

New Issue – Book-Entry Only

S&P Global Ratings: AA
(See “UNDERWRITING AND LEGAL – Rating”)

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the date of issuance of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See “TAX MATTERS.”



CITY OF EDMONDS, WASHINGTON
\$13,875,000 WATER AND SEWER REVENUE BONDS, 2020
(CERTIFIED CLIMATE BONDS)



Dated: Date of Initial Delivery

Due: December 1, as shown on inside cover

The City of Edmonds, Washington (the “City”), is issuing its Water and Sewer Revenue Bonds, 2020 (Certified Climate Bonds) (the “Bonds”), to carry out a plan of additions to its Water and Sewer Utility, to make a deposit into the Reserve Account, and to pay the costs of issuance of the Bonds. See “DESCRIPTION OF THE BONDS – Authority and Purpose.”

The Bonds have been certified as Climate Bonds by the Climate Bonds Initiative. See “DESCRIPTION OF THE BONDS – Climate Bond Certification.”

The Bonds will be issued in fully registered form under a book-entry only system, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), New York, New York. DTC will act as initial securities depository for the Bonds (the “Securities Depository”). Individual purchases of the Bonds will be made in the principal amount of \$5,000 or integral multiples thereof within a maturity. Purchasers of beneficial interests in the Bonds (the “Beneficial Owners”) will not receive certificates representing their interests in the Bonds purchased. The fiscal agent of the State of Washington (the “State”), currently U.S. Bank National Association, will act as the registrar, paying agent, transfer agent, and authenticating agent for the Bonds (the “Registrar”).

Interest on the Bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2021, to the maturity or earlier redemption of the Bonds. The Bonds will mature on the dates and in the amounts and bear interest at the rates set forth on the inside cover. For so long as the Bonds are registered in the name of the Securities Depository, the principal of and interest on the Bonds are payable by the Registrar to the Securities Depository, which is obligated to remit such payments to its broker-dealer participants for subsequent disbursement to the Beneficial Owners. See “DESCRIPTION OF THE BONDS – Registration and Registrar” and Appendix B – “DTC AND ITS BOOK-ENTRY ONLY SYSTEM.”

The Bonds are subject to redemption prior to their stated maturity dates. See “DESCRIPTION OF THE BONDS – Redemption Provisions and Purchase of Bonds.”

The Bonds are special obligations of the City payable exclusively from the Bond Fund and the Net Revenue and ULID Assessments pledged to be paid into the Bond Fund to pay principal of and interest on the Bonds when due. The Net Revenue and ULID Assessments are pledged irrevocably to the payment of the Bonds, and the amounts pledged to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Bonds when due constitute a lien and charge on the Net Revenue and ULID Assessments on a parity with the lien and charge on the Net Revenue and ULID Assessments pledged to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Outstanding Parity Bonds and any Future Parity Bonds, and prior and superior to any other liens or charges whatsoever. **The Bonds do not constitute an obligation of the State, either general or special, or any political subdivision thereof other than the City. The Bonds are not general obligations of the City and do not constitute an indebtedness of the City within the meaning of the State constitution. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the Bonds.** See “SECURITY FOR THE BONDS.”

The Bonds are offered when, as, and if issued, subject to the approving legal opinion of Foster Garvey PC, Seattle, Washington, Bond Counsel. The form of Bond Counsel’s opinion is included as Appendix A. It is expected that the Bonds will be available for delivery in New York, New York, through the facilities of DTC or to the Registrar on behalf of DTC by Fast Automated Securities Transfer on or about November 10, 2020.

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

October 27, 2020.

MATURITY SCHEDULE, INTEREST RATES, YIELDS, PRICES, AND CUSIP NUMBERS

CITY OF EDMONDS, WASHINGTON

\$13,875,000

**Water and Sewer Revenue Bonds, 2020
(Certified Climate Bonds)**

Due December 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP Nos. *
2039	\$1,060,000	2.00%	2.08%	98.746%	281142 MN6
2040	1,075,000	2.00	2.12	98.047	281142 MP1
2041	2,245,000	2.125	2.19	98.907	281142 MQ9
2042	2,295,000	2.25	2.25	100.000	281142 MR7
2043	2,345,000	2.25	2.28	99.463	281142 MS5
2044	2,400,000	2.25	2.33	98.532	281142 MT3
2045	2,455,000	2.25	2.37	97.741	281142 MU0

* The CUSIP numbers herein are provided by CUSIP Global Services, managed on behalf of the America Bankers Association by S&P Global Market Intelligence. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the City nor the Underwriter takes any responsibility for the accuracy of the CUSIP numbers.

CITY OF EDMONDS, WASHINGTON
121 Fifth Avenue North
Edmonds, Washington 98020
(425) 775-2525
www.edmondswa.gov*

Mayor and City Council

Mike Nelson	Mayor
Adrienne Fraley-Monillas	City Council President
Kristiana Johnson	Council Member
Luke Distelhorst	Council Member
Diane Buckshnis	Council Member
Vivian Olson	Council Member
Susan Paine	Council Member
Laura Johnson	Council Member

Certain Appointed Officials

Dave Turley	Interim Finance Director
Phil Williams	Public Works & Utilities Director
Robert English	City Engineer

Registrar

Washington State Fiscal Agent
(currently U.S. Bank National Association)

Bond Counsel

Foster Garvey PC
Seattle, Washington

Municipal Advisor

Northwest Municipal Advisors
Bellevue, Washington

* The City's website is not part of this Official Statement and investors should not rely on information presented in the City's website in determining whether to purchase the Bonds. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website by reference.

The information in this Official Statement has been compiled from official and other sources that the City considers reliable and, while not guaranteed as to accuracy, the City believes to be correct as of its date. The City makes no representation regarding the accuracy or completeness of the information in Appendix B – “DTC AND ITS BOOK-ENTRY ONLY SYSTEM,” which has been obtained from DTC, or regarding the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Information on website addresses set forth in this Official Statement, including the City’s, is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the Bonds.

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

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Ordinance has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

The presentation of certain information, including tables of receipts from revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and “forward-looking statements.” No assurance can be given that the future results shown herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe,” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The City specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided in “CONTINUING DISCLOSURE.”

The order and placement of materials in this Official Statement, including the appendices, are not to be deemed to be a determination of relevance, materiality, or importance, and this Official Statement, including the appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.

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OFFICIAL STATEMENT

\$13,875,000
CITY OF EDMONDS, WASHINGTON
WATER AND SEWER REVENUE BONDS, 2020
(CERTIFIED CLIMATE BONDS)

INTRODUCTION

The City of Edmonds, Washington (the “City”), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the “State”), furnishes this Official Statement in connection with the offering of \$13,875,000 aggregate principal amount of its Water and Sewer Revenue Bonds, 2020 (Certified Climate Bonds) (the “Bonds”). This Official Statement, which includes the cover page, the inside cover, the table of contents, and appendices, provides information concerning the City, the Water and Sewer Utility, and the Bonds.

All of the summaries of provisions of the Constitution and laws of the State, of ordinances and resolutions of the City, and of other documents contained herein are subject to the complete provisions thereof and do not purport to be complete statements of such laws or documents, copies of which may be obtained from the City upon request. A full review should be made of this entire Official Statement. The offering of the Bonds to prospective investors is made only by means of the entire Official Statement.

Unless otherwise defined in this Official Statement, capitalized terms used herein have the meanings set forth in the Bond Ordinance described below.

The COVID-19 pandemic is currently affecting local, State, national, and global economic activity and has resulted in significant public health emergency response costs borne by the State and its local governments, including the City. The COVID-19 pandemic is expected to materially adversely impact the financial condition of the State and its local governments from increased costs and revenue reductions due to reductions in taxable economic activity. This Official Statement presents historical data, which may not be indicative of near-term trends in light of the unprecedented nature of the COVID-19 pandemic. Investors should exercise caution when relying on such information. For a discussion of impacts of the COVID-19 pandemic on the City see “THE WATER AND SEWER UTILITY – Response to COVID-19 Pandemic.”

DESCRIPTION OF THE BONDS

Authority and Purpose

The Bonds are issued under the provisions of the State Constitution, titles 35A and 39 of the Revised Code of Washington (“RCW”), and other applicable laws of the State, and Ordinance No. 4197 of the City passed on October 13, 2020 (the “Bond Ordinance”).

The Bonds are being issued to carry out a plan of additions to the Water and Sewer Utility, to make a deposit into the Reserve Account, and to pay the costs of issuance of the Bonds.

The plan of additions to the Water and Sewer Utility consist of those set forth in the City’s Capital Improvement Program, as it may be amended from time to time by the City Council. The improvements expected to be financed, in whole or in part, with proceeds of the Bonds consist of a carbon recovery project to replace the sanitary sewage incinerator at the City’s wastewater treatment plant (the “Project”).

The Project is being undertaken to meet the goals and objectives of Resolution No. 1389 of the City, which commits the City to achieving or exceeding the environmental goals established in the Paris Climate Accords by reducing greenhouse gas emissions. See “THE WATER AND SEWER UTILITY – The Sewer System – The Project.”

Climate Bond Certification

The Bonds have been certified as Climate Bonds by the Climate Bonds Initiative. This certification is intended to allow investors the opportunity to invest directly in bonds that finance environmentally-beneficial projects. This certification is not intended to provide or imply that the holders of the Bonds are entitled to any additional terms or security to those provided in the Bond Ordinance. See “SECURITY FOR THE BONDS.”

The City has retained Kestrel Verifiers, a Climate Bonds Initiative Approved Verifier, to verify that the Bonds conform, in all material respects, with the Climate Bonds Standard of the Climate Bonds Initiative, and that the Bond-financed activities are aligned with the Water Infrastructure sector criteria. The report of Kestrel Verifiers is included as Appendix C.

The City has undertaken to produce, until the Project has been completed and commissioned, an annual report detailing how the Bond proceeds were used to finance the Project. Such information is to be included in the annual financial information to be provided by the City as described in “CONTINUING DISCLOSURE.” No failure by the City to comply with this undertaking will constitute a default in respect of the Bonds.

Kestrel Verifiers has agreed to provide, within 24 months after the date of initial delivery of the Bonds, one post-issuance Update Report to the Climate Bonds Initiative and to post this report to the Electronic Municipal Market Access (EMMA) system operated by the Municipal Securities Rulemaking Board.

The certification of the Bonds as Climate Bonds by the Climate Bonds Initiative is based solely on the Climate Bond Standard and does not, and is not intended to, make any representation or give any assurance with respect to any other matter relating to the Bonds or the Project, including this Official Statement, the Bond documents, the City, or the management of the City.

The certification of the Bonds as Climate Bonds by the Climate Bonds Initiative was addressed solely to the City Council and is not a recommendation to any person to purchase, hold, or sell the Bonds, and such certification does not address the market price or suitability of the Bonds for a particular investor. The certification also does not address the merits of the decision by the City or any third party to participate in the Project and does not express and should not be deemed to be an expression of an opinion as to the City or any aspect of the Project (including the financial viability of the Project) other than with respect to conformance with the Climate Bond Standard.

In issuing or monitoring, as applicable, the certification, the Climate Bonds Initiative has assumed and relied upon and will assume and rely upon the accuracy and completeness in all material respects of the information supplied or otherwise made available to the Climate Bonds Initiative. The Climate Bonds Initiative does not assume or accept any responsibility to any person for independently verifying (and it has not verified) such information or to undertake (and it has not undertaken) any independent evaluation of the Project or the City. In addition, the Climate Bonds Initiative does not assume any obligation to conduct (and it has not conducted) any physical inspection of the Project. The certification may only be used with the Bonds and may not be used for any other purpose without the prior written consent of the Climate Bonds Initiative.

The certification does not and is not in any way intended to address the likelihood of timely payment of interest when due on the Bonds and/or the payment of principal at maturity or any other date.

The certification may be withdrawn at any time in the sole and absolute discretion of the Climate Bonds Initiative and there can be no assurance that such certification will not be withdrawn.

Principal Amount, Date, Interest Rates, and Maturities

The Bonds will be issued in the aggregate principal amount of \$13,875,000 and will be dated and bear interest from the date of their initial delivery. The Bonds will mature on the dates and in the principal amounts, and will bear interest (payable semiannually on each June 1 and December 1, commencing June 1, 2021) until maturity or earlier redemption, if applicable, at the rates set forth on the inside cover of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Registration and Registrar

Book-Entry Only System. The Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), New York, New York. DTC will act as the initial securities depository for the Bonds (the “Securities Depository”) in accordance with the provisions of the letter of representations given by the City to DTC (the “Letter of Representations”). Individual purchases and sales of the Bonds will be made in book-entry only form only in denominations of \$5,000 or integral multiples thereof within a maturity (“Authorized Denominations”). Purchasers of beneficial interests in the Bonds (“Beneficial Owners”) will not receive certificates representing their interests in the Bonds. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references to the Registered Owners will mean Cede & Co. and will not mean the Beneficial Owners.

Neither the City nor the Registrar has any obligation to Beneficial Owners or DTC participants regarding accuracy of any records maintained by DTC or its broker-dealer participants. Neither the City nor the Registrar is responsible for any notice that is permitted or required to be given to the Registered Owner of Bonds registered in the name of Cede & Co. except such notice as is required to be given by the Registrar to Cede & Co.

For information about DTC and its book-entry only system, see Appendix B – “DTC AND ITS BOOK-ENTRY ONLY SYSTEM.” The City makes no representation as to the accuracy or completeness of the information in Appendix B provided by DTC. Purchasers of the Bonds should confirm this information with DTC or its broker-dealer participants.

Registrar. The principal of and interest on the Bonds are payable by the fiscal agent of the State (the “Registrar”), currently U.S. Bank National Association (or such other fiscal agent or agents as the State Finance Committee may from time to time designate). So long as Cede & Co. is the Registered Owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer by the Registrar to DTC, which is obligated to remit such payments to its broker-dealer participants for subsequent disbursement to the Beneficial Owners, as further described in Appendix B – “DTC AND ITS BOOK-ENTRY ONLY SYSTEM.”

Transfer and Exchange; Record Date. The Registrar is not obligated to exchange any Bond or transfer registered ownership during the period between the applicable Record Date and the redemption date. “Record Date” means in the case of each interest payment date, the Registrar’s close of business on the 15th day of the month immediately preceding such interest payment date, and, with respect to redemption

of a Bond prior to its maturity, the Registrar's close of business on the date on which the Registrar sends the notice of redemption in accordance with the Bond Ordinance. Registered ownership of any Bond registered in the name of Cede & Co. may not be transferred except: (1) to any successor Securities Depository; (2) to any substitute Securities Depository appointed by the City; or (3) to any person if the Bond is no longer to be held in book-entry only form.

Termination of Book-Entry Only System. If (1) DTC resigns and the City does not appoint a substitute Securities Depository, or (2) the City terminates the services of the Securities Depository, the Bonds will no longer be held in book-entry only form and the registered ownership of each Bond may be transferred to any person as provided in the Bond Ordinance.

If the Bonds are no longer held in book-entry only form by the Securities Depository, the City will execute, authenticate, and deliver, at no cost to the Beneficial Owners, Bonds in fully registered form, in Authorized Denominations. The principal of the Bonds will then be payable upon presentment and surrender to the Registrar, and interest on the Bonds will then be payable by electronic transfer on the interest payment date, or by check or draft of the Registrar mailed on the interest payment date, to the Registered Owners, at the address appearing upon the registration books on the Record Date. The City is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner.

Redemption Provisions and Purchase of Bonds

Optional Redemption. The Bonds are subject to redemption at the option of the City prior to their stated maturity dates at any time on or after June 1, 2030, as a whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest, if any, to the date fixed for redemption.

Selection of Bonds for Redemption; Partial Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the City will select the maturities to be redeemed. If fewer than all of the outstanding Bonds of a maturity are to be redeemed, the Securities Depository is to select Bonds registered in the name of the Securities Depository to be redeemed in accordance with the Letter of Representations, and the Registrar is to select all other Bonds to be redeemed randomly in such manner as the Registrar determines. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any Authorized Denomination.

Notice of Redemption. Notice of redemption of each Bond registered in the name of the Securities Depository is to be given in accordance with the Letter of Representations. Notice of redemption of each other Bond, unless waived by the Registered Owner, is to be given by the Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner at the address appearing on the Bond Register on the Record Date. The requirements of the preceding sentence shall be satisfied when notice has been mailed as so provided, whether or not it is actually received by an Owner.

Rescission of Notice of Redemption. In the case of an optional redemption, the notice of redemption may state that the City retains the right to rescind the redemption notice and the redemption by giving a notice of rescission to the affected Registered Owners at any time on or prior to the date fixed for redemption. Any notice of optional redemption that is so rescinded will be of no effect, and each Bond for which a notice of optional redemption has been rescinded will remain outstanding.

Effect of Call for Redemption. Interest on each Bond called for redemption will cease to accrue on the date fixed for redemption, unless either the notice of optional redemption is rescinded as described above or money sufficient to effect such redemption is not on deposit in the City's Water and Sewer Utility

Revenue Bond Fund, 2011 (the “Bond Fund”) or in a trust account established to refund or defease the Bond.

Purchase of Bonds. The City has reserved the right to purchase any or all of the Bonds offered to the City or in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Failure to Pay Bonds

If the principal of any Bond is not paid when the Bond is properly presented at its maturity date or date fixed for redemption, the City will be obligated to pay, from the sources pledged in the Bond Ordinance, interest on the Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until the Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund or in a trust account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner.

SOURCES AND USES OF FUNDS

The proceeds of the Bonds are expected to be applied as follows:

Sources

Principal Amount	\$	13,875,000
Original Issue Discount		(162,108)
Total Sources	\$	<u>13,712,892</u>

Uses

Construction Fund	\$	13,266,000
Reserve Account		314,936
Costs of Issuance ⁽¹⁾		131,956
Total Uses	\$	<u>13,712,892</u>

(1) Includes underwriter’s discount, bond counsel fee, municipal advisor fee, rating agency fee, and other costs associated with the issuance and sale of the Bonds.

SECURITY FOR THE BONDS

Pledge of Net Revenue

The principal of and interest on the Bonds are payable exclusively from the Bond Fund and the Net Revenue and ULID Assessments pledged to be paid into the Bond Fund to pay principal of and interest on the Bonds when due. The City has irrevocably pledged the Net Revenue and ULID Assessments to the payment of the Bonds, and the amounts pledged to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Bonds when due constitute a lien and charge on the Net Revenue and ULID Assessments on a parity with the lien and charge on the Net Revenue and ULID Assessments pledged to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Outstanding Parity Bonds and any Future Parity Bonds, and prior and superior to any other liens or charges whatsoever.

“Net Revenue” means the Gross Revenue, less Operating and Maintenance Expenses.

“Gross Revenue” means all of the earnings and revenues received by the City from the maintenance and operation of the Water and Sewer Utility, including: revenues from the sale, lease, or furnishing of commodities, services, properties or facilities; all earnings from the investment of money in the Bond Fund that are deposited into the Principal and Interest Account; earnings from the investment of money in any maintenance fund or similar fund; all connection and capital improvement charges collected for the purpose of defraying the cost of capital facilities of the Water and Sewer Utility; and withdrawals from the Rate Stabilization Account. However, the Gross Revenue shall not include: (a) revenues from City taxes; (b) principal proceeds of Parity Bonds or any other borrowings, or earnings or proceeds from any investments in a trust, defeasance, or escrow fund created to defease or refund obligations relating to the Water and Sewer Utility (until commingled with other earnings and revenues included in the Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code; (c) income and revenue that may not legally be pledged for revenue bond debt service; (d) improvement district assessments including ULID Assessments; (e) federal or state grants, and gifts from any source allocated to capital projects; (f) payments under bond insurance or other credit enhancement policy or device; (g) insurance or condemnation proceeds used for the replacement of capital projects or equipment; (h) proceeds from the sale of Water and Sewer Utility property; (i) earnings on bond proceeds in any construction fund or bond redemption fund; (j) deposits into the Rate Stabilization Account; (k) Tax Credit Subsidy Payments; or (l) revenue from any Separate Utility System.

“Operating and Maintenance Expenses” means all reasonable expenses incurred by the City in causing the Water and Sewer Utility to be operated and maintained in good repair, working order, and condition, including payments made pursuant to contract for such service to any other municipal corporation or private entity for sewage treatment and disposal, water supply and distribution, or stormwater or other utility service (if the City combines such service into the Water and Sewer Utility), and including budget charges for the City’s administration expenses allocated to the Water and Sewer Utility, but shall not include depreciation or any taxes (or charges in lieu of taxes) levied or imposed by the City.

The City has not formed any utility local improvement districts (“ULIDs”) in which assessments have been pledged to be paid into the Bond Fund, and the City has no current plans to form any ULIDs or to pledge any ULID assessments to be paid into the Bond Fund.

Special Obligations

The Bonds are special obligations of the City and do not constitute an obligation of the State, either general or special, or any political subdivision thereof other than the City. The Bonds are not general obligations of the City and do not constitute an indebtedness of the City within the meaning of the State constitution. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the Bonds. The Registered Owners do not have any claim for the payment of the Bonds against the City arising from the Bonds except for payment from the Bond Fund and the Net Revenue and ULID Assessments pledged to be paid into the Bond Fund to pay principal of and interest on the Bonds when due. The Registered Owners do not have any claim against the State arising from the Bonds.

Funds and Accounts

Water and Sewer Utility Fund. The Water and Sewer Utility Fund has been established and means, together, the Water Fund, the Sewer Fund, and the Stormwater Fund of the City.

Bond Fund. The Bond Fund has been established within the Water and Sewer Utility Fund as a special fund of the City and is to be drawn upon solely for the payment of the principal of and premium, if any, and interest on Parity Bonds. The Bond Fund is divided into two accounts: the Principal and Interest

Account and the Reserve Account. The City has obligated and bound itself to set aside and pay into the Bond Fund all ULID Assessments and, out of the Net Revenue, the fixed amounts described below in “Principal and Interest Account” and “Reserve Account.”

Principal and Interest Account. The City is obligated to pay into the Principal and Interest Account, from the ULID Assessments and Net Revenue described above in “Bond Fund,” (1) before each interest payment date for the Parity Bonds, an amount that will be sufficient, together with other money on deposit therein, to pay the interest on the Parity Bonds due on the interest payment date, and (2) before each principal payment date of the Parity Bonds (including any mandatory redemption date), an amount that will be sufficient, together with other money on deposit therein, to pay the principal of the Parity Bonds due on the principal payment date (including mandatory redemption amounts due with respect to any Term Bonds).

Reserve Account. The City is obligated to pay into the Principal and Interest Account, from the ULID Assessments and Net Revenue described above in “Bond Fund,” at the time and in the manner required by the Bond Ordinance, the amount, if any, necessary to make the amount on deposit in the Reserve Account equal to the Reserve Requirement for the Parity Bonds. See “Reserve Account” below.

Rate Stabilization Account. The City has established the Rate Stabilization Account within the Water and Sewer Utility Fund. The City may at any time, consistent with the “Flow of Funds” provisions of the Bond Ordinance described below, deposit into the Rate Stabilization Account amounts of Gross Revenue and any other money received by the Water and Sewer Utility and available to be used therefor, excluding principal proceeds of Parity Bonds or other borrowing. No deposit of Gross Revenue may be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement described below in the relevant fiscal year. The City may withdraw money from the Rate Stabilization Account at any time upon authorization of the City Council for inclusion in the Adjusted Net Revenue for any fiscal year of the Water and Sewer Utility, except that the total amount withdrawn from the Rate Stabilization Account in any fiscal year may not exceed the Annual Debt Service (as described below in “Rate Covenant”) in that fiscal year. “Adjusted Net Revenue” means Net Revenue plus withdrawals from the Rate Stabilization Account and less deposits into the Rate Stabilization Account. The City has not made deposits into or withdrawals from the Rate Stabilization Account.

Construction Fund. On the date of initial delivery of the Bonds (the “Issue Date”), the proceeds of the Bonds remaining after the amount sufficient to satisfy the Reserve Requirement has been deposited into the Reserve Account are to be deposited into the Construction Fund and used to pay the costs of issuance and sale of the Bonds and the costs of carrying out the Plan of Additions.

Flow of Funds

All ULID Assessments are to be paid into the Bond Fund and the Gross Revenue is to be deposited into the Water and Sewer Utility Fund (or the respective system funds therein) to be used for the following purposes only in the following order of priority:

- (1) To pay Operating and Maintenance Expenses.
- (2) To make when due the required payments into the Principal and Interest Account in respect of interest on the Parity Bonds.

- (3) To make when due the required payments into the Principal and Interest Account in respect of principal of (and premium, if any, on) the Parity Bonds, whether at maturity or pursuant to redemption prior to maturity.
- (4) To make when due all payments required to be made into the Reserve Account.
- (5) To make when due all payments required to be made under any reimbursement agreement with a Bond Insurer in any priority not inconsistent with the Bond Ordinance, which the City may hereafter establish by ordinance.
- (6) To make when due the required payments to be made into any revenue bond, note, warrant, or other revenue obligation redemption fund, debt service account, or reserve account created to pay and secure the payment of any revenue obligations of the Water and Sewer Utility the payment of which is secured by a lien or charge on Net Revenue junior and inferior to the lien and charge on Net Revenue that secure payment of the Parity Bonds.
- (7) Without priority, to retire by redemption or to purchase in the open market any Parity Bonds or junior lien obligations then outstanding, to make necessary betterments and replacements of or repairs, additions, or extensions to the Water and Sewer Utility, to make deposits into the Rate Stabilization Account, or for any other lawful purpose.

Reserve Account

Reserve Requirement. The City is at all times to maintain on deposit in the Reserve Account an amount equal to the Reserve Requirement, except as otherwise expressly authorized in Bond Ordinance, until the total amount on deposit in the Bond Fund equals the total amount of principal and interest due for all outstanding Parity Bonds to the last maturity thereof, at which time the money in the Reserve Account may be used to pay any such principal and interest, so long as the amount remaining on deposit in the Reserve Account is not less than the Reserve Requirement calculated based on the Parity Bonds then outstanding.

“Reserve Requirement” means, for the Outstanding Parity Bonds, the Bonds, and each issue of Future Parity Bonds secured by the Reserve Account, an amount equal to the least of (1) Maximum Annual Debt Service, (2) 125% of Average Annual Debt Service, or (3) 10% of the original proceeds of each series of the Parity Bonds then outstanding.

Reserve Securities. The Reserve Requirement may be satisfied by any combination of Parity Bond proceeds, Reserve Securities, or other legally available money equal to the Reserve Requirement, or by the deposit of available funds of the City in approximately equal annual installments so that the Reserve Requirement is funded no later than three years after the issuance of any Future Parity Bonds.

“Reserve Security” means, in lieu of cash and investments, any bond insurance, collateral, security, letter of credit, guaranty, surety bond, or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on Parity Bonds, issued by an institution that has been assigned a credit rating at the time that such Reserve Security is provided in the two highest rating categories without regard to gradations within those categories (i.e., AAA or AA).

Withdrawals from Reserve Account. If there is a deficiency in the Principal and Interest Account to make the next payment of principal of or interest on the Parity Bonds, the deficiency shall be made up from the Reserve Account by the withdrawal of amounts necessary for that purpose, *first*, from money on deposit in the Reserve Account, and *second*, from *pro rata* draws on each Reserve Security. Any

deficiency created in the Reserve Account by reason of any such withdrawal shall be made up from the next available of Net Revenue and ULID Assessments after making necessary provision for the required payments into the Principal and Interest Account, *first*, to restore each Reserve Security *pro rata*, and *second*, to make up any remaining deficiency.

Reserve Account Funding. The balance of cash in the Reserve Account as of the date of this Official Statement is \$2,975,640. Upon the issuance of the Bonds, the Reserve Requirement is expected to be \$3,290,576, which is to be satisfied on the Issue Date by a deposit of \$314,936 of Bond proceeds into the Reserve Account. See “SOURCES AND USES OF FUNDS.”

Modification or Termination of Reserve Requirement. The Registered Owner of each Bond, by taking and holding the Bond, is deemed to have consented to the passage by the City of any amendatory ordinance to establish a separate Reserve Requirement for any or all of the Bonds or any Future Parity Bonds, which may be zero, and to establish one or more separate reserve subaccounts for any or all of the Bonds or any Future Party Bonds. See “Amendatory Ordinances” below.

Rate Covenant

The City has covenanted to establish, maintain, and collect rates and charges for all services and facilities provided by the Water and Sewer Utility that will be fair and nondiscriminatory and to adjust those rates and charges from time to time so that:

- (1) the Gross Revenue will at all times be sufficient to (a) pay all Maintenance and Operation Expenses on a current basis, (b) pay when due all amounts that the City is obligated to pay into the Bond Fund and the accounts therein, (c) pay all taxes (or payments in lieu thereof), assessments, or other governmental charges lawfully imposed on the Water and Sewer Utility and any and all other amounts that the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and
- (2) the Adjusted Net Revenue in each fiscal year will be not less than the Coverage Requirement.

“Coverage Requirement” means, for any fiscal year, an amount of Adjusted Net Revenue equal to not less than 1.25 times the Annual Debt Service in that year on all Parity Bonds then outstanding. For purposes of calculating the Coverage Requirement, ULID Assessments due in that year and not delinquent shall be subtracted from Annual Debt Service.

“Annual Debt Service” means, for any fiscal year, with respect to all Parity Bonds outstanding or maturing in that year, all amounts required to be paid in that year in respect of principal of and interest on those Parity Bonds, less all bond interest payable from the proceeds of any Parity Bonds, and less all Tax Credit Subsidy Payments scheduled to be received in that year. Parity Bonds issued as Variable Interest Rate Bonds will be assumed to bear interest at a fixed rate equal to the higher of (1) the highest variable rate borne during the preceding 24 months by any Variable Interest Rate Bonds then outstanding or (2) if no Variable Interest Rate Bonds are then outstanding, a rate determined by reference to the index to be used to determine the interest rate on the Future Parity Bonds proposed to be issued or a comparable index.

Future Parity Bonds

The City may issue Future Parity Bonds the payment of the principal of and interest on which is secured by a lien and charge on Net Revenue and ULID Assessments on a parity with the lien and charge on Net Revenue and ULID Assessments that secure payment of the principal of and interest on the Bonds if and

only if the following conditions are met and complied with at the time of issuance of the Future Parity Bonds:

- (1) There may not be any deficiency in the Principal and Interest Account or the Reserve Account of the Bond Fund.
- (2) The Future Parity Bond Authorizing Ordinance must require that all ULID Assessments levied in connection with the Future Parity Bonds be paid directly into the Bond Fund.
- (3) The Future Parity Bond Authorizing Ordinance must provide for the payment of the principal thereof and interest thereon out of the Bond Fund.
- (4) The Future Parity Bond Authorizing Ordinance must provide for the deposit into the Reserve Account of amounts, if any, necessary to comply with the Reserve Requirement and Section 12.
- (5) The City must have on file either:
 - (a) A certificate from an Independent Utility Consultant showing that, in his or her professional opinion, the annual Net Revenue available for debt service on the Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued shall, for each year, be at least equal to the Coverage Requirement. In making such certification, the Net Revenue for any 12 consecutive calendar months out of the immediately preceding 24 consecutive months shall be used, and the following adjustments may be made to the historical Net Revenue:
 - (i) Any rate change that has taken place or been approved, may be reflected;
 - (ii) Revenue may be added from customers actually added to the Water and Sewer Utility subsequent to the 12-month period;
 - (iii) Revenue may be added from customers to be served by the improvements being constructed out of the proceeds of the Future Parity Bonds to be issued;
 - (iv) A full year's revenue may be included from any customer being served, but who has not been receiving service for the full 12-month period; and
 - (v) Actual or reasonably anticipated changes to the Operating and Maintenance Expenses subsequent to the 12-month period shall be added or deducted, as applicable; or
 - (b) A certificate of the Finance Director showing that, in his or her professional opinion, the annual Net Revenue available for debt service on the Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued shall, for each year, be at least equal to the Coverage Requirement. In making such certification, the Finance Director shall assume that (i) the proposed Future Parity Bonds will remain outstanding to their scheduled maturities and (ii) any Parity Bonds to be refunded by the Future Parity Bonds are not outstanding. The Finance Director shall not make any of the adjustments referred to above.

However, if the Future Parity Bonds are being issued for the sole purpose of refunding Parity Bonds then outstanding (including paying costs of issuance and providing for the Reserve

Requirement), no coverage certification is required if, as result of the issuance of those Future Parity Bonds, (A) in each year that the Future Parity Bonds are scheduled to remain outstanding, the Annual Debt Service on the Future Parity Bonds to be issued is not increased by more than \$5,000 over the Annual Debt Service for that year of the Parity Bonds being refunded, and (B) the final maturity of the Future Parity Bonds to be issued is not more than one year after the Parity Bonds being refunded. In addition, no coverage certification is required if the aggregate principal amount of the Future Parity Bonds being issued does not exceed the aggregate amount of ULID Assessments levied in connection with the issuance of the Future Parity Bonds by more than \$5,000 plus any amount of the proceeds of such Future Parity Bonds deposited into the Reserve Account.

Upon issuance of the Bonds, the City expects to deliver a certificate of the type described in paragraph (5)(b) above.

Nothing contained in the Bond Ordinance prevents the City from issuing revenue obligations to refund maturing Parity Bonds for the payment of which money is not otherwise available.

Junior Lien Obligations

Nothing contained in the Bond Ordinance prevents the City from issuing revenue obligations the payment of which is secured by a lien or charge on Net Revenue that is junior and inferior to the lien and charge on Net Revenue that secure payment of the Parity Bonds, or from pledging to pay into a bond redemption fund or account for such junior lien obligations assessments (including interest and penalties thereon) in any utility local improvement district that are levied to pay part or all of the cost of improvements being constructed out of the proceeds of the sale of such junior lien obligations.

Additional Covenants

In the Bond Ordinance the City has made the following additional covenants with the Registered Owner of each Bond:

Maintenance and Operation. The City will at all times maintain, preserve, and keep the properties of the Water and Sewer Utility in good repair, working order, and condition, will make all necessary and proper additions, betterments, renewals, and repairs thereto and improvements, replacements, and extensions thereof, and will at all times operate or cause to be operated the properties of the Water and Sewer Utility and the business in connection therewith in an efficient manner and at a reasonable cost.

