ –	$ –
Lease liability	–	–
Deferred inflow - leases	–	–
Lease receivable	–	–
Restatement for adoption of GASB Statement No. 87		
Right-to-use asset	$ 2,169	$ –
Lease liability	(2,169)	–
Deferred inflow - leases	(24,363)	(1,454)
Lease receivable	24,363	1,454
As restated December 31, 2021		
Right-to-use asset	$ 2,169	$ –
Lease liability	(2,169)	–
Deferred inflow - leases	(24,363)	(1,454)
Lease receivable	24,363	1,454

The District is both a lessor and a lessee:

For leases with a maximum possible term of 12 months or less at commencement, the PUD recognizes revenue or expense based on the provisions in each contract. For all other leases (i.e., those that are not short-term) as a lessee or lessor the PUD recognizes a right-to-use asset, and lease liability or a lease receivable, and deferred inflow, respectively, in accordance with GASB Statement No. 87.

District as a lessee - The following table summarizes the balances of leased assets by major classes reported in Net Utility Plant as of December 31, 2022 (in thousands):

	December 31, 2022	
	Electric	Generation
Right-to-use asset - Land	$ 4,071	$ –
Less Accumulated amortization	242	–
Right-to-use asset - Land, net	3,829	–
Right-to-use asset - Building	419	161
Less Accumulated amortization	140	9
Right-to-use asset - Building, net	279	152
Total Right-to-use assets	**$ 4,108**	**$ 152**

The PUD is involved in several leases and subleases of land and buildings to perform District operations. The obligations relating to these leases have been recognized on the Combined Statement of Net Position as both a right-to-use asset and the related lease liability equal to the present value of the lease payments in each agreement payable during the contracted term. In 2022, the PUD recorded $0.4 million as amortization and $0.1 million as interest expense to recognize these leased assets.

All lessee activity resides within the Electric System with the exception of one Generation System lease related to the biofuel project. The seven-year lease for the biofuel project was implemented in September 2022, with future annual principal and interest payment of approximately $30,000. As of December 31, 2022, the PUD had principal and interest requirements for active leasing activities, as follows (in thousands):

Year Ended December 31	Principal	Interest	Total
2023	$ 283	$ 138	$ 421
2024	279	137	416
2025	139	137	276
2026	145	136	281
2027	151	135	286
2028-2032	292	666	958
2033-2037	145	653	798
2038-2042	372	601	973
2043-2047	752	483	1,235
2048-2052	1,311	265	1,576
2053-2054	534	17	551
Total	**$ 4,403**	**$ 3,368**	**$ 7,771**

District as a lessor - The PUD is also involved in lease agreements as the lessor of assets such as land and pole attachments. These leases are ancillary to the PUD's mission to provide power to its rate payers. The PUD primarily leases space to telecom entities which allows them to provide services to networks.

The PUD has lessor agreements with remaining contract terms ranging from two to thirteen years. These agreements are recorded at their net present value of $23.1 million on the *Combined Statement of Net Position*. The PUD also recognized $4.3 million of lease income, and $0.3 million in lease interest income recorded as other income for the year ended December 31, 2022.

The District monitors changes in circumstances that may require remeasurement of a lease. Remeasurements of leases were performed during the year ended December 2022 as a result of changes to pole attachments throughout the year.

Note 5
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 Revenue Bonds		Generation System Revenue Bonds		Water System Revenue Bonds		Water System Loans	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	$ 11,985	$ 19,969	$ 5,355	$ 3,206	$ 475	$ 263	$ 418	$ 56
2024	12,815	19,773	5,610	2,937	500	239	418	53
2025	14,860	19,682	1,410	2,654	525	214	418	48
2026	14,275	19,173	1,480	2,583	550	188	418	43
2027	14,695	18,678	1,560	2,505	580	161	418	38
2028-2032	81,470	83,248	9,120	11,207	2,630	337	1,524	131
2033-2037	100,230	59,340	11,765	8,556	–	–	985	63
2038-2042	83,290	32,146	15,165	5,155	–	–	736	22
2043-2047	38,170	19,705	11,065	1,125	–	–	–	–
2048-2052	53,190	7,329	–	–	–	–	–	–
Total	**$ 424,980**	**$ 299,043**	**$ 62,530**	**$ 39,928**	**$ 5,260**	**$ 1,402**	**$ 5,337**	**$ 454**

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 2022 and 2021 was $40.2 million and $37.1 million, respectively. Total revenues available for debt service as defined for the same periods was $162.8 million and $129.5 million. On December 31, 2022, annual principal and interest payments are expected to require between 23% and 25% 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.

Electric System

A summary of principal outstanding on Electric System long-term debt follows (in thousands):

	December 31, 2022	December 31, 2021
Series 2022A Revenue bonds, 5.0%, due 2025-2052, earliest call 2032	$ 61,050	$ –
Series 2021A Revenue bonds, 5.0%, due 2026-2051, earliest call 2031	78,685	78,685
Series 2020A Revenue Refunding bonds, 0.4-1.5%, due 2022-2028	46,825	48,755
Series 2015 Revenue bonds, 5.0%, due 2022-2040, earliest call 2025	121,205	123,625
Series 2012 Revenue Refunding bonds, 4.0%, due 2022	–	5,610
Series 2010A Revenue bonds, 4.8-5.6%, due 2022-2035, currently callable	117,215	118,765
Total Principal Outstanding on Long-Term Debt	**$424,980**	**$375,440**

In July 2022, the PUD issued $61.1 million of Series 2022A Electric System Revenue bonds at a premium of $7.5 million with an average interest rate of 3.4%. The proceeds from the bonds will be used to finance additions, betterments and improvements to and renewals, replacement and extensions of the Electric System.

In June 2021, the PUD issued $78.6 million of Series 2021A Electric System Revenue bonds at a premium of $25.9 million with an average interest rate of 1.5%. The proceeds from the bonds will be used to finance additions, betterments and improvements to and renewals, replacements and extensions of the Electric System.