Sale or Disposition of Utility Property. The City will not sell, lease, mortgage, or in any manner encumber or dispose of all the property of the Water and Sewer Utility unless provision is made for payment into the Bond Fund of a sum sufficient to pay the principal of and interest on all Parity Bonds then outstanding. Further, the City will not sell, lease, mortgage, or in any manner encumber or dispose of (each, a “disposition”) any part of the property of the Water and Sewer Utility that is used, useful, and material to the operation thereof (the “affected portion”) unless provision is made for replacement thereof or for payment into the Bond Fund of an amount which shall bear the same ratio to the amount of Parity Bonds then outstanding (less the amount of cash and investments in the Bond Fund and the accounts therein) as (1) the Net Revenue from affected portion of the Water and Sewer Utility for the twelve months preceding such disposition bears to (2) the Net Revenue from the entire Water and Sewer Utility for the same period. Any money paid into the Bond Fund as a result of such a disposition shall be used to retire that proportion of Parity Bonds then outstanding at the earliest practicable date.

Books and Records. The City will maintain complete books and records relating to the operation of the Water and Sewer Utility and its financial affairs, and will cause such books and records to be audited annually, and cause to be prepared an annual financial and operating statement, which shall be provided to any owner of Parity Bonds upon request.

No Free Service. Except to aid the poor or infirm, to provide for resource conservation, or to provide for the proper handling of hazardous materials, the City will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the Water and Sewer Utility free of charge to any person, firm, or corporation, public or private, other than the City.

Collection of Delinquent Accounts. On at least an annual basis, the City will determine all accounts that are delinquent and will take all necessary action to enforce payment of such accounts against those property owners whose accounts are delinquent.

Insurance. The City will at all times carry fire and such other forms of insurance on such of the buildings, equipment, facilities, and properties of the Water and Sewer Utility as are ordinarily carried on such buildings, equipment, facilities, and properties by utilities engaged in the operation of similar utility systems to the full insurable value thereof, and also will carry adequate public liability insurance at all times. The City may self-insure or participate in a joint intergovernmental insurance pool or similar plan, and the cost of that insurance or self-insurance shall be considered a part of Operating and Maintenance Expenses.

ULID Assessments. The City will promptly collect all ULID Assessments and deposit such collections into the Bond Fund to pay or secure the principal of and interest on any Parity Bonds without those ULID Assessments being particularly allocated to any particular series of Parity Bonds.

Separate Utility Systems

The City may create, acquire, construct, finance, own, and operate one or more additional systems for water supply, sewer service, water, sewage, or stormwater transmission or treatment, or other commodity or utility service. The revenue of the Separate Utility System, and any utility local improvement district assessments payable solely with respect to improvements to a Separate Utility System, is not to be included in Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand the Separate Utility System. Neither the Gross Revenue nor the Net Revenue may be pledged to the payment of any obligations of a Separate Utility System, except that the Net Revenue may be pledged on a basis subordinate to the lien on Net Revenue that secures payment of the Parity Bonds.

Amendatory Ordinances

The Bond Ordinance may not be modified or amended in any respect except as described under this heading.

Without Consent of Registered Owners. The City, from time to time, and at any time, without the consent of or notice to the Registered Owners, may pass amendatory ordinances as follows:

- (1) To cure any formal defect, omission, inconsistency, or ambiguity in the Bond Ordinance in a manner not adverse to the registered owner of any Parity Bonds;
- (2) To impose upon the Registrar (with its consent) for the benefit of the registered owners of the Parity Bonds any additional rights, remedies, powers, authority, security, liabilities, or duties that

may lawfully be granted, conferred, or imposed and that are not contrary to or inconsistent with the Bond Ordinance as theretofore in effect;

- (3) To add to the covenants and agreements of, and limitations and restrictions upon, the City in the Bond Ordinance other covenants, agreements, limitations, and restrictions to be observed by the City that are not contrary or inconsistent with the Bond Ordinance as theretofore in effect;
- (4) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien, or pledge created or to be created by, the Bond Ordinance of any other money, securities, or funds;
- (5) To authorize different denominations of the Bonds and to make correlative amendments and modifications to the Bond Ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations, and similar amendments and modifications of a technical nature;
- (6) To modify, alter, amend, or supplement the Bond Ordinance in any other respect that is not materially adverse to the registered owners of the Parity Bonds and which does not involve a change described in subsection (c) of this Section; and
- (7) Due to a change in federal law or rulings, to maintain the exclusion from gross income of the interest on the Tax-Exempt Bonds from gross income for federal income tax purposes.

With Consent of Registered Owners. Except for any amendatory ordinance passed without the consent of Registered Owners as described above, the registered owners of a majority in aggregate principal amount of the Parity Bonds then outstanding have the right from time to time to consent to the passage of any amendatory ordinance deemed necessary or desirable by the City for the purpose of modifying, altering, amending, supplementing, or rescinding, in any particular, any of the terms or provisions contained in the Bond Ordinance. However, consent by the registered owners of all the Bonds then outstanding is required for any amendatory ordinance authorizing: (1) a change in the times, amounts, or currency of payment of the principal of or interest on any outstanding Bond, or a reduction in the principal amount or redemption price of any outstanding Bond or a change in the redemption price of any outstanding Bond or a change in the method of determining the rate of interest thereon; (2) a preference or priority of any Bond or Bonds or any other Bond or Bonds; or (3) a reduction in the aggregate principal amount of Bonds.

An underwriter of Parity Bonds, either in its capacity as an underwriter or remarketing agent, or as agent for or in lieu of registered owners of the Parity Bonds, may consent to the passage of an amendatory ordinance.

Registered owners of the Parity Bonds may be deemed to have notice of and have consented to the passage of any amendatory ordinance so long as (1) the Parity Bond Authorizing Ordinance includes the nature of the proposed amendatory ordinance and states that registered owners of the Parity Bonds will be deemed to have consented to its passage and (2) the preliminary official statement, if any, and official statement, if any, for the Parity Bonds includes the nature of the proposed amendatory ordinance and states that registered owners of the Parity Bonds will be deemed to have consented to its passage.

The Registered Owner of each Bond, by taking and holding the Bond, is deemed to have consented to the passage by the City of any amendatory ordinance to establish a separate Reserve Requirement for any or all of the Bonds or any Future Parity Bonds, which may be zero, and to establish one or more separate reserve subaccounts for any or all of the Bonds or any Future Parity Bonds. See “Reserve Account – Modification or Termination of Reserve Requirement” above.

Defeasance

The City may issue refunding bonds pursuant to State law or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include (1) paying when due the principal of and interest on any or all of the Bonds (the “defeased Bonds”); (2) redeeming the defeased Bonds prior to their maturity; and (3) paying the costs of the refunding or defeasance. If the City sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance (the “trust account”) money and/or Government Obligations maturing at a time or times and bearing interest in amounts sufficient to redeem, refund, or defease the defeased Bonds in accordance with their terms, then all right and interest of the Owners of the defeased Bonds in the covenants of the Bond Ordinance and in the funds and accounts obligated to the payment of the defeased Bonds will cease and become void. Thereafter, the Registered Owners of defeased Bonds will have the right to receive payment of the principal of and interest on the defeased Bonds solely from the trust account and the defeased Bonds will be deemed no longer outstanding.

No Acceleration

If the City fails to set aside and pay into the Bond Fund the amounts required to be paid into the Bond Fund, the registered owner of any of the Parity Bonds then outstanding may bring action against the City and compel the setting aside and payment. Payment of the Bonds is not subject to acceleration under any circumstances, including upon the occurrence of a default. The City is liable for principal and interest payments only as they become due. In the event of multiple defaults in payment of principal of or interest on the Bonds, the Registered Owner of each Bond would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between Registered Owners of earlier and later maturing Bonds. See “CERTAIN INVESTMENT CONSIDERATIONS – Limitations on Remedies; Bankruptcy.”

DEBT SERVICE REQUIREMENTS

Parity Bond Debt Service Schedule

The table below sets forth the debt service schedule for the Outstanding Parity Bonds and the Bonds.

Year	Outstanding Parity Bonds	The Bonds			Total Debt Service ⁽¹⁾
		Principal	Interest	Total	
2021	\$ 2,968,796	\$ —	\$ 321,780	\$ 321,780	\$ 3,290,576
2022	2,970,246	—	304,044	304,044	3,274,290
2023	2,973,946	—	304,044	304,044	3,277,990
2024	2,971,496	—	304,044	304,044	3,275,540
2025	2,971,028	—	304,044	304,044	3,275,071
2026	2,973,946	—	304,044	304,044	3,277,990
2027	2,970,196	—	304,044	304,044	3,274,240
2028	2,973,584	—	304,044	304,044	3,277,628
2029	2,975,640	—	304,044	304,044	3,279,684
2030	2,968,415	—	304,044	304,044	3,272,459
2031	2,968,703	—	304,044	304,044	3,272,746
2032	2,973,520	—	304,044	304,044	3,277,564
2033	2,975,588	—	304,044	304,044	3,279,631
2034	2,973,935	—	304,044	304,044	3,277,979
2035	2,968,460	—	304,044	304,044	3,272,504
2036	2,972,340	—	304,044	304,044	3,276,384
2037	2,971,400	—	304,044	304,044	3,275,444
2038	2,963,945	—	304,044	304,044	3,267,989
2039	1,146,600	1,060,000	304,044	1,364,044	2,510,644
2040	1,149,200	1,075,000	282,844	1,357,844	2,507,044
2041	—	2,245,000	261,344	2,506,344	2,506,344
2042	—	2,295,000	213,638	2,508,638	2,508,638
2043	—	2,345,000	162,000	2,507,000	2,507,000
2044	—	2,400,000	109,238	2,509,238	2,509,238
2045	—	2,455,000	55,238	2,510,238	2,510,238
Total ⁽¹⁾	\$ 55,780,984	\$ 13,875,000	\$ 6,878,867	\$ 20,753,867	\$ 76,534,851

(1) Totals may not foot due to rounding.

Source: The City.

Outstanding Parity Bonds

The table below sets forth a summary of the Outstanding Parity Bonds and the Bonds.

Parity Bonds	Issue Date	Final Maturity	Principal Issued	Principal Outstanding
2011 Bonds	12/28/2011	12/01/2031	\$13,720,000	\$ 9,340,000
2013 Bonds	8/21/2013	12/01/2038	15,010,000	13,935,000
2015 Bonds	6/24/2015	12/01/2040	18,740,000	16,495,000
The Bonds	11/10/2020	12/01/2045	13,875,000	13,875,000
Total			\$61,345,000	\$53,645,000

Source: The City.

Future Parity Bonds

The City does not expect to issue Future Parity Bonds within the next year. The City periodically reviews the Outstanding Parity Bonds for refunding opportunities and may issue refunding bonds to achieve debt service savings.

Other Obligations

As set forth in the table below, the City currently has four loans from the State of Washington Public Works Trust Fund (“PWTF”), one loan from the State of Washington Department of Ecology (“DOE”), and one loan from Snohomish County the payment of which is secured by a lien and charge on Net Revenue junior to the lien and charge on Net Revenue that secure payment of the Parity Bonds.

Loan	Maturity Date	Interest Rate	Original Principal	Outstanding Principal (as of 12/31/19)
PWTF – Treatment Plant / Sewer Improvements	6/30/2022	0.50%	\$1,347,250	\$ 213,975
PWTF – Water Improvement	6/30/2024	0.50	408,000	129,195
PWTF – Storm Improvement	6/30/2024	0.50	605,625	160,313
PWTF – Sewer Improvement	6/30/2025	0.50	1,216,902	433,771
DOE Loan	10/31/2033	2.30	638,540	482,894
Snohomish County Loan ⁽¹⁾	7/01/2037	1.50	545,000	408,750
Total			\$4,352,567	\$1,828,898

(1) Original principal amount is the maximum amount permitted to be drawn down; as of December 31, 2019, the City had drawn down \$408,750.

Source: The City.

Debt Payment Record

The City has always met principal and interest payments on all of its obligations for borrowed money when due. The City has never issued refunding bonds for the purpose of preventing an impending default.

THE WATER AND SEWER UTILITY

The Water and Sewer Utility includes the City's water, sewer, and stormwater utilities. In 2019, Water and Sewer Utility operating revenues totaled \$21,529,322, which included \$8,306,575 of water revenues, \$8,419,341 of sewer revenues, \$4,357,944 of stormwater revenues, and \$445,462 of other operating revenues. See "FINANCIAL INFORMATION – Historical Operating Results." The water system includes approximately 10,314 accounts, the sewer system includes approximately 10,349 accounts, and the stormwater system includes approximately 12,583 accounts.

The City Code requires the City to maintain separate accounting for each of the component systems (i.e., water, sewer, and stormwater) and to adjust the rates of each component system independently, based on the revenue needs and expenses of each system.

Rates and Billing

Rate Setting. Rates are set by ordinance approved by an affirmative vote of the City Council. Rate setting is not subject to control by any federal or State agency. The establishment of rates is within the exclusive jurisdiction of the City, and under State law must be fair and nondiscriminatory and must produce revenue adequate to pay for operation and maintenance and to meet all debt service requirements payable from such revenue. The City reviews its utility rates at least annually. The City's last formal revenue requirements analysis was performed in 2019, which led to utility rate increases effective in 2020, 2021, and 2022.

The Parity Bond Authorizing Ordinances require the City to establish, maintain, and collect rates and charges for all services and facilities provided by the Water and Sewer Utility which will be fair and nondiscriminatory. The City is required to adjust those rates and charges from time to time so that the Adjusted Net Revenue in each fiscal year will be not less than the Coverage Requirement. See "SECURITY FOR THE BONDS – Rate Covenant."

Billing. Water and Sewer Utility customers receive a single bimonthly City bill that includes charges for the City's sewer, water, and stormwater service and make a single payment for these services. Partial payments are applied to the water utility last and the City has the authority to shut off water for non-payment.

The Finance Director, or such authorized representative as he or she may designate, is authorized to make adjustments or corrections to billings for any charge for water, sewer, or stormwater service, including connection charges, minimum bimonthly billings, meter charges, penalty and special charges, improperly charged rates, and, subject to the City Council's approval, the cancellation of uncollectible bills and accounts.

Upon application by a property owner, the Public Works Director may increase or decrease stormwater system rates by up to 50 percent of the level set by the City Council. The sole criterion for adjusting the rate is a determination that the physical characteristics of the site and in particular the stormwater detention, retention, and/or treatment facilities as installed thereon by the owners, or lack thereof, have significantly increased the burden the property places upon the city's stormwater utility (in the event of an increase) or significantly decreased the burden (in the event of a decrease) by providing additional benefits over and above those which the average property places upon the utility through on-site improvements including on-site pollution control mechanisms or technologies that relate to water quality and the property's impact upon the stormwater system. Factors personal to the property owner, such as ability to pay, are not considered. In response to the COVID-19 pandemic, the City has established a housing and supplementary relief fund for City residents. See "Response to COVID-19 Pandemic" below.

Collection; Utility Charges Constitute Lien on Property. Under State law, utility charges constitute a lien and can be applied to a lien upon the property from which such charges are due, superior to all other liens and encumbrances, except for general property taxes and local special assessments, which are enforced in the manner provided by State law. Certain federal liens may also have priority in certain instances. In response to the COVID-19 pandemic, the City is not assessing late fees or service turn on/off fees to its utility customers for the duration of the state of emergency declared by the Governor or until December 31, 2020, whichever occurs first. See “Response to COVID-19 Pandemic” below.

General Facilities Charges. For new customers the City imposes general facility charges (“GFCs”) for water, sewer, and stormwater. In 2012, the Council adopted increases for the years 2012, 2013, and 2014 and beyond. The current GFCs for a residential customer are \$5,050 for water (¾” meter), \$4,417 for sewer, and \$799 for stormwater.

The Water System

The City’s water system provides service to approximately 80 percent of the residents within the City limits. The other approximately 20 percent of the City’s residents (the southwest portion of the City) receives water service from the Olympic View Water & Sewer District (“Olympic View”), the boundaries of which overlap the City. The City does not provide water service to the customers within Olympic View’s boundaries.

Water Supply. All water supplied to the City’s customers currently is purchased from the Alderwood Water and Wastewater District (“Alderwood”) and is conveyed through a single metered connection near the northeast corner of the City. The City also has an intertie that would enable it to serve a portion of its system with water purchased from Seattle Public Utilities (“SPU”), but currently maintains this source of supply and the single metered connection on standby as an emergency intertie. Water purchased from Alderwood originates from the City of Everett Sultan River source. Water supplied by SPU originates from SPU’s Tolt River source. The City expects that its current sources of supply will be adequate for the foreseeable future.

Transmission, Facilities, and Storage. The City’s water system has seven pressure zones with two supply stations, 18 pressure reducing valve stations, two pressure relief stations, one pump station, more than 139 miles of water main, and eleven emergency interties with adjacent water systems. Water storage is provided by four reservoirs that have a combined capacity of 7.5 million gallons (“MG”).

Water System Operations. The table below sets forth certain operating statistics of the City’s water system.

Selected Water System Operating Statistics

	2015	2016	2017	2018	2019
Number of Accounts	10,182	10,210	10,262	10,290	10,314
Water Revenues	\$6,058,189	\$6,512,542	\$7,199,604	\$7,866,843	\$8,306,575
Consumption (ccf) ⁽¹⁾	1,492,904	1,449,121	1,452,770	1,450,909	1,369,110
Average ccf/day	4,090	3,970	3,980	3,974	3,751

(1) ccf = 100 cubic feet.

Source: The City.

Largest Customers. The table below sets forth the largest water customers by amount billed for 2019.

Largest Water Customers – 2019

	<u>Amount Billed</u>	<u>Percent of Water Revenues</u>
Swedish Edmonds Hospital	\$128,524	1.55%
Park 212 Apartments	97,906	1.18
City of Lynnwood ⁽¹⁾	97,346	1.17
Point Edwards HOA	96,913	1.17
City of Edmonds	78,365	0.94
Total	<u>\$499,054</u>	<u>6.01%</u>

(1) Lynnwood purchases water for use at its wastewater treatment plant.

Source: The City.

Water Rate Schedules. In 2019, the City adopted rate increases for the water system effective in 2020, 2021, and 2022. The table below sets forth the adopted water rates.

Water Rates
(bimonthly)

	<u>2020</u>		<u>2021</u>		<u>2022</u>	
	<u>Base Charge</u>	<u>Consumption Charge (per ccf)</u>	<u>Base Charge</u>	<u>Consumption Charge (per ccf)</u>	<u>Base Charge</u>	<u>Consumption Charge (per ccf)</u>
Residential						
Single-family	\$ 38.81	\$ 4.04	\$ 40.56	\$ 4.23	\$ 42.38	\$ 4.42
Multi-family per unit ⁽¹⁾	34.18	4.04	35.72	4.23	37.33	4.42
All other customers based on meter size		4.04		4.23		4.42
Meter Size $\frac{3}{4}$ "	\$ 46.93		\$ 49.04		\$ 51.25	
1"	95.54		99.84		104.34	
1.5"	176.68		184.63		192.94	
2"	269.36		281.48		294.15	
3"	581.08		607.23		634.56	
4"	823.10		860.14		898.85	
6"	1,669.37		1,744.49		1,822.99	

(1) Includes duplexes, apartment houses, condominiums, and other multi-unit residential complexes.

Source: The City.

The bimonthly bill for each customer includes a base charge, a water consumption charge, and a 12.68 percent City utility tax, which is added to the bill. The consumption charge for all customer classes is \$4.04 per 100 cubic feet (“ccf”) of water consumed. A portion of the utility tax is used to offset the costs to the City’s general governmental funds to provide fire hydrants and adequate flow for fire protection, in response to a 2008 ruling by the State Supreme Court that fire protection is a general governmental service and must be paid out of general governmental funds. This portion is currently in the process of being phased out after a ruling in 2013 that utility funds may be used for the purpose of fire hydrant maintenance. The fire hydrant maintenance portion of the utility tax will be completely phased

out in 2021, when the utility tax rate will drop to 10 percent, which is the same rate imposed on sewer system and stormwater system revenues.

History of Water Rate Changes. The table below sets forth average rate changes for the water system from 2015.

Average Water Rate Changes

Year	Percentage Change
2015	9.00%
2016	9.00
2017	9.00
2018	9.00
2019	9.00
2020	4.50
2021	4.50
2022	4.50

Source: The City.

Comparative Rate Schedules. The table below sets forth equivalent monthly single family residential bills for the City’s water system and other water systems in the region.

Comparative Water Charges
(Rates in effect as of January 1, 2020)

City	Monthly Charge ⁽¹⁾
City of Seattle	\$80.50
City of Kirkland	68.42
City of Edmonds	67.39
City of Arlington	52.73
City of Everett	47.43
City of Redmond	44.85
City of Lynnwood	43.58

(1) Assumes single-family residential rates, based on a ¾-inch meter and 1,000 ccf of water consumption per month. Calculated using summer rates where seasonal rates are applicable. Includes utility taxes where charged.

Sources: The City and other jurisdictions.

Water System Capital Improvements. The existing water system was analyzed in 2017 to determine its ability to meet current regulations and the City’s own policies and design criteria. Several analyses were performed to evaluate all components of the water system under both existing and future water demand conditions. The results of the analyses were used to identify and size improvements for the water system. The various improvements currently included within the water system capital improvement plan (the “Water CIP”) include the following:

- Improvements to certain water reservoirs.
- Pressure relief improvements needed to protect the water system from potential high pressure events.

- Replacement of pressure-reducing valve stations and improvements to other stations to ensure long-term operation and reliability.
- Water main replacement projects, including repair and replacement of water mains and related appurtenances, due to age and undesirable pipe material and a need to improve flows.

The Sewer System

The City’s sewer system includes over 168 miles of sewer pipe (including laterals, mains, and trunks), approximately 3,300 manholes and 10,349 customer connections (9,205 single-family residences and 696 multifamily residences, with the remainder being commercial/industrial or government/education), 14 lift stations necessitated by the hilly terrain, and one wastewater treatment plant.

Wastewater Treatment Plant. The City owns and operates a wastewater treatment facility (the “Facility”) that provides sewage treatment for the City and three other municipal wastewater systems pursuant to an interlocal agreement. The Wastewater Treatment, Disposal and Transport Agreement, dated May 17, 1988 (the “Treatment Plant Interlocal Agreement”), with the City of Mountlake Terrace, Olympic View, and Ronald Wastewater District (the “Participants”) that has been extended to February 16, 2022, and is subject to current renegotiations that are in process. The Treatment Plant Interlocal Agreement requires the Participants to discharge to the Facility for the life of the Treatment Plant Interlocal Agreement.

Pursuant to the Treatment Plant Interlocal Agreement, each Participant paid for a portion of certain capital upgrades and improvements to the Facility and received rights to a portion of the capacity of the improved Facility for the treatment of domestic sewage from that Participant’s service area, as set forth in the table below. Each Participant and the City have the right to discharge sewage up to its allocated capacity into the Facility for the term of the Treatment Plant Interlocal Agreement.

Governmental Entity	Allocated Capacity of Domestic Sewage (MGD) ⁽¹⁾	Proportionate Percentage
City of Edmonds	4.609	50.787%
City of Mountlake Terrace	2.103	23.174
Olympic View	1.502	16.551
Ronald Wastewater District	0.861	9.488

(1) Million gallons per day (“MGD”).

Source: The City.

The Participants and the City pay for the maintenance and operation and overhead costs of the Facility based on the average annual daily flow of each entity. The City budgets for and pays these costs and bills the Participants on a monthly basis, proportionate to each Participant’s average annual daily flow for the prior year. At the end of each year, the Participants’ shares of these costs are reconciled in accordance with the actual flows coming from each Participant’s system. If any Participant’s flow into the Facility falls below a minimum level for 30 days or longer, that Participant is charged a Standing Maintenance Charge in lieu of its proportionate share of the costs. If a Participant fails to pay, the City may pursue all rights and remedies available to it under the Treatment Plant Interlocal Agreement to collect the amounts owing.

When any Participant's flow reaches 85 percent of its allocated capacity limit, the City is required to notify the Participant. The City has the right to refuse to accept and treat any amounts in excess of any Participant's allocated capacity.

In 2019, the Facility treated sewage from approximately 12,752 customer equivalents in the City and another approximately 13,753 customer equivalents of the Participants. The City estimates that the Facility has adequate capacity to meet its requirements for the foreseeable future. The costs of any future upgrades or expansions are to be shared among the Participants on the same basis as the original capital costs (set forth in the table above under "Proportionate Percentage").

The operating revenues of the Water and Sewer Utility include intergovernmental payments received from the Participants for their share of costs of the Facility, and the operating expenses of the Water and Sewer Utility include all costs of operating the Facility, a portion of which are paid from intergovernmental payments received from the Participants. See "FINANCIAL INFORMATION – Historical Operating Results."

The Project. The City of Edmonds Regional Wastewater Treatment Plant currently utilizes a Sanitary Sewage Sludge Incinerator ("SSI") to combust solids before final disposal by landfilling. The SSI and all of its support equipment were originally installed 32 years ago and are well beyond their originally expected useful life. The cost of operating and maintaining this equipment has risen sharply in recent years due to increasingly stringent federal air quality regulations and increasing maintenance costs. The choices are limited to: (1) installing a new, modern incinerator or (2) using a more environmentally friendly biosolids management system. A new incinerator is as or more expensive than systems using gasification and pyrolysis and the City would be obligated to bring air emissions up to the new source performance standards. Gasification and pyrolysis technologies cost less to operate and maintain and reduce the City's carbon footprint. Resolution No. 1389 of the City commits the City to achieving or exceeding the goals established in the Paris Climate Accords.

Initial research, technical information requests, and evaluation were conducted via a request for qualifications process that included proposals from across the country. The results revealed new technologies that can significantly improve the recovery of carbon and are viable alternatives to incineration. The City has concluded that either pyrolysis or partial gasification could meet the goal and intent of Resolution No. 1389. To this end, the City has contracted with Ecoremedy, a gasification integrator, to design, construct, and commission a proprietary gasification/pyrolysis system to process all of the Facility's biosolids. The Project includes guaranteed performance provisions, a detailed and positive energy balance, and a commitment to a single source of responsibility during performance commissioning.

The City and the three Participants have concluded that the approach offered by Ecoremedy will be a better fit than a pyrolysis-only technology. The City has finalized a cost proposal to implement this technology with Ameresco, Inc. In order to reduce financial and operational risks and build upon the recent success of prior energy-related projects, the City will be using an Energy Savings Performance Contract ("ESPC") through the State Department of Enterprise Services to complete the design, construction, and performance testing for the Project. ESPC projects are delivered with guaranteed not-to-exceed pricing, guaranteed performance of new systems, and guaranteed energy savings that are measured and verified.

The guaranteed maximum cost of the Project is \$26.1 million, with the City's share being \$13.3 million. The balance of Project costs are to be paid by the Participants. In accordance with the Treatment Plant Interlocal Agreement, the City will invoice each of the other Participants for their share of Project costs upon receipt by the City of invoices for the same. Each of the three Participants is currently securing

funds, including utility funds, grants, and/or bond proceeds, to cover their respective costs for the Project. The City currently plans to pay for its portion of the work using a combination of Bond proceeds and rate revenue. The City is also looking into the possibility of securing grant funds and a sales tax exemption to cover a portion of the Project cost. If these become available and the City is awarded grants and/or a tax exemption for the Project any excess Bond proceeds will be used toward other Wastewater Treatment Plant projects or sewer system projects as defined in the sewer system capital improvement plan (the “Sewer CIP”).

The City expects to achieve completion of the Project by the end of 2021 and to complete commissioning of the Project in the first quarter of 2022.

Other Interlocal Agreements. The sewage in the northern part of the City is conveyed and treated by the City of Lynnwood at its wastewater treatment plant. This flow represents approximately 2,572 customer equivalents or an annual average daily flow of 800,000 gallons per day in 2019. An interlocal agreement in effect since May 1990 reserves capacity for the City at the Lynnwood wastewater treatment plant. The agreement has no expiration date and reserves capacity for the City at an annual average daily flow of up to 920,000 gallons per day.

King County provides conveyance for wastewater from the Edmonds East collection area via the Ballinger Pump station to the King County system for treatment pursuant to an October 2000 agreement between the City and King County. The City takes a similar amount of flow from the King County pump station located in the Richmond Beach area near the City of Shoreline. The agreement is structured to minimize any need to pay expenses to either party by attempting, on an annual basis, to match the total annual flow from these two separate collection areas. This “flow swap” agreement terminates in 2048.

Sewer System Operations. The table below sets forth certain operating statistics of the City’s Sewer System.

Selected Sewer System Operating Statistics

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Number of Accounts	10,222	10,224	10,288	10,321	10,349
Sewer Revenues ⁽¹⁾	\$5,721,908	\$6,300,505	\$6,952,698	\$7,713,349	\$8,419,341

(1) Reflects revenue from retail customers only. Does not include intergovernmental payments for the operation and maintenance of the Facility under the Treatment Plant Interlocal Agreement. See “FINANCIAL INFORMATION – Historical Operating Results.”

Source: The City.

Largest Customers. The table below sets forth the City’s largest retail sewer customers, excluding the City itself, by amount billed for 2019.

Largest Retail Sewer Customers – 2019

	<u>Amount Billed</u>	<u>Percent of Sewer Revenues</u>
Swedish Edmonds Hospital	\$125,873	1.50%
Point Edwards HOA	113,681	1.35
Park 212 Apartments	111,943	1.33
Edmonds School District	77,412	0.92
Pacific Parks Apartments	74,910	0.89
Total	<u>\$503,819</u>	<u>5.98%</u>

Source: The City.

Sewer Rate Schedules. In 2019, the City adopted rate increases for the sewer system effective in 2020, 2021, and 2022. The table below sets forth the adopted sewer rates.

Sewer Rates
(bimonthly)

	<u>2020</u>		<u>2021</u>		<u>2022</u>	
	<u>Base Charge</u>	<u>Consumption Charge ⁽¹⁾ (per ccf)</u>	<u>Base Charge</u>	<u>Consumption Charge ⁽¹⁾ (per ccf)</u>	<u>Base Charge</u>	<u>Consumption Charge ⁽¹⁾ (per ccf)</u>
Residential						
Single-family	\$ 91.67	None	\$ 96.25	None	\$ 101.06	None
Multi-family per unit ⁽²⁾	73.65	None	77.33	None	81.20	None
All other customers ⁽²⁾	5.21	\$ 5.90	5.47	\$ 6.20	5.74	\$ 6.51

(1) Consumption charge is per ccf of metered water consumption.

(2) Includes duplexes, apartment houses, condominiums, and other multi-unit residential complexes.

Source: The City.

The sewer rates are based on a fixed bimonthly base. The City imposes a 10.0 percent utility tax on each bill.

History of Sewer Rate Changes. The table below sets forth average rate changes for the sewer system from 2015.

Average Sewer Rate Changes

Year	Percentage Change
2015	9.50%
2016	9.50
2017	9.50
2018	9.50
2019	9.50
2020	5.00
2021	5.00
2022	5.00

Source: The City.

Comparative Rate Schedules. The table below sets forth equivalent monthly single-family residential rates for the City’s sewer system and other sewer systems in the region.

Comparative Sewer Charges
(Rates in effect as of January 1, 2020)

Entity	Monthly Charge ⁽¹⁾
City of Seattle	\$155.50
City of Kirkland	110.75
City of Arlington	70.15
City of Redmond	59.48
City of Everett	51.17
City of Lynnwood	50.81
City of Edmonds	50.42

(1) Residential rate assumes 1,000 cubic feet of water consumption per month, where rates include a variable component dependent on water consumption volume. Includes utility taxes where charged.

Sources: The City and other jurisdictions.

Sewer System Capital Improvements. The existing sewer system was analyzed in 2013 to determine its ability to meet current regulations and the City’s own policies and design criteria. Several analyses were performed to evaluate all components of the sewer system under both existing and future demand conditions. The results of the analyses were used to identify and size improvements and upgrades for the sewer system set forth in the Sewer CIP. The City will use proceeds of the Bonds to fund a portion the projects described in the Sewer CIP. The specific projects to be funded will be determined by the Finance Director, consistent with the Sewer CIP. Various planned improvements included within the Sewer CIP include:

- Sewer main replacement project, including repair and replacement of sewer pipe sections and related appurtenances, needed due to age undesirable pipe material and a need to improve flows.
- Rehabilitation of existing pipe with “cured in place pipe.”
- Capital costs of a trunk sewer study and a lift station metering and flow study.

- The City’s share of the costs of designing, constructing, and commissioning a proprietary gasification/pyrolysis system to process the Facility’s biosolids. See “The Project” above.

The Stormwater System

The City formed its stormwater utility in 1998. The City’s stormwater system provides stormwater conveyance, flow control, and water quality treatment services.

The City uses the collected fees to ensure adequate capacity of the City-owned stormwater system that accepts runoff from private property and from public roads and facilities and conveys it to receiving waters (including some to groundwater). Fees are used to operate and maintain the stormwater system, provide for minor system repair and replacement/extension costs, and comply with federal and State water quality mandates under the Western Washington Phase II Municipal Permit (also known as the National Pollutant Discharge Elimination System or “NPDES”) permit. See “Compliance with State and Federal Environmental and Water Quality Laws and Regulations” below.

Service demands on the stormwater system have increased in recent years due to population growth, land development, annexations of areas from the County with inadequate preexisting drainage systems, and increasing regulatory mandates for improving water quality and aquatic habitat in the surface waters that receive the City’s stormwater runoff. Storm patterns in the region have changed, likely due to accumulated climate change over the last several decades after most of the stormwater system’s piped infrastructure was designed and built, and the region now experiences more of the seasonal rainfall coming from more intense storm events.

Stormwater System Operations. The table below sets forth certain operating statistics of the City’s stormwater system.

Selected Stormwater System Operating Statistics

	2015	2016	2017	2018	2019
Number of Accounts	12,410	12,456	12,505	12,550	12,583
Stormwater Revenues ⁽¹⁾	\$3,143,439	\$3,289,613	\$3,628,556	\$3,998,887	\$4,357,944

Source: The City.

Largest Customers. The table below sets forth the largest stormwater customers by amount billed for 2019.

Largest Stormwater Customers – 2019

	Amount Billed	Percent of Stormwater Revenues
Edmonds School District	\$184,192	4.23%
US Reif Firdale Village	60,600	1.39
City of Edmonds	60,462	1.39
Port of Edmonds	48,660	1.12
Swedish Edmonds Hospital	29,299	0.67
Total	\$383,213	8.79%

Source: The City.

Stormwater Rates. The stormwater utility rate paid by an individual landowner is based on the number of equivalent service units (“ESU”) on each parcel. One ESU is equal to 3,000 square feet of impervious surface area. A single family residential parcel is billed as one ESU. Multi-family residential units and all other customers are billed based on the number of ESUs, determined by measuring the square footage of impervious surface area on the property.

The stormwater rates are billed bimonthly. The City imposes a 10.0 percent utility tax on each bill.

In 2019, the City adopted rate increases for the stormwater system effective in 2020, 2021, and 2022. The table below sets forth the adopted stormwater rates.

Stormwater Rates (bimonthly)			
	<u>2020</u>	<u>2021</u>	<u>2022</u>
Residential (single-family and multi-family)	\$37.61	\$41.19	\$45.10
All other customers (per ESU) (monthly equivalent, billed bimonthly)	18.81	20.60	22.56

Source: The City.

History of Stormwater Rate Changes. The table below sets forth average rate changes for the stormwater system since 2015.

Average Stormwater Rate Changes

<u>Year</u>	<u>Percentage Change</u>
2015	4.50%
2016	4.50
2017	10.00
2018	10.00
2019	10.00
2020	9.50
2021	9.50
2022	9.50

Source: The City.

Comparative Rate Schedules. The table below sets forth shows equivalent monthly residential bills for the City’s stormwater system and other stormwater systems in the region. These bills are based on one ESU and include taxes, where applicable.

Comparative Stormwater Charges
(Rates in effect as of January 1, 2020)

<u>Entity</u>	<u>Monthly Charge⁽¹⁾</u>
City of Seattle	\$46.52
City of Everett	25.94
City of Mukilteo	24.84
City of Woodinville	24.08
City of Edmonds	20.69
City of Kirkland	19.82
City of Lake Forest Park	18.65
City of Redmond	16.56
City of Lynnwood	14.33
City of Arlington	6.89

(1) Monthly rates charged to single-family residential properties. Includes utility taxes where charged.
Sources: The City and other jurisdictions.

Stormwater System Capital Improvements. The stormwater system capital improvement plan (“Stormwater CIP”) includes the design, permitting, and construction of flood control and water quality improvement projects. These include projects that will replace pipes, catch basins, and other infrastructure in undersized systems or in those that have reached their useful life; adding stormwater systems to areas that were annexed from the County in the late 1990s that either had no systems or substandard systems; and City capital projects to build or expand treatment, waste management, and other facilities to meet the water quality requirements of the Western Washington Phase II Municipal Stormwater Permit administered by the State Department of Ecology. Various planned improvements currently included within the Stormwater CIP are:

- Marsh restoration and creek daylighting.
- Specified drainage improvements along various existing transportation corridors within the City.
- Stormwater high flow management projects.
- Rehabilitation of or abandonment of certain stormwater pipes.
- Drainage infrastructure costs incurred in connection with various transportation improvements.

Response to COVID-19 Pandemic

The first known case of COVID-19 caused by the novel coronavirus in the United States was identified on January 21, 2020 in Snohomish County, Washington. The rapid spread of the virus across the United States caused the federal government to declare a national emergency beginning March 1, 2020, while the global outbreak of COVID-19 was later declared a pandemic by the World Health Organization on March 11, 2020. Since that time, state governments across the country have imposed varying degrees of restrictions on their economies in an attempt to slow the spread of the virus and its health impacts on the population.

The State Governor began imposing restrictions on social gatherings beginning in early March, increasing the State’s response with a Stay Home, Stay Healthy executive order imposed on March 23, 2020. The order required all residents to stay home unless pursuing essential activities, closed all businesses except those determined essential, and banned all gatherings for social, recreational, and spiritual purposes. The Governor has since implemented a four-phased Safe-Start plan to re-open the State’s economy by county.

On March 18, 2020, Governor Inslee waived or suspended statutes that prevent, hinder, or delay necessary action in coping with the economic impacts to utility customers throughout the State resulting from the COVID-19 pandemic. Such waivers and suspensions were set to expire on August 1, 2020. On July 31, 2020, Governor Inslee prohibited all energy, telecommunications, and water providers in the State from conducting the following activities: (1) disconnecting any residential customers from energy, telecommunications, or water service due to nonpayment on an active account, except at the request of the customer, (2) refusing to reconnect any residential customer who has been disconnected due to nonpayment, (3) charging late fees for late payment or reconnection of energy, telecommunications, or water service, and (4) disconnecting service to any residential customer who has contacted the utility to request assistance. These prohibitions on disconnecting, refusing to reconnect, and charging late fees have been extended until termination of the COVID-19 pandemic State of Emergency or until December 31, 2020, whichever occurs first, and do not affect amounts owed for utility service.

As of October 2020, Snohomish County remains in phase two of the Safe-Start plan, requiring residents to continue to stay home except for essential activities, allowing outdoor recreation and group gatherings of up to five people outside of a household, and re-opening several businesses at limited capacity including barbershops and salons, restaurants, pet services, professional services, and retail with restrictions. The number of COVID-19 cases in the City, the State, the United States, and globally continues to fluctuate, which may affect the reopening of the local, state, national, and global economy.

The City responded to operational challenges facing the Water and Sewer Utility by splitting maintenance workers in each utility system into two separate crews in the middle of March. They rotated week by week with one crew working on-site (while following federal Centers for Disease Control and Prevention guidelines for distancing and use of personal protective equipment). At the end of each work week, the crew remained at home to “stay home and stay healthy” and the other crew replaced them. This allowed the City to maintain a work crew if a positive COVID-19 case developed requiring quarantine of the other crew. This program was followed until mid-June, at which time all maintenance staff returned to work. To date, the City’s Public Works Department of 88 personnel has not experienced a positive COVID-19 case.

The City is complying with Governor’s order and will not be assessing late fees or service turn on/off fees to its utility customers for the duration of the state of emergency or until December 31, 2020, whichever occurs first. The City has also established a \$100,000 housing and supplementary relief fund for City residents. The fund will give grants up to \$1,000 to households earning no more than 60% of the Snohomish County median income. In addition, the City continues to offer long-term utility payment discounts to low-income residents who qualify for the program.

The Water and Sewer Utility has not experienced any appreciable change in usage or in accounts receivable (including aging), nor has the Water and Sewer Utility experienced any increase in operational or personnel expenses. If this situation changes, and ending fund balances are negatively affected, the City expects to decrease the scope of rate-funded annual pipe replacement and maintenance projects to make up any shortfall. Each utility system fund on average spends \$2.5 to \$3.0 million per year on this work, totaling on average \$7.5 to \$9.0 million annually.

The City cannot predict the duration and extent of the COVID-19 pandemic public health emergency or quantify the magnitude of the impact on the local, State, national, or global economy or on the other revenues and expenses of the Water and Sewer Utility. The outbreak of the COVID-19 pandemic within the City is ongoing, and its dynamic nature leads to many uncertainties, including (1) the geographic spread of the virus; (2) the severity of the associated COVID-19 disease; (3) the duration of the outbreak; (4) actions that may be taken by governmental authorities to contain or mitigate the outbreak; (5) the development of medical therapeutics or vaccinations; (6) travel restrictions; (7) the impact of the

COVID-19 pandemic on the local, state, national, or global economy; (8) whether and to what extent the Governor may order additional public health measures; and (9) the impact of the COVID-19 pandemic and actions taken in response to the pandemic on Water and Sewer Utility operations, revenues, expenses, and financial condition.

Compliance with State and Federal Environmental and Water Quality Laws and Regulations

The Water and Sewer Utility is subject to regulation under several federal laws and regulations, including the Clean Water Act, the Safe Drinking Water Act, and the Endangered Species Act. Applicable State regulations also include regulations under the State Environmental Policy Act (“SEPA”) and State water quality standards. The City’s management of the Water and Sewer Utility is required by State law to be consistent with the Puget Sound Water Quality Management Plan, the City’s own Comprehensive Plans that are required pursuant to the Growth Management Act, and various other State regulations.

Water System. The City is in compliance with all current regulatory requirements, including monitoring requirements. The City is also planning to take actions to prepare for upcoming changes in the State groundwater rule, implementation of the Stage 2 disinfection byproduct rule, and revisions to the public notification rule.

Sewer System. The City is in full compliance with all current regulatory requirements, including monitoring requirements, including provisions regarding infiltration/inflow and maintaining adequate pollutant levels in the collected sewage.

The NPDES permit for the Facility expired on October 31, 2019, and remains in effect under an administrative extension. The State Department of Ecology (“Ecology”) is developing a Nutrients General Permit applicable to nearly 70 domestic wastewater treatment plants discharging to marine and estuarine waters of Puget Sound. The Nutrients General Permit will focus on controlling nutrients and will work in conjunction with the plants’ existing individual permits. The City has determined to evaluate retrofitting existing processes with an in-situ nitrogen reduction technology. The City expects to conduct a pilot project of a mobile organic biofilm (Nuvoda MOB) process with a biofilm media, as a new and developmental technology. The duration of the pilot project will run concurrently with the development of the Nutrients General Permit, with final results expected in 2021.

Stormwater System. The City was issued a municipal stormwater NPDES permit by Ecology in compliance with the provisions of the State Water Pollution Control Law and the Federal Water Pollution Control Act (Clean Water Act). The Western Washington Phase II Municipal Stormwater Permit is available on the Ecology website. The most recent version of the permit became effective August 1, 2019. The permit will be in effect until July 31, 2024, or until the next version is made effective.

The permit authorizes the discharge of stormwater to surface and ground waters from the City’s stormwater drainage system. The permit requires the City to develop and annually update a Stormwater Management Program (“SWMP”) that details the actions and activities to be implemented by the City to reduce the discharge of pollutants. The SWMP includes measures related to public education and outreach; public involvement; illicit discharge detection and elimination; controlling runoff from new development, redevelopment, and construction sites; pollution prevention and operation and maintenance for municipal operations; and monitoring. The permit lists specific actions and methods that the City must implement through the SWMP. The City updates the SWMP annually as required by the permit.

At the end of the second quarter of 2020, the City was in full compliance with the programs, codes, processes, and procedures required by the permit. Two of the more significant requirements of the permit

are stormwater planning and source control. The source control inspection program must be operational by January 1, 2023. The City expects to be in compliance with these requirements.

Endangered Species Act. In planning future projects, the City evaluates the construction and operation of the facilities to determine if there will be any impact on endangered species through the use of site evaluations, special environmental studies, and preparation of SEPA checklists or environmental impact statements. The City develops alternatives to minimize or avoid impacts on endangered species and employs best management practices during routine operation and maintenance activities to minimize impacts on the environment.

Historical Operating Results

The tables below set forth summary statements of the revenues, expenses, and changes in net position for the Water and Sewer Utility for the past five years, calculation of Parity Bond debt service coverage for the past five years, and summary statements of net position for the Water and Sewer Utility as of the end of the past five years. Additional information that may interpret, clarify, or modify the summary statements set forth in the tables may be contained in the complete audited financial statements of the City, including the accompanying footnotes. See Appendix D – “AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019.”

Water and Sewer Utility
Summary Statements of Revenues, Expenses, and Changes in Net Position
(Years Ended December 31 – \$000s)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Operating revenues					
Charges for services	\$ 18,868	\$ 20,482	\$ 22,510	\$ 24,523	\$ 25,798
Other operating revenue	226	381	261	248	186
Total operating revenues	<u>19,094</u>	<u>20,864</u>	<u>22,771</u>	<u>24,772</u>	<u>25,983</u>
Operating expenses					
Personnel services	4,318	4,438	4,639	3,884	4,333
Operations and maintenance	9,730	10,241	10,519	10,826	11,169
Professional services	542	1,011	1,008	576	629
Insurance	251	222	247	355	369
Depreciation	3,443	3,560	3,550	3,965	4,175
Total operating expenses	<u>18,285</u>	<u>19,473</u>	<u>19,962</u>	<u>19,606</u>	<u>20,675</u>
Operating income (loss)	<u>810</u>	<u>1,391</u>	<u>2,809</u>	<u>5,166</u>	<u>5,308</u>
Nonoperating revenues (expenses)					
Intergovernmental	58	79	21	33	34
Investment earnings	136	132	47	231	364
Other operating revenue	7	–	–	–	–
Judgments and settlements	–	–	3	–	–
Gain (loss) on sale of capital assets	(186)	(652)	(37)	(1,039)	(2,226)
Interest expense	(1,583)	(1,350)	(1,125)	(1,704)	(1,652)
Total nonoperating revenues (expenses)	<u>(1,568)</u>	<u>(1,791)</u>	<u>(1,092)</u>	<u>(2,479)</u>	<u>(3,480)</u>
Income (loss) before contributions and transfers	(759)	(401)	1,718	2,687	1,828
Professional services	–	–	–	–	(54)
Capital grants and contributions	1,863	2,486	2,282	1,515	1,458
Transfers in (out)	(8)	(11)	–	(4)	(12)
Change in net position	1,096	2,074	4,000	4,198	3,219
Total net position – beginning	71,147	69,581	71,656	75,655	79,853
Change in accounting principle (GASB 68)	(2,662)	–	–	–	–
Total net position – ending	<u>\$ 69,581</u>	<u>\$ 71,656</u>	<u>\$ 75,655</u>	<u>\$ 79,853</u>	<u>\$ 83,073</u>

Water and Sewer Utility
Calculation of Parity Bond Debt Service Coverage
(Years Ended December 31 – \$000s)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Gross revenue ⁽¹⁾	\$ 21,100	\$ 23,561	\$ 25,124	\$ 26,551	\$ 27,839
Direct operating expenses ⁽²⁾	<u>14,873</u>	<u>15,924</u>	<u>16,412</u>	<u>15,646</u>	<u>16,500</u>
Net revenue	<u>\$ 6,227</u>	<u>\$ 7,637</u>	<u>\$ 8,711</u>	<u>\$ 10,906</u>	<u>\$ 11,339</u>
Parity Bond debt service	\$ 2,324	\$ 2,969	\$ 2,971	\$ 2,972	\$ 3,027
Parity Bond debt service coverage	2.68x	2.57x	2.93x	3.67x	3.75x

(1) Includes operating and nonoperating revenue.

(2) Excludes depreciation.

Water and Sewer Utility
Summary Statements of Net Position
(As of December 31 – \$000s)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 21,529	\$ 18,707	\$ 5,750	\$ 4,155	\$ 11,606
Investments	–	6,218	19,761	20,025	13,078
Customer accounts	2,622	2,896	3,180	3,422	3,720
Interest on investments	–	23	85	141	137
Due from other governments	742	861	801	1,504	258
Inventory	123	109	125	141	154
Total current assets	<u>25,016</u>	<u>28,813</u>	<u>29,702</u>	<u>29,388</u>	<u>28,953</u>
Noncurrent assets:					
Restricted cash and investment	15,931	8,696	4,348	2,976	2,976
Land	1,257	1,257	1,257	1,257	1,257
Property, plant and equipment	74,611	79,762	80,603	90,201	89,108
Construction in progress	8,493	7,314	11,773	6,116	7,755
Intangible assets (net)	184	132	80	33	31
Total noncurrent assets	<u>100,476</u>	<u>97,162</u>	<u>98,062</u>	<u>100,583</u>	<u>101,127</u>
Total assets	<u>125,492</u>	<u>125,974</u>	<u>127,764</u>	<u>129,970</u>	<u>130,080</u>
Deferred outflows of resources					
Refundings and pension	494	787	681	407	434
Total assets and deferred outflows of resources	<u>125,986</u>	<u>126,761</u>	<u>128,445</u>	<u>130,378</u>	<u>130,514</u>
Liabilities					
Current liabilities:					
Accounts payable	1,248	1,149	816	954	778
Wages and benefits payable	197	211	198	207	215
Interfund payables	192	206	219	462	467
Due to other governmental units	467	487	303	397	119
Other current liabilities	164	409	416	445	116
Interest payable	155	147	143	138	134
Total current liabilities	<u>2,423</u>	<u>2,610</u>	<u>2,095</u>	<u>2,604</u>	<u>1,829</u>
Noncurrent liabilities:					
Compensated absences	357	348	430	403	415
Loans payable	2,338	2,323	1,880	1,787	1,556
Revenue bonds payable	45,571	46,441	43,036	41,701	40,316
G.O. bonds payable	2,663	160	2,243	1,993	1,741
Pension obligation (net)	2,599	3,110	2,668	1,392	916
Total noncurrent liabilities	<u>53,527</u>	<u>52,382</u>	<u>50,257</u>	<u>47,276</u>	<u>44,944</u>
Total liabilities	<u>55,951</u>	<u>54,992</u>	<u>52,352</u>	<u>49,879</u>	<u>46,773</u>
Deferred inflows of resources					
Refunding and pension	454	113	437	645	669
Total liabilities and deferred inflows of resources	<u>56,405</u>	<u>55,105</u>	<u>52,789</u>	<u>50,524</u>	<u>47,442</u>
Net position					
Net investment in capital assets	48,263	45,571	47,484	52,126	54,539
Restricted for:					
Customer deposits	9	11	12	7	8
Debt service	2,976	2,976	2,976	2,976	2,976
Unrestricted	18,334	23,098	25,183	24,745	25,550
Total net position	<u>\$ 69,581</u>	<u>\$ 71,656</u>	<u>\$ 75,655</u>	<u>\$ 79,853</u>	<u>\$ 83,073</u>

FINANCIAL INFORMATION

Accounting Practices

The City's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units and are regulated by the State Auditor's Office. The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

Budgetary Policies

The City budgets its funds annually at the fund level in accordance with chapter 35A.33 RCW. Transfers or revisions within funds are allowed, but only the City Council, by ordinance, has the authority to increase or decrease a fund's budget. Any unexpended appropriations lapse at the end of the fiscal year, except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

Auditing of City Finances

Accounting systems and budgetary controls are prescribed by the Office of the State Auditor in accordance with RCW 43.09.200 and 43.09.230. State statutes require audits for cities of Edmonds' size to be conducted by the Office of the State Auditor. The City complies with the systems and controls prescribed by the Office of the State Auditor and establishes procedures and records that reasonably assure safeguarding of assets and the reliability of financial reporting.

The State Auditor is required to examine the affairs of cities at least once every two years. The City is audited annually. The examination must include, among other things, the financial condition and resources of the City, whether the laws and constitution of the State are being complied with, and the methods and accuracy of the accounts and reports of the City. Reports of the auditor's examinations are required to be filed in the office of the State Auditor and in the finance department of the City. The City's audited financial statements for the year ended December 31, 2019, are included as Appendix D.

Investments

State law limits the investment of public funds by local governments to the following authorized instruments: (1) bonds of the State or any local government in the State, (2) general obligation bonds of any other state or local government thereof which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, (3) registered warrants of a local government in the same county as the local government making the investment, (4) obligations of the U.S. government, its agencies and wholly owned corporations, or obligations issued or guaranteed by supranational institutions, provided, that at the time of investment, the United States government must be the largest shareholder of such institution, (5) obligations of the Federal Home Loan Bank, Fannie Mae, and other government-sponsored corporations, (6) bankers' acceptances purchased on the secondary market, (7) commercial paper purchased on the secondary market, subject to State Investment Board policies, and (8) corporate notes purchased on the secondary market, subject to State Investment Board policies.

The City's investment policy manages the City's exposure to declines in fair values by limiting the average of maturity of its portfolio to no more than three and one half years, unless an investment is matched to an anticipated future cash flow. The City's investment policy limits the instruments in which

the City may invest. The City is empowered to invest in the following types of securities: (1) U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value; (2) U.S. Treasury securities maturing in less than ten years, fully insured or collateralized certificates of deposit, and other evidences of deposit at qualified financial institutions that are approved by the Washington Public Deposit Protection Commission; (3) banker’s acceptances, and commercial paper rated in the highest tier by a nationally recognized rating agency; (4) investment grade obligations of state and local governments and public authorities located within the State; and (5) local government investment pools, either state administered or through joint powers statutes and other intergovernmental agreement legislation.

As of June 30, 2020, the City had total cash and investments in the amount of \$65,645,560 (unaudited). The table below sets forth the City’s cash and investments as of June 30, 2020.

Cash and Investments
(as of June 30, 2020)

Deposits with U.S. Bank	\$ 3,246,400
Petty Cash/Change Funds	4,500
Local Government Investment Pool	35,091,842
First Financial Bank Certificates of Deposit	7,803,516
Federal Agency Securities	19,499,302
	\$65,645,560
Total Cash and Investments	\$65,645,560

Source: The City.

Local Government Investment Pool. The State Treasurer’s Office administers the Local Government Investment Pool (the “LGIP”), a \$22.0 billion dollar (as of August 31, 2020) fund that invests money on behalf of more than 600 participants. 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, (1) the safety of principal; (2) the assurance of sufficient liquidity to meet cash flow demands; and (3) to attain the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to benefit from the economies of scale inherent in pooling. It is also intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than would otherwise be available to them. Although not regulated by the SEC, the LGIP is invested in a manner generally consistent with the SEC guidelines for Rule 2a-7 money market funds; for example, the LGIP currently it has a maximum weighted average maturity of 60 days and a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The weighted average maturity of the LGIP generally ranges from 30 to 60 days. Investments permitted under the LGIP’s guidelines include U.S. government and agency securities, bankers’ acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, motor vehicle fund warrants, and certificates of deposit issued by qualified Washington State depositories.

THE CITY

The City was incorporated in 1890, and operates under State law as a non-charter code city with a mayor–council form of government. The City provides a full range of services, including police; planning and zoning; water, sewer, and stormwater collection and treatment services; construction and maintenance of

streets and other infrastructure; a municipal court; and recreational activities and cultural events. Garbage and recycling is provided by private waste hauling companies under contract with the City, South Snohomish County Regional Fire Authority provides fire protection and emergency medical services, and the City contracts with Snohomish County for jail services. Snohomish County Public Utility District delivers electric services. Puget Sound Energy is the primary purveyor of natural gas services. Community Transit and Sound Transit supply public transportation services in and out of the City.

City Management and Staff

The City is served by a full-time mayor and a seven-member city council (the “Council”), all elected at-large to four-year terms by voters of the City. The Council members are part-time elected officials who exercise the legislative powers of the City and determine matters of policy. The Mayor is elected at large and also serves a four-year term. The Mayor is responsible for all City affairs.

Member	Position	Term Expires
Mike Nelson	Mayor	December 31, 2023
Adrienne Fraley-Monillas	City Council President	December 31, 2021
Kristiana Johnson	Council Member	December 31, 2021
Luke Distelhorst	Council Member	December 31, 2021
Diane Buckshnis	Council Member	December 31, 2023
Vivian Olson	Council Member	December 31, 2023
Susan Paine	Council Member	December 31, 2023
Laura Johnson	Council Member	December 31, 2023

Dave Turley, Interim Finance Director. Mr. Turley began his employment with the City in July 2016 as Assistant Finance Director and was appointed Interim Finance Director in May 2020. Mr. Turley has more than 30 years of experience in accounting and finance. Prior to joining the City, he was a Finance Manager and Accounting Supervisor at King County for 13 years. Mr. Turley received a Bachelor’s Degree in Accounting from Brigham Young University and a Master’s of Public Administration degree from the University of Washington and is a licensed certified public accountant.

Phil Williams, Public Works and Utilities Director. Mr. Williams manages the Public Works Department, which consists of all capital and maintenance programs for the Water and Sewer Utility, and the Engineering, Fleet, Facilities, and Street Divisions. Mr. Williams has held this position since 2010. Prior to working for the City, Mr. Williams held similar positions with three other cities in Washington—Spokane, Marysville, and Bremerton—over a 36-year career. In addition to his work with cities, Mr. Williams spent six years with CH2M Hill, an engineering consulting company, five years with Kaiser Aluminum, and five years with the State of Washington Department of Ecology. He has a Bachelor’s Degree in Wildlife Biology from Washington State University and a Master’s Degree in Aquatic Biology from Eastern Washington University.

Labor Relations

The City currently employs 249 full-time and 20 part-time employees. The City enters into written bargaining agreements with bargaining organizations; agreements contain provisions on such matters as salaries, vacation, sick leave, medical and dental insurance, working conditions, and grievance procedures. The table below sets forth the City’s current agreements with labor unions.

City Bargaining Units

Labor Union	Employees Covered	Effective Through
Edmonds Police Officers Association	53	12/31/2023
Law Enforcement Support Service Employees ⁽¹⁾	12	12/31/2019
Public Works Employees Teamsters	70	12/31/2020
Edmonds Employee Association (AFSCME Council 2)	49	12/31/2020

(1) Under negotiation.

Source: The City.

The City strives to be fair with all employees, consistent with all applicable State laws, to ensure equity and promote labor relation policies mutually beneficial to management and employees. City officials consider all current labor relations to be satisfactory.

Pension Plans

State Department of Retirement System Plans. The City provides all of its public employee pensions through the following statewide cost-sharing multiple-employer plans administered by the State’s Department of Retirement Systems (“DRS”): the Public Employees Retirement System (“PERS”) or the Law Enforcement Officers and Fire Fighters Retirement System (“LEOFF”). PERS Plans 1 and 2 and LEOFF are defined benefit plans and PERS Plan 3 contains a hybrid defined benefit/defined contribution option. All systems are administered by DRS. Contributions by both employees and employers are based on gross wages. PERS and LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. PERS participants who joined on or after October 1, 1977, are Plan 2 members, unless they exercise an option to transfer to Plan 3. PERS participants who joined on or after September 1, 2002, have the irrevocable option of choosing membership in Plan 2 or Plan 3. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members.

State law requires systematic actuarial funding to finance the retirement plans. Actuarial calculations to determine employer and employee contributions are prepared by the Office of the State Actuary (“OSA”), a nonpartisan legislative agency charged with advising the State Legislature and Governor on pension benefits and funding policy. To calculate employer and employee contribution rates necessary to pre-fund the plans’ benefits, OSA uses actuarial cost and asset valuation methods selected by the State Legislature as well as economic and demographic assumptions. The State Legislature adopted the following economic assumptions for contribution rates beginning July 1, 2019: (1) 7.5% rate of investment return (7.4% for LEOFF Plan 2); (2) general salary increases of 3.50%; (3) 2.75% rate of Consumer Price Index increase; and (4) 0.95% growth in membership (1.25% for LEOFF). The long-term investment return assumption is used as the discount rate for determining the liabilities for a plan.

The information under this heading has been obtained from the City’s financial statements and information on the OSA and DRS websites, which are not incorporated herein by reference.

Plan Funding; Contribution Rates and Amounts. All DRS-administered retirement plans are funded by a combination of funding sources: (1) contributions from the State; (2) contributions from employers (including the State as employer and other governmental employers); (3) contributions from employees; and (4) investment returns. Retirement funds are invested by the Washington State Investment Board, a 15-member board created by the State Legislature in 1981.

The City contributed \$1,065,509 to PERS and LEOFF in 2019 and \$1,023,073 to PERS and LEOFF in 2018.

Employee contribution rates for PERS and LEOFF Plan 1 are fixed by statute and not subject to periodic review. Under State statute, all other contribution rates are adopted by the Pension Funding Council (“PFC”) (and, for LEOFF Plan 2, by the LEOFF 2 Board) in even-numbered years for the ensuing State biennium. The rate-setting process begins with an actuarial valuation by the OSA, which makes non-binding recommendations to the Select Committee on Pension Policy, which recommends contribution rates to the PFC and the LEOFF 2 Board. No later than the end of July in even-numbered years, the PFC and LEOFF 2 Board adopt contribution rates, which are subject to revision by the State Legislature. The table below sets forth the current contribution rates of employees and employers.

**Contribution Rates
Expressed as a Percentage of Covered Payroll**

	Contribution Rates As of 9/01/2020	
	Employer ⁽¹⁾	Employee
PERS Plan 1	12.97%	6.00%
PERS Plan 2	12.97	7.90
PERS Plan 3	12.97	Variable ⁽²⁾
LEOFF Plan 1	0.18	0.00
LEOFF Plan 2	5.33 ⁽³⁾	8.59

(1) Includes a 0.18% DRS administration fee.

(2) Rates vary from 5.0% minimum to 15.0% maximum based on the rate selected by the PERS Plan 3 member.

(3) In addition, the State contributes 3.44%.

Source: State Department of Retirement Systems.

During the years 2001 through 2010, the rates adopted by the State Legislature were lower than those that would have been required to produce actuarially required contributions to PERS Plan 1, a closed plan with a large proportion of the retirees. PERS Plans 2 and 3 are accounted for in the same pension trust fund and may legally be used to pay the defined benefits of any PERS Plan 2 or 3 member. Assets for all other plans may not be used to fund benefits for another plan; however, all employers in PERS are required to make contributions at a rate (percentage of payroll) determined by the OSA every two years for the sole purpose of amortizing the PERS Plan 1 unfunded actuarial accrued liability within a rolling 10-year period. The State Legislature established certain maximum contribution rates from 2009 to 2015 and certain minimum contribution rates became effective in 2015 and remain in effect until the actuarial value of assets in PERS Plan 1 equals the actuarial accrued liability of PERS Plan 1. These rates are subject to change by the State Legislature to address future changes in actuarial and economic assumptions and investment performance.

Plan Funding Status and Unfunded Actuarial Liability. While the City’s contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. It is expected that the contribution rates for employers in PERS and for employees in PERS Plan 2 will increase in the coming years. The OSA website includes information regarding the values, funding levels, and investments of these retirement plans.

OSA uses the Entry Age Normal (“EAN”) cost method and the Actuarial Value of Assets (“AVA”) to report a plan’s funded status. The EAN method represents each plan member’s benefits as a constant share of payroll throughout the member’s career. This liability estimate incorporates the statutorily set

discount rate and fully reflects the demographic assumptions revised in the June 30, 2013 valuation, which included projected improvements in mortality rates. The AVA is calculated using a methodology that smooths the effect of short-term volatility in the Market Value of Assets (“MVA”) by deferring a portion of annual investment gains or losses over a period of up to eight years.

As of June 30, 2019, PERS had an unfunded actuarial accrued liability and LEOFF had no unfunded actuarial accrued liability. The table below sets forth the funded status of PERS and LEOFF for State fiscal years ended June 30, 2015 through 2019.

Funded Status as of June 30, 2019

(\$ millions)

	PERS		LEOFF	
	Plan 1	Plans 2/3	Plan 1	Plan 2
Accrued Liability	\$11,535	\$42,600	\$4,077	\$11,992
Valuation Assets	7,461	40,766	5,734	13,294
Unfunded Liability	4,074	1,833	(1,657)	(1,302)
	Funded Ratio			
2019	65%	96%	141%	111%
2018	60	91	135	108
2017	57	89	131	109
2016	56	87	126	105
2015	58	88	125	105

Source: Office of the State Actuary 2019 Actuarial Valuation Report.

The information in this section has been obtained from the City’s financial statements and information on the OSA and DRS websites.

GASB Liabilities. GASB requires that employers such as the City to report their pension liabilities on an actuarial basis rather than a funding basis. The City reports its proportionate share of the net plan asset or liability for each pension plan in which City employees participate. The liability is based on the actuarial present value of projected benefit payments to periods of employee service, a discount rate that considers the availability of plan assets and recognition of projected investment earnings. DRS determines each participating employers’ proportionate share of the plan liability and OSA determines each plan’s accounting valuation. The GASB rules impact accounting for pensions and not the funding status of the plans calculated by OSA or pension contribution rates that are set based on statutory assumptions.

DRS has calculated the collective net pension liability for the various retirement plans based on GASB reporting requirements as well as the City’s share of such liability. Net pension liability equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) minus the value of the assets in the pension trust that can be used to make benefit payments. Contributions from plan members and employers are assumed to continue to be made at contractually required rates, the assumed long-term rate of investment return is 7.40%, the assumed economic inflation is 2.75%, and the assumed salary inflation is 3.50%. The table below sets forth the City’s share of the net pension liability for the plans it participates in for the State fiscal year ended June 30, 2019, based on its share of contributions for the year.

City's Share of Pension Liabilities/(Assets) as of June 30, 2019

	Net Liability/(Assets)	City Percent	City's Share of Net Liability/(Assets)
PERS Plan 1	\$ 3,845,355,000	0.005235% ⁽¹⁾	\$3,766,910
PERS Plans 2/3	971,340,000	0.119772	1,163,393
LEOFF Plan 1	(1,976,611,000)	0.053590	(1,059,266)
LEOFF Plan 2	(2,316,693,000)	0.192032	(4,448,792)

(1) Includes 0.092725% of unfunded actuarial accrued liability.

Source: DRS Participating Employer Financial Information Report for State Fiscal Year Ended June 30, 2019.

Other Post-Employment Benefits

In addition to pensions, many State and local governmental employers provide other post-employment benefits ("OPEB") as a part of total compensation to attract and retain the services of qualified employees. OPEB includes post-employment health care as well as other forms of post-employment benefits when provided separately from a pension plan. GASB rules provides for the measurement, recognition, and display of OPEB expenses/expenditures, related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports.

The City is the administrator of the Firemen's Pension Plan, which is shown as a trust fund in the City's financial reports. The Firemen's Pension Plan is a closed, single-employer, defined benefit pension system. City firefighters who served before March 1, 1970 are participants of the Firemen's Pension Plan. Benefits are established in accordance with chapters 41.18 and 41.20 RCW. During 2019 there were a total of four retirees covered under the Firemen's Pension Plan who received pension benefits; of these three retirees, all are also receiving medical benefits from the Firemen's Pension Plan. In 2019, there were no active employees covered under the Firemen's Pension Plan, and there were no inactive employees entitled to but not yet receiving benefits. The Firemen's Pension Plan is closed to new entrants.

The table below sets forth the net pension liability of the Firemen's Pension Fund as of December 31, 2018 and 2019.

Firemen's Pension Fund
Net Pension Liability
(Fiscal Years Ended December 31)

	2018	2019
Total Pension Liability	\$ 722,641	\$ 642,577
Pension Plan Fiduciary Net Position	217,698	146,733
Employer's Net Pension Liability	504,493	495,844
Pension Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	30.1%	22.8%

In addition to the Firemen's Pension Plan, the City provides OPEB to City firefighters hired between March 1, 1970 and September 30, 1977, who are members of LEOFF Plan 1. These firefighters are eligible for a supplemental retirement benefit plus health benefits under the City plan. This system is a closed, single-employer, defined benefit pension system. Generally, benefits under the LEOFF Plan 1 retirement benefit system are greater than or equal to the retirement benefits under the City plan. However, should the benefits under the old law exceed those under LEOFF Plan 1, the City becomes

liable for the excess benefits. As such, the law requires the payment of excess benefits only and does not require a specific contribution rate by the City. As of December 31, 2019, there were 23 retirees receiving such medical benefits. These benefits were paid from the City’s LEOFF Plan 1 Retiree Medical Reserve Fund. In accordance with RCW 41.26.150, all employees who become eligible after age 50 or become disabled while employed with at least five years of service in LEOFF Plan 1 are eligible. Under authorization of the Disability Board, the City pays the medical insurance premiums and any additional medical expenses not covered by insurance, including long-term care. Post-employment health care benefits are funded on a pay-as-you-go basis. The actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation. The retiree does not contribute towards the cost of medical care. As of December 31, 2019, postemployment health care costs of \$155,117 and long-term care costs of \$239,839 were reported in the City’s LEOFF Plan 1 Medical Reserve Fund 009. As of December 31, 2019, there was \$355,874 of cash and cash equivalents available to pay benefits.