Changes in the Electric System long-term debt during the years ended December 31, 2022, and 2021, follow (in thousands):

	2020	2021			2022		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 307,840	$ 78,685	$ (11,085)	$ 375,440	$ 61,050	$ (11,510)	$ 424,980
Unamortized bond premium	16,830	25,921	(3,331)	39,420	7,468	(6,434)	40,454
Unamortized bond discount	(72)	–	5	(67)	–	16	(51)
Total Debt	324,598	104,606	(14,411)	414,793	68,518	(17,928)	465,383
Less: Current maturities	(11,085)			(11,510)			(11,985)
Total Long-Term Debt	**$ 313,513**			**$ 403,283**			**$ 453,398**

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, 2022 and 2021, the PUD held the reserve requirement of $21.3 million and $18.3 million, respectively, in the Electric System.

The fair value of the Electric System's long-term debt was $447.6 million and $458.7 million, respectively, at December 31, 2022 and 2021. The fair value of the Electric System's long-term debt is estimated based on quoted market prices for the same or similar issues.

Generation System

A summary of principal outstanding on Generation System long-term debt follows (in thousands):

	December 31, 2022	December 31, 2021
Series 2020A Revenue Refunding bonds, 5.0%, due 2022-2024	$ 9,925	$ 14,550
Series 2015 Revenue bonds, 5.0%, due 2025-2045, earliest call 2025	39,985	39,985
Series 2010B Revenue bonds, 5.3-5.7%, due 2022-2040, currently callable	12,620	13,115
Total Principal Outstanding on Long-Term Debt	**$ 62,530**	**$ 67,650**

Changes in the Generation System long-term debt during the years ended December 31, 2022, and 2021, follow (in thousands):

	2020	2021			2022		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 72,540	$ –	$ (4,890)	$ 67,650	$ –	$ (5,120)	$ 62,530
Unamortized bond premiums	6,759	–	(766)	5,993	–	(1,895)	4,098
Unamortized bond discounts	(9)	–	1	(8)	–	2	(6)
Total Debt	79,290	–	(5,655)	73,635	–	(7,013)	66,622
Less: Current maturities	(4,890)			(5,120)			(5,355)
Total Long-Term Debt	**$ 74,400**			**$ 68,515**			**$ 61,267**

The PUD is required to maintain a cash reserve for certain Generation System bonds. At December 31, 2022 and 2021, the PUD maintained the reserve requirement of $6.0 million in the Generation System.

The fair value of the Generation System's long-term debt was $64.9 million and $79.3 million, respectively, at December 31, 2022 and 2021. 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 (in thousands):

	December 31, 2022	December 31, 2021
Series 2019 Revenue Refunding bonds, 5.0%, due 2022-2031	$ 5,260	$ 5,715
Series 2011 Revenue Refunding bonds, 4.0-5.0%, due 2022	–	845
State of Washington Drinking Water Revolving Fund loans:		
equal principal payments plus 1.0% interest due annually through 2042	2,944	3,921
equal principal payments plus 1.0% interest due annually through 2034	1,495	1,619
equal principal payments plus 1.5% interest due annually through 2029	578	661
equal principal payments plus 1.5% interest due annually through 2027	320	384
equal principal payments plus 2.5% interest due annually through 2023	–	48
Total Principal Outstanding on Long-Term Debt	**$ 10,597**	**$ 13,193**

Changes in the Water System long-term debt during the years ended December 31, 2022, and 2021, follow (in thousands):

	2020	2021			2022		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 7,780	$ –	$ (1,220)	$ 6,560	$ –	$ (1,300)	$ 5,260
Unamortized bond premiums	1,498	–	(210)	1,288	–	(445)	843
Other notes payable	3,851	3,139	(357)	6,633	–	(1,296)	5,337
Total Debt	13,129	3,139	(1,787)	14,481	–	(3,041)	11,440
Less: Current maturities	(1,576)			(1,806)			(893)
Total Long-Term Debt	**$ 11,553**			**$ 12,675**			**$ 10,547**

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. In 2022 and 2021, the PUD initiated drawdowns of $2.2 million and $3.1 million respectively, to pay costs associated with acquiring and improving the Warm Beach Water System which was transferred to the PUD in 2018. Of the $2.2 million drawdown initiated in 2022, $0.6 million was recorded as a receivable at December 31, 2022 and subsequently received in January 2023. As of December 31, 2022, the PUD processed final loan closeout documentation related to the Warm Beach Water System loans, allowing the PUD to recognize 50% loan forgiveness, directly reducing the outstanding loan liability by $3.1 million.

The PUD is required to maintain a cash reserve for certain Water System bonds. At December 31, 2022 and 2021, the PUD maintained the reserve requirement of $0.4 million.

The fair value of the Water System's long-term Revenue Bonds was $5.8 million and $7.8 million, respectively, at December 31, 2022 and 2021. 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 6
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 2.

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 the Washington State Department of Retirement Systems (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 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 (in thousands):

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2022	$ 39	$ 13,262	$ 2,666
2021	$ 83	$ 14,081	$ 2,811
2020	$ 91	$ 14,560	$ 2,898

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) for 2022 were as follows:

Actual Contribution Rates	*Employer*	*Employee*
September 2020 through June 2021	12.97%	6.00%
July 2021 through August 2022	10.25%	6.00%
September 2022 through December 2022	10.39%	6.00%

The PUD's contributions as reported by PERS to the plan were $5.8 million, and $6.4 million for the years ended December 31, 2022, and 2021, 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 average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

Actual Contribution Rates	*Employer Plan 2/3*	*Employee Plan 2*	*Employee Plan 3*
September 2020 through June 2021	12.97%	7.90%	varies
July 2021 through August 2022	10.25%	6.36%	varies
September 2022 through December 2022	10.39%	6.36%	varies

The PUD's contributions as reported by PERS to the plan were $10.0 million, and $10.8 million for the years ended December 31, 2022, and 2021, respectively.

Pension Financial Statement Balances

At June 30, 2022, the PUD reported total pension assets of $18.4 million for its proportionate share of the net pension assets and liabilities. The pension liability was $25.7 million for PERS Plan 1 and the pension asset was $44.1 million for PERS Plan 2/3.