The table below sets forth the City’s OPEB liability for the current and preceding fiscal years.

Changes in OPEB Liability
(Fiscal Years Ended December 31)

	<u>2018</u>	<u>2019</u>
OPEB Liability – Beginning of Year	\$7,713,379	\$6,981,351
Service Cost	–	–
Interest	225,578	272,551
Changes in Actuarial Assumptions	9,075	961,775
Differences Between Expected and Actual Experience	(578,428)	–
Benefit Payments and Withdrawals	(388,253)	(338,445)
Other	–	–
OPEB Liability – End of Year	<u>\$6,981,351</u>	<u>\$7,877,232</u>

Source: The City.

See Note 12 in Appendix D for further information on OPEB of the City.

Municipal Employees Benefits Trust

By majority vote, City employees approved the City’s withdrawal from the Social Security System in 1977. City employees who customarily work 1,000 or more hours per year and who otherwise would be eligible for Social Security coverage and benefits are required to participate. Both the City and participants are required to contribute an amount equal to the current Federal Insurance Contributions Act (FICA) tax rate. The City’s contribution for 2019 was \$1,203,661, which represents its full liability. For 2019, the City’s covered payroll was \$20,626,518. No significant benefit changes occurred in 2019. The plan is administered by a Plan Committee consisting of two members appointed by the Mayor and five members elected by the employees who contribute to the plan. Members appointed by the Mayor serve at the pleasure of the Mayor; elected members serve a two-year term and may be re-elected for an additional two-year term. Plan assets are not City property, but are maintained in trust at American Stock Transfer and Trust Company. Plan assets are not included in the City’s financial statements. The City may amend the provisions of the plan, provided that no such amendment may enlarge the duties or the liabilities of the plan trustee without its consent. The City has the right at any time to reduce, suspend, or completely discontinue its contributions to the plan. Actuarial determinations are not required because (1) long-term disability insurance and survivor income insurance are provided through Cigna Group Insurance, and (2) each participant, at normal retirement, is required to instruct the trustee to (a) acquire a non-

forfeitable, nontransferable annuity contract, (b) pay their retirement benefit from their account (no City or participant contributions may be added to the account after retirement), and (c) pay a single cash sum. When a participant terminates, the participant is required to instruct the plan trustee to pay the full amount of the participant's contributions plus the vested portion credited to their account.

Health and Welfare

The City is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program ("AWC Trust HCP"). The AWC Trust HCP was formed in January 2014 when participating cities, towns, and non-city entities joined together by signing an interlocal agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account. As of December 31, 2019, the AWC Trust HCP had 261 participants.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for certain insurance plans. Members contract to remain in the AWC Trust HCP pool a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of one year in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination a minimum of six months in advance. A participating employer's termination does not obligate that member to past debts, or further contributions to the AWC Trust HCP, and the terminating employer forfeits all rights and interest to the AWC Trust HCP account.

Risk Management

The City is a member of the Washington Cities Insurance Authority ("WCIA"). Nine cities originally formed WCIA in 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and jointly contracting for risk management services. WCIA has a total of 163 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000 for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance, and other administrative expenses. WCIA retains the right to additionally assess the membership for any funding shortfall. The City currently has no such assessments due to WCIA. Insurance settlements have not exceeded coverage in any of the past three years.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments, which comply with all State guidelines.

A Board of Directors governs WCIA, which consists of one designated representative from each member. The Board of Directors elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the daily operations of WCIA. In the past three years, the City has not had any settlements exceeding the City's coverage. City premiums paid to WCIA were \$976,464 in 2019.

Paid Family and Medical Leave Insurance

In 2017, the State Legislature created an insurance program through the State Employment Security Department that, beginning in 2020, will provide employees paid family and medical leave. Generally, the leave will be up to 12 weeks and the maximum weekly benefit will be \$1,000, adjusted annually. Beginning in January 2019, the City is paying premiums based on a percent of wages; the initial rate will be 0.40 percent of wages up to the maximum wages subject to FICA. In 2020, the projected paid wages up to the maximum wages subject to FICA will be approximately \$21,855,066. The City and its employees are covered by the legislation, and the City's liability in 2020 is projected to be approximately \$86,455.

Cyber Security

The City's Cybersecurity Team, within the City's Technology Department, supports all departments across the City in order to detect, assess, and protect against internal and external threats. The cybersecurity team is primarily made up of technology staff members. This team also works with representatives of a cross-section of employees from all departments. The City partners with local, State, and federal agencies including the State Fusion Center to mitigate and address potential threats. Team members stay current with known threats, technology trends, and best practices. The City has not experienced any major incidents to date.

Seismic Activity, Other Natural Disasters, and Climate Change

The State is in an area of seismic activity, with frequent small earthquakes and occasionally moderate and larger earthquakes. Certain soil types and property in certain areas of the State could become subject to liquefaction (the transformation of soil from a solid state to a liquid state) following a major earthquake, to landslides caused by an earthquake, and to ongoing shaking that could follow a major earthquake. The State contains identified geologic faults. In addition to various faults beneath the State, the State is within the Cascadia subduction zone, a fault beneath the Pacific Ocean, which produced a giant earthquake several hundred years ago and is thought to be capable of causing extensive damage if another such earthquake occurs. The most recent notable earthquake in the State, which measured 6.8 on the Richter Scale, occurred in 2001. Areas of the State also could experience the effects of a tsunami following a

major earthquake on the West Coast or in areas outside the United States. The Cascade Range in Western Washington also has volcanoes. Mount St. Helens erupted in 1980. Other natural disasters, including mudslides, wildfires, floods, wind storms, drought, and avalanches are possible. Much of the State experienced drought conditions in 2015 and 2018. The State has experienced a number of large wildfire seasons during the past decade.

The City can give no assurance regarding the effect of an earthquake, seismic activity in the State or in other areas, volcanic eruption, wind storms, mudslides, or other natural disaster or that proceeds of insurance carried by the City would be sufficient, if available, to rebuild and reopen facilities of the City or that surrounding facilities and infrastructure could or would be rebuilt and reopened in a timely manner following a major earthquake or other natural disaster.

Climate change may intensify and increase the frequency of extreme weather events, such as drought, wildfires, floods, and heat waves, and raise sea levels along the coast. The loss of life and property damage that could result from a major earthquake or other major natural disaster could have a material and adverse impact on the City and the local community and economy. Under State law, any person, firm, or corporation may be liable if it creates or allows extreme fire hazards to exist and which hazards contribute to the spread of fires.

GENERAL AND ECONOMIC INFORMATION

The City, located in the southwest part of the County, is the County’s second largest city. Located on the shore of Puget Sound about 14 miles north of Seattle, the City is primarily an upper-middle income residential community, with extensive waterfront and water view residential property.

Population

The table below sets forth the historical population of the City and the County.

Year	City of Edmonds	Population		
		Snohomish County		Total
		Incorporated	Unincorporated	
2020	42,470	461,100	369,400	830,500
2019	42,170	453,220	365,480	818,700
2018	41,820	447,565	357,555	805,120
2017	41,260	439,600	349,800	789,400
2016	40,900	433,865	338,995	772,860

Source: State Office of Financial Management.

Economic Indicators

The tables below set forth certain economic indicators for the City, the County, and the State.

Taxable Retail Sales

Year	Snohomish County	City of Edmonds
2020 ⁽¹⁾	\$ 3,816,333,267	\$218,874,049
2019 ⁽¹⁾	3,654,728,165	219,656,975
2019	16,861,829,385	980,652,498
2018	15,673,374,445	984,635,736
2017	14,509,899,633	853,121,618
2016	13,618,314,632	799,922,698
2015	12,641,937,656	784,023,212

(1) First quarter only.

Source: State Department of Revenue.

Snohomish County and State of Washington Personal and Per Capita Income

Year	Snohomish County		State of Washington	
	Total Personal Income (\$ millions)	Per Capita Income	Total Personal Income (\$ millions)	Per Capita Income
2019	not available	not available	\$494,189	\$64,898
2018	\$45,543	\$55,888	467,399	62,122
2017	42,122	52,453	434,759	58,566
2016	39,655	50,344	407,654	55,883
2015	37,387	48,552	385,688	53,840

Source: United States Department of Commerce, Bureau of Economic Analysis.

Snohomish County and State of Washington Median Household Income

Year	Snohomish County	Washington State
2019 ⁽¹⁾	\$88,118	\$74,992
2018 ⁽²⁾	85,758	73,294
2017	81,779	69,288
2016	77,985	65,500
2015	75,292	63,439

(1) Projection.

(2) Estimate.

Source: State Office of Financial Management.

**Snohomish County
Residential Building Permit Activity**

Year	Single Family		Multi-Family		Total Valuation
	Number	Valuation	Number of Units	Valuation	
2019	2,409	\$746,892,396	1,999	\$260,684,240	\$1,007,576,636
2018	2,201	726,125,381	2,076	267,149,398	993,274,779
2017	2,627	793,077,338	1,098	154,109,641	947,186,979
2016	2,702	825,589,969	1,223	165,312,621	990,902,590
2015	2,383	703,005,134	1,191	146,890,200	849,895,334

Source: United States Census Bureau.

Major Employers in the City (2019)

Employer	Product/Service	Approximate Number of Full and Part- Time Employees
Swedish Edmonds Hospital	Health care	1,400
Edmonds School District	Education	748
The City	Government	316
Virginia Mason Edmonds Family Medicine	Health care	164
WinCo Foods	Grocery	150
Edmonds Family Medicine Clinic	Health care	133
QFC Fred Meyer Stores	Grocery	103
Lynnwood Honda	Car dealership	100
PCC Community Markets	Grocery	100
The Everett Clinic	Health care	98
Anthony's Restaurants	Restaurants	96
Safeway	Grocery	90
Westgate Chapel	Church	90
Sunrise of Edmonds	Senior living	78
Burlington Coat Factory	Clothing retail	73
Landau Associates	Consulting	68

Source: The City.

**Snohomish County
Labor Force, Unemployment and
Nonagricultural Wage and Salary Workers**

	Annual Averages					
	2015	2016	2017	2018	2019	2020 ⁽¹⁾
Civilian Labor Force	403,721	415,507	423,819	430,814	439,464	440,846
Employment	385,403	397,933	407,363	415,930	426,100	406,579
Unemployment	18,318	17,574	16,456	14,884	13,364	34,267
Percent of Labor Force	4.5%	4.2%	3.9%	3.5%	3.0%	7.8%
Total Nonfarm	280,600	287,000	287,100	291,100	295,500	268,500
Mining, Logging & Construct	19,600	21,500	22,700	24,200	24,400	19,800
Manufacturing	63,700	63,000	58,700	58,500	60,600	54,600
Trade, Transport and Utilities	47,400	47,700	48,200	48,400	49,000	48,200
Information	5,800	6,000	5,700	5,200	4,600	3,300
Financial Activities	12,300	12,600	12,800	13,000	13,100	13,800
Professional & Business Svces	24,900	26,800	27,900	28,500	29,300	27,300
Education and Health Services	33,300	33,700	34,700	35,600	36,500	33,100
Leisure and Hospitality	24,900	26,000	26,100	26,500	27,000	20,300
Other Services	10,100	10,100	10,300	10,300	10,800	10,700
Government	38,800	39,600	40,000	40,000	40,400	37,400

(1) Preliminary; as of August.

Source: State Employment Security Department,

TAX MATTERS

Tax Exemption

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the date of issuance of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City’s compliance with such requirements.

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

applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

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

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

Certain Other Federal Tax Consequences

Bonds Not “Qualified Tax-Exempt Obligations” for Financial Institutions. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax-exempt obligations,” only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax-exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

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

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

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

Potential Future Federal Tax Law Changes. From time to time, there are legislative proposals in Congress which, if enacted into law, could adversely affect the tax treatment, market value, or marketability of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted

that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

Original Issue Discount. The Bonds maturing in 2039 through 2041, inclusive, and in 2043 through 2045, inclusive, have been sold at prices reflecting original issue discount (“Discount Bonds”). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner’s tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment, or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

CONTINUING DISCLOSURE

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of paragraph (b)(5) of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12 (“Rule 15c2-12”), as applicable to a participating underwriter for the Bonds, the City will undertake (the “Undertaking”) for the benefit of holders of the Bonds to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (“MSRB”), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB: (a) annual financial information and operating data of the type include in this Official Statement, as generally described below (“annual financial information”); and (b) timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment-related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial

difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of Term Bonds), 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 City, as such “Bankruptcy Events” are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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 City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the City, any of which reflect financial difficulties. The term “financial obligation” means 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” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

Until the Project has been completed and commissioned, the City will also include, in the annual financial information a report detailing how the Bond proceeds were used to finance the Project. See “DESCRIPTION OF THE BONDS – Climate Bond Certification.”

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

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the City undertakes to provide will consist of: (1) annual financial statements prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles applicable to local governmental units of the State such as the City, as such principles may be changed from time to time; (2) annual operating statistics for each of the component utility systems of the Water and Sewer Utility, as follows: number of customer accounts, a statement of gross and net revenues, total annual water consumption, and average daily water consumption; (3) monthly or bi-monthly rates and charges for each of the component utility systems; and (4) a statement of the debt service coverage ratio for the fiscal year. The annual financial information will be provided not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City’s fiscal year ending December 31, 2020.

The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

If not submitted as part of the annual financial information described above, the City will provide or cause to be provided to the MSRB audited financial statements, when and if available.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency, or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12. The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City's obligations under the Undertaking will terminate upon the legal defeasance of all of the Bonds. In addition, the City's obligations under the Undertaking will terminate if those provisions of Rule 15c2-12 which require the City to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any failure to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply with the Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond shall be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

Prior Compliance with Continuing Disclosure Undertakings. The City has entered into undertakings pursuant to Rule 15c2-12 with respect to prior issues of bonds.

CERTAIN INVESTMENT CONSIDERATIONS

Limitations on Remedies; Bankruptcy

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

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

A municipality such as the City must be specifically authorized under State law in order to seek relief under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"). Washington state law permits any "taxing district" (defined to include any municipality or other political subdivision, such as

the City) to voluntarily petition for relief under the predecessor statute to the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding against a municipality, including the City. Under Chapter 9, a federal bankruptcy court may not appoint a receiver for a municipality or order the dissolution or liquidation of the municipality. Unless a municipality in a Chapter 9 proceeding consents or the plan approved by the bankruptcy court so provides, the court may not interfere with (i) any of the political or governmental powers of the municipality, (ii) any of the property or revenues of the municipality, or (iii) the municipality's use or enjoyment of any income-producing property.

The federal bankruptcy courts have certain discretionary powers under the Bankruptcy Code. Taxing districts in the State, including the City, are expressly authorized to carry out a plan of readjustment if approved by the appropriate court.

Under current State law, Article 9 of the Uniform Commercial Code, which governs secured transactions, does not apply to any transfer by a municipality, including the City.

The Bond Ordinance does not provide for the appointment of a trustee in the event of a bankruptcy; each bond owner would need to individually participate in the proceeding in order to protect their interests.

Initiatives and Referendum

State Initiative and Referendum. Under the State Constitution, the voters of the State have the ability to initiate legislation and require the State Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. The initiative power in the State may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiatives) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State 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 State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws.

In recent years there has been an increase in the number of initiatives and referenda filed in the State, including initiatives affecting the powers of local jurisdictions. The City cannot predict whether this trend will continue, whether any filed initiatives will receive the requisite signatures to be certified to the ballot, and whether such initiatives will be approved by the voters and, if challenged, upheld by the courts.

Local Initiative and Referendum. The City has adopted the powers of initiative and referendum for the qualified electors of the City as provided under State law. Referendum powers are not applicable to: ordinances initiated by petition; ordinances necessary for immediate preservation of public peace, health, and safety or for the support of City government and its existing public institutions which contain a statement of urgency and are passed by unanimous vote of the City Council; ordinances providing for local improvement districts; ordinances appropriating money; ordinances providing for or approving collective bargaining; ordinances providing for the compensation of or working conditions of City employees; and ordinances authorizing or repealing the levy of taxes. From time to time voters may submit petitions for initiatives and referenda within the City. The City cannot predict when or if any such measures would be filed, or what the subject or effect of any such potential measure may be.

UNDERWRITING AND LEGAL

Underwriting

The Bonds are being purchased by FHN Financial Capital Markets, a division of First Horizon Bank (the “Underwriter”), at a price of \$13,674,874.40 (representing the principal amount of the Bonds less an original issue discount of \$162,108.10, less an underwriter’s discount of \$38,017.50). The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the inside cover page of this Official Statement, and such initial offering prices may be changed from time to time by the Underwriter.

Rating

As noted on the cover page of this Official Statement, S&P Global Ratings has assigned its rating of “AA” to the Bonds. The rating was applied for by the City and certain information was supplied by the City to such rating agency to be considered in evaluating the Bonds. The rating reflects only the views of the rating agency and an explanation of the significance of the rating may be obtained from the rating agency. There is no assurance that the rating will be retained for any given period of time or that the rating will not be revised downward, suspended, or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the rating will likely have an adverse effect on the market price and marketability of the Bonds.

Absence of Material Litigation

There is no litigation pending or threatened questioning the validity of the Bonds or the power and authority of the City to issue the Bonds. There is no litigation pending or threatened which would materially affect the City’s ability to meet debt service requirements on the Bonds. Because of the nature of its activities, the City is subject to certain pending legal actions which arise in the ordinary course of business. Based on information presently known, the City believes that the ultimate liability for any of such legal actions will not be material to the financial position of the City.

Approval of Counsel

Legal matters incident to the authorization, issuance, and sale of the Bonds by the City are subject to the approving legal opinion of Foster Garvey PC, Bond Counsel, Seattle, Washington. The form of the opinion of Bond Counsel with respect to the Bonds is included as Appendix A. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the Issue Date, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result.

Municipal Advisor

Northwest Municipal Advisors, Bellevue, Washington, serves as municipal advisor to the City in conjunction with the issuance of the Bonds (the “Municipal Advisor”). The Municipal Advisor has not audited, authenticated, or otherwise verified the information set forth in this Official Statement or any other related information available to the City with respect to the accuracy and completeness of disclosure of such information, and no guaranty, warranty, or other representation is made by the Municipal Advisor respecting the accuracy and completeness of this Official Statement or any other matter related to this

Official Statement. The Municipal Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading, or distributing municipal securities.

Conflicts of Interest

All or a portion of the fees of Bond Counsel and the Municipal Advisor are contingent upon the issuance and sale of the Bonds. From time to time Bond Counsel serves as counsel to the City of Mountlake Terrace, Olympic View Water & Sewer District, and Ronald Wastewater District, which are Participants under the Treatment Plant Interlocal Agreement. None of the members of the City Council or other officers of the City have any conflict of interest relating to the issuance of the Bonds that is prohibited by applicable law.

Approval of Official Statement

At the time of delivery of the Bonds, one or more officials of the City will furnish a certificate stating that to the best of his, her, or their knowledge this Official Statement, as of its date and as of the Issue Date, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in light of the circumstances under which they were made, not misleading (except that no representation will be made with respect to information herein regarding DTC and its book-entry only system, regarding any municipal bond insurer and its municipal bond insurance policy, or provided by the Underwriter regarding reoffering prices and yields).

The distribution of this Official Statement has been authorized by the City.

APPENDIX A

FORM OF BOND COUNSEL OPINION

[Issue Date]

City of Edmonds, Washington

Re: City of Edmonds, Washington
Water and Sewer Revenue Bonds, 2020 (Certified Climate Bonds)

We have served as bond counsel to the City of Edmonds, Washington (the “City”), in connection with the issuance of the above referenced bonds (the “Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the City pursuant to Ordinance No. 4197 (the “Bond Ordinance”) to provide the funds to carry out a plan of additions to its Water and Sewer Utility, to make a deposit into the Reserve Account, and to pay the costs of issuance of the Bonds, all as set forth in the Bond Ordinance.

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

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular, or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

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

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

1. The City is a duly organized and legally existing code city under the laws of the State of Washington.
2. The Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the ordinances of the City relating thereto.

3. The Bonds constitute valid and binding obligations of the City payable exclusively from the Bond Fund and the Net Revenue and ULID Assessments pledged to be paid into the Bond Fund to pay principal of and interest on the Bonds when due, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

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

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

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX B

DTC AND ITS BOOK-ENTRY ONLY SYSTEM

The following information has been provided by DTC. The City takes no responsibility for the accuracy or completeness thereof, or for material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount represented by such Bonds, and will be deposited with DTC.

2. DTC, the world’s largest 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 Bond 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.

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

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are to be registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial

ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. When notices are given, they shall be sent by the Registrar to DTC only. 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.

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

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

8. Payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Registrar, on the 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 Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

APPENDIX C

CLIMATE BOND VERIFIER'S REPORT

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VERIFIER'S REPORT

SUMMARY

Kestrel Verifiers is of the opinion that the City of Edmonds, Washington Water and Sewer Revenue Bonds, 2020 (Green Bonds) (Certified Climate Bonds) conform with the Water Infrastructure sector criteria of the Climate Bonds Standard and align with three of United Nation's Sustainable Development Goals as follows:

Use of Proceeds

Proceeds will be used to construct a Carbon Recovery and Biosolids Gasification Project at the City's Wastewater Treatment Plant (WWTP). The project will increase the operational efficiency of the WWTP and reduce overall emissions by sequestering carbon in biochar, a usable product of this Gasification system.

Process for Project Evaluation and Selection

The City has numerous environmental, climate, and sustainability plans and goals which will be advanced with the Carbon Recovery and Biosolids Gasification Project. The bond-financed project was identified and selected for its ability to reduce emissions and improve operational efficiency at the WWTP.

Management of Proceeds

Proceeds from the Series 2020 Climate Bonds will be specifically directed to pay the costs of design, construction, property acquisition, and other related expenses necessary for the Carbon Recovery Gasification Project. Bond proceeds will be held in a segregated Water and Sewer Utility Fund account

Reporting

The City will submit continuing disclosures to the Municipal Securities Rulemaking Board (MSRB). This reporting will be done annually on the Electronic Municipal Market Access (EMMA) system operated by the MSRB. A voluntary annual report on the Series 2020 Climate Bond is planned. Kestrel Verifiers will also provide one additional follow-up report as required by CBI.

Impact and UN SDGs

By implementing the Carbon Recovery and Biosolids Gasification Project, the City is addressing its goals to reduce overall emissions, while increasing operational efficiency of the WWTP and protecting water quality.



ISSUER

City of Edmonds, Washington

OPINION ON

Water and Sewer Revenue Bonds, 2020 (Green Bonds) (Certified Climate Bonds)

SECTOR CRITERIA

Water Infrastructure

SDGs



EVALUATION DATE

October 2020

KESTREL VERIFIERS CONTACTS:

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VERIFIER'S REPORT

Par:	\$13,945,000
Issuer:	City of Edmonds, Washington
Issue Description:	Water and Sewer Revenue Bonds, 2020 (Green Bonds) (Certified Climate Bonds)
Project:	Carbon Recovery and Biosolids Gasification
Sector Criteria:	Water Infrastructure
Evaluation Date:	October 14, 2020

CLIMATE BONDS VERIFIER'S REPORT

The City of Edmonds, Washington (the City), plans to issue approximately \$ 13.9 million in City of Edmonds, Washington Water and Sewer Revenue Bonds, 2020 (Green Bonds) (Certified Climate Bonds) ("Series 2020 Climate Bonds").

The City proposes financing a capital improvement at its wastewater treatment plant (WWTP) with Certified Climate Bonds, an internationally accepted green bond standard. The purpose of this project, known as the Carbon Recovery and Biosolids Gasification Project, is to replace a sanitary sewage incinerator with a Gasification process that minimizes carbon emissions associated with disposal of biosolids and operation of the WWTP and produces an enriched carbon biochar. Project benefits include increased operational efficiency, reduced energy use, improved sanitation services, lower carbon emissions than other biosolids management options, and reduced overall pollution in the greater Edmonds, Washington area.

This Verifier's Report reflects Kestrel Verifiers' view of the City's projects and financing, allocation and oversight, and conformance of the bonds with the Climate Bonds Standard (V3.0), and the Water Infrastructure sector criteria. In our opinion, the Series 2020 Climate Bonds to be issued by the City are aligned with the Climate Bonds Standard and the Water Infrastructure criteria.

ABOUT THE ISSUER

The City of Edmonds is located in the southwest portion of Snohomish County, Washington immediately north of King County. The City was incorporated in 1890, but a sanitary sewer system was not developed until 1920. Its first primary sewage treatment plant was constructed in 1957. Today, the City Sewer Division captures and treats wastewater generated across the service area and is responsible for maintenance and operation of a regional wastewater treatment plant, 14 sanitary sewer pump stations, and over 186 miles of sanitary sewer mains serving over 9,800 customer accounts. The City's primary mission with wastewater treatment is to protect public health and the environment through sustainable and cost-effective water resource management.

The City is only one of three in the State of Washington, and one of 65 in the United States, to be recognized by the Water Environment Federation as operating a "Utility of the Future Today." This prestigious distinction recognizes the achievements of water utilities that are engaged in advancing resource efficiency and recovery, developing proactive relationships with stakeholders, and establishing

resilient, sustainable, and livable communities.

Alignment to Relevant Plans

The City has set aggressive goals to reduce its environmental impact and is committed to protecting the natural environment. This commitment is reflected in City plans and resolutions which guide decision-making for investments into water treatment infrastructure and assets. The City has a well-established record of environmentally progressive approaches to policy and city operations. In 2006, the City Council adopted a resolution supporting the Kyoto Protocol and endorsing the US Mayors' Climate Protection Agreement. In 2008, a LEED Silver standard was set for city buildings and facilities, and in 2017, Edmonds committed to achieving or exceeding the Paris Agreement goals for decarbonization. The City's ongoing commitment to sustainability is reflected in its formally adopted plans which collectively address integrated watershed management, climate change mitigation/adaptation with an emphasis on energy efficiency, and greenhouse gas emissions reporting.

The City intends to use proceeds of the Series 2020 Climate Bonds exclusively to finance capital improvements that are aligned with these plans and which move the City toward its established goals.

ALIGNMENT TO CLIMATE BONDS STANDARD AND CERTIFICATION SCHEME

The City has engaged Kestrel Verifiers to provide a pre-issuance, independent verification on the alignment of the Series 2020 Climate Bonds with the Climate Bonds Standard and Certification Scheme—which utilizes the Climate Bonds Standard (V3.0) and associated Water Infrastructure sector criteria. The Climate Bonds Initiative (the "CBI") administers the standard and sector criteria. Additionally, Kestrel Verifiers has examined alignment of the Series 2020 Climate Bonds with the United Nations Sustainable Development Goals ("SDGs").

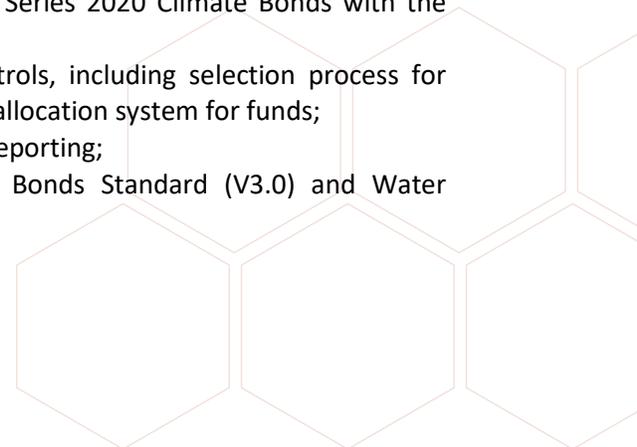
Kestrel Verifiers is a Climate Bonds Initiative Approved Verifier. The Kestrel review team included a water resources engineer and other environmental scientists. We performed a Reasonable Assurance engagement for the Series 2020 Climate Bonds to provide an independent verification as to whether the subject matter meets, in all material respects, the relevant criteria defined in Figures 1 and 2.

For this engagement, Kestrel Verifiers reviewed the City's Green Bond Framework and relevant plans, examined public and non-public information, and interviewed members of the City's management and finance teams. Our goal was to understand material sustainability impacts of the operations, the planned use of proceeds, procedures for managing proceeds, and plans and practices for reporting. This document contains Kestrel's opinion of the Series 2020 Climate Bonds.

Verifier's Responsibilities

Kestrel Verifiers' responsibilities for confirming alignment of the Series 2020 Climate Bonds with the Climate Bonds Standard and Water Infrastructure criteria include:

- assess and certify the City's internal processes and controls, including selection process for projects and assets, internal tracking of proceeds, and the allocation system for funds;
- assess policies and procedures established by the City for reporting;
- assess the readiness of the City to meet the Climate Bonds Standard (V3.0) and Water Infrastructure sector criteria; and
- express a Reasonable Assurance conclusion.



Relevant Climate Bonds Sector Criteria and Other Standards

The Series 2020 Climate Bonds align with the Climate Bonds Standard (V3.0) and Water Infrastructure criteria.



Independence and Quality Control

Kestrel Verifiers is providing an independent opinion on the conformance of the Series 2020 Climate Bonds with the Water Infrastructure criteria of the Climate Bonds Standard. For almost twenty years, Kestrel has worked at the intersection of finance and sustainability, helping clients with their green, social, and sustainability bond needs. Relevant to this project, Kestrel has experience helping municipal clients to advance water, energy and environmental projects.

Assurance Approach

Kestrel Verifiers' responsibility is to conduct a Reasonable Assurance engagement to determine whether the Series 2020 Climate Bonds meet, in all material respects, the requirements of the Climate Bonds Standard. Our reasonable assurance was conducted in accordance with the Climate Bonds Standard (V3.0) and the *International Standard on Assurance Engagements (ISAE) 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Kestrel Verifiers has relied on information provided by the City. There are inherent limitations in performing assurance, and fraud, error or non-compliance may occur and not be detected. Kestrel Verifiers is not responsible or liable for any opinions, findings or conclusions that are incorrect. Our assurance is limited to the City's policies and procedures in place as of October 2020, ahead of the issuance of the Series 2020 Climate Bonds. The distribution and use of this assurance report are at the sole discretion of the City. Kestrel Verifiers does not accept or assume any responsibility for distribution to any other person or organization.

Use of Proceeds and Conformance to Sector Criteria

The Series 2020 Climate Bonds will finance the Carbon Recovery and Biosolids Gasification Project which will replace an incinerator for biosolids at the wastewater treatment plant.

In 2013, City staff began to implement a program at the WWTP called "Pathway to Sustainability." The goal of this plan, which is also aligned with the City's overall sustainability plans, is to reduce energy use and carbon emissions at the WWTP. Three efficiency projects have been completed to date: 1) outdated lower efficiency blowers were replaced with smaller, more efficient ones, 2) the aeration system piping and delivery nozzles were replaced with fine bubble diffusers, and 3) biosolids dewatering equipment was replaced. These three projects combined have saved the City over \$200,000 per year in electricity costs and reduced greenhouse gas emissions by 1,146 tons per year. This bond-financed project is the fourth step in the City's Pathway to Sustainability at the WWTP.

In 2018, the Edmonds City Council made replacing the WWTP's sanitary sewage incinerator a priority and mandated an evaluation of alternative technologies that would be energy neutral or positive. City staff identified Gasification as the best method to replace the incinerator. Gasification was chosen based on lower operation and maintenance costs and improved environmental benefit, which comes from the Gasification system generating biochar rather than ash.

Gasification:

The Gasification process at the Edmonds WWTP involves heating biomass waste from the water treatment process in the absence of oxygen. Without oxygen present, the biomass does not combust as it would in the old incinerator. Instead, the chemical compounds that make up the biomass are broken down into syngas, bio-oil, and biochar.¹ The syngas and bio-oil can be used as a source of energy to reduce the plant’s energy consumption, and biochar is a valuable product for use in several agricultural and filtration applications. Pathogens and other contaminants are removed during Gasification due to the high temperatures involved.

Biochar:

Biochar is a charcoal-like product of partial Gasification. Its practical uses include soil remediation and carbon sequestration. In typical incineration with oxygen, such as the WWTP’s old incinerator, biomass combustion releases carbon dioxide and methane into the atmosphere. While the Gasification process also releases CO₂ (up to 50% of the biomass), the remaining carbon in the biochar product is relatively stable and unlikely to result in additional GHG emissions. Furthermore, biochar applied to soils has potential to improve soil health and increase long-term carbon stores. Biochar is also used to remediate contamination in water and soils.²

By incorporating Gasification and producing biochar, the City accomplishes several key goals in their pathway to sustainability. Gasification reduces overall electricity, natural gas, and diesel fuel usage at the WWTP, which reduces operating costs and as well as GHG emissions. Additionally, biochar may be marketed for local use.

Sector Criteria

Water Infrastructure Criteria

The City’s bond-financed activities align with the CBI Water Infrastructure Criteria under the Asset Class “Water Treatment / Installation or upgrade of water treatment infrastructure” as shown in Figure 1. An orange circle indicates that the eligibility of these assets or projects is conditional on meeting specific conditions pursuant to the Mitigation and Adaptation and Resilience requirements of the Criteria.

Assets	Example projects*	Mitigation	Adaptation & Resilience
Water treatment, including but not limited to:	<ul style="list-style-type: none"> Improving energy efficiency or shifting to low carbon fuel sources 	●	●
Drinking water treatment Desalination plants Water recycling systems Wastewater treatment facilities Manure/ slurry treatment facilities	<ul style="list-style-type: none"> Installation or upgrade of water treatment infrastructure (excluding the examples listed above) 		

Figure 1. Eligible Asset Types

Source: Table I, Climate Bonds Standard – Water Infrastructure Criteria, April 2018

¹ USDA Agricultural Research Service, What Is Pyrolysis? 2017. <https://www.ars.usda.gov/northeast-area/wyndmoor-pa/eastern-regional-research-center/docs/biomass-pyrolysis-research-1/what-is-pyrolysis/>

² Tenic, E. Ghogare, R. Dhingra, A. Biochar—A Panacea for Agriculture or Just Carbon? 2020. Horticulturae, 6, 37.

- Water Infrastructure Mitigation Requirements

Pursuant to the CBI, “The Mitigation Component of the Water Infrastructure Criteria is based on the impact that the use of proceeds will have on GHG emissions. For Mitigation criteria, they are eligible for certification only if: No net increase GHG emissions impact is expected.”