At June 30, 2021, the PUD reported a total pension liability of $105.3 million for its proportionate share of the net pension assets and liabilities. The pension liability was $11.3 million for PERS Plan 1 and net pension assets of $116.6 million for PERS Plan 2/3.

The PUD's proportionate share of the net pension plan for PERS Plan 1 was 0.92% and 0.92% for June 30, 2022 and 2021 respectively. The PUD's proportionate share of the PERS Plan 2/3 was 1.19% and 1.17% for June 30, 2022 and 2021 respectively.

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 Non-employer Allocations for all plans.

The collective net pension liability was measured as of June 30, 2022, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2021, with update procedures used to roll forward the total pension liability to the measurement date.

For the years ended December 31, 2022, and 2021, the PUD recognized a pension expense of $6.0 million and a pension credit of $5.8 million, respectively, for PERS Plan 1 and a pension credit of $23.8 million and $37.0 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):

	2022				2021			
	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	$ –	$ –	$ 10,930	$ 999	$ –	$ –	$ 5,665	$ 1,430
Net difference between projected and actual investment earnings on pension plan investments	–	4,254	–	32,612	–	12,522	–	97,488
Change of assumptions	–	–	24,586	6,438	–	–	170	8,284
Changes in proportion and differences between contributions and proportionate share of contributions	–	–	1,518	1,725	–	–	2,545	2,087
Contributions subsequent to measurement date	2,997	–	5,002	–	2,867	–	4,820	–
	$ 2,997	$ 4,254	$ 42,036	$ 41,774	$2,867	$ 12,522	$ 13,200	$ 109,289

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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension (credit) expense as follows (in thousands):

Year ended December 31:	PERS 1	PERS 2/3
2022	$ –	$ (98)
2023	(1,800)	14,115
2024	(1,635)	(11,784)
2025	(2,051)	(7,782)
2026	1,232	(9,265)
2027 - 2028	–	10,074
Total	$ (4,254)	$ (4,740)

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study and the 2021 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments. Other assumptions included:

- Inflation: 2.75% total economic inflation; 3.25% salary inflation
- Salary increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

The discount rate used to measure the total pension liability for all DRS plans was 7.0%. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 7.0% was used to determine the total liability.

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the 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, 2022. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%

Sensitivity of Net Pension Liability/(Asset)

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 (in millions).

	2022			2021		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.4%)	Discount Rate (7.4%)	1% Increase (8.4%)
PERS Plan 1	$ 34.3	$ 25.7	$ 18.1	$ 19.2	$ 11.3	$ 4.4
PERS Plan 2/3	51.9	(44.1)	(123.0)	(33.2)	(116.6)	(185.3)

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 (asset) for each plan, as of December 31, is as follows (in thousands):

	December 31, 2022		December 31, 2021	
	PERS Plan 1	PERS Plan 2/3	PERS Plan 1	PERS Plan 2/3
Electric System	$ 24,368	$ (42,009)	$ 10,760	$ (110,623)
Generation System	665	(844)	243	(2,966)
Water System	638	(1,259)	281	(3,056)

Pension Plan Fiduciary Net Position

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

POSTEMPLOYMENT 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 2022 and 2021, the PUD contributed $2.4 and $2.9 million, respectively, to the plans. Plan members receiving benefits contributed $0.4 million in 2022 and contributed $0.4 million in 2021.

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 $345,000 and $354,000 towards the premium in 2022 and 2021, respectively.

Valuation Date, Measurement Date and Reporting Date

The Valuation Date of OPEB liability is December 31, 2020. This is the date as of which the census data is gathered, and the actuarial valuation is performed. The Measurement Date is December 31, 2021. This is the date as of which the total OPEB liability is determined and rolled forward to the reporting date of December 31, 2022. The reporting date is December 31, 2022, the PUD's fiscal year-end. 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, 2022, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.0% based on Actuary's capital market expectations.
Salary increases	2.75% 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	2.06% as of the measurement date of December 31, 2021
Healthcare cost trend rates	6.5 % for 2020, decreasing to an ultimate rate of 4.5 % for 2040 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 2022-2027
Retirees' share of life benefit-related costs	25% of projected life insurance premiums for retirees in 2022 and after.

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 December 31, 2021, valuation were based on the results of an actuarial experience study for the period ended December 31, 2020.

OPEB Liability

As of December 31, 2022, the PUD's total OPEB liability for retiree healthcare was $41.6 million, and $5.5 million for retiree life benefits, recorded in other accrued and other liabilities. The annual payroll of active employees covered by the plan was $70.1 million in 2022, compared to $74.1 million in 2021.

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

	Healthcare	Life
Retirees (and beneficiaries for healthcare)	643	209
Active employees	469	3
	1,112	**212**

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

HEALTHCARE	2022			2021
	Electric	Generation	Water	Combined
Net OPEB liability – beginning of year	$ 39,934	$ 961	$ 1,004	$ 46,302
Changes for the year:				
Service Cost	923	29	24	1,569
Interest on total OPEB liability	835	26	22	1,274
Effect of economic/demographic gains/(losses)	–	–	–	(905)
Effect of assumptions changes or inputs	224	7	6	(3,602)
Expected benefit payments	(2,290)	(71)	(60)	(2,739)
Net Changes	(308)	(9)	(8)	(4,403)
Net OPEB liability – end of year	**$ 39,626**	**$ 952**	**$ 996**	**$ 41,899**

LIFE	2022			2021
	Electric	Generation	Water	Combined
Net OPEB liability – beginning of year	$ 5,423	$ 141	$ 143	$ 4,942
Actuarial beginning of year adjustment				
Changes for the year:				
Service Cost	4	–	–	12
Interest on total OPEB liability	111	3	3	132
Effect of economic/demographic gains/(losses)	–	–	–	884
Effect of assumptions changes or inputs	32	1	1	38
Expected benefit payments	(332)	(10)	(9)	(301)
Net Changes	(185)	(6)	(5)	765
Net OPEB liability – end of year	**$ 5,238**	**$ 135**	**$ 138**	**$ 5,707**