It is Kestrel Verifiers’ opinion that there will be a net decrease in GHG emissions. The Carbon Recovery Gasification Project replaces an incinerator, and will result in reduced emissions. Since the treatment capacity remains the same, no net increase in GHG emissions impact is expected.

- Water Infrastructure Adaptation and Resilience Requirements

Pursuant to the CBI, “The Adaptation & Resilience Component of the Water Infrastructure Criteria is intended to show the asset’s resilience to climate. Such stakeholder impacts include their access to water in sufficient quantity and sufficient quality. From this perspective, ecosystems are also considered.”

Figure 2 shows the CBI decision tree for this component of the criteria. Assets and projects that are demarcated with an orange circle in the Adaptation and Resilience column and have an expected or remaining operational lifespan of more than 20 years, are subject to a Vulnerability Assessment / Adaptation Plan Evaluation.

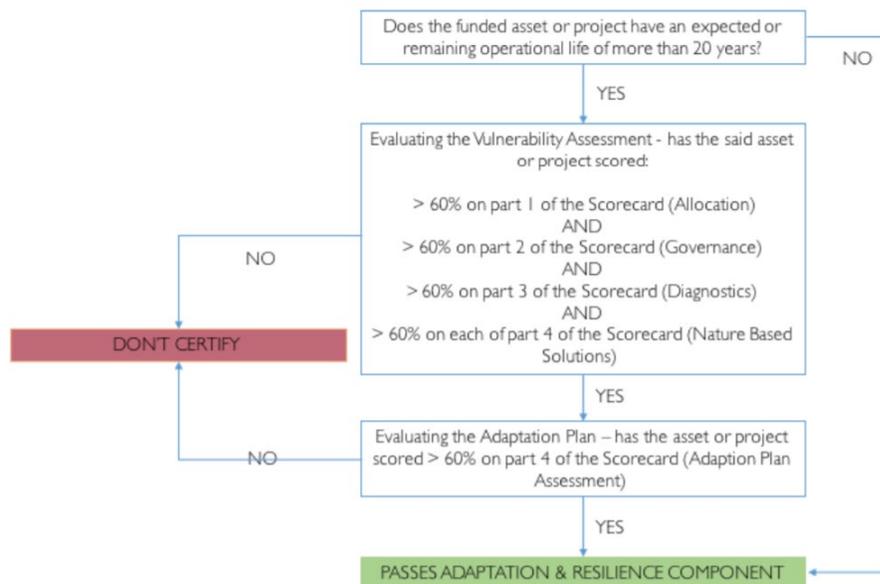


Figure 2. Decision tree for the Adaptation & Resilience component of the Water Infrastructure Criteria

Source: Figure 1– CBI Water Infrastructure Criteria, April 2018

As the operational life for the WWTP and the carbon recovery project is greater than 20 years, a vulnerability assessment was conducted. This is attached in Appendix A of this Verifier’s Report. The City scored 67 points out of 100 points, exceeding the threshold of 60% in each category as required for certification. This is shown in the summary table in Appendix A.

Process for Project Evaluation and Selection

The City believes in transparency to both constituents and investors regarding its process for project

evaluation and selection. It is part of the City's approval process to ensure that all of its financed activities comply with internal environmental and social directives. All of the City's environmental and social policies and related reports can be found at: <http://www.edmondswa.gov/services/sustainability.html>

In addition to meeting the City's long-term needs, the Series 2020 Climate Bonds will be used for projects that address and meet the following goals and objectives:

1. Protect the environment, climate, and community health through effective water resource management.
2. Address climate mitigation and sustainability issues in the City through prioritizing carbon recovery and sequestration.
3. By certifying the Series 2020 Climate Bonds as Climate Bonds in the category of Water Infrastructure, the City hopes to inform investors of the environmentally beneficial and climate-aligned aspects of projects and highlight the City's responsible management of water resources, cognizant of climate change.

The City utilizes a robust and transparent annual process to prioritize capital improvements for financing, and maintains long-range financing plans through its Planning Division. Reducing the City's carbon footprint through energy conservation practices in City operations is identified in the Strategic Plan as a major action needed, and as such, is a priority for bond financing.

Projects to be financed are evaluated and selected based on:

- a) Alignment with the current Strategic Plan
- b) Business case studies and community benefits (identify need, options, and preferred solution);
- c) A thorough vetting process including stakeholder consultation and public hearings; and
- d) Review by the Mayor and Budget Staff and final approval by City Council

The City staff compiles project recommendations which are presented to the Operations Committee. The Operations Committee reviews project details and operating procedures.

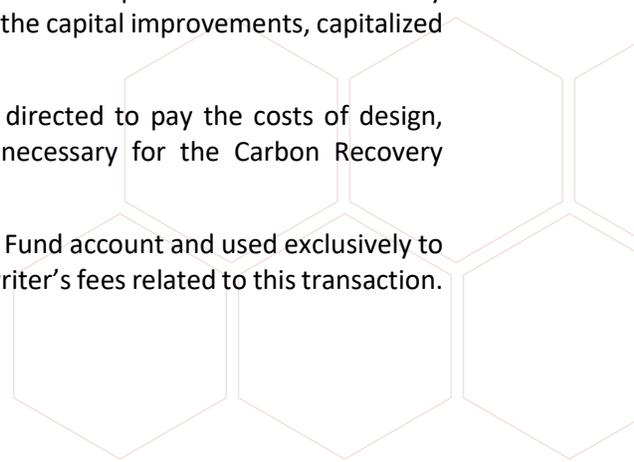
As an organization, the City of Edmonds is committed to public health and the environment through world-class, cost-effective wastewater treatment. The City considers the local and regional impacts of its practices. The City's guiding beliefs associated with sustainability support the vision of reducing environmental impacts. The projects to be financed with the Series 2020 Climate Bonds meet this vision and subsequent criteria.

Management of Proceeds

The City's management of proceeds follows Generally Accepted Accounting Principles and Government Finance Officers Association (GFOA) recommendations for best practices. Net proceeds will be tracked by the City's Finance team, and 100% of funds will be allocated to fund the capital improvements, capitalized interest, and financing costs.

Proceeds from the Series 2020 Climate Bonds will be specifically directed to pay the costs of design, construction, property acquisition, and other related expenses necessary for the Carbon Recovery Gasification Project.

Bond proceeds will be held in a segregated Water and Sewer Utility Fund account and used exclusively to finance the eligible green projects, the costs of issuance and underwriter's fees related to this transaction.



The City may invest Series 2020 Green Bond proceeds in permitted short term investments as defined by the City, with capital preservation as the priority. Permitted investments are restricted to the following types of securities and transactions:

1. U.S. Treasury Obligations
2. Federal Instrumentality Securities
3. U.S. Government Agency Securities
4. Prime Commercial Paper
5. Local Government Investment Pools

The City provides a Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its 2018 CAFR.

Reporting

Continuing Disclosures and Voluntary Impact Reporting

So long as the Series 2020 Climate Bonds are outstanding, the City will submit continuing disclosures to the Municipal Securities Rulemaking Board (MSRB). This reporting will be done annually on the Electronic Municipal Market Access (EMMA) system operated by the MSRB.

The City will undertake to produce, until the Gasification carbon recovery project has been completed and commissioned, a voluntary annual report detailing how the Series 2020 Green Bond proceeds were used to finance the project. No failure by the City to comply with this undertaking will constitute a default in respect of the Series 2020 Climate Bonds. Such information will be posted to the EMMA system of the Municipal Securities Rulemaking Board, accessible at emma.msrb.org. This report will be posted along with other City filings.

Within 24 months of the bonds closing, Kestrel Verifiers will provide one post-issuance Update Report to the Climate Bonds Initiative. The City will also post this report voluntarily on EMMA.

Impact and Alignment with UN SDGs



In a related area, and recognized by the City, the *2030 Agenda for Sustainable Development* adopted by all United Nations member states in 2015 provides “a shared blueprint for peace and prosperity for people and the planet.” The United Nations’ Agenda describes 17 Sustainable Development Goals (SDGs). As shown in the City’s framework and operations, the goals and practices of the City align with many of the SDGs. For the purposes of the Series 2020 Climate Bonds offering, the projects align most closely with three SDGs:



UN SDG Goals	GBP Project Category (SDG Targets)	Possible Indicators*
	<ul style="list-style-type: none"> • Sustainable Water and Waste Water Management (Targets 6.1, 6.2, 6.3, 6.4, 6.5, 6a, 6b) 	<ul style="list-style-type: none"> • Number of people provided with adequate and equitable sanitation • Volume of wastewater treated for reuse
	<ul style="list-style-type: none"> • Pollution Prevention and Control (Target 11.6) • Sustainable Water and Waste Water Management (Target 11.5) 	<ul style="list-style-type: none"> • Waste that is prevented, minimized, reused or recycled before and after the project • Number of individuals positively impacted by reduced GHG emissions
	<ul style="list-style-type: none"> • Climate Change Mitigation (Targets 13.1, 13.3) 	<ul style="list-style-type: none"> • Annual GHG emissions reduced as a result of the 2020 Project

CONCLUSION

Based on the Reasonable Assurance procedures we have conducted, in our opinion, the Series 2020 Climate Bonds conform, in all material respects, with the Climate Bonds Standard, and the bond-financed activities are aligned with the Water Infrastructure sector criteria.

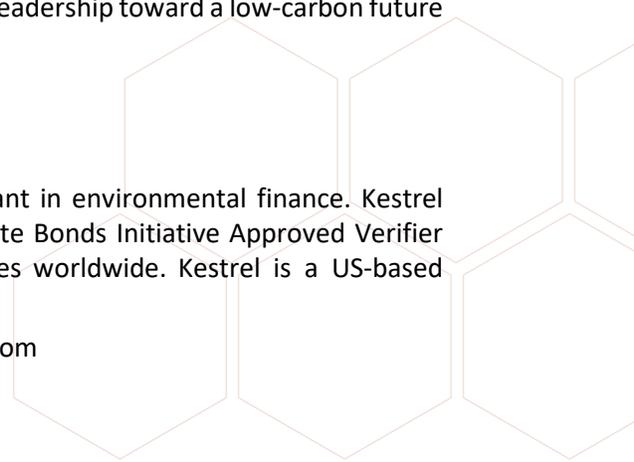
The City’s vision of a healthier, cleaner, more resilient region is supported with the financing of the Carbon Recovery and Biosolids Gasification Project. These Series 2020 Climate Bonds exceed the requirements of the Climate Bonds Standard. The City of Edmonds is demonstrating leadership toward a low-carbon future by implementing this project.

ABOUT KESTREL VERIFIERS



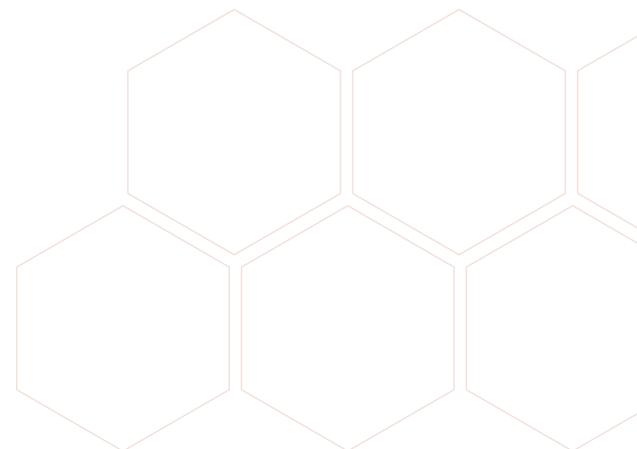
For 20 years Kestrel has been a trusted consultant in environmental finance. Kestrel Verifiers, a division of Kestrel 360, Inc. is a Climate Bonds Initiative Approved Verifier qualified to verify transactions in all asset classes worldwide. Kestrel is a US-based Women’s Business Enterprise.

For more information, visit www.kestrelverifiers.com



DISCLAIMER

This opinion aims to explain how and why the discussed financing meets the Climate Bonds Standard based on the information which was available to us during the time of this engagement (October 2020) only. By providing this opinion, Kestrel Verifiers is not certifying the materiality of the projects financed by the Climate Bonds. It was beyond Kestrel Verifiers' scope of work to review issues relating to regulatory compliance and no surveys or site visits were conducted. Furthermore, we are not responsible for surveillance on the project or use of proceeds. Kestrel Verifiers relied on information provided by the City. The opinion delivered by Kestrel Verifiers does not address financial performance of the Series 2020 Climate Bonds or the effectiveness of allocation of its proceeds. This opinion does not make any assessment of the creditworthiness of the City, or its ability to pay principal and interest when due. This is not a recommendation to buy, sell or hold the Series 2020 Climate Bonds. Kestrel Verifiers is not liable for consequences when third parties use this opinion either to make investment decisions or to undertake any other business transactions. This opinion may not be altered without the written consent of Kestrel Verifiers. Kestrel Verifiers certifies that there is no affiliation, involvement, financial or non-financial interest in the City or the projects discussed. Language in the offering disclosure supersedes any language included in this Verifier's Report.



APPENDIX A. Climate Bonds Standard Water Infrastructure Adaptation & Resilience Scorecard

CRITERIA: The project must score at least 60% of the maximum potential score in all parts of the Scorecard. Section 4 is needed for “Nature Based and Hybrid Infrastructure” only (see Criteria for detail)

Vulnerability Assessment SECTION 1: ALLOCATION					
(To be completed for all Water Infrastructure assets)					
		Max Score	Actual Score	Requirement: Evidence and/or Disclosure	Comments
1.1	Are there accountability mechanisms in place for the management of water allocation that are effective at a sub-basin and/or basin scale?	1	1	Disclosure	<p>There are several plans outlining management of water allocations.</p> <ul style="list-style-type: none"> http://www.edmondswa.gov/images/COE/Government/Departments/Public_Works/Water_Utility/pdf/Edmonds_Water_System_Plan_October_2017_Final_10-31-17_2.Reduced.pdf https://awwd.com/about-us/document-library/#25-comprehensive-plan https://everettwa.gov/DocumentCenter/View/2465/Everett-2007-Comp-Water-Plan-Final-Vol-1-Public?bidId= https://awwd.com/wpfd_file/edmonds-awwd-wholesale-water-supply-contract-eff-9-20-2010/ <p>The City of Edmonds, WA purchases 100% of its drinking water directly from Alderwood Water Wastewater District, who in turn, purchases their water directly from the City of Everett. The City of Everett sources their potable water from the Spada Reservoir located at the headwaters of the Sultan River about 30 miles east of Everett. From the Spada Reservoir, the water travels through a pipeline to the City of Everett Treatment facility at the Chaplain Reservoir, and then to the Alderwood Water & Wastewater District, and ultimately at the City of Edmonds distribution system.</p> <p>The Water Division at the City of Edmonds is responsible for maintenance and operation of constant and safe delivery of potable water to over 10,000 customer accounts.</p> <p>The direct purveyor of the source water, The City of Everett, has sound water management practices for the Spada Reservoir, as specified in their 2007 Comprehensive Water Plan, that was most recently updated in 2014.</p>
1.2	<p>Are the following factors taken into account in the definition of the available resource pool?</p> <ul style="list-style-type: none"> a. Non-consumptive uses (e.g., navigation, hydroelectricity) b. Environmental flow requirements c. Dry season minimum flow requirements d. Return flows (how much water should be returned to the resource pool, after use) 	7	7	Evidence	<p>The City of Edmonds distributes potable water to customers via 138 miles of distribution main and stores water for distribution in three 1.5-million-gallon reservoir tanks and one three-million-gallon reservoir and one pumping station. The City is subject to:</p> <ul style="list-style-type: none"> A. The Spada Reservoir has a hydroelectric dam and this is taken into account of the available resource pool. The City of Edmonds uses this source water for consumptive and non-consumptive uses such as irrigation accounts. B. The City of Everett (source water entity) monitors flow of the Sultan River, which is the source of water for the Spada Reservoir. C. The City of Everett (source water entity) forecasts flow requirements based on seasonal weather patterns and snowpack. D. Not applicable to the City of Edmonds. E. The City tracks seasonal variability in regards to water supply and demand. F. The Sultan River is a tributary that connects to the Skykomish River. The Skykomish River flows west and connects with the Snohomish River. The Snohomish River discharges into the Puget Sound. G. Discussed and considered as part of adapting plans in City of Edmonds’ 2010 Climate Change Action Plan. http://www.edmondswa.gov/climate-action-plan-2010.html

	<ul style="list-style-type: none"> e. Inter-annual and inter-seasonal variability f. Connectivity with other water bodies g. Climate change impacts 				
1.3		1	1	Evidence	http://www.edmondswa.gov/climate/climate-action.html City of Edmonds City Council Resolution on accordance with Paris Climate Agreement.
1.4	Is there a distinction between the allocation regimes used in “normal” times and in times of “extreme/severe” water shortage?	1	1	Evidence	Pg. 4-1 of the City of Edmonds Water System Plan discusses seasonal water usage and demand.
1.5	Are there plans to define “exceptional” circumstances, such as an extended drought, that influence the allocation regime? (E.g., triggers water use restrictions, reduction in allocations according to pre-defined priority uses, suspension of the regime plan, etc.)	1	1	Evidence	Appendix 6-3 of the City of Everett’s Comprehensive Water System Plan has a Drought Response Plan that outlines water use restrictions and other steps to curtail water allocations during drought periods.
1.6	For international / trans boundary basins, is there a legal mechanism in place to define and enforce water basin allocation agreements?	1	1	Disclosure	There are no international boundaries that apply to this water basin.
1.7	Are water delivery agreements defined on the basis of actual in situ seasonal / annual availability instead of volumetric or otherwise inflexible mechanisms?	1	1	Evidence	The City of Everett signed a water delivery agreement with Alderwood Water and Wastewater District for a maximum peak day demand of 106 mgd. The City of Edmonds is a wholesale customer of Alderwood Water and Wastewater District that receives a maximum peak day demand of 9 mgd, depending on seasonal availability.
1.8	Has a formal environmental flows (e-flows)/sustainable diversion limits or other environmental allocation been defined for the relevant sub-basin or basin? (If there is a pre-existing plan, then has the environmental flows program been updated to account for the new project?)	1	1	Evidence	The City of Everett and Snohomish Public Utilities District (SPUD) are co-licenses of the Jackson Hydroelectric project, which includes the Culmback Dam and water and power facilities at Spada Reservoir. The license and agreement between the City of Everett and SPUD sets diversion limits for the dam.
1.9	Have designated environmental flows / allocation programs been assured / implemented?	1	1	Evidence or Disclosure	The license for the Jackson Hydroelectric is being implemented.



1.10	Has a mechanism been defined to update the environmental flows plan periodically (e.g., every 5 to 10 years) in order to account for changes in allocation, water timing, and water availability?	1	1	Evidence	Licenses are required every 50 years.
1.11	Is the amount of water available for consumptive use in the resource pool linked to a public planning document? (E.g., a river basin management plan or another planning document – please indicate)	1	1	Evidence	City of Everett Water Plan https://everettwa.gov/DocumentCenter/View/2465/Everett-2007-Comp-Water-Plan-Final-Vol-1-Public?bidId=
1.12	If present, is the river basin plan a statutory instrument that must be followed rather than a guiding document?	1	0	Disclosure	N/A. There is no river basin plan for the Sultan River.
Total Allocation Score		18	/17		
Eligibility Criterion 1 passed/not passed			94 %		



Vulnerability Assessment SECTION 2: Governance

(To be completed for all Water Infrastructure assets)

		Max Score	Actual Score	Requirement: Evidence and/or Disclosure	Comments
2.1	<p>Have water entitlements been defined according to one of the following?</p> <ul style="list-style-type: none"> ● Purpose that water may be used for ● Maximum area that may be irrigated ● Maximum volume that may be taken in a nominated period ● Proportion of any water allocated to a defined resource pool 	1	1	Disclosure	The City of Edmonds and the Alderwood Water and Wastewater District have a Water Supply Agreement that indicates the volume of water to be purchased, which includes an average daily demand of 3.6 million gallons per day, and a maximum peak demand of 7.2 million gallons per day. The Agreement specifies that this water may be used for a wide variety of purposes pursuant to the city's customers, and both parties may negotiate water allocations.
2.2	<p>Is the surface water system currently considered to be neither over allocated nor over-used? N.B. Over-allocated would be if e.g. current use is within sustainable limits but there would be a problem if all legally approved entitlements to abstract water were used. Over-used would be if existing abstractions exceed the estimated proportion of the resource that can be taken on a sustainable basis.</p>	1	1	Evidence	The Sultan River is not considered to be over-used or over-allocated.
2.3	<p>If monitored and the investment uses groundwater, is the groundwater water system currently considered to be neither over- allocated nor over-used?</p> <p>N.B. Over-allocated would be if e.g. current use is within sustainable limits but there would be a problem if all legally approved entitlements to abstract water were used. Over-used would be if existing abstractions exceed the estimated proportion of the resource that can be taken on a sustainable basis.</p>	1	1	Evidence	The investment uses surface water only.
2.4	<p>Is there a limit to the proportion (e.g. percentage) of water that can be abstracted?</p>	1	1	Evidence	No regulations found stating % of Spada Reservoir. Storage capacity is 50 billion gallons. Annual average extraction is 53 million gallons per day.
2.5	<p>Are governance arrangements in place for dealing with exceptional circumstances (such as drought, floods, or severe pollution events), especially around coordinated infrastructure operations?</p>	1	1	Disclosure	The City of Edmonds and SPUD Water Supply Agreement addresses exceptional circumstances. However, the City of Edmonds does not own or operate the water source supply infrastructure. To deal with the coordinated infrastructure operations for the distribution system, the City of Edmonds is complying with the America Water Infrastructure Act to address emergency response for the water utility.
2.6	<p>Is there a process for re-evaluating recent decadal trends in seasonal precipitation and flow OR recharge regime, in order to evaluate "normal" baseline conditions?</p>	1	1	Evidence	Discretion and agreements between the City of Everett (source water entity) and Alderwood Water and Wastewater District (City of Edmonds' wholesale).
2.7	<p>Is there a formal process for dealing with new entrants?</p>	1	1	Disclosure	The sole discretion of the City of Everett and Alderwood Water and Wastewater District and available water as needed.
2.8	<p>For existing entitlements, is there a formal process for increasing, varying, or adjusted use(s)?</p>	1	1	Disclosure	Yes, pg. 5 of the agreement discusses future facility acquisitions.

2.9	Is there policy coherence across sectors (agriculture, energy, environment, urban) that affect water resources allocation, such as a regional, national, or basin-wide Integrated Water Resources Management (IWRM) plan?	1	0	Evidence	No.
2.10	Are obligations for return flows and discharges specified and enforced?	1	1	Disclosure	Return flows are discussed in water supply plans with the City of Everett and SPUD.
2.11	Is there a mechanism to address impacts from users who are not required to hold a water entitlement but can still take water from the resource pool?	1	1	Disclosure	No users outside of existing agreements are entitled to take water from the resource pool.
2.12	Is there a pre-defined set of priority uses within the resource pool? (E.g., according to or in addition to an allocation regime)	1	0	Disclosure	Not readily available
2.13	If there are new entrants and/if entitlement holders want to increase the volume of water they use in the resource pool and the catchment is open, are these entitlements conditional on either assessment of third party impacts, an Environmental Impact Assessment (EIA) or an existing user(s) forgoing use?	1	0	Evidence	Not readily available.
2.14	Are withdrawals monitored, with clear and legally robust sanctions?	1	1	Evidence	The City of Everett and SPUD oversee dam diversions, based on the approved license from the Federal Energy Regulatory Commission.
2.15	Are there conflict resolution mechanisms in place?	1	1	Disclosure	Yes, pg. 18 dispute resolution in Water Supply Agreement between the City of Edmonds and Alderwood Water and Wastewater District.
Total Governance Score		15	/12		
Eligibility Criterion 2 passed / not passed		80	%		

Vulnerability Assessment SECTION 3: TECHNICAL DIAGNOSTICS

(To be completed for all Water Infrastructure assets)

		Max Score	Actual Score	Requirement: Evidence and/or Disclosure	Comments
1	Does a water resources model of the proposed investment and ecosystem (or proposed modifications to existing investment and ecosystem) exist? Specify model types, such as WEAP, SWAT, RIBASIM, USACE applications). Scale should be at least sub-basin.	1	1	Evidence	A hydraulic capacity analysis of the City's existing sewer network was undertaken with the use of XPSWMM, version 14.10 by XPSolutions. http://www.edmondswa.gov/images/COE/Government/Departments/Development_Services/Planning_Division/Plans/2013_Sewer_Comp_Plan_9-18-13_FINAL-Main_Document.pdf
3.2	Can the system model the response of the managed water system to varied hydrologic inputs and varied climate conditions?	1	1	Evidence	The system can model the response of the managed collections system to varied hydrologic inputs.

3.3	Are environmental performance limits (ecosystem, species, ecological community) and/or ecosystem services specified?	1	1	Evidence	Page 7-3 of the Edmonds 2013 Sewer Comp Plan discusses data loaded into the model.
3.4	Can these performance limits be defined and quantified using the water resources model?	1	1	Evidence	Yes
3.5	Have these limits been defined based on expert knowledge and/or scientific analysis?	1	1	Evidence	Yes. In order to perform model calibration to observed flows, the "Runoff" (Rnf) mode of XPSWMM was utilized to introduce hydrologic flow into the model. The Rainfall Dependent Inflow and Infiltration (RDII) module of XPSWMM was used to represent wet weather response in the system. This module relies upon the RTK method of hydrograph generation.
3.6	Are these performance limits linked to infrastructure operating parameters?	1	1	Evidence	Yes
3.7	Are these limits linked to an environmental flows regime?	1	1	Evidence	Yes. They are modelled with peak day flows.
3.8	For new projects, is there an ecological baseline evaluation describing the pre-impact state?	1	1	Evidence	N/A
3.9	For rehabilitation / reoperation projects, is there an ecological baseline evaluation available before the projects was developed?	1	1	Evidence	N/A
3.10	Has there been an analysis that details impacts related to infrastructure construction and operation that has been provided?	1	0	Evidence	No
3.11	Are lost species and/or lost or modified ecosystem functions specified for restoration in the environmental evaluation?	1	1		Loss of species is addressed in the EIS. https://nepis.epa.gov/Exe/ZyNET.exe/94004NV6.TXT?ZyActionD=ZyDocument&Client=EPA&Index=1976+Thru+1980&Docs=&Query=&Time=&EndTime=&SearchMethod=1&TocRestrict=n&Toc=&TocEntry=&QField=&QFieldYear=&QFieldMonth=&QFieldDay=&IntQFieldOp=0&ExtQFieldOp=0&XmlQuery=&File=D%3A%5Czyfiles%5CIndex%20Data%5C76thru80%5CTxt%5C0000039%5C94004NV6.txt&User=ANONYMOUS&Password=anonymous&SortMethod=h%7C-&MaximumDocuments=1&FuzzyDegree=0&ImageQuality=r75g8/r75g8/x150y150g16/i425&Display=hpfr&DefSeekPage=x&SearchBack=ZyActionL&Back=ZyActionS&BackDesc=Results%20page&MaximumPages=1&ZyEntry=1&SeekPage=x&ZyPURL
3.12	Have regional protected areas / nature reserves been included in the analysis for impacts from the investment asset and future climate impacts?	1	1	Evidence	Yes. See EIS
3.13	Does the model include analysis of regression relationships between climate parameters and flow conditions using time series of historical climate and stream flow data?	1	0	Evidence	No.

3.14	Does the model include climate information from a multi modal ensemble of climate projections (eg from the Climate Wizard or the World Bank's Climate Portal) to assess the likelihood of climate risks for the specified investment horizons (s)?	1	0	Evidence	No.
3.15	Are changes in the frequency and severity of rare weather events such as droughts and floods included?	1	1	Evidence	Yes,
3.16	Are sub-annual changes in precipitation seasonality included?	1	1	Evidence	Yes.
3.17	Is GCM climate data complemented with an analysis of glacial melt water and sea level rise risks, where appropriate (e.g., high or coastal elevation sites)?	1	1	Evidence	N/A
3.18	Is paleo-climatic data (e.g., between 10,000 and >1000 years before present) included?	1	0	Evidence	No
3.19	Is the number of model runs and duration of model runs disclosed?	1	1	Evidence	Yes
3.20	Has a sensitivity analysis been performed to understand how the asset performance and environmental impacts may evolve under shifting future flow conditions?	1	1	Evidence	The model addresses sensitivity of model, but does not directly discuss the asset
3.21	Is directly measured climate data available for more than 30 years and incorporated into the water resources model?	1	0	Evidence	No.
3.22	Has evidence demonstrated that climate change has already had an impact on operations and environmental targets? Are these impacts specified and, to the extent possible, quantified? These impacts should be responded to directly in the Adaptation Plan.	1	0	Evidence	No.
3.23	Does the evidence suggest that climate change will have an impact on operations and environmental targets over the operational lifespan? Are these impacts specified and, to the extent possible, quantified? These impacts should be responded to directly in the Adaptation Plan.	1	0	Evidence	No.



3.24	Is there a discussion of the uncertainties associated with projected climate impacts on both operations and environmental impacts?	1	0	Evidence	No.
Total Governance Score		24	/16		
Eligibility Criterion passed / not passed		67	%	Passed	



APPENDIX D

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

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Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
City of Edmonds

For the period January 1, 2019 through December 31, 2019

Published September 28, 2020

Report No. 1026946





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

September 28, 2020

Mayor and City Council
City of Edmonds
Edmonds, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Edmonds financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Edmonds January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Edmonds are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



CITY OF EDMONDS

CITY HALL

121 5th AVENUE NORTH • EDMONDS, WA 98020

425.771.0240 • FAX 425.771.0265

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Edmonds

January 1, 2019 through December 31, 2019

This schedule presents the status of federal findings reported in prior audit periods.

Audit Period: January 1, 2018 – December 31, 2018	Report Ref. No.: 1024494	Finding Ref. No.: 2018-001
Finding Caption: The City’s internal controls over accounting and financial preparation were not adequate to ensure accurate financial reporting.		
Background: The City did not have adequate controls to ensure recent accounting pronouncements related to postemployment benefits and pensions were implemented correctly. In addition to time delays in receiving information, the City experienced miscommunication between staff responsible for posting journal entries related to the implementation of GASB 75 and the firemen’s pension accounting entries related to GASB 68. Although the City has taken significant steps to make improvements in its controls over the capital asset accounting system, its current process does not ensure its accounting records align with its operational (public works and utility) records for tracking, monitoring and maintaining city owned assets. Additionally, the City could not demonstrate it completed an annual inventory of capital assets of all departments as required by its capital asset policy. Lastly, the City has not fully researched and implemented a corrective action plan to resolve prior audit recommendations relating to capital assets.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>We have taken significant steps to resolve the issues identified in last year's audit. Specifically, we have hired a new actuarial firm to perform our pension calculations and we received their actuarial results much earlier than last year, which will allow us more time to incorporate the results in the City’s financial statements and will allow additional time to conduct a proper</i>		

review. We also invested significant time and resources to improving our capital asset accounting and bringing our asset schedules up to date, which we are confident will be reflected in improved audit results this year.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Edmonds
January 1, 2019 through December 31, 2019**

Mayor and City Council
City of Edmonds
Edmonds, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Edmonds, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 31, 2020.

As discussed in Note 19 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 19.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and

corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy

State Auditor

Olympia, WA

August 31, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Edmonds
January 1, 2019 through December 31, 2019**

Mayor and City Council
City of Edmonds
Edmonds, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the City of Edmonds, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies

in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

August 31, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Edmonds January 1, 2019 through December 31, 2019

Mayor and City Council
City of Edmonds
Edmonds, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Edmonds, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Edmonds, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 19 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 19. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 City's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

August 31, 2020

FINANCIAL SECTION

City of Edmonds January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Activities – 2019

Balance Sheet – Governmental Funds – 2019

Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds – 2019

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2019

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Government Funds to the Statement of Activities – 2019

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2019

Statement of Net Position – Proprietary Funds – 2019

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2019

Statement of Cash Flows – Proprietary Funds – 2019

Statement of Fiduciary Net Position – 2019

Statement of Changes in Fiduciary Net Position – 2019

Notes to the Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Firemen's Pension Fund Other Post-Employment Benefits – Schedule of Changes in Total OPEB Liability and Related Ratios – 2019

Firemen's Pension Fund – Schedule of Changes in the City's Net Pension Liability and Related Ratios – 2019

Firemen's Pension Fund – Schedule of City Contributions – 2019

Schedules of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1,
LEOFF 2 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2019

Notes to the Schedule of Expenditures of Federal Awards – 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Edmonds (City) presents this Management's Discussion and Analysis of its financial activities for the fiscal year ended December 31, 2019. The City's discussion and analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the City's financial activity
- Identify changes in the City's financial position (its ability to meet future years' challenges)

Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts. The intent of this discussion is to review the City's financial performance as a whole. Therefore, it should be read in conjunction with the Transmittal Letter and the City's financial statements.

Financial Highlights

- The City's revenue performance continued to be strong in 2019 with property, sales, and utility tax revenues increasing \$53,943 over 2018 and assessed property values in the City increasing 12.3 percent over 2018.
- The assets and deferred outflows of resources of the City of Edmonds exceeded its liabilities and deferred inflows at fiscal year-end by \$186.1 million (net position), an increase of \$2.9 million over 2018. Of this amount, a majority (\$126.9 million) is a net investment in capital assets. The unrestricted net position totals \$35.7 million and may be used to meet the city's ongoing obligations to citizens and creditors. In addition, the restricted net position totals \$23.5 million and is earmarked for debt service, capital projects and special revenue funds.
- The City's total net position improved by \$2.9 million in 2019. Governmental activities decreased by \$340,070 and business-type activities increased by \$3.2 million.
- Governmental funds reported a combined ending fund balance of \$36.1 million; a \$5.3 million improvement over the prior year. Of this amount, \$15.9 million is unassigned and available to fund ongoing activities. The committed fund balance category totals \$3.2 million and the assigned fund balance category totals \$2 million. The 2019 unassigned fund balance equals 38.6% of 2019 general fund expenditures.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Edmonds as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Edmonds basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements and required information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the city's financial position in a manner like that of the private-sector business. These statements are reported on the full accrual basis of accounting. Under the full accrual basis, certain revenues and expenses are reported that will not affect the cash flows until future periods.

The focus of the **Statement of Net Position** is designed to be similar to bottom-line results for the City and its governmental and business-type activities. This statement presents all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual reported as net position. Over time, increases or decreases in net position may be one indicator of improvement or deterioration in the City's overall financial health.

The **Statement of Activities** is focused on both the gross and net cost of various functions, including both governmental and business-type activities, which are supported by the City's general tax and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed.