Changes of assumptions and other inputs reflect a change in the discount rate from 2.12 percent in 2021 to 2.06 percent in 2022. 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 2.12%, 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 (1.12%) or 1 percentage point higher (3.12%) than the current rate (in millions):

	2022		
	1% Decrease (1.06%)	Current Discount Rate (2.06%)	1% Increase (3.06%)
Healthcare	$ 45.9	$ 41.6	$ 37.9
Life	6.1	5.5	5.0

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):

	2022		
	1% Decrease 5.50% Graded Down to 3.50%	Current Trend Rate 6.50% Graded Down to 4.50%	1% Increase 7.50% Graded Down to 5.50%
Healthcare	$ 40.1	$ 41.6	$ 43.3

OPEB Financial Statement Balances

For the year ended December 31, 2022, and 2021, the PUD recognized OPEB healthcare expense of $1.0 million and $1.9 million, respectively. For OPEB life insurance, the PUD recognized OPEB expense of $0.2 million for each of the years ended December 31, 2022, and 2021. At December 31, 2022, the PUD reported deferred outflows of resources and deferred inflows of resources related to OPEB healthcare from the following sources (in thousands):

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 104	$ (403)
Changes of assumptions or other inputs	2,001	(2,205)
Total	**$ 2,105**	**$ (2,608)**

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 credit (expense) as follows (in thousands):

Measurement Period Ending December 31:	
2023	$ (744)
2024	203
2025	40
	$ (501)

POSTEMPLOYMENT DEFINED CONTRIBUTION AND HEALTHCARE PLANS

The PUD offers several defined contribution plans and a healthcare plan to employees.

Employees hired after July 1, 2009, are not eligible for the postemployment defined benefit healthcare plan but are instead eligible for a defined contribution healthcare plan. This plan is also known as the Retirement Health Savings (RHS) Plan. Under this plan, the PUD contributed $55.08 per month into an employee's individual HRA account in January through March 2022. Effective April 2022, the PUD contributed $56.18 each month into the plan. This amount will be adjusted by two percent (2%) annually, on April 1 of each calendar year. These funds are available to the employee for qualified health care costs upon separation from employment from the PUD.

The PUD administers a Non-PERS 401(a) Plan and Trust effective October 1, 1998. Participation in this profit-sharing plan is offered to eligible employees of the PUD as defined in the plan document. The Plan provides certain Employer Contributions to Participants equal to the employer contributions that would have been made to Plan 2 of PERS if Participants in the plan had been eligible to participate in PERS. The PUD recorded as pension expense contributions to the 401(a) Plan of $4 thousand and $17 thousand in 2022 and 2021, respectively. These funds are available to the Participant following a settlement date as defined in the plan document.

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. There is no contribution to this plan from the PUD. 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.

The PUD administers a 401(k) Savings 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. In 2022, the contribution limit for employees was $20,500. The catch-up contribution limit for employees aged 50 and over was $6,500. Employee contributions are fully vested. Employer contributions are vested after 3 years of employment. Effective January 2022, the PUD makes matching contributions in an amount equal to 100% of the first 2.5% of a participant's compensation contributed as a salary deferral. The PUD recorded as pension expense for matching contributions to the 401(k) Savings Plan of $3.1 million and $2.3 million in 2022 and 2021, respectively.

Note 7
BPA Power Purchase Agreement

The PUD is a preference customer of the BPA, from which it acquired approximately 83% and 80% of its energy purchases in 2022 and 2021 respectively.

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 8
Generation System Projects

The Generation System consists of the PUD's Henry M. Jackson Hydroelectric Project (Jackson Project), four smaller hydroelectric projects and one biofuel generator. In 2022 and 2021, these projects supplied 5% and 6% of the PUD's energy needs.

Henry M. Jackson Hydroelectric Project

The Jackson Project is a multipurpose hydroelectric project with a capacity of 111.8 megawatts.

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 four small hydroelectric projects. Two of these, the Youngs Creek Hydroelectric Project (Youngs Creek) and the Woods Creek Hydroelectric Project (Woods Creek) are located near Sultan, Washington, in Snohomish County. Completed in 2011, Youngs Creek has a capacity of 7.5 megawatts, and its FERC license expires in 2042. Woods Creek was purchased by the PUD in 2008, has a capacity of 650 kilowatts, and was upgraded by the PUD to meet current operating standards. This project is exempt from FERC licensing.

The PUD's other two projects, Calligan Creek Hydroelectric Project (Calligan Creek) and Hancock Creek Hydroelectric Project (Hancock Creek), were completed and began operations in 2018. These 6.0 megawatt run-of-the-river hydroelectric projects are situated near North Bend, Washington, in King County. The 50-year FERC licenses for each project will expire in 2065.

Biofuel Project

In September of 2022 the Generation System started operating a biogas engine generator which has a capacity of 675 kilowatts. The generator is owned and operated by the PUD. The space it occupies is leased from Qualco Energy on a lease agreement that runs through 2028. Qualco Energy blends food and agriculture waste in a digester, and sells the resulting biogas to the PUD to fuel the generator.

Note 9
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 $28.6 million and $23.7 million of power in 2022 and 2021, 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 $30.9 million and $34.5 million at December 31, 2022 and 2021, respectively. The Generation System recorded interest expense on these loans of $1.3 million in 2022 and $1.4 million in 2021.

Note 10
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. On December 31, 2022, 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 $9.8 and $10.0 million as of December 31, 2022, and 2021, respectively.

Note 11
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.