Governmental activities of the City include general government (executive, finance, legal, human resources, and court), public safety, utilities and environment, transportation, economic environment, mental and physical health, and culture and recreation. The City's business-type activities include water, sewer, and storm utilities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

The City also includes as a discretely presented component unit the Edmonds Public Facilities District (EPFD), a performing arts center in Edmonds, and the EPFD's blended component unit, the Edmonds Center for the Arts (ECA), a non-profit established to collect donations and manage the operations for the EPFD. Although legally separate, the EPFD is important because the City provides financial support and oversight responsibilities connected to the activities of the board.

Fund Financial Statements

The fund financial statements will look familiar to the traditional users of governmental financial statements. However, the focus now is on major funds rather than fund types. Individual funds are used to maintain control over resources that are segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three categories of City funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds. These statements, however, focus on cash and other assets that can readily be converted to available resources, as well as any balances remaining at year-end. Such information is useful in determining which financial resources are available in the near future to finance the City's programs.

Readers may better understand the long-term impact of the government's near-term financing decisions by comparing the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. The Governmental Funds' Balance Sheet and the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison.

Information for the major governmental funds is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund's Statement of Revenues, Expenditures, and Changes in Fund Balances; information for the non-major funds is presented in the aggregate.

The City's main operating fund is the General Fund. However, the City maintains many accounts and eight sub-funds within the General Fund. The remaining governmental funds are combined into a single column labeled non-major governmental funds. Individual fund data for each of the non-major governmental funds can be found in combining statements later in this report.

The City maintains control over its operating funds through the adoption of an annual budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison is presented for the General Fund as part of the basic financial statements.

The basic governmental fund financial statements can be found after the government-wide statements of this report.

Proprietary funds account for services for which the City charges outside customers and internal City departments. Proprietary funds provide the same information as shown in the government-wide financial statements, only in more detail, since both use the accrual basis of accounting. Proprietary funds report the same functions presented as business-type activities in the government-wide financial statements.

The City has two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various City departments.

The enterprise fund statements provide information for the City's water, sewer, and storm water utilities. The City uses an internal service funds to account for its fleet of vehicles and technology equipment. Because these internal services largely benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found following the governmental fund statements of this report.

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support City programs. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position as part of the basic financial statements.

The basic fiduciary fund financial statements can be found following the proprietary fund statements of this report.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning other post-employment benefits. Additional pension benefit information is found in Note 11.

Government-wide Financial Analysis

This section provides analysis of the government-wide financial statements including long-term and short-term information about the City's improving financial condition. The following two tables address the financial results of the City as a whole. The first table is a condensed version of the 2019 government-wide statement of net position with a comparison to 2018:

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	56,272,471	\$ 51,724,867	31,928,197	\$32,363,153	\$ 88,200,668	\$ 84,088,020
Capital assets, net	75,296,662	76,262,839	98,151,383	97,607,283	173,448,045	173,870,122
Total assets	131,569,133	127,987,706	130,079,580	129,970,436	261,648,713	257,958,142
Deferred outflows of resources	2,186,285	2,388,882	434,888	407,468	2,621,173	2,796,350
Deferred outflows of resources	2,186,285	2,388,882	434,888	407,468	2,621,173	2,796,350
Total assets and deferred outflows of resources	133,755,418	130,376,588	130,514,468	130,377,904	264,269,886	260,754,492
Current liabilities	4,603,696	2,150,058	4,109,558	2,603,630	8,713,254	4,753,688
Noncurrent liabilities	21,361,446	20,813,340	42,663,261	47,275,658	64,024,707	68,088,998
Total liabilities	25,965,142	22,963,398	46,772,819	49,879,288	72,737,961	72,842,686
Deferred inflows of resources	4,715,190	3,998,036	668,932	645,119	5,384,122	4,643,155
Deferred inflows of resources	4,715,190	3,998,036	668,932	645,119	5,384,122	4,643,155
Total liabilities and deferred inflows of resources	30,680,332	26,961,434	47,441,751	50,524,407	78,122,083	77,485,841
NET POSITION						
Net investment in capital assets	72,350,862	73,066,773	54,539,364	52,126,227	126,890,226	125,193,000
Restricted	20,538,591	14,521,561	2,983,688	2,982,738	23,522,279	17,504,299
Unrestricted	10,185,633	15,826,820	25,549,665	24,744,532	35,735,298	40,571,352
Total net position	\$103,075,086	\$103,415,154	\$83,072,717	\$79,853,497	\$186,147,803	\$183,268,651

Analysis of Net Position

Total net position (assets and deferred outflows, minus liabilities and deferred inflows) of the primary government was \$186.1 million at December 31, 2019 an improvement of \$2.9 million or 1.57% compared to December 31, 2018. Governmental activities decreased net position by \$340,070 and business-type activities increased net position by \$3.2 million.

The largest component of the City's net position, \$126.9 million, or 68.2%, is its investment in capital assets. These capital assets, such as streets, parks, trails, and vehicles and equipment related to police and public works, are used to provide services to the citizens. As a result, these assets are not for sale, and are therefore not available to fund current and future City obligations.

Approximately \$23.5 million of the primary government's total net position are restricted for debt service payments, transportation improvements, and other purposes, an increase of \$6.0 million over 2018. The increase is mainly due to the proceeds from the issuance of \$3.7 million in general obligation bonds that are restricted for the construction of Civic Park and were not expended in 2019. The primary government's December 31, 2019 unrestricted net position totals \$35.7 million, a decrease of \$4.8 million over 2018.

The December 31, 2019 governmental activities unrestricted net position of \$10.2 million may be spent to meet ongoing obligations to citizens and creditors. There are no restrictions, commitments, or other limitations that significantly affect the availability of these resources for future use.

Restricted governmental fund net position is \$20.5 million and is restricted for purposes such as debt service, public safety, transportation, culture and recreation, and other purposes.

Unrestricted net position of the City's business-type activities totals \$25.5 million, representing the portion of unrestricted net position that may only be spent on activities related to one of the City's utilities (water, sewer, and storm water). Examples of utility activities include maintenance of water/sewer mains, pump and lift stations, storm drain flushing, water meter reading, and the wastewater treatment plant.

Changes in Net Position

The change in net position represents the increase or decrease in City net position resulting from its various activities.

The following table is a condensed version of the City's changes in net position and compares 2019 results with 2018. This table shows program revenues, their respective expenses and the overall changes in net position for both governmental-type and business-type activities:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program revenues:						
Charges for services	\$ 13,372,648	\$ 12,829,258	\$25,983,491	\$24,769,079	\$ 39,356,139	\$ 37,598,337
Operating grants and contributions	633,296	562,250	34,198	33,192	667,494	595,442
Capital grants and contributions	1,796,082	3,192,494	1,457,600	1,514,823	3,253,682	4,707,317
General revenues:						
Property taxes	14,386,149	14,280,501	-	-	14,386,149	14,280,501
Sales taxes	9,477,813	9,443,775	-	-	9,477,813	9,443,775
Interfund utility taxes	2,450,254	2,397,453	-	-	2,450,254	2,397,453
Utility taxes	4,242,835	4,381,379	-	-	4,242,835	4,381,379
Excise taxes	5,690,723	6,145,718	-	-	5,690,723	6,145,718
Interest and investment earnings	1,468,251	925,298	363,547	231,285	1,831,798	1,156,583
Miscellaneous	274,840	1,897,105	-	2,624	274,840	1,899,729
Gains on disposition of assets	23,386	56,229	-	-	23,386	56,229
Total revenues	<u>53,816,277</u>	<u>56,111,460</u>	<u>27,838,836</u>	<u>26,551,003</u>	<u>81,655,113</u>	<u>82,662,463</u>
EXPENSES						
Governmental activities:						
General government	13,458,742	11,597,750	-	-	13,458,742	11,597,750
Public safety	26,060,416	22,582,126	-	-	26,060,416	22,582,126
Utilities and environment	201,958	208,768	-	-	201,958	208,768
Transportation	7,185,216	5,369,867	-	-	7,185,216	5,369,867
Economic environment	1,640,845	1,312,929	-	-	1,640,845	1,312,929
Mental and physical health	166,750	420,136	-	-	166,750	420,136
Culture and recreation	5,405,494	5,862,529	-	-	5,405,494	5,862,529
Interest on long-term debt	48,910	50,277	-	-	48,910	50,277
Business-Type activities:						
Sewer Fund	-	-	12,068,583	10,640,285	12,068,583	10,640,285
Storm Fund	-	-	4,374,384	4,020,527	4,374,384	4,020,527
Water Fund	-	-	8,164,665	7,687,887	8,164,665	7,687,887
Total expenses	<u>54,168,331</u>	<u>47,404,382</u>	<u>24,607,632</u>	<u>22,348,699</u>	<u>78,775,963</u>	<u>69,753,081</u>
Excess (deficiency) before transfers	(352,054)	8,707,078	3,231,204	4,202,304	2,879,150	12,909,382
Transfers	11,984	4,230	(11,984)	(4,230)	-	-
Increase (decrease) in net position	<u>(340,070)</u>	<u>8,711,308</u>	<u>3,219,220</u>	<u>4,198,074</u>	<u>2,879,150</u>	<u>12,909,382</u>
Net position - beginning	103,415,154	100,297,140	79,853,497	75,655,423	183,268,651	175,952,563
Change in accounting principle	-	(5,593,294)	-	-	-	(5,593,294)
Net position - ending	<u>\$103,075,084</u>	<u>\$103,415,154</u>	<u>\$83,072,717</u>	<u>\$79,853,497</u>	<u>\$186,147,801</u>	<u>\$183,268,651</u>

Analysis of the Changes in Net Position

Net position of the primary government increased by \$2.9 million due to the strong local economy. Total government-wide revenues of the primary government decreased \$1 million or 1.2% and total expenses increased \$9 million or 12.9% over the prior year. These changes are discussed in more detail below.

Governmental Activities:

The table above shows the net position for Governmental activities decreased by \$340,070. This decrease is the result of expenditures increases outpacing revenue growth in 2019. Governmental activity expenditures increased by \$6.8 million or 14.3% and Governmental activity revenues decreased by \$1 million, or 1.2% from 2018 levels.

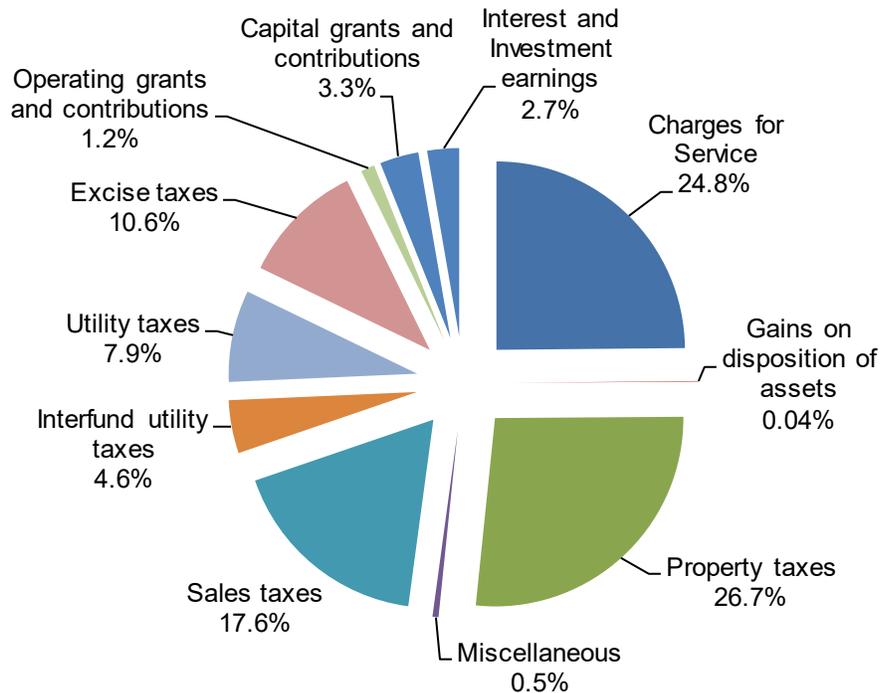
The expenditure increase is due to increased general government, public safety and transportation expenditures in the City. The majority of the increased spending was offset by general revenues. The decrease in revenues is mainly due to capital grants and contributions decreasing \$1.4 million from 2018 levels. Below are additional revenue highlights for 2019

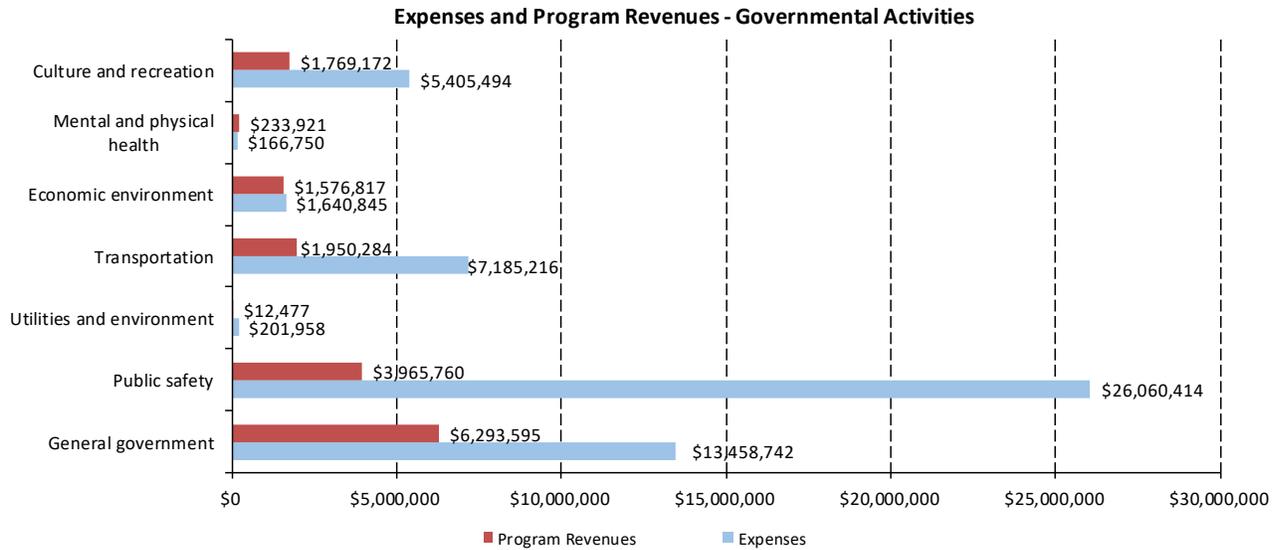
- Charges for services increased \$543,390, or 4.2%. This change is due mainly to an increase in development related revenues
- Property tax revenue increased \$105,648, or 0.7% over 2018,
- Sales tax collections increased by \$34,038, or 0.4%,
- Excise taxes decreased by \$454,995 or 7.4%.

The next chart summarizes the government activity revenue by source, while the second one reflects the specific programs' revenues and related expenses for the various activities of the City. Gaps between specific programs' revenues and their related expenditures are funded through general tax revenues.

Revenues by Source - Governmental Activities

Revenues by Source - Governmental Activities





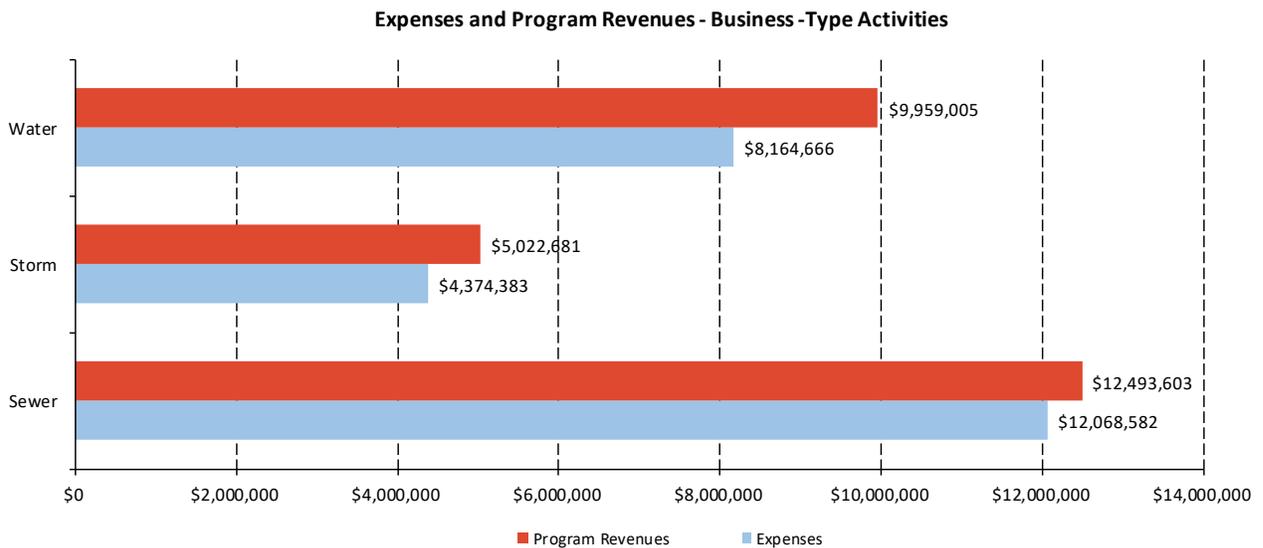
Business-type Activities:

Business-type activities net position increased by \$3.2 million. A key component of this increase include:

- Charges for services revenues increased by \$1.12 million, or 4.9%, over 2018.

The majority of net position in the City’s enterprise funds relate to capital asset infrastructure, such as water and sewer mains, storm water infrastructure, and the wastewater treatment plant. As such, most of the net position is not available to support the ongoing expenses of the funds.

The following chart depicts major sources of revenue for business-type activities:



Financial Analysis of Governments Funds

As noted earlier, the City of Edmonds uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

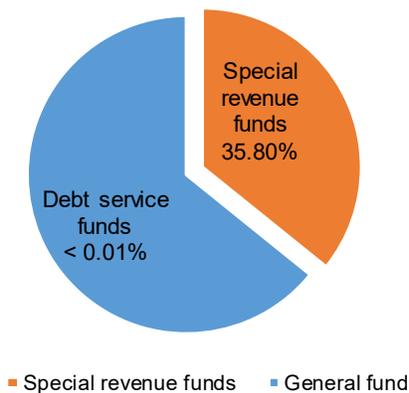
The purpose of the City's governmental funds is to report on near-term revenues/financial resources and expenditures. This information helps determine the City's financial requirements in the near future. Specifically, fund balance is a good indicator of the City's financial resources.

As of December 31, 2019, the City's governmental funds had combined fund balances of \$36.1 million an increase of \$5.3 million or 17.3% from 2018. Approximately 44.1% or \$15.9 million of this amount constitutes unassigned General Fund balance, which is available for spending at the City Council's discretion, and \$2 million is assigned for future development of Civic Park. The 2019 unassigned fund balance equals 38.6% of 2019 General Fund expenditures, indicating that the City is in a strong financial position. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed for debt service payments, public safety, transportation, recreation and other purposes.

The General Fund is the primary operating fund of the City. The 2019 fund balance experienced a very small decrease of \$17,652 or 0.1% from 2018.

The following chart shows the relative fund balances for governmental funds:

Governmental Funds - Fund Balance



Proprietary funds

The City of Edmonds proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the combined utility funds at the end of the year amounted to \$25.5 million, an \$805,133 increase over 2018. The total change in net position for the three funds was a \$3.2 million increase.

General Fund Budgetary Highlights

The City of Edmonds produces an annual budget document to fulfill the Community's vision for where City resources should be directed. The budget reflects the City Council's goals of maintaining long-term financial health and stability of the City's General Fund and reserves, and continues the delivery of high-quality services to Edmonds.

The 2019 expenditure budget was amended to include an additional \$1.3 million in appropriations. The largest portion of this increase was for building maintenance projects.

A comparison of the actual performance of the general fund on a budgetary basis to the final budget indicates that total revenue collections exceeded budgeted revenues by \$1.1 million. This was primarily due to increases in sales tax revenues and charges for development related services.

Total actual expenditures were \$2.9 million or 6.7% under budget, excluding fund balances, in the General Fund. The under expenditures are mainly due to:

- Approximately \$603,000 million of the under expenditure coming from personnel savings.
- \$627,000 budgeted for facility projects remains unspent.
- \$1,700,000 budgeted for professional services remains unspent.

Capital Asset and Debt Administration

Capital Assets

The City of Edmonds' investment in capital assets for governmental and business-type activities as of December 31, 2019 amounts to \$126.9 million (net of accumulated depreciation), an increase of \$1.7 from 2018. This investment in capital assets includes land and construction in progress, which are not subject to depreciation. The other capital assets, buildings, improvements other than buildings, infrastructure, machinery and equipment, and intangible assets are subject to depreciation.

Governmental type capital assets (net of depreciation) totaled \$75.3 million in 2019, a decrease of \$966,000 from 2018. Business-type capital assets (net of depreciation) totaled \$98.2 million, an increase of \$544,000 from 2018. In addition to the effects depreciation, these changes are the result of capitalizing construction in progress, and acquisition of machinery and equipment. More information on the City's Capital Assets can be found in Note 9 – Capital Assets and Depreciation.

A summary of the City's capital assets, net of accumulated depreciation, follows:

	Governmental Activities		Business-Type Activities		Total	
	As of 12/31/19	As of 12/31/18	As of 12/31/19	As of 12/31/18	As of 12/31/19	As of 12/31/18
	(in thousands)					
Land	\$ 17,688	\$ 17,688	\$ 1,257	\$ 1,257	\$ 18,945	\$ 18,945
Building	7,296	7,860	16,140	16,821	23,436	24,681
Improvements other than buildings	15,020	15,669	72,432	72,523	87,451	88,192
Infrastructure	27,786	28,773			27,786	28,773
Machinery and Equipment	5,131	4,015	537	858	5,667	4,873
Intangible Assets	0	0	31	33	31	33
Construction in Progress	2,376	2,257	7,755	6,116	10,131	8,374
Total	\$ 75,297	\$ 76,263	\$ 98,151	\$ 97,607	\$ 173,448	\$ 173,870

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$50,103,483. Of this amount, \$8,595,125 is general obligation bonds for governmental activities, \$1,738,359 is general obligation bonds for business-type activities and \$39,770,000 is revenue bonds for business-type activities for the City-operated utilities. The City currently maintains a rating of AAA with Standard & Poor's for general obligation bonds and Aa3 with Moody's for its revenue bonds.

The following schedule summarizes the City's long-term debt. For additional detailed information on long-term debt activity please see Notes 13 and 14.

	Governmental Activities		Business-Type Activities		Total	
	As of 12/31/19	As of 12/31/18	As of 12/31/19	As of 12/31/18	As of 12/31/19	As of 12/31/18
General Obligation Debt	\$ 8,595,125	\$ 5,799,444	\$ 1,738,359	\$ 1,990,009	\$ 10,333,483	\$ 7,789,453
Revenue Bonds	-	-	39,770,000	41,120,000	39,770,000	41,120,000
Capital Contracts	-	131,516	-	-	-	131,516
Loans	390,484	462,685	1,556,398	1,786,828	1,946,881	2,249,513
Total	\$ 8,985,608	\$ 6,393,645	\$ 43,064,756	\$ 44,896,837	\$ 52,050,364	\$ 51,290,482

Economic Factors and Next Year's Budgets

Principal factors influencing the City's 2020 budget include the continued improvement in sales tax and excise tax revenues stemming from the robust retail sales, real estate sales and construction activity in the City, and growth in the overall economy.

The 2020 budget was adopted in December 2019 by the City Council. Our budget reflects the City Council's goals, maintains long-term financial health and stability of our General Fund and reserves, and continues the delivery of high-quality services for our community. The FY 2020 budget projects modest growth in the operating budget including these priorities:

- A new Crime Prevention/Community Engagement Coordinator
- \$75,000 to Enhance our Arts & Culture through the Edmonds Center for the Arts
- \$12.46 million for construction of Civic Park
- A new half-time Human Services Coordinator
- \$1.5 million for facility improvements
- \$12.2 million for eco-friendly projects
- \$1.2 million for the City's street overlay program
- \$220,000 to cover increased costs to purchase water for resale
- A new half-time Public Information Officer
- \$5.8 million for City-wide public safety enhancements
- \$2.68 million for beach rehabilitation and parking lot improvement associated with the Waterfront Center

Subsequent to the adoption of the 2020 budget, on February 29, 2020, Washington State Governor Jay Inslee declared a state of emergency in response to new cases of COVID-19, directing state agencies to use all resources necessary to prepare for and respond to the outbreak. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes.

On March 23, 2020 the Governor announced a statewide order requiring everyone in the state to stay at home, unless they are pursuing an essential activity. The initial order was for two weeks, and has been extended through May 31. Similar measures were taken across the country and around the world. These drastic measures in response to the pandemic, including the closing of many businesses and limiting the activities of other businesses, will have a significant impact to the local, regional, and national economies. The length of time these measures will be in place, and the full extent of the financial impact to the City of Edmonds is unknown at the time of publication of this document.

Requests for Information

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about this report, please contact the Finance Director, 121 Fifth Avenue North, Edmonds, Washington, WA 98020, (425) 771-0240.

City of Edmonds
Statement of Net Position
December 31, 2019

	Primary Government			Component Unit
	Governmental	Business-type	Total	Edmonds Public Facilities District
	Activities	Activities		
ASSETS				
Current assets:				
Cash & equity in pooled investments	\$ 16,848,827	\$ 11,606,161	\$ 28,454,988	\$ 110,931
Deposits with trustees	26,892	-	26,892	-
Investments	17,011,162	13,077,595	30,088,757	-
Taxes receivable	227,727	-	227,727	-
Customer accounts	658,843	3,720,420	4,379,263	54,237
Court receivable	435,457	-	435,457	-
Other receivable	-	-	-	89,628
Interest on investments	223,762	136,549	360,311	-
Due from other governments	3,123,939	257,836	3,381,775	79,263
Due from component unit	375,000	-	375,000	-
Inventory of materials & supplies	45,921	153,996	199,917	6,237
Prepayments	-	-	-	35,677
Total current assets	38,977,530	28,952,557	67,930,087	375,973
Noncurrent assets:				
Restricted cash and cash equivalents	6,288,515	2,975,640	9,264,155	100,378
Due from component unit - long-term	3,791,191	-	3,791,191	-
Restricted net pension asset	5,508,058	-	5,508,058	-
Investment in joint venture	1,707,177	-	1,707,177	-
Depreciable capital assets (net)	55,232,761	89,139,135	144,371,896	7,477,560
Non Depreciable capital assets	20,063,901	9,012,248	29,076,149	3,447,179
Total noncurrent assets	92,591,603	101,127,023	193,718,626	11,025,117
Total assets	131,569,133	130,079,580	261,648,713	11,401,090
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - Debt refunding	8,645	88,554	97,199	-
Deferred outflows of resources - Pension	2,177,640	346,334	2,523,974	-
Deferred outflows of resources - PFD	-	-	-	147,769
Total deferred outflows of resources	2,186,285	434,888	2,621,173	147,769
Total assets and deferred outflows of resources	133,755,418	130,514,468	264,269,886	11,548,859
LIABILITIES				
Current liabilities:				
Accounts payable	902,652	778,370	1,681,022	236,713
Accrued wages	1,192,751	215,213	1,407,964	87,236
Internal balances	(466,926)	466,926	-	-
Due to other governmental units	-	119,368	119,368	-
Other current liabilities	137,393	108,158	245,551	-
Accrued bond interest payable	19,382	134,251	153,633	5,049
Deposits payable	-	8,048	8,048	38,075
Due within one year	2,818,444	2,279,224	5,097,668	678,509
Unearned Revenue	-	-	-	470,645
Total current liabilities	4,603,696	4,109,558	8,713,254	1,516,227
Noncurrent liabilities:				
Pension liabilities	4,510,105	916,052	5,426,157	345,737
Total other post employment liability	7,877,232	-	7,877,232	-
Due in more than one year	8,974,109	41,747,209	50,721,318	6,097,378
Total noncurrent liabilities	21,361,446	42,663,261	64,024,707	6,443,115
Total liabilities	25,965,142	46,772,819	72,737,961	7,959,342
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - Debt refunding	112,892	27,366	140,258	-
Deferred inflows of resources - Pension	4,602,298	641,566	5,243,864	-
Deferred inflows of resources - PFD	-	-	-	195,204
Total deferred inflows of resources	4,715,190	668,932	5,384,122	195,204
Total liabilities and deferred inflows of resources	30,680,332	47,441,751	78,122,083	8,154,546
NET POSITION				
Net investment in capital assets	72,350,862	54,539,364	126,890,226	4,185,209
Restricted for:				
Customer Deposits	-	8,048	8,048	-
Debt Service	-	2,975,640	2,975,640	502,366
Public Safety	39,840	-	39,840	-
Transportation	2,720,243	-	2,720,243	-
Economic Environment	104,559	-	104,559	-
Social Services	112	-	112	-
Culture and Recreation	12,155,651	-	12,155,651	-
Other	10,128	-	10,128	-
Pensions	5,508,058	-	5,508,058	-
Unrestricted	10,185,633	25,549,665	35,735,298	(1,293,262)
Total net position	\$ 103,075,086	\$ 83,072,717	\$ 186,147,803	\$ 3,394,313

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Activities
For the Year Ended December 31, 2019

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 13,458,742	\$ 6,289,759	\$ 3,836	\$ -
Public safety	26,060,416	3,675,064	288,102	2,594
Utilities and environment	201,958	-	5,312	7,165
Transportation	7,185,216	518,040	178,503	1,253,741
Economic environment	1,640,845	1,568,174	8,643	-
Mental and physical health	166,750	233,921	-	-
Culture and recreation	5,405,494	1,087,690	148,900	532,582
Interest on long-term debt	48,910	-	-	-
Total governmental activities	<u>54,168,331</u>	<u>13,372,648</u>	<u>633,296</u>	<u>1,796,082</u>
Business-type activities:				
Sewer Utility	12,068,583	11,434,440	-	1,059,163
Storm Utility	4,374,384	4,945,235	-	77,446
Water Utility	8,164,665	9,603,816	34,198	320,991
Total business-type activities	<u>24,607,632</u>	<u>25,983,491</u>	<u>34,198</u>	<u>1,457,600</u>
Total primary government	<u>\$ 78,775,963</u>	<u>\$ 39,356,139</u>	<u>\$ 667,494</u>	<u>\$ 3,253,682</u>
Component Unit				
Edmonds Public Facilities District	3,721,164	2,759,725	824,848	175,211
Total component unit	<u>\$ 3,721,164</u>	<u>\$ 2,759,725</u>	<u>\$ 824,848</u>	<u>\$ 175,211</u>

General revenues
Property taxes
Sales taxes
Interfund utility taxes
Utility tax
Excise Taxes
Interest and investment earnings
Miscellaneous
Gains on disposition of assets
Transfers
Total General revenues and Transfers
Change in net position
Net position - beginning
Net position - ending

The notes to financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	Edmonds Public Facilities District	
\$ (7,165,147)	\$ -	\$ (7,165,147)	\$ -	-
(22,094,656)	-	(22,094,656)	-	-
(189,481)	-	(189,481)	-	-
(5,234,932)	-	(5,234,932)	-	-
(64,028)	-	(64,028)	-	-
67,171	-	67,171	-	-
(3,636,322)	-	(3,636,322)	-	-
(48,910)	-	(48,910)	-	-
<u>(38,366,305)</u>	<u>-</u>	<u>(38,366,305)</u>	<u>-</u>	<u>-</u>
-	425,020	425,020	-	-
-	648,297	648,297	-	-
-	<u>1,794,340</u>	<u>1,794,340</u>	-	-
-	<u>2,867,657</u>	<u>2,867,657</u>	-	-
<u>(38,366,305)</u>	<u>2,867,657</u>	<u>(35,498,648)</u>	-	-
			<u>38,620</u>	
			<u>38,620</u>	
14,386,149	-	14,386,149	-	-
9,477,813	-	9,477,813	-	-
2,450,254	-	2,450,254	-	-
4,242,835	-	4,242,835	-	-
5,690,723	-	5,690,723	-	-
1,468,253	363,547	1,831,800	3,238	-
274,840	-	274,840	-	-
23,386	-	23,386	-	-
11,984	(11,984)	-	-	-
<u>38,026,237</u>	<u>351,563</u>	<u>38,377,800</u>	<u>3,238</u>	
(340,068)	3,219,220	2,879,152	41,858	
<u>103,415,154</u>	<u>79,853,497</u>	<u>183,268,651</u>	<u>3,352,455</u>	
<u>\$ 103,075,086</u>	<u>\$ 83,072,717</u>	<u>\$ 186,147,803</u>	<u>\$ 3,394,313</u>	

City of Edmonds
Balance Sheet
Governmental Funds
December 31, 2019

	General Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 7,951,130	\$ 9,129,748	\$ 17,080,878
Investments	6,883,102	7,017,905	13,901,007
Deposits with trustee	26,892	-	26,892
Property taxes receivable	227,727	-	227,727
Customer accounts	658,373	-	658,373
Interest on investments	98,298	90,026	188,324
Court Receivable	435,457	-	435,457
Interfund receivable	231,480	235,446	466,926
Due from other governments	2,069,706	1,054,233	3,123,939
Due from component unit	4,166,191	-	4,166,191
Restricted cash and investments	2,803,516	-	2,803,516
Total assets	<u>\$ 25,551,872</u>	<u>\$ 17,527,358</u>	<u>\$ 43,079,230</u>
LIABILITIES			
Accounts payable	\$ 508,443	\$ 378,911	\$ 887,354
Wages and benefits payable	1,105,240	51,067	1,156,307
Other current liabilities	105,398	31,995	137,393
Unearned revenues	4,200,170	-	4,200,170
Total liabilities	<u>5,919,251</u>	<u>461,973</u>	<u>6,381,224</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - property taxes	227,727	-	227,727
Deferred inflows of resources - court receivable	354,203	-	354,203
Total deferred inflow of resources	<u>581,930</u>	<u>-</u>	<u>581,930</u>
Total liabilities and deferred inflows of resources	<u>6,501,181</u>	<u>461,973</u>	<u>6,963,154</u>
FUND BALANCES (DEFICITS)			
Restricted	-	15,030,533	15,030,533
Committed	1,138,072	2,034,852	3,172,924
Assigned	2,000,000	-	2,000,000
Unassigned	15,912,619	-	15,912,619
Total fund balances (deficits)	<u>19,050,691</u>	<u>17,065,385</u>	<u>36,116,076</u>
Total liabilities and fund balances (deficits)	<u>\$ 25,551,872</u>	<u>\$ 17,527,358</u>	<u>\$ 43,079,230</u>

The notes to financial statements are an integral part of this statement.