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REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – PERS

As of June 30 *(In thousands)*

PERS 1	2022	2021	2020	2019	2018
Employer's proportion of the net pension liability (asset)	0.92%	0.92%	0.85%	0.88%	0.87%
Employer's proportionate share of the net pension liability	$ 25,670	$ 11,285	$ 29,903	$ 33,889	$ 38,769
Employer's covered employee payroll	$ 482	$ 773	$ 649	$ 642	$ 608
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	5325.73%	1459.90%	4607.55%	5278.66%	6376.48%
Plan fiduciary net position as a percentage of the total pension liability	76.56%	88.74%	68.64%	67.12%	63.22%

PERS 2/3	2022	2021	2020	2019	2018
Employer's proportion of the net pension liability (asset)	1.19%	1.17%	1.08%	1.12%	1.10%
Employer's proportionate share of the net pension liability (asset)	$ (44,112)	$ (116,645)	$ 13,864	$ 10,915	$ 18,707
Employer's covered employee payroll	$ 147,593	$ 140,052	$ 126,542	$ 122,155	$ 114,293
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	(29.89)%	(83.29)%	10.96%	8.94%	16.37%
Plan fiduciary net position as a percentage of the total pension liability	106.73%	120.29%	97.22%	97.77%	95.77%

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	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contributions	$ 39	$ 83	$ 91	$ 81	$ 81	$ 71	$ 98	$ 124	$ 155	$ 152
Contributions in relation to the contractually required contributions	(39)	(83)	(91)	(81)	(81)	(71)	(98)	(124)	(155)	(152)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Covered employer payroll	380	696	705	632	632	594	879	1,221	1,611	1,854
Contributions as a percentage of covered employee payroll	10.26%	11.93%	12.91%	12.82%	12.82%	11.95%	11.15%	10.14%	9.62%	8.20%

PERS 2/3	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contributions	$ 15,928	$ 16,892	$ 17,458	$ 15,640	$ 15,239	$ 13,267	$ 11,925	$ 10,581	$ 8,989	$ 7,668
Contributions in relation to the contractually required contributions	(15,928)	(16,892)	(17,458)	(15,640)	(15,239)	(13,267)	(11,925)	(10,581)	(8,989)	(7,668)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Covered employer payroll	$ 155,062	$ 146,019	$ 135,327	$ 121,760	$ 119,564	$ 110,945	$ 106,716	$ 103,383	$ 97,703	$ 93,277
Contributions as a percentage of covered employee payroll	10.27%	11.57%	12.90%	12.84%	12.75%	11.96%	11.17%	10.23%	9.20%	8.22%

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

As of December 31 *(in thousands)*

	2022 Post-Employment		2021 Post-Employment		2020 Post-Employment	
Total OPEB Liability	**Health**	**Life**	**Health**	**Life**	**Health**	**Life**
Service cost	$ 976	$ 4	$ 1,569	$ 12	$ 1,198	$ 7
Interest on total OPEB liability	883	117	1,274	132	1,704	175
Effect on economic/demographic gains/(losses)	–	–	(906)	884	–	–
Effect of assumption changes or inputs	237	34	(3,602)	38	4,442	653
Expected benefit payments	(2,422)	(350)	(2,739)	(301)	(2,775)	(298)
Net change in total OPEB liability	$ (326)	$ (195)	$ (4,404)	$ 765	$ 4,569	$ 537
Total OPEB liability, beginning	41,899	5,707	46,302	4,942	41,733	4,405
Total OPEB liability, ending	$ 41,573	$ 5,512	$ 41,898	$ 5,707	$ 46,302	$ 4,942
Covered employee payroll	$ 70,135	N/A	$ 74,130	N/A	$ 71,826	N/A
Total OPEB liability as a % of covered employee payroll	59.28%	N/A	56.52%	N/A	64.46%	N/A

Notes to Schedule:

There are no changes of benefit terms.

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic, and health assumptions each period. Discount rate used in 2022: 2.06%, 2021: 2.12%, 2020: 2.74%.

The PUD has established a fund to address the unfunded portion of future post-employment benefits. The balance of this account was $38.2 million and $36.3 million as of December 31, 2022 and 2021, 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. Effective January 1, 2015, the PUD has entered into an insurance product that is expected to fund the remaining life insurance liability.

Electric System
Statements of Revenues, Expenses, and Debt Service Coverage (Unaudited)

(In thousands)

Years Ended December 31,	2020	2021	2022
Operating Revenues:			
Sale of electric energy	$ 651,763	$ 667,405	$ 722,260
Other operating revenues	32,088	32,334	36,161
Unbilled revenues	(5,300)	8,400	6,900
Total Operating Revenues	**678,551**	**708,139**	**765,321**
Operating Expenses:			
Purchased power	312,131	334,427	363,509
Operations and maintenance	239,235	215,636	242,210
Depreciation	57,202	58,988	60,948
Taxes	38,525	39,534	40,732
Total Operating Expenses	**647,093**	**648,585**	**707,399**
Net Operating Income (Loss)	**31,458**	**59,554**	**57,922**
Interest Charges	**15,401**	**13,930**	**13,255**
Other Income and Expense:			
Interest income	8,577	5,415	8,276
Net increase (decrease) in the fair value of investments	2,513	(4,857)	(11,390)
Other income and expense, net	(4,262)	3,095	3,587
Total Other Income and Expense	**6,828**	**3,653**	**473**
Capital Contributions:			
Cash contributions	23,003	21,424	24,317
Non-cash contributions	5,442	6,376	3,977
Total Capital Contributions	**28,445**	**27,800**	**28,294**
Net Income	**51,330**	**77,077**	**73,434**
Non-cash contributions	(5,442)	(6,376)	(3,977)
Interest charges	15,401	13,930	13,255
Depreciation	57,202	58,988	60,948
Pension & OPEB liability actuarial adjustments	(16,207)	(43,297)	(20,549)
Net increase (decrease) in the fair value of investments	(2,513)	4,857	11,390
Project termination charge	8,465	–	–
Balance Available for Debt Coverage	**108,236**	**105,179**	**134,501**
Parity Debt Service Costs:			
Interest	16,179	15,762	18,488
Principal	10,400	11,085	11,510
Total Parity Debt Service Costs	**$ 26,579**	**$ 26,847**	**$ 29,998**
Parity Debt Service Coverage	**4.1x**	**3.9x**	**4.5x**

Electric System
Revenue and Statistical Data (Unaudited)

Years Ended December 31,	2020	2021	2022	% Change From 2021
Retail Customers (average)				
Residential	327,475	332,746	338,130	1.6%
Commercial	33,317	34,071	34,709	1.9%
Industrial	82	76	76	0.0%
Other	202	203	211	3.9%
Retail Customers	**361,076**	**367,096**	**373,126**	**1.6%**
Megawatt-Hours Billed				
Residential	3,724,600	3,788,553	3,917,803	3.4%
Commercial	2,226,949	2,311,513	2,345,764	1.5%
Industrial	472,618	466,812	469,471	0.6%
Wholesale	2,060,403	1,512,879	1,847,108	22.1%
Other	28,465	26,892	28,381	5.5%
Megawatt-Hours Billed	**8,513,035**	**8,106,649**	**8,608,527**	**6.2%**
Revenues Billed (in thousands)				
Residential	$ 379,219	$ 384,362	$ 403,146	4.9%
Commercial	196,880	204,048	208,569	2.2%
Industrial	32,972	32,564	33,188	1.9%
Wholesale	38,783	42,693	73,375	71.9%
Other	3,909	3,739	3,981	6.5%
Revenues Billed	**$ 651,763**	**$ 667,406**	**$ 722,259**	**8.2%**
Average Retail Rate per kWh:				
Residential	$ 0.102	$ 0.101	$ 0.103	2.0%
Commercial	$ 0.088	$ 0.088	$ 0.089	1.1%
Industrial	$ 0.07	$ 0.07	$ 0.071	1.4%
Number of Employees	1,028	1,025	1,047	2.1%
Electric Line Miles	6,581	6,608	6,652	0.7%
New Electric Service Connections	5,638	5,934	5,051	-14.9%

Water System
Statements of Revenues, Expenses, Debt Service Coverage, and Statistical Data (Unaudited)

(In thousands)

Years Ended December 31,	2020	2021	2022
Operating Revenues:			
Sale of water	$ 13,755	$ 14,626	$ 15,098
Other operating revenues	368	362	408
Total Operating Revenues	**14,123**	**14,988**	**15,506**
Operating Expenses:			
Purchased water	2,925	3,217	3,600
Operations and maintenance	5,764	5,447	6,641
Depreciation	3,191	3,269	3,497
Taxes	754	784	775
Total Operating Expenses	**12,634**	**12,717**	**14,513**
Net Operating Income	**1,489**	**2,271**	**993**
Interest Charges	***312***	***266***	***(28)***
Other Income and Expense:			
Interest income	377	120	367
Net increase (decrease) in the fair value of investments	(14)	(86)	(405)
Other income and expense, net	(22)	(27)	3,123
Total Other Income and Expense	**341**	**7**	**3,085**
Capital Contributions:			
Cash contributions	4,273	3,425	1,724
Non-cash contributions	2,081	2,713	3,210
Total Capital Contributions	**6,354**	**6,138**	**4,934**
Net Income	**7,872**	**8,150**	**9,040**
Non-cash contributions	(2,081)	(2,713)	(3,210)
Interest charges	312	266	(28)
Depreciation	3,191	3,269	3,496
Pension and OPEB liability actuarial adjustments	(446)	(1,184)	(538)
Net increase (decrease) in the fair value of investments	14	86	405
Balance Available for Debt Coverage	**8,862**	**7,874**	**9,165**
Parity Debt Service Costs:			
Interest	418	381	328
Principal	1,195	1,220	1,300
Total Parity Debt Service Costs	1,613	1,601	1,628
Less: Assessment payments received	(15)	(5)	(4)
Debt Service Paid from Revenues	**$ 1,598**	**$ 1,596**	**$ 1,624**
Parity Debt Service Coverage	**5.5x**	**4.9x**	**5.6x**
Number of Water Customers (average)	22,161	22,774	23,156
Water Sales & Purchases (thousand cubic feet)			
Retail Cubic Feet Sold	204,000	220,504	218,913
Wholesale Cubic Feet Sold	29,373	31,499	33,677
Total Cubic Feet Sold	**233,373**	**252,003**	**252,590**
Average Retail Water Rates (thousand cubic feet)			
Residential	$3.52	$3.52	$3.57
Commercial	$3.24	$3.24	$3.37

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 collected in local utility districts in which assessments have been levied and pledged to be paid into the Bond Fund.

"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 Interest 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

<u>Additional Bonds</u>. 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 his 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.

<u>Refunding Bonds</u>. 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.

<u>Junior Lien Bonds</u>. 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 2023 Bonds. The District will not take any action that will cause the 2023 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.

<u>Payment of Funds to Trustee</u>. 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.

<u>Application of Funds by Trustee</u>. 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.

<u>Relinquishment of Funds upon Remedy of Default</u>. 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.

<u>Remedies</u>. 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

ECONOMIC AND DEMOGRAPHIC INFORMATION

This portion of the Official Statement contains general information concerning the economic and demographic conditions in Snohomish County (the "County"). This information is intended only to provide prospective investors with general information regarding the community. The information is historic in nature; it is not possible to predict whether the trends shown will continue in the future. The information presented was obtained from the sources indicated, and the District and the Underwriter make no representation as to the accuracy or completeness of the data obtained from parties other than the District.

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 the State of Washington, after King and Pierce Counties. As shown in the following table, since 2019, the County's population has grown 5.02% and Everett's population has grown 2.15%.

TABLE 12
POPULATION ESTIMATES

Year	Snohomish County	City of Everett
2023	859,800	114,200
2022	847,300	113,300
2021	837,800	112,300
2020[1]	827,957	110,629
2019	818,700	111,800

[1] Census.
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 decline in median housing prices. In March 2023 the median selling price for houses declined to $680,000, a 10% decrease from March 2022.

The Boeing Company ("Boeing") remains the County's largest employer, with an estimated 30,000 workers in the County as of 2022. Boeing established an airplane manufacturing plant at the south end of the City of Everett ("Everett") in 1966. The plant was built to assemble wide-bodied 747 aircraft, which have since been discontinued. 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 2022, Boeing employed approximately 60,000 in Washington State. The 737 MAX is currently manufactured in Boeing's Renton, Washington, manufacturing facility, which has three assembly lines. In January 2023, Boeing announced that it plans to add a fourth 737 MAX assembly line at Everett in its existing plant facilities.