CITY OF EDMONDS, WASHINGTON
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

Total governmental fund balances as reported on this statement \$ 36,116,076

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. These assets consist of:

Land	\$ 17,688,372	
Construction in progress	2,375,529	
Subtotal: Non-depreciable capital assets	20,063,901	
Investment in joint venture	1,707,177	
Buildings	24,427,468	
Improvements other than buildings	24,551,312	
Infrastructure	64,729,240	
Machinery and equipment - general government	10,443,849	
Less: Accumulated depreciation	(68,919,107)	
Subtotal: Depreciable capital assets	55,232,761	
		77,003,840

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Net Pension Asset	5,508,058	
Deferred outflow of resources - bond refunding	8,645	
Deferred outflow of resources - pension (\$63,480 attributable to internal service funds)	2,177,640	
Deferred inflow of resources - property tax	227,727	
Deferred inflow of resources - court receivable	354,203	
		8,276,273

Internal service funds are used by management to charge the cost of equipment maintenance to individual funds. The assets and liabilities of these internal service funds are included in governmental activities in the statement of net position.

Capital assets of \$4,765,256 are included in the capital asset adjustment above. Interest on investments, compensated absence liability and the pension amounts are included in the appropriate categories with a note. 6,393,190

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

General obligation bonds	(8,896,069)	
Compensated absences (\$109,918 attributable to internal service funds)	(2,136,462)	
Public works trust fund loans	(390,484)	
Nonexchange Financial Guarantee	(369,539)	
Subtotal: Long-term debt payable	(11,792,554)	
Accrued interest payable	(19,382)	
Total pension liabilities (\$194,856 attributable to internal service funds)	(4,510,105)	
Total other post employment benefit liability	(7,877,232)	
Deferred inflow of resources - bond refunding	(112,892)	
Deferred inflow of resources - pension (\$114,085 attributable to internal service funds)	(4,602,298)	
Unearned revenues reported in the Balance Sheet - Governmental Funds		
are not reported in the government-wide Statement of Net Position (Note 1)	4,200,170	
		(24,714,293)

Net position of government activities as reported on the statement of net position \$ 103,075,086

The notes to the financial statements are an integral part of this statement.

City of Edmonds
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2019

	General Fund	Total Nonmajor Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 30,846,665	\$ 3,905,836	\$ 34,752,501
Licenses and permits	2,299,972	118,704	2,418,676
Intergovernmental	1,008,432	2,245,856	3,254,288
Charges for services	6,419,836	830,453	7,250,289
Fines and forfeitures	496,093	3,814	499,907
Investment earnings	598,345	563,481	1,161,826
Contributions	5,312	-	5,312
Miscellaneous	587,882	1,117,162	1,705,044
Total revenues	<u>42,262,537</u>	<u>8,785,306</u>	<u>51,047,843</u>
EXPENDITURES			
Current:			
General government	11,968,135	-	11,968,135
Public safety	23,036,185	-	23,036,185
Utilities and environment	-	191,135	191,135
Transportation	5,012	4,751,124	4,756,136
Economic environment	1,568,235	105,472	1,673,707
Mental and physical health	166,750	-	166,750
Culture and recreation	4,158,397	501,465	4,659,862
Debt service:			
Principal	183,704	709,333	893,037
Interest	14,263	193,143	207,406
Capital outlay:			
General government	100,639	-	100,639
Transportation	-	651,061	651,061
Culture and recreation	10,296	1,217,731	1,228,027
Total expenditures	<u>41,211,616</u>	<u>8,320,464</u>	<u>49,532,080</u>
Excess (deficiency) of revenues over expenditures	<u>1,050,921</u>	<u>464,842</u>	<u>1,515,763</u>
OTHER FINANCING SOURCES (USES)			
Bonds issued	-	3,785,944	3,785,944
Transfers in	57,205	1,274,787	1,331,992
Transfers out	(1,125,778)	(194,230)	(1,320,008)
Total other financing sources (uses)	<u>(1,068,573)</u>	<u>4,866,501</u>	<u>3,797,928</u>
Net change in fund balances	(17,652)	5,331,343	5,313,691
Fund balances - beginning	19,068,343	11,734,042	30,802,385
Fund balances - ending	<u>\$ 19,050,691</u>	<u>\$ 17,065,385</u>	<u>\$ 36,116,076</u>

The notes to financial statements are an integral part of this statement.

CITY OF EDMONDS, WASHINGTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

Net change in fund balances per the Statement of Revenues, Expenditures and Changes in Fund Balance \$ 5,313,691

Amount reported as change in net position in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay is exceeded by depreciation and amortization in the current period.

Capital outlays	\$ 2,158,127	
Current year depreciation	(3,270,950)	
Adjustment in investment in joint venture	<u>(341,627)</u>	
		(1,454,450)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Deferred inflows of resources - property taxes	(68,184)	
PFD Debt Service	(438,353)	
PFD Nonexchange Financial Guarantee	15,587	
Other unearned revenue	(32,346)	
LEOFF 2 Pensions	231,857	
Court receivable	<u>9,725</u>	
		(281,714)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, yet the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceeded proceeds.

Amortization of Bond Refunding	8,173	
Bond Issuance	(3,785,944)	
Long-term debt repayments	<u>893,037</u>	
		(2,884,734)

Internal service funds are used by management to charge the costs of equipment rental to individual funds. The net revenue (expense) of this internal service fund is reported with governmental activities. 627,120

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest Expense	(8,793)	
Loss on Sale of Assets	(1,141,439)	
Payments for the PFD Contingent Loan	67,593	
Total pension obligation	(515,726)	
Accrued compensating absence expense	<u>(61,616)</u>	
		(1,659,981)

Change in net position on the Statement of Activities \$ (340,068)

The notes to the financial statements are an integral part of this statement.

City of Edmonds
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$30,508,063	\$30,508,063	\$ 30,846,665	\$ 338,602
Licenses and permits	2,333,830	2,333,830	2,299,972	(33,858)
Intergovernmental	918,722	947,354	1,008,432	61,078
Charges for services	5,718,319	5,825,300	6,419,836	594,536
Fines and forfeitures	635,135	635,135	496,093	(139,042)
Investment earnings	471,790	471,790	598,345	126,555
Miscellaneous	381,000	391,703	593,194	201,491
Total revenues	<u>40,966,859</u>	<u>41,113,175</u>	<u>42,262,537</u>	<u>1,149,362</u>
EXPENDITURES				
Current:				
General government	12,484,712	13,076,708	11,968,135	1,108,573
Public safety	23,987,460	24,489,452	23,036,185	1,453,267
Transportation	3,600	3,600	5,012	(1,412)
Economic environment	1,716,197	1,740,841	1,568,235	172,606
Mental and physical health	155,985	157,847	166,750	(8,903)
Culture and recreation	4,347,509	4,446,574	4,158,397	288,177
Total current	<u>42,695,463</u>	<u>43,915,022</u>	<u>40,902,714</u>	<u>3,012,308</u>
Debt service:				
Principal	183,710	183,710	183,704	6
Interest	14,550	14,550	14,263	287
Total debt service	<u>198,260</u>	<u>198,260</u>	<u>197,967</u>	<u>293</u>
Capital outlay:				
General government	-	27,042	100,639	(73,597)
Culture and recreation	-	10,494	10,296	198
Total capital outlay	<u>-</u>	<u>37,536</u>	<u>110,935</u>	<u>(73,399)</u>
Total expenditures	<u>42,893,723</u>	<u>44,150,818</u>	<u>41,211,616</u>	<u>2,939,202</u>
Excess (deficiency) of revenues over expenditures	<u>(1,926,864)</u>	<u>(3,037,643)</u>	<u>1,050,921</u>	<u>4,088,564</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,018,700	5,821,937	57,205	(5,764,732)
Transfers out	(2,120,790)	(6,920,458)	(1,125,778)	5,794,680
Total other financing source (uses)	<u>(1,102,090)</u>	<u>(1,098,521)</u>	<u>(1,068,573)</u>	<u>29,948</u>
Net change in fund balances	(3,028,954)	(4,136,164)	(17,652)	4,118,512
Fund balances - beginning	16,417,008	19,068,342	19,068,343	1
Fund balances - ending	<u>\$13,388,054</u>	<u>\$14,932,178</u>	<u>\$ 19,050,691</u>	<u>\$ 4,118,513</u>

The notes to the financial statements are an integral part of this statement.

City of Edmonds
Statement of Net Position
Proprietary Funds
December 31, 2019

	Governmental Activities	
	421/422/423 Combined Utility Funds	Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,606,161	\$ 3,252,948
Investments	13,077,595	3,110,153
Customer accounts	3,720,420	470
Interest on investments	136,549	35,436
Due from other governments	257,836	-
Inventory	153,996	45,921
Total current assets	<u>28,952,557</u>	<u>6,444,928</u>
Noncurrent assets:		
Restricted cash and investment	2,975,640	-
Land	1,257,107	-
Property, plant and equipment (net)	89,108,355	4,715,823
Construction in progress	7,755,141	49,433
Intangible assets (net)	30,780	-
Total noncurrent assets	<u>101,127,023</u>	<u>4,765,256</u>
Total assets	<u>130,079,580</u>	<u>11,210,184</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - 2007 Refunding	24,360	-
Deferred outflows of resources - 2011 refunding	64,075	-
Deferred outflows of resources - 2012 refunding	119	-
Deferred outflows of resources - pension	346,334	63,480
Total deferred outflows of resources	<u>434,888</u>	<u>63,480</u>
Total assets and deferred outflows of resources	<u>130,514,468</u>	<u>11,273,664</u>
LIABILITIES		
Current liabilities:		
Accounts payable	778,370	15,298
Wages and benefits payable	215,213	36,444
Interfund payables	466,926	-
Due to other governmental units	119,368	-
Other current liabilities	116,206	-
Interest payable	134,251	-
Loans payable - current	238,273	-
Revenue bonds payable-current	1,426,959	-
G.O. bonds payable - current	259,475	-
Total current liabilities	<u>3,755,041</u>	<u>51,742</u>
Noncurrent liabilities:		
Compensated absences	414,416	109,918
Pension liabilities	916,052	194,856
Loans payable - long-term	1,318,125	-
Revenue bonds payable - long-term	38,888,741	-
G.O. bonds payable - long-term	1,480,444	-
Total noncurrent liabilities	<u>43,017,778</u>	<u>304,774</u>
Total liabilities	<u>46,772,819</u>	<u>356,516</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - 2011 refunding	27,366	-
Deferred inflow of resources - pension	641,566	114,085
Total deferred inflows of resources	<u>668,932</u>	<u>114,085</u>
Total liabilities and deferred inflows of resources	<u>47,441,751</u>	<u>470,601</u>
NET POSITION		
Net investment in capital assets	54,539,364	4,715,823
Restricted for:		
Customer Deposits	8,048	-
Debt Service	2,975,640	-
Unrestricted	25,549,665	6,087,240
Total net position	<u>\$ 83,072,717</u>	<u>\$ 10,803,063</u>

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2019

	Business-type Activities 421/422/423 Combined Utility Funds	Governmental Activities Internal Service Funds
OPERATING REVENUES		
Charges for services	\$ 25,797,861	\$ 2,716,395
Other operating revenue	<u>185,630</u>	<u>148</u>
Total operating revenues	<u>25,983,491</u>	<u>2,716,543</u>
OPERATING EXPENSES		
Personnel services	4,333,295	977,708
Operations and maintenance	11,168,589	778,878
Professional services	629,315	50,009
Insurance	368,754	30,167
Depreciation	<u>4,175,367</u>	<u>525,067</u>
Total operating expenses	<u>20,675,320</u>	<u>2,361,829</u>
Operating income (loss)	<u>5,308,171</u>	<u>354,714</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	34,198	-
Investment earnings	363,547	310,179
Judgments and settlements	-	620
Gain (loss) on sale of capital assets	(2,225,850)	(36,080)
Interest expense	<u>(1,651,993)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(3,480,098)</u>	<u>274,719</u>
Income (loss) before contributions and transfers	1,828,073	629,433
Operations and maintenance	-	(2,313)
Professional Services	(54,469)	-
Capital grants and contributions	1,457,600	-
Transfers Out	<u>(11,984)</u>	<u>-</u>
Change in net position	3,219,220	627,120
Total net position - beginning	<u>79,853,497</u>	<u>10,175,943</u>
Total net position - ending	<u>\$ 83,072,717</u>	<u>\$ 10,803,063</u>

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2019

	Business-type Activities 421/422/423 Combined Utility Funds	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 26,947,538	\$ 2,716,074
Payments to employees	(4,808,573)	(778,650)
Payments to suppliers	(12,973,954)	(1,051,132)
Net cash provided (used) by operating activities	9,165,011	886,292
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant income	34,198	-
Net cash provided (used) by noncapital financing activities	34,198	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Gain from the sale of capital assets	13,247	22,806
Judgments and settlements	-	620
Acquisition and construction of capital assets	(6,958,562)	(1,872,039)
Professional Services	(54,469)	-
Capital grants and contributions	1,457,600	-
Operations and maintenance	-	(2,313)
Principal payments on debt	(1,869,040)	-
Interest payments on debt	(1,640,118)	-
Transfers to other funds	(11,984)	-
Net cash provided (used) by capital and related financing activities	(9,063,327)	(1,850,927)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	367,609	315,958
Purchase of investments	6,947,478	2,212,773
Net cash provided (used) by investing activities	7,315,087	2,528,731
Net increase (decrease) in cash and cash equivalents	7,450,969	1,564,096
Balances - beginning of year	7,130,832	1,688,852
Balances - end of the year	\$ 14,581,801	\$ 3,252,948

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2019

	Business-type Activities	Governmental Activities
	421/422/423	
	Combined Utility Funds	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating Income	\$ 5,308,171	\$ 354,714
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	4,175,367	525,067
Changes in assets and liabilities:		
Customer Receivables	964,047	(470)
Accounts Payable - Supplier	(807,296)	(192,078)
Payroll Liabilities	(475,278)	199,058
Net cash provided (used) by operating activities	<u>\$ 9,165,011</u>	<u>\$ 886,291</u>

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Fiduciary Net Position
December 31, 2019

	<u>Firemen's Pension Fund</u>	<u>Agency funds</u>
ASSETS		
Cash and cash equivalents	\$153,227	\$20,107
Due from other governments	-	13,146
Total assets	<u>153,227</u>	<u>\$33,253</u>
LIABILITIES		
Accounts payable	\$ -	\$ 66
Accrued expenses	6,495	-
Agency deposits	-	33,187
Total liabilities	<u>6,495</u>	<u>\$ 33,253</u>
NET POSITION		
Net position restricted for pensions	<u>146,732</u>	
Total net position	<u>\$ 146,732</u>	

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2019

	<u>Firemen's Pension Fund</u>
ADDITIONS	
Contributions:	
Employer contributions	\$ 15,000
State shared revenue-distribution of fire insurance premiums	48,232
Investment earnings	<u>6,604</u>
Total contributions	<u>69,836</u>
Total additions	<u>69,836</u>
 DEDUCTIONS	
Benefits paid to retirees	139,533
Administrative expenses	<u>1,269</u>
Total deductions	<u>140,802</u>
Change in net position	(70,966)
Net Position -- beginning of the year	<u>217,698</u>
Net Position -- end of the year	<u><u>\$ 146,732</u></u>

The notes to financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Edmonds 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 significant accounting policies are described below.

A. Reporting Entity

The City of Edmonds was incorporated in 1890 and operates under the laws of the state of Washington applicable to cities. Edmonds operates with a Council/Mayor form of government. The City Council is composed of seven members elected at large who each serve a four-year term. The Mayor is elected at large and also serves a four-year term. The legislative and policymaking powers are vested in the City Council, while administrative authority is the responsibility of the Mayor. The City provides a full range of general government services including public safety; streets; parks and recreation; planning and zoning; permits and inspection; general administration; and water, sewer, storm water and wastewater treatment utilities.

As required by Generally Accepted Accounting Principles the financial statements present the City of Edmonds, the primary government, and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Discretely Presented Component Unit

On April 24, 2001 the Edmonds City Council formed the Edmonds Public Facilities District (PFD) via Ordinance 3358, under the authority provided by RCW 35.57. The purpose of the PFD is to construct and operate a regional arts center in the City of Edmonds, defined by RCW 35.57 as a conference, convention or special events center, along with related parking. A five-member board governs the PFD and is appointed to four-year terms by the Edmonds City Council. The PFD has authority under state law to issue debt, levy certain taxes, and enter into contracts.

In 2002 the City issued Limited Tax General Obligation Bonds in the amount of \$7,015,000 for the acquisition, renovation and remodeling of a Performing Arts Center. The City transferred the proceeds of this issuance to the PFD. The City refinanced these bonds in 2012. These bonds are a debt of the City and not the PFD; however, the PFD is obligated by inter-local agreement to pay the entire amount of the PFD's portion of the debt service over the life of the bonds. Payment is not limited to sales tax revenue.

For more information on the Edmonds Public Facility District see Note 18, Nonexchange Financial Guarantees.

Separate financial statements can be obtained from the Edmonds Center for the Arts, c/o Joe McIalwain, 410 Fourth Avenue N., Edmonds, WA 98020.

Joint Ventures

The City of Edmonds participates in two separate joint ventures:

Snohomish County 911

The City of Edmonds and other Police and Fire entities jointly operate Snohomish County 911. Snohomish County 911, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. Control of Snohomish County 911 is with a 16 member Board of Directors which is specified in the Interlocal Agreement. Snohomish County 911 takes 911 calls and performs emergency dispatch services for local governmental agencies including police, fire, and medical aid.

In the event of the dissolution of Snohomish County 911, any money in the possession of Snohomish County 911 or the Board of Directors after payment of all costs, expenses and charges validly incurred shall be returned to the parties to this agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses, and charges validly incurred, the City of Edmonds share was \$1,707,177 on December 31, 2019.

Snohomish County 911’s operating budget was \$23,457,603, operating revenues received were \$24,057,771, and total operating expenditures were \$23,152,188. Complete financial statements for Snohomish County 911 can be obtained from Snohomish County 911’s administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

The Alliance for Housing Affordability (AHA)

In September, 2013, the City of Edmonds joined the cities of Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May, 2014 to add the City of Arlington and in June, 2014 to add the City of Stanwood.

The purpose of AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by member cities.

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County (HASCO). Fiscal agent duties were transferred to HASCO during fiscal year 2018. The values included in the table below were audited and updated by the new fiscal agent and may be different than what was reported in previous years.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member’s population. A grant from the Gates Foundation provided \$50,000 to assist with the first two years of organizational start-up. The City of Edmonds equity share to date is:

Fiscal Year Ending 6/30	AHA’s Total Fiscal Year Budget	Edmonds Share of Budget	Edmonds Share as % of Total AHA Budget
2014	\$ 89,849	\$ 2,385	2.7%
2015	\$ 93,063	\$ 2,457	2.6%
2016	\$ 43,652	\$ 2,381	5.5%
2017	\$ 97,934	\$ 3,518	3.6%
2018	\$ 102,586	\$ 3,841	3.7%
2019	\$ 107,391	\$ 4,120	3.8%
2020	\$ 112,408	\$ 4,344	3.9%

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member.

Budget monitoring information can be obtained from Pam Frost, Director of Finance, HASCO, 12711 4th Ave W, Everett WA 982014 (or email: pfrost@hasco.org) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett WA 98204.

B. Basis of Presentation – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The City has allocated certain indirect costs that are included in the program expense reported for individual functions and activities. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported as general revenues.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are charges between the government's water and sewer function and other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports one major governmental fund, the General Fund. The General Fund is the City's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. The City also reports one major enterprise fund. The Combined Utility Fund accounts for all maintenance, construction, and debt service requirements associated with the City's water, sewer, and stormwater systems.

The City has two Internal Service Funds. The *Equipment Rental Fund* accounts for the cost of maintaining the City's vehicle fleet. The *Technology Rental Fund* accounts for the cost of Information Technology equipment repair and replacement.

The City has two Fiduciary Funds. The *Firemen's Pension Fund* is used to account for payment of administrative costs and benefits for retired firefighters who were employed prior to March 1, 1970. The *North Sound Metro Special Weapons and Tactics Team* (SWAT) is an Agency Fund that accounts for the administration and bookkeeping for a regional SWAT team. The City signed an interlocal agreement with surrounding cities in 2013 to form a SWAT team, and the City of Edmonds Police Department was designated as the host Police Department and is responsible for the holding of funds.

C. Measurement Focus, Basis of Accounting

Government-Wide and Governmental Funds

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary and fiduciary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, sales taxes, and other significant revenues associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. For this purpose, the City considers most revenues to be available if they are collected within 30 days of the end of the current fiscal period. The City considers property taxes, sales taxes, natural gas taxes and Hotel/Motel excise taxes as available if they are collected within 60 days after year end. Grant revenue is recognized in the period in which the expenditure occurs and the eligibility requirements have been met. Non-exchange transactions, such as contributions, are recognized when the donation eligibility requirements have been satisfied. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary Funds

The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Combined Utility Funds are charges to customers for sales and service. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses for enterprise funds include operating and maintenance costs, employee salaries and benefits, contracted services, insurance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Statement of Net Position presents the City's Assets and Deferred Outflows of Resources, its Liabilities and Deferred Inflows of Resources, with the difference reported as Net Position. Net Position is reported in three categories:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Position results when constraints placed on net position are either externally imposed by creditors, grantors, contributors, and the like, or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position is the difference between Total Net Position and its other two components (Net Investment in Capital Assets and Restricted Net Position).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods and services provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. The City has allocated certain indirect costs that are included in the program expense reported for individual functions and activities. Taxes and other items not properly included among program revenues are reported as general revenues.

D. Budgetary Information

Scope of Budget

Annual appropriated budgets are adopted for general fund and special revenue funds on the modified accrual basis of accounting. Budgets for debt service and capital projects funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects. Budgets for the General Fund and Special Revenue Funds are adopted at the Fund level. Purely as a management tool, budgets are broken out by department, activity and expense types.

Appropriations for the General and Special Revenue funds lapse at year-end, except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

Amending the Budget

The Mayor is authorized to transfer budgeted amounts between departments or between object classes within any department; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

When the Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund or department, it may do so by ordinance approved by one more than the majority after holding a public hearing.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by supplemental appropriations and other legally authorized changes applicable for the fiscal year.

E. Assets, Liabilities, Fund Balance, Net Position

Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. The City considers all highly liquid assets, including investments in the Washington State Local Government Investment Pool, the Snohomish County Investment Pool, and short-term investments with a maturity of three months or less when purchased to be cash equivalents. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds. For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

See Note 3, *Deposits and Investments*.

Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Note 4, *Property Taxes*). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments include receivables related to a Local Improvement District that is no longer in operation. Special assessments receivable consist of delinquent assessments and related interest and penalties. The City has no obligations related to this amount.

Customer accounts receivable consist of amounts owed by private individuals and organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered. Receivables are shown net of allowances for uncollectible accounts.

Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*. A separate schedule of interfund loans receivable and payable is furnished in Note 7, *Interfund Activity*.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventories

Inventories are assets that are held for internal consumption or resale. The combined utility fund inventories are expensed as consumed, using the first-in, first-out valuation method, which approximates market. Internal service fund inventories are expensed when purchased. A physical inventory is taken at year-end. No inventory is maintained in Governmental Funds; however, the Internal Service fund inventories are included in the “Governmental Activities” on the Statement of Net Position.

Restricted Assets

These accounts contain resources for construction and debt service in enterprise funds. Specific debt service reserve requirements are described in Note 13, *Long-Term Debt* and certain cash and investments have been classified as restricted assets on the Statement of Net Position in accordance with utility bond resolutions, state law, or for other purposes. When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost that meets or exceeds \$5,000, and an estimated useful life in excess of one year. Infrastructure assets are capitalized when their cost meets or exceeds \$50,000, and repairs or replacements to components of the Wastewater Treatment Plant are capitalized when their cost meets or exceeds \$100,000.

Costs for additions or improvements to capital assets are capitalized when they increase an asset’s value, capacity, or materially extends its useful life. The costs for normal maintenance and repairs are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Land, permanent artwork, and construction in progress are not depreciated. Buildings, equipment, non-building improvements and intangible assets are depreciated using the straight-line method using varying estimated service lives for individual assets and asset classifications, depending on particular characteristics of an asset and factors surrounding its anticipated use. See Note 9 for additional information regarding capital assets.

The average service lives used to calculate depreciation for specific categories of assets are summarized below:

<u>Asset Type</u>	<u>Est. Service Life (Yrs)</u>
Buildings	30–50
Improvements other than Buildings	20–40
Furniture and fixtures	5–10
Cars	5–10
Vans, Trucks, Trailers	5–20
Data Processing Equipment	3–10
Infrastructure	20–100
Sidewalks	30
Machinery and Equipment	5–20
Intangible Assets	20–30

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period. The City has two items that qualify for reporting in this category: 1) deferred gains on refunding and 2) pensions. Deferred gains on refunding reported in the statement of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions and affects both assets and liabilities. The City's fiscal year ends on December 31, while the State's fiscal year ends on June 30. This causes the recognition periods for pension contributions to not match, resulting in the recognition of Deferred Outflows and Deferred Inflows to account for the City's pension contributions. For example, for the City's 2018 reporting year, pension contributions made during the State's 2017 fiscal year create an asset or Deferred Outflow. Similarly, for the City's 2018 reporting year, pension contributions made during the State's 2018 fiscal year create a liability or Deferred Inflow.

In addition to liabilities, the Statement of Net Position and the Governmental Fund Balance Sheet will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that period. The City has three items that qualify for reporting in this category: 1) unavailable property taxes recorded as receivables, 2) deferred losses on refunding, and 3) pensions and other post-employment obligations, as explained above.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave, and holiday earned by police employees, according to the terms of union contracts or per RCW. Also included is compensatory time earned in lieu of overtime. All such compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements, and are payable upon termination, retirement or death.

Compensated absences including payroll taxes are reported as a current liability on the balance sheet. Actual balances are accrued for all types of compensated absences except sick leave, the liability for which is estimated using the termination method provided by GASB Statement No. 16.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Accrued Liabilities

Employees earn vacation pay based on their years of service, and may carry over accruals of up to two years' accumulated leave from one year to the next. Unused vacation leave at time of termination, retirement or death is considered vested and payable to the employee. Unused sick leave is paid out upon termination, retirement or death based on a percentage of the employee's accumulated sick leave, in accordance with the terms of their union contract, or in accordance with Edmonds City Code Chapter 2.35.

Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

Fund Balance Classification

The difference between fund Assets and Deferred Outflows of Resources, minus its Liabilities and Deferred Inflows of Resources, is referred to as Net Position on the government-wide, proprietary, and fiduciary fund statements, and as Fund Balance on the governmental fund statements. The fund balance amounts for

governmental funds are classified in accordance with GASB Statement No. 54, and are reported as non-spendable, restricted, committed, assigned, or unassigned.

Non-spendable fund balance represents amounts that are either not in a spendable form (e.g. inventories or prepaid balances) or are legally or contractually required to remain intact.

Restricted fund balances include amounts that have constraints placed upon their use by constitution, external resource providers, or through enabling legislation.

Committed fund balances include amounts that are limited by resolution of the City Council. A resolution must be taken to impose limitations on the use of these resources, and another resolution is required to modify or eliminate those limitations.

Assigned fund balances include amounts that are intended by the Mayor or department Directors for an intended use, but are neither restricted nor committed. This type of limitation can be imposed by the highest levels of decision making within the City, but little or no formal action is required to modify or eliminate those limitations.

Unassigned fund balance is the residual amount of the general fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted fund balances are available for use, the City considers restricted fund balance to have been spent first. When committed, assigned, or unassigned fund balance amounts are available for use, the City considers committed fund balance to be spent first, assigned fund balance second, and unassigned fund balance last.

F. Revenues, Expenditures and Expenses

The *modified accrual basis* of accounting is followed in all governmental funds of the City.—Under the modified accrual basis of accounting:

Charges for services, interest on investments, and rents generally are considered measurable and available when earned in governmental funds.

Taxes and federal or state entitlements or shared revenues that have been collected but not remitted by an intermediary collection agency to the City are considered measurable and available.

Grants are considered measurable and available to the extent that expenditures have been incurred. Other intergovernmental revenues are considered measurable and available when earned.

Interfund revenues for goods and services are considered measurable and available when earned.

Proceeds from the disposal of capital assets are recognized as other financing sources.

Revenues from taxpayer-assessed taxes (e.g. sales tax), net of estimated refunds, are recognized when measurable and available to finance expenditures of the current period.

All other revenues are either not measurable or considered not available until collected.

Expenditures are generally recognized when incurred, except for principal and interest on general long-term debt, which are reported as expenditures when paid, and compensated absences, which are reported as expenditures when liquidated from expendable available financial resources.

The *accrual basis of accounting* is followed in all proprietary and fiduciary funds. Under the accrual basis of accounting:

Revenues are recognized when earned and expenses are recognized when incurred.

Contributions of capital in proprietary fund financial statements arise from internal and external contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

Transfers between government and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated, as are transfers between funds reported in the business-type activities column.

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – ACCOUNTING AND REPORTING CHANGES

Reporting Changes – Effective for fiscal year 2019 reporting, the City adopted the following new standard issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This objective of this Statement is to provide financial statement users with additional information about asset retirement obligations (AROs) that were not addressed in previous Statements, and to establish uniform accounting and financial reporting for these obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset that has been permanently removed from service. Examples of AROs might include the future costs related to decommissioning a nuclear reactor, or for dismantling and removing a sewage treatment plant. The City does not have any AROs at December 31, 2019.

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments are presented in the financial statements at fair value based on quoted market prices. The City’s position in the State and County Local Government Investment Pools is the same as the value of the pool shares. Pool investments are reported as Cash and Cash Equivalents. Interest earned on the pooled investments is allocated to individual funds based on each fund’s cash balance at the end of each month. The City holds most investments to maturity. Interest earnings are recognized in the period in which they become available and measurable. Cash and equity in pooled investments are comprised of both government-type and business-type activities. The balances are comprised of the following:

	December 31, 2019
Deposits with US Bank	\$ 4,410,544
Petty Cash/Change Funds	4,500
Local Government Investment Pool	20,672,666
Snohomish County Investment Pool	10,001,252
Certificates of Deposit	5,803,516
Federal Agency Securities	27,088,757
	<u>\$ 67,981,234</u>

Interest rate risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy manages the exposure to declines in fair values by limiting the average of maturity of its portfolio to no more than three and one half years, unless an investment is matched to an anticipated future cash flow.

Information about the sensitivity of the fair values of the City’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity:

Remaining Maturity in Months						
	Fair Value	Twelve Months or Less	Twelve Months to Two Years	Two Years to Three Years	Three Years to Five Years	Credit Rating
Federal Agency Securities	\$ 27,088,757	\$ 17,082,225	\$ 4,994,489	\$ 5,012,043	\$ -	Aaa/AA+
Certificates of Deposit	5,803,516	-	3,000,000	-	2,803,516	Not Rated
Local Government Investment Pool	20,672,666	20,672,666	-	-	-	Not Rated
Snohomish County Investment Pool	10,001,252	10,001,252	-	-	-	Not Rated
	\$ 63,566,191	\$ 47,756,143	\$ 7,994,489	\$ 5,012,043	\$ 2,803,516	

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s investment policy limits the instruments in which the City may invest. The City is empowered to invest in the following types of securities:

- U.S. Government obligations, U.S. Government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value;
- U.S. Treasury securities maturing in less than ten years;
- Fully insured or collateralized certificates of deposit, and other evidences of deposit, at qualified financial institutions that are approved by the Washington Public Deposit Protection Commission;
- Banker’s Acceptances, and commercial paper rated in the highest tier by a nationally recognized rating agency;
- Investment grade obligations of state and local governments and public authorities located within the State of Washington; and
- Local government investment pools, either state administered or through joint powers statutes and other intergovernmental agreement legislation.

The Washington State Local Government Investment Pool (LGIP), created by the Washington State Legislature in 1986, is managed and operated solely by the Office of the State Treasurer. The State Finance Committee administers the statute that created the pool and adopts appropriate rules. The State Treasurer established the LGIP Advisory Committee to provide advice on the pool’s operation. The advisory committee includes 12 members selected from the active pool participants. Eight members are appointed by the participant associations, and four are appointed by the State Treasurer.

The LGIP is considered extremely low risk and is recorded as a cash equivalent. The pool is unrated by financial rating agencies. Investments are reported at their amortized cost basis to pool participants, which approximates fair value. The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting.

The Snohomish County Investment Pool (SCIP) is not registered with the SEC. Investments are reported at fair value to the participants. It includes participating funds from the County’s primary government and funds from the districts where the County Treasurer serves as *ex-officio* Treasurer. There are no involuntary participants in the SCIP. All participants have notified the Treasurer of their desire to participate in SCIP. The portion of the pool belonging to outside districts is reported in an Investment Trust Fund. SCIP investments are those allowed by County Investment Policy and include savings accounts, CD’s and securities.

Pool participant shares are based on the dollars that they have invested in SCIP. The income is distributed based on interest rates on investments, amortization of premiums and discounts, and realized gains and losses for the month.

Pool oversight comes from the Snohomish County Finance Committee (SCFC). The SCFC consists of the County Treasurer, County Executive and Chairperson of the County Council. SCFC approves investment policies for SCIP.

Fair value of securities is based on the market value reports provided by the County’s custodial agent. The market values are uploaded into the County investment software monthly from the custodial agent. The fair value of each participant’s investment is determined by calculating the ratio of total investments by pool participants divided into

the total fair value of the SCIP underlying assets. Each pool participant can determine their fair value by taking their investment in SCIP multiplied by this ratio.

Custodial Credit Risk - Deposits. Custodial Credit Risk for Deposits is the risk that in the event of a bank failure, the City's may not be able to recover deposits or collateral securities that are in the possession of an outside party. All City deposits are insured by Federal Depository Insurance (FDIC) up to \$250,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC constitutes a multiple financial institution collateral arrangement that provides for additional assessments against members of the pool on a pro rata basis up to a maximum of 10 percent of each institution's public deposits. The WPDPC may make pro-rata assessments to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

Custodial Credit Risk – Investments. Custodial Credit Risk for Investments is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All City securities are held for safekeeping by U.S. Bank, as the City's agent, in the City's name.