In March 2019, a new two-gate commercial passenger terminal opened at Paine Field, which is located near the City of Everett. Paine Field is built to accommodate approximately 24 flights per day. Currently, Alaska Air Group and Kenmore Air operate at Paine Field. In February 2023, the State Legislature approved $6.5 million in funding from the State Department of Transportation to fund a 12,000 square-foot research and development center and biofuel repository 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 nine destroyers and two Coast Guard cutters. Naval Station Everett employed approximately 4,300 military personnel and civilian employees as of 2022.

In August 2023, Amazon began operating a nearly 3 million square foot fulfilment center in Arlington where it expects to employ approximately 1,000 full time employees.

No Meat Factory, a Canadian alternative meat producer, has purchased a 196,000 square foot facility in Stanwood from Twin City Foods, Inc. The building is designed for food production, freezer storage, dock-high and grade level access, office space and lab and kitchen areas and will be remodeled to expand the food production. No Meat Factory expects to employ approximately 100 employees for food processing jobs. The total employment at the Stanwood factory is expected to be 150.

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 13
MAJOR EMPLOYERS IN SNOHOMISH COUNTY (2022)

Employer	Product/Business	2022 Estimated Employment
The Boeing Company	Aircraft manufacturing	29,630
Providence Swedish Medical Center	Medical services	7,350
Naval Station Everett	Government, U.S. Navy	4,300
Edmonds School District	Government, school district	3,800
The Tulalip Tribes	Gaming, real estate, government services	3,659
State of Washington	Government, state	3,261
Snohomish County Government	Government, county	2,877
Albertsons / Safeway (25 locations)	Retail - grocery	2,719
The Everett Clinic	Health care	2,639
Everett School District	Government, school district	2,522
Mukilteo School District	Government, school district	2,280
Walmart (8 locations)	Retail – grocery	2,100
Premera Blue Cross	Health insurer	2,000
Seagen	Biotechnology	1,800
Marysville School District	School district	1,600
U.S. Federal Government	Government, federal	1,551
Philips Healthcare	Medical Device	1,494
Terracon	Engineering & Science	1,144
Crane Electronics	Aerospace & Electronics	1,242
Monroe Correctional Complex	Corrections	1,200

Sources: Economic Alliance Snohomish County

TABLE 14
SNOHOMISH COUNTY AND CITY OF EVERETT
TAXABLE RETAIL SALES

Year	Snohomish County	City of Everett
2022	$21,704,357,054	$4,023,350,063
2021	20,277,789,997	3,661,836,922
2020	17,079,322,746	3,065,244,792
2019	16,861,829,385	3,177,978,369
2018	15,673,269,688	3,011,204,938
2017	12,641,937,656	2,934,305,078

Source: Washington State Department of Revenue

TABLE 15
ASSESSED VALUATION OF SNOHOMISH COUNTY

Collection Year	Valuation
2023	$219,454,345,012
2022	170,299,965,640
2021	154,392,389,464
2020	145,174,737,279
2019(1)	132,827,352,255

(1) A decrease in taxes is due to local school districts' enrichment levies being limited to $1.50 per 1000 AV and bonds of the County being paid off.
Source: Snohomish County Assessor's Office

TABLE 16
SNOHOMISH COUNTY PERSONAL AND PER CAPITA INCOME

Year	Personal Income ($000s)	Per Capita Income
2021(1)	$57,396,085	$68,858
2020	52,643,791	63,477
2019	48,238,677	58,706
2018	44,703,853	54,954
2017	41,659,029	51,910

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

TABLE 17
SNOHOMISH COUNTY EMPLOYMENT DATA

	Annual Averages					
	2023[(1)]	2022[(2)]	2021	2020	2019	2018
Civilian Labor Force	461,974	449,300	437,145	438,858	437,889	429,470
Employed	446,218	434,802	415,354	400,158	424,765	413,908
Unemployed	15,756	14,498	21,791	38,700	13,124	15,562
County Unemployment Rate	3.4%	3.2%	4.8%	8.7%	2.9%	3.6%

(1) Preliminary, average through June 2023.
(2) Average through June 2022.
Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch

TABLE 18
SNOHOMISH COUNTY NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	Annual Averages					
NAICS Industry Title	2021	2020	2019	2018	2017	2016
Goods Producing						
Mining, Logging, and Construction	24,800	23,400	24,400	24,200	22,700	21,500
Manufacturing	49,900	56,800	60,600	58,500	58,700	63,000
Total[(1)]	74,800	80,200	84,900	82,700	81,400	84,500
Services Providing						
Trade, Transportation and Utilities	49,200	47,000	49,000	48,400	48,200	47,700
Information	3,300	3,700	4,600	5,200	5,700	6,000
Financial Activities	13,400	13,600	13,100	13,000	12,800	12,600
Professional and Business Services	28,400	28,200	29,300	28,500	27,900	26,800
Education and Health Services	36,900	34,900	36,500	35,600	34,700	33,700
Leisure and Hospitality	24,000	22,000	27,000	26,500	26,100	26,000
Other Services	9,800	10,400	10,800	10,300	10,300	10,100
Government	37,600	37,800	40,400	40,000	40,000	39,600
Total[(1)]	202,500	197,600	210,600	207,400	205,600	202,500
Total Nonfarm[(1)]	277,300	277,800	295,500	290,100	287,100	287,000

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

TABLE 19
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	
	2022	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
City of Everett	48,649	49,053	22,228	22,246	25,258	25,646	1,163	1,161
Other Incorporated	192,141	196,687	116,504	117,630	69,764	73,176	5,873	5,881
Unincorporated	139,050	140,003	99,411	99,768	25,934	26,521	13,705	13,714
Snohomish County	331,192	336,690	215,915	217,398	95,698	99,697	19,578	19,595

Note: Numbers are shown as of April 1, 2022 and April 1, 2023.
Source: Washington State Office of Financial Management

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

__________, 2023

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

$_________
Public Utility District No. 1 of Snohomish County, Washington
Water System Revenue Bonds, Series 2023
(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 $__________ aggregate principal amount of Public Utility District No. 1 of Snohomish County, Washington Water System Revenue Bonds, Series 2023 (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 supplemented and amended, including as supplemented by Resolution Number 6138, adopted by the Commission on September 5, 2023 (collectively, the "Resolution"). The District has appointed U.S. Bank Trust Company, 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 relating to the Bonds, 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 original delivery of the Bonds on 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 original delivery of the Bonds on 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 provided to us 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 or to have the effect of 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 or view 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 individual alternative minimum tax. We observe that, for tax years beginning after December 31, 2022, interest on the Bonds include in adjusted financial statement income of certain corporations is not excluded from the federal corporate 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 E

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON WATER SYSTEM REVENUE BONDS, SERIES 2023

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Public Utility District No. 1 of Snohomish County, Washington (the "District") in connection with the issuance of the above-named bonds (the "Bonds") and dated _________ __, 2023. 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 supplemented (the "1992 Resolution"), including as supplemented by Resolution Number 6138 (the "Seventh Supplemental Resolution" and together with the 1992 Resolution, the "Resolution") adopted by the Commission on September 5, 2023. The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission (the "SEC") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Business Day" shall mean a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the State of Washington or the State of New York are closed.

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Financial Obligation" shall mean, for purposes of the Listed Events set out in Section 5(a)(15) and (16), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the final official statement dated ______ __, 2023 relating to the Bonds.

"Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of each fiscal year of the District, commencing with the report for the fiscal year of the District ending December 31, 2023 (which is due not later than September 30, 2024), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in a filing with the MSRB, and the due date shall be adjusted by the same number of days. The Annual Report shall identify the Bonds by name and CUSIP number.

(b) If the Dissemination Agent is any entity other than the District, then not later than 15 business days prior to said date, the District shall provide the Annual Report to the Dissemination Agent. If the District is unable to provide to the MSRB, in whole or in part, an Annual Report consistent with Section 4 by the date required in subsection (a) of this Section, the District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the District) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Governmental Accounting Standards Board and substantially in accordance with the system prescribed by the Washington State Auditor pursuant to RCW 43.09.200. If the District's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District (including the notes thereto), the Annual Report shall also include an update of the following information substantially similar in type and scope:

1. Fiscal year end fund balances for the Water System, generally of the type included in the Official Statement for the Bonds under the heading "Comparative Income Statements";

2. Principal amount of outstanding Bonds (as defined in the Resolution);

3. Debt service coverage for the outstanding Bonds (as defined in the Resolution);

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.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the SEC and made available to the public on the MSRB's or the SEC's website. The District shall clearly identify each such other document so included by reference. The contents, presentation and format for the Annual Report may be modified from time to time as determined in the judgment of the District to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the District or to reflect changes in the business, structure, operations, legal form of the District, or any mergers, consolidations, acquisitions or dispositions made by or affecting the District; provided, that any such modifications shall comply with the requirements of the Rule. Updates to information referenced in Section 4(b) may involve, but not be limited to, adding additional financial and operating data, displaying data in a different format or table, or eliminating data this is no longer material.

SECTION 5. <u>Reporting of Significant Events</u>.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

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 determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), other ***material*** notices or determinations with respect to the tax status of the Bonds or other ***material*** events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, ***if material***;

8. Optional, unscheduled or contingent Bond calls, ***if material*** and tender offers;

9. Defeasances;

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

11. Rating changes;

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

Note: for the purposes of the event identified in subparagraph (12), 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 governmental 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.

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 Bondholders, ***if material***; and

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***.

(b) Upon the occurrence of a Listed Event described in Section 5(a), the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in Section 5(a)(8) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. <u>Format for Filings with the MSRB</u>. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. <u>Termination of Reporting Obligation</u>. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the obligations of the District under the Resolution are assumed in full by some other entity, such person shall become responsible for compliance with this Disclosure Certificate as if it were the original issuer of the Bonds, and the District shall have no further responsibility hereunder. If such termination or assumption occurs prior to the final maturity of the Bonds, the District shall give notice of such termination or assumption in a filing with the MSRB.

SECTION 8. <u>Dissemination Agent</u>. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District. The Dissemination Agent (if other than the District) may resign by providing at least thirty (30) days' written notice to the District.

SECTION 9. <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, 5(a) or 9, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by Holders of the Bonds in the same manner as provided in the Resolution for amendments of the Resolution with consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel or another independent third party, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made shall 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.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is expressly required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the sole remedy for any Holder or Beneficial Owner of the Bonds shall be to take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause or compel the District to comply with its obligations under this Disclosure Certificate and no person shall be entitled to recover monetary damages under this Disclosure Certificate; 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. A default under this Disclosure Certificate is not a default under the Resolution/Indenture.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

PUBLIC UTILITY DISTRICT NO. 1 OF
SNOHOMISH COUNTY, WASHINGTON

By ____
Authorized Representative

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer	Public Utility District No. 1 of Snohomish County, Washington
Name of Bond Issue:	Water System Revenue Bonds, Series 2023
Date of Issuance:	October [__], 2023

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the Issuer, dated the Date of Issuance. [The Issuer anticipates that the Annual Report will be filed by _____________.]

Dated: _____________________

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

By ___________[to be signed only if filed]___________

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APPENDIX F

DESCRIPTION OF DTC AND ITS BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2023 Bonds. The 2023 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 2023 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 2023 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2023 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2023 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 2023 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 2023 Bonds, except in the event that use of the book-entry system for the 2023 Bonds is discontinued.

To facilitate subsequent transfers, all 2023 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 2023 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 2023 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2023 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 2023 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2023 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents relating to the 2023 Bonds. For example, Beneficial Owners of 2023 Bonds may wish to ascertain that the nominee holding the 2023 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 2023 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 2023 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 2023 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments represented by the 2023 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 2023 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 2023 Bonds.

So long as Cede & Co. is the registered owner of the 2023 Bonds, as nominee for DTC, references herein to the holders or registered owners of the 2023 Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2023 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 2023 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.

SNOHOMISH COUNTY

PUD

PUBLIC UTILITY DISTRICT NO. 1

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON • WATER SYSTEM REVENUE BONDS, SERIES 2023

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

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