Concentration of Credit Risk. Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City diversifies its investments by security type and institution. The investment policy requires that no more than 50 percent of the City's portfolio, at the time of purchase, shall be in any single financial institution, with the exception of investments in the LGIP, the SCIP, or U.S. Treasury or Agency securities.

The City measures and reports investments at fair value using the valuation input hierarchy established by Generally Accepted Accounting Principles. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. The guidance requires three levels of fair value measurement based on the respective inputs.

Level 1: Prices quoted in active markets for identical securities.

Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.

Level 3: Unobservable inputs for an asset or liability.

U.S. Agency securities and municipal bonds classified in Level 2 are valued using quoted prices for similar securities and interest rates. The level of fair value measurement is based on the lowest level of significant input for the security type in its entirety. There are no Level 1 or Level 3 security classifications to report.

The following table presents recurring fair value measurements as of December 31, 2019:

Investment Type	Fair Value Measurement Using			Total
	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Federal Agency Securities	\$ -	\$ 27,088,757	\$ -	\$ 27,088,757
Snohomish Co. Investment Pool	-	10,001,252	-	10,001,252
WA State LGIP	-	20,672,666	-	20,672,666
Certificate of Deposit	-	5,803,516	-	5,803,516
Total	\$ -	\$ 63,566,191	\$ -	\$ 63,566,191

The following table identifies the types of investments, concentration of investments in any one issuer, and maturities of the City's investment portfolio at December 31, 2019:

Investment Type	Fair Value	Maturities		% of Total Portfolio
		Less Than 1 Year	1 to 5 Years	
Federal Agency Securities	\$ 27,088,757	\$ 17,082,225	\$ 10,006,532	42.62%
Snohomish County Pool	10,001,252	10,001,252	-	15.73%
Certificates of Deposit	5,803,516	-	5,803,516	9.13%
Subtotal	42,893,525	27,083,477	15,810,048	67.48%
WA State LGIP *	20,672,666	20,672,666	-	32.52%
Total	\$ 63,566,191	\$ 47,756,143	\$ 15,810,048	100.00%
Percentage of Total Portfolio		75.13%	24.87%	100.00%

Discretely Presented Component Unit: Cash and equity in pooled investments of the Edmonds Public Facilities District are comprised of governmental type activities only. The balances as of December 31, 2019 are as follows:

Component Unit	
	December 31, 2019
Cash and Cash Equivalents	\$ 105,438
Restricted Cash and Cash Equivalents	105,871
	\$ 211,309

The following tables present information regarding the components of Cash and Cash Equivalents as of December 31, 2019:

Financial Statements					
	Governmental Activities	Business-type Activities	Total Primary Govt.	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 16,848,827	\$ 11,606,161	\$ 28,454,988	\$ 173,335	\$ 28,628,323
Restricted Cash and Cash Equivalents	6,288,515	2,975,640	9,264,155	-	9,264,155
Investments	17,011,162	13,077,595	30,088,757	-	30,088,757
	\$ 40,148,504	\$ 27,659,396	\$ 67,807,900	\$ 173,335	\$ 67,981,234

Restricted Cash and Cash Equivalents			
	Governmental Activities	Business-type Activities	Total
Deposit to Bond Reserve Account	\$ -	\$ 2,975,640	\$ 2,975,640
First Financial CD - PFD Collateral	2,803,516	-	2,803,516
Unspent Construction Debt Proceeds	3,484,999	-	3,484,999
	\$ 6,288,515	\$ 2,975,640	\$ 9,264,155

NOTE 4 – PROPERTY TAXES

The Snohomish County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. The Snohomish County Treasurer collects annual property taxes levied in the County for all taxing authorities. Taxes are levied on January 1 for property value listed as of May 31.

Washington State law requires the County Assessor to use the January 1, 2018 assessment date in calculating taxes and levies due in 2019. These values were based on sales that occurred in 2017. Sales that occurred in 2018 will be used to calculate the taxes and levies due for 2020.

Property tax levy increases are limited by state law to a maximum of 1% over the previous levy, plus the value of new construction. Any increase above this limit requires voter approval. Property taxes levied by the County Assessor and collected by the County Treasurer become a lien on the first day of the levy year and may be paid in two equal payments. Delinquent taxes bear interest at 12% and are subject to additional penalties if not paid as scheduled.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as deferred inflow and recognized as revenue in the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

Property Tax Calendar	
January 1	Tax is levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

The City may levy up to \$3.10 per \$1,000 of assessed valuation for general governmental services. The Washington State Constitution and RCW 84.55.010 limit this rate.

The City's regular levy for 2019 was \$1.0219 per \$1,000 on an assessed valuation of \$10,223,133,972 for a total regular levy of \$10,446,823. City of Edmonds voters have approved one special levy, for Emergency Medical Services (EMS). Levy rates and amounts for the Regular and EMS levies are identified in the table below:

Purpose of the Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	\$ 1.02188071	\$ 10,446,823
Emergency medical service (EMS)	0.39517972	4,039,975
Total City Levy	\$ 1.41706043	\$ 14,486,798

NOTE 5 – RECEIVABLES AND PAYABLES

Receivables at December 31, 2019 are as follows:

	Customer Accounts	Taxes	Special Assessments	Due From Other Governments	Due from Component Units	Total
Governmental Activities						
General Fund	\$ 658,373	\$ 227,727	\$ -	\$ 2,069,706	\$ 4,166,191	\$ 7,121,997
Other Governmental Funds	-	-	-	1,054,233	-	1,054,233
Internal Service	470	-	-	-	-	470
Total Governmental Activities	\$ 658,843	\$ 227,727	\$ -	\$ 3,123,939	\$ 4,166,191	\$ 8,176,700
Business-type Activities						
Combined Utility Fund	\$ 3,720,420	\$ -	\$ -	\$ 257,836	\$ -	\$ 3,978,256
Total Business-type Activities	\$ 3,720,420	\$ -	\$ -	\$ 257,836	\$ -	\$ 3,978,256

Payables at December 31, 2019 are as follows:

	Salaries and Benefits	Accounts Payable	Due to Other Governments	Other Current Liabilities	Total
Governmental Activities					
General Fund	\$ 1,105,240	\$ 508,443	\$ -	\$ 105,398	\$ 1,719,082
Other Governmental Funds	51,067	378,911	-	31,995	461,974
Internal Service	36,444	15,298	-	-	51,742
Total Governmental Activities	\$ 1,192,751	\$ 902,653	\$ -	\$ 137,393	\$ 2,232,797
Business-type Activities					
Combined Utility Fund	\$ 215,213	\$ 778,370	\$ 119,368	\$ 116,206	\$ 1,229,156
Total Business-type Activities	\$ 215,213	\$ 778,370	\$ 119,368	\$ 116,206	\$ 1,229,156

NOTE 6 – DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Deferred Outflows of Resources at December 31, 2019, are as follows:

Deferred Outflows of Resources - Government-wide Statement of Net Position	Governmental Activities	Business-Type Activities
Difference between the reacquisition price and the net carrying amount of old debt in current refundings when the reacquisition price is greater.	\$ 8,645	\$ 88,554
GASB 68 Pension Deferred Outflow	2,177,640	346,334
Total	\$ 2,186,285	\$ 434,888

Deferred Inflows of Resources at December 31, 2019 are as follows:

Deferred Inflows of Resources - Government-wide Statement of Net Position	Governmental Activities	Business-Type Activities
Difference between the reacquisition price and the net carrying amount of old debt in current refundings when the reacquisition price is less.	\$ 112,892	\$ 27,366
GASB 68 Pension Deferred Inflow	4,602,298	641,566
Total	\$ 4,715,190	\$ 668,932

Deferred Inflows of Resources - Governmental Funds Balance Sheet	General Fund	Enterprise Funds
The portion of property taxes not received within 60 days of 2019.	\$ 227,727	\$ -
The portion of court receivables not received within 60 days of 2019	354,203	
Total	\$ 581,930	\$ -

NOTE 7 – INTERFUND ACTIVITY

There was one interfund balance as of December 31, 2019, a utility tax payable to the General Fund in the amount of \$466,926.

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. The City uses transfers to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Routine transfers include contributions to the pension funds, transfers for debt service requirements, transfers from the unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, transfers for the 1% percent for the arts program and transfers when the City closes out the activity in a fund. Significant transfers in 2019 include \$550,000 in transfers into the Marsh Restoration Fund. \$350,000 was transferred from the General Fund, and \$200,000 was transferred from the Opioid Response Fund. The Risk Management Reserve Fund and Contingency Reserve Fund were closed in 2019. \$931,523 and \$3,835,827 was transferred, respectively, into the General Fund. Interfund activity for the year is as follows:

	Transfers In	Transfers Out			Total
		General	Other Governmental	Enterprise	
General Fund	\$ 57,205	\$ -	\$ 1,125,778	\$ -	\$ 1,125,778
Other Governmental	1,274,787	57,205	137,025	-	194,230
Enterprise	-	-	11,984	-	11,984
Total	\$ 1,331,992	\$ 57,205	\$ 1,274,787	\$ -	\$ 1,331,992

NOTE 8 – RESTRICTED, COMMITTED AND ASSIGNED COMPONENTS

The government-wide statement of net position reports \$20,538,591 for Governmental Activities and \$2,983,688 for Business-Type Activities as restricted components of net position. The fund statements report \$3,172,924 as committed and \$2,000,000 as assigned components of fund balance.

Governmental Activities Restricted for:	
Per RCW, proceeds from seizures are limited to law enforcement activities exclusively	\$ 39,840
Restricted per RCW related to state fuel taxes, transportation benefit fees, impact fees and grant agreements	\$ 2,720,243
Restricted per RCW related to REET revenue and lodging tax restrictions, private donors, and grant agreements	12,155,651
Per RCW, proceeds are limited to paying the cost of tourism promotion and the Edmonds Business Improvement District	104,559
Per RCW, 60% of the proceeds are limited to the construction of affordable housing, construction of mental and behavioral health-related facilities and facilities where housing related programs are provided. The remaining proceeds must be used for the operation, delivery or evaluation of mental and behavioral health treatment programs and services or housing -related services	112
Restricted by grant agreements and private donations limited to a specific purpose	10,128
Restricted for Net Pension Assets	5,508,058
Total Restricted Components of Net Position	\$ 20,538,591
Business-Type Activities Restricted for:	
Customer deposits	\$ 8,048
Debt service restrictions	2,975,640
Total Restricted Components of Net Position	\$ 2,983,688
Governmental Activities Committed for:	
Committed for the cost of operating and restoring the Edmonds Marsh	\$ 864,491
Committed to provide moneys with which to alleviate the problem of homelessness in Edmonds and the surrounding area	223,581
Committed to provide moneys with which to alleviate the problem of opioid addiction in Edmonds and the surrounding area	50,000
Committed for the acquisition or advancement of visual and performing arts within the City	634,011
Committed for the administration of the employee permit parking program solely and exclusively	86,843
Committed for special projects, special events, capital improvements and other nonrecurring needs of cemetery	260,684
Committed to be expended solely for the purpose of maintaining the cemetery	1,053,314
Total Committed Components of Fund Balance	\$ 3,172,924
Governmental Activities Assigned for:	
Assigned for Civic Park	2,000,000
Total Assigned Components of Fund Balance	\$ 2,000,000

NOTE 9 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2019 is as follows:

Schedule of Capital Asset Activity				
	Balance 1/1/2019	Increases	Decreases	Balance 12/31/2019
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 17,688,372	\$ -	\$ -	17,688,372
Construction in progress	2,257,324	1,225,654	(1,107,448)	2,375,529
Total capital assets not being depreciated:	19,945,696	1,225,654	(1,107,448)	20,063,901
Capital assets, being depreciated:				
Building	25,672,053	221,536	(1,466,121)	24,427,468
Improvements other than buildings	25,641,922	372,978	(1,463,588)	24,551,312
Infrastructure	74,008,412	631,048	(9,910,220)	64,729,240
Machinery and equipment	9,453,000	1,837,587	(846,738)	10,443,849
Total capital assets being depreciated:	134,775,386	3,063,149	(13,686,666)	124,151,869
Less accumulated depreciation for:				
Buildings	(17,811,612)	(758,660)	1,438,953	(17,131,319)
Improvements other than buildings	(9,972,614)	(831,260)	1,272,389	(9,531,485)
Infrastructure	(45,235,847)	(1,590,431)	9,883,294	(36,942,984)
Machinery and equipment	(5,438,170)	(615,666)	740,517	(5,313,320)
Total accumulated depreciation:	(78,458,243)	(3,796,017)	13,335,153	(68,919,107)
Total capital assets being depreciated, net:	56,317,143	(732,868)	(351,513)	55,232,761
Governmental activities capital assets, net:	\$ 76,262,838	\$ 492,785	\$ (1,458,962)	75,296,662
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 1,257,107	\$ -	\$ -	1,257,107
Construction in progress	6,116,437	5,173,390	(3,534,686)	7,755,141
Total capital assets, not being depreciated:	7,373,544	5,173,390	(3,534,686)	9,012,248
Capital assets being depreciated:				
Building	35,637,640	-	(147,872)	35,489,768
Improvements other than buildings	105,995,818	4,556,930	(4,249,906)	106,302,842
Machinery and equipment	1,631,522	-	(594,347)	1,037,175
Intangible assets	1,305,260	-	(8,563)	1,296,697
Total capital assets being depreciated:	144,570,240	4,556,930	(5,000,689)	144,126,481
Less accumulated depreciation for:				
Buildings	(18,817,076)	(680,436)	147,872	(19,349,640)
Improvements other than buildings	(33,473,017)	(3,400,818)	3,002,654	(33,871,180)
Machinery and equipment	(773,796)	(92,245)	365,431	(500,611)
Intangible assets	(1,272,612)	(1,868)	8,563	(1,265,916)
Total accumulated depreciation:	(54,336,500)	(4,175,367)	3,524,521	(54,987,347)
Total capital assets being depreciated, net:	90,233,740	381,563	(1,476,168)	89,139,135
Business activities capital assets, net:	\$ 97,607,284	\$ 5,554,952	\$ (5,010,854)	98,151,383

Depreciation Expense by Function

Governmental Activities:	
General government	\$ 746,634
Public safety	305,018
Culture and recreation	621,399
Transportation	1,593,324
Physical Environment	4,575
Internal service	525,068
Total depreciation expense - Governmental Activities	\$ 3,796,017

Business-Type Activities:	
Stormwater	\$ 629,285
Water	1,067,582
Sewer	877,134
Wastewater Treatment	1,601,367
Total depreciation expense - Business Type Activities	\$ 4,175,367

NOTE 10 – RECORDED VACATION AND SICK LEAVE

In accordance with GASB Statement No. 16, the City records accrued vacation and sick leave pay. The accrual is shown on the government-wide Statement of Net Position for both Governmental and Proprietary funds. The accrual is also seen in the separate Proprietary Fund balance sheets, but is excluded from the separate Governmental Fund balance sheets since it is not currently due and payable at year-end (see Note 14).

NOTE 11 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans as of and for the year ended December 31, 2019:

	State Sponsored Plans	Single Employer Plan	Total
Pension Liabilities	\$ (4,930,313)	\$ (495,844)	\$ (5,426,157)
Pension Assets	\$ 5,508,058	\$ -	\$ 5,508,058
Deferred Outflows of Resources	\$ 2,523,974	\$ -	\$ 2,523,974
Deferred Inflows of Resources	\$ (5,241,117)	\$ (2,746)	\$ (5,243,863)
Pension Expense/Expenditures	\$ 768,140	\$ 116,048	\$ 884,188

State Sponsored Pension Plans

Substantially all of the City’s full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The DRS, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
 Communications Unit
 P.O. Box 48380
 Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 – provides retirement, disability and death benefits. Retirement benefits are determined as 2% 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, 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.

Contributions – The PERS Plan 1 member contribution rate is established by State statute at 6%. 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%. 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 2019 were as follows:

PERS Plan 1 Actual Contribution Rates	Employer	Employee
2019		
January through June		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July through December		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

The City’s actual contributions to the plan were \$710,800 for the year ended December 31, 2019.

PERS Plan 2/3 – provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1% 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 age 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 3% 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 5% 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 3% 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. Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% 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.

Contributions – The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
2019			
January through June			
PERS Plan 2/3	7.52%	7.41%	Varies
PERS Plan 1 UAAL	5.13%		
Administrative Fee	0.18%		
Total	12.83%	7.41%	Varies
July through December			
PERS Plan 2/3	7.92%	7.90%	Varies
PERS Plan 1 UAAL	4.76%		
Administrative Fee	0.18%		
Total	12.86%	7.90%	Varies

The City’s actual contributions to the plan were \$1,054,573 for the year ended December 31, 2019.

Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per years of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10 – 19 years of service – 1.5% of FAS
- 5 – 9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. Members are eligible for retirement with 5 years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions – Starting on July 1, 2000 **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2019. Employers paid only the administrative expense of 0.18% of covered payroll.

LEOFF Plan 2 – provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at age 53, with at least 5 years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3% for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance based on the CPI, capped at 3% annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of 5 years of eligible service.

Contributions – The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18%. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and State contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.44% as of July 1, 2019. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

LEOFF Plan 2 Actual Contribution Rates	Employer	Employee
2019		
January through June		
LEOFF Plan 2	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
July through December		
LEOFF Plan 2	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%

The City's actual contributions to the plan were \$354,709 for the year ended December 31, 2019.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2019 the state contributed \$72,959,897 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$231,857.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019, with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

There were changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. 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	Percent Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%
Total	100.00%	

Sensitivity of the NPL

The table below presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.4%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.4%) or 1-percentage point higher (8.4%) than the current rate.

2019	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 4,717,384	\$ 3,766,920	\$ 2,942,268
PERS 2/3	\$ 8,922,765	\$ 1,163,393	\$ (5,203,684)
LEOFF 1	\$ (866,536)	\$ (1,059,266)	\$ (1,225,670)
LEOFF 2	\$ (827,218)	\$ (4,448,792)	\$ (7,404,825)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets)

At December 31, 2019, the City reported a total pension liability of \$4,930,313 and a total pension asset of (\$5,508,058) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2019):

2019	Liability (Asset)
PERS 1	\$ 3,766,920
PERS 2/3	\$ 1,163,393
Total	\$ 4,930,313
LEOFF 1	\$ (1,059,266)
LEOFF 2	\$ (4,448,792)
Total	\$ (5,508,058)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	LEOFF 1 (Asset)	LEOFF 2 (Asset)
Employer's Proportionate Share	\$ (1,059,266)	\$ (4,448,792)
State's Proportionate Share of the Net Pension Asset Associated with the Employer	\$ (7,164,848)	\$ (2,913,363)
Total	\$ (8,224,114)	\$ (7,362,155)

The City's proportionate share of the collective net pension assets, deferred outflows, liabilities, and deferred inflows was as follows:

	Proportionate Share 6/30/2018	Proportionate Share 6/30/2019	Change in Proportion
PERS 1	0.090868%	0.097960%	0.007092%
PERS 2/3	0.109886%	0.119772%	0.009886%
LEOFF 1	0.053132%	0.053590%	0.000458%
LEOFF 2	0.180721%	0.192032%	0.011311%

Employer contribution transmittals received and processed by the 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 the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, the state of Washington contributed 87.12% of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88% of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2019, the state of Washington contributed 39.57% of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers Washington contributed the remaining 60.43% of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the City recognized pension expense as follows:

	2018
PERS 1	\$ 506,090
PERS 2/3	\$ 250,864
LEOFF 1	\$ (63,152)
LEOFF 2	\$ 74,338
Total	\$ 768,140

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (251,662)
Changes of Assumptions	\$ -	\$ -
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ -	\$ -
Contributions Subsequent to the Measurement Date	\$ 347,718	\$ -
Total PERS 1	\$ 347,718	\$ (251,662)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 333,315	\$ (250,123)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (1,693,427)
Changes of Assumptions	\$ 29,791	\$ (488,121)
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ 571,033	\$ (694,476)
Contributions Subsequent to the Measurement Date	\$ 547,923	\$ -
Total PERS 2/3	\$ 1,482,062	\$ (3,126,147)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (109,814)
Changes of Assumptions	\$ -	\$ -
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ -	\$ -
Contributions Subsequent to the Measurement Date	\$ -	\$ -
Total LEOFF 1	\$ -	\$ (109,814)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 320,130	\$ (80,001)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (912,141)
Changes of Assumptions	\$ 7,329	\$ (500,632)
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ 188,557	\$ (260,720)
Contributions Subsequent to the Measurement Date	\$ 178,178	\$ -
Total LEOFF 2	\$ 694,194	\$ (1,753,494)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 653,445	\$ (330,124)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (2,967,044)
Changes of Assumptions	\$ 37,120	\$ (988,753)
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ 759,590	\$ (955,196)
Contributions Subsequent to the Measurement Date	\$ 1,073,819	\$ -
Total All Plans	\$ 2,523,974	\$ (5,241,117)

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	PERS 1	PERS 2/3
2020	\$ (55,556)	\$ (539,435)
2021	\$ (131,596)	\$ (889,289)
2022	\$ (46,961)	\$ (405,610)
2023	\$ (17,549)	\$ (226,451)
2024	\$ -	\$ (163,063)
Thereafter	\$ -	\$ 31,840
Total	\$ (251,662)	\$ (2,192,008)
	LEOFF 1	LEOFF 2
2020	\$ (25,507)	\$ (247,519)
2021	\$ (56,219)	\$ (468,122)
2022	\$ (20,400)	\$ (216,483)
2023	\$ (7,688)	\$ (119,750)
2024	\$ -	\$ (46,663)
Thereafter	\$ -	\$ (138,941)
Total	\$ (109,814)	\$ (1,237,478)

Firemen's Pension Fund

Plan Description

The Law Enforcement Officers' and Firefighters' (LEOFF) pension system was established by the State of Washington on March 1, 1970. The City retained the responsibility for all benefits payable to members (or to their survivors) who retired prior to that date. In addition, the City retained the responsibility for a portion of the benefits payable to members who were active on that date.

As a result, the City of Edmonds is the administrator of the Firemen's Pension Plan which is shown as a Trust Fund in the City's financial reports. Separate financial statements are not issued. This system is a closed, single-employer, defined benefit pension system. City firefighters who served before March 1, 1970 are participants of this pension fund. Benefits are established in accordance with RCW 41.18 and RCW 41.20.

Employees Covered by Benefit Terms

During 2019 there were a total of 4 retirees covered under this system who are receiving pension benefits; of these 4 retirees, 3 are also receiving medical benefits from this fund. There were no active employees covered under this plan, and there were no inactive employees entitled to but not yet receiving benefits. The pension plan is closed to new entrants.

Funding Policy and Contributions

Under State law, the Firemen's Pension Fund is provided an allocation of 25% of all money received by the State from taxes on fire insurance premiums. The General Fund may provide additional funding through transfers to help fund benefits and administrative costs as necessary. Active pension plan members are not required to contribute to the plan.

The financial activity of the Firemen's Pension Fund is presented in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. No separate stand-alone financial report is issued for the Firemen's Pension Fund. Although the City administers the pension plan, it is partially funded by a percentage of the tax on fire insurance premiums. The state contributes 25% of taxes on fire insurance premiums to this plan and is considered a non-employer contributing entity. The amount of contributions received for the year ended December 31, 2019 was \$48,232.

Milliman, Inc., actuaries and consultants, provided the Firemen’s Pension Fund Actuarial Valuation for the year ended December 31, 2019. The Net Pension Liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of January 1, 2020. The Firemen’s Pension Fund did not hold any investments. The net pension liability has been recorded as a noncurrent liability on the City’s Government-wide Statement of Net Position. Significant actuarial assumptions used in the valuation include:

Actuarial Cost Method	Entry Age
Actuarial Asset Method	Market Value
Assumptions:	
Investment Return Assumption (Discount Rate)*	2.75%
Salary Increases	3.00%
Inflation related to Consumer Price Index	2.25%
Salary Increase Timing	July 1
LEOFF Increase Timing	April 1
Mortality – Service-retired members and spouses	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and set forward one year for females.
Mortality – Disabled members	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set forward two years.

*Discount rate is based on The Bond Buyer General Obligation 20-bond municipal index for bonds that mature in 20 years.

There were changes in methods and assumptions since the last actuarial valuation (December 31, 2018).

- Decreased the investment rate of return from 4.00% to 2.75%.
- Decreased inflation from 2.5% to 2.25%.
- Mortality was previously determined from RP-2014 static projection to 2024 with scale MP-2014.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018	\$ 722,641	\$ 217,698	\$ 504,943
Changes for the Year:			
Service Cost	-	-	-
Interest	26,547	-	26,547
Changes in Benefits Provided	-	-	-
Changes in Actuarial Assumptions or Inputs	(55,159)	-	(55,159)
Differences Between Expected and Actual Experience	67,664	-	67,664
Contributions - Employer	-	15,000	(15,000)
Net Investment Income	-	6,605	(6,605)
Contributions from state fire insurance premium tax	-	48,232	(48,232)
Benefit Payments and Withdrawals	(119,116)	(119,116)	-
Medical Payments from Fund	-	(20,417)	20,417
Administrative Expenses	-	(1,269)	1,269
Other	-	-	-
Balances at December 31, 2019	<u>\$ 642,577</u>	<u>\$ 146,733</u>	<u>\$ 495,844</u>

Net Plan Fiduciary Net Position

	2019	2018
Total Pension Liability	\$ 642,577	\$ 722,641
Pension Plans Fiduciary Net Position	146,733	217,698
Net Pension Liability	<u>\$ 495,844</u>	<u>\$ 504,943</u>
Plan Fiduciary Net Position as a % of the Total Pension Liability	22.84%	30.13%

Sensitivity of Net Pension Liability

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 2.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease	Current Rate 2.75%	1% Increase
Net Pension Liability	\$ 541,679	\$ 495,844	\$ 455,104

Pension Expense

For the year ended December 31, 2019 the City recognized pension expense related to the Firemen's pension plan as follows:

Service Cost	\$ -
Interest Cost	26,547
Expected Investment Earnings	(7,172)
Administrative Expense	1,269
Medical Payments	20,417
Contributions from state fire insurance premium tax	(48,232)
Amortization of Deferred Inflows and Outflows	123,219
Changes in Benefits Provided	-
	<u>\$ 116,048</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019 the City reported deferred outflows of resources and deferred inflows of resources related to the Firemen's pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	(2,746)
Changes of Assumptions	-	-
Total	<u>\$ -</u>	<u>\$ (2,746)</u>

Deferred Outflows of resources related to the Firemen’s Pension Plan and Deferred Inflows of Resources related to the Firemen’s Pension Plan will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2020	\$ (1,658)
2021	(794)
2022	(179)
2023	(115)
2024	-
Thereafter	-
Total	<u>\$ (2,746)</u>

Municipal Employees Benefits Trust (MEBT)

By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to 2 U.S.C.A., Sec. 418 (g) effective July 1, 1977. City employees who customarily work 1,000 or more hours per year and who otherwise would be eligible for Social Security coverage and benefits are required to participate. Both the City and participants are required to contribute an amount equal to the current Federal Insurance Contributions Act (FICA) tax rate. The City's contribution for fiscal year 2019 was \$1,203,661, which represents its full liability.

For the year ending December 31, 2019 the City's covered payroll was \$20,626,518. No significant benefit changes occurred in 2019. The plan is administered by a Plan Committee consisting of two members appointed by the Mayor and five members elected by the employees who contribute to the plan. Members appointed by the Mayor serve at the pleasure of the Mayor; elected members serve a two-year term and may be re-elected for an additional two-year term.

Plan assets are not City property, but are maintained in trust at American Stock Transfer and Trust Company. Plan assets, therefore, are not included in these financial statements.

The City may amend the provisions of the plan, provided that no such amendment shall enlarge the duties or the liabilities of the plan trustee without its consent.

The City has the right at any time to reduce, suspend, or completely discontinue its contributions to the plan. Actuarial determinations are not required because 1) long-term disability insurance and survivor income insurance are provided through Cigna Group Insurance, and 2) each participant shall, at their normal retirement, instruct the Trustee to (a) acquire a non-forfeitable, non-transferable annuity contract, (b) pay their retirement benefit from their account (no City or participant contributions are to be added to the account after retirement), or (c) pay a single cash sum. When a participant terminates, the Trustee shall be instructed to pay the full amount of the participant’s contributions plus the vested portion credited to their account.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year ended December 31:

	<u>2019</u>
OPEB Liabilities	\$ (7,877,232)
Deferred Outflows of Resources	-
Deferred Inflows of Resources	-
OPEB Expense	736,143

In addition to providing pension benefits described under “Fireman’s Pension,” the City provides other post-employment health care benefits. Firefighters hired between March 1, 1970 and September 30, 1977 are members of the LEOFF 1 pension system and are also eligible for a supplemental retirement benefit plus health benefits under the City plan.

General Information about the OPEB Plan

Plan Description

This system is a closed, single-employer, defined benefit OPEB plan.

Benefits Provided

The City pays the medical insurance premiums and any additional medical expenses not covered by insurance, including long-term care. These benefits were paid from the LEOFF 1 Retiree Medical Reserve Fund. In accordance with RCW 41.26.150, all employees who become eligible after age 50 or become disabled while employed with at least 5 years of service in the LEOFF 1 system are eligible.

Employees Covered by Benefit Terms

At December 31, 2019 the following employees were covered by the benefit terms:

	<u>2019</u>
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	23
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	-
Active Employees	-

Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Contributions

Under authorization of the Disability Board, the City pays the medical insurance premiums and any additional medical expenses not covered by insurance, including long-term care. The retiree does not contribute towards the cost of their medical care.

Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2019 and was determined using an actuarial valuation as of December 31, 2018. The actuarial measurement was based on the following methods and assumptions:

Methodology:	
Actuarial Cost Method	Entry Age
Actuarial Asset Method	Market Value
Assumptions:	
Investment Return Assumption (Discount Rate)*	2.75%
Salary Increases	3.00%
Cost of Living Adjustments	2.50%
Inflation	2.50%
Mortality	RP-2014 Static Projection to 2024 with Scale MP-2014
Medical Trend Rate	5.25% grading down to 5.00% in 2020
Long-Term Care Trend Rate	5.00%

*Discount rate is based on The Bond Buyer General Obligation 20-bond municipal index for bonds that mature in 20 years.

There were changes in methods and assumptions since the last actuarial valuation (December 31, 2018).

- Decreased the investment rate of return from 4.00% to 2.75%.

Changes in the total OPEB Liability:

	<u>2019</u>
Balance - January 1	\$ 6,981,351
Service Cost	-
Interest	272,551
Changes in Actuarial Assumptions	961,775
Differences Between Expected and Actual Experience	-
Benefit Payments and Withdrawals	(338,445)
Other	-
Total	<u>\$ 7,877,232</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents the total OPEB liability of the City calculated using a discount rate and healthcare trend rates that are 1 percentage point higher and 1 percentage point lower than the current discount rate and health care cost trend rates:

	1% Decrease	Current Rate 2.75%	1% Increase
Discount Rate	\$ 8,796,871	\$ 7,877,232	\$ 7,093,173

	1% Decrease	Current Rate 5.25% Grading Down to 5% in 2020	1% Increase
Healthcare Cost Trend Rate	\$ 7,000,692	\$ 7,877,232	\$ 8,891,904

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The City recognized OPEB expense for the year ended December 31 as follows:

	<u>2019</u>
Service Cost	\$ -
Interest Cost	272,551
Amortization of Deferred Inflows and Outflows	463,592
Total	<u>\$ 736,143</u>

NOTE 13 – LONG-TERM DEBT

The City of Edmonds issues general obligation and revenue bonds to finance the acquisition and construction of major capital facilities and capital programs. General obligation bonds have been issued in the past for both general government and business type activities and are being repaid from the applicable resources. In October of 2019, the City issued a general obligation bond in the amount of \$3,485,000 for the Civic Park project. Governmental Activities long-term debt is paid from property and sales tax revenues. Revenue bonds are repaid out of the revenues generated by the related utility. The City of Edmonds is liable for seven Public Works Trust Fund Loans; three are general obligation loans and four are businesses-type loans. The Notes are considered obligations of both the general government and the Utility and are being repaid from the applicable resources. The City is liable for a loan awarded by the Washington State Department of Ecology for the Wastewater Treatment Plant Electrical Improvements Project and a Snohomish County Public Works Assistance Fund Loan to finance the construction of a Stormwater Pump Station. The City is in compliance with all Washington State debt limitation statutes and bond indenture agreements.

General obligation bonds currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installment	Balance 12/31/19
Governmental Debt:					
<u>General Obligation Bonds:</u>					
2012 LTGO Refunding Bonds	12/1/2031	2.00%	\$ 9,004,043	\$ 609,623	\$ 4,506,783
2016 Chase Bank Loan	12/1/2026	1.67%	838,526	79,697	603,342
2019 LTGO Bond - Civic Park	12/1/2039	5.00%	3,485,000	-	3,485,000
Total Governmental GO Bonds			13,327,569	689,320	8,595,125
Business-type Debt:					
<u>General Obligation Bonds:</u>					
2012 LTGO Refunding Bonds	12/1/2031	2.00%	320,957	30,377	63,217
2016 Chase Bank Loan	12/1/2026	1.67%	2,328,116	221,273	1,675,142
Total Business-type GO Bonds			2,649,073	251,650	1,738,359
Total General Obligation Bonds			\$ 15,976,642	\$ 940,970	\$ 10,333,483

Revenue bonds currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installment	Balance 12/31/19
Business-type Debt:					
<u>Revenue Bonds</u>					
2011 Water/Sewer Bonds	12/1/2031	4.00%	\$ 13,720,000	\$ 610,000	\$ 9,340,000
2013 Water/Sewer Bonds	12/1/2038	5.00%	15,010,000	200,000	13,935,000
2015 Water/Sewer Bonds	12/1/2040	1.50%	18,740,000	540,000	16,495,000
Total Revenue Bonds			\$ 47,470,000	\$ 1,350,000	\$ 39,770,000

Loans currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installment	Balance 12/31/19
Governmental Debt:					
<u>Loans:</u>					
P W Trust Fund Loan - Street Construction	6/30/2022	0.50%	\$ 340,000	\$ 18,143	\$ 54,430
P W Trust Fund Loan - Street Construction	6/30/2024	0.50%	400,000	21,176	105,882
P W Trust Fund Loan - Street Construction	5/24/2026	0.50%	624,750	32,882	230,172
Total Governmental Debt Loans			1,364,750	72,201	390,484
Business-type Debt:					
<u>Loans:</u>					
P W Trust Fund Loan - Trt. Plant/Sewer Improv.	6/30/2022	0.50%	1,347,250	71,325	213,975
P W Trust Fund Loan - Water Improvements	6/30/2024	0.50%	408,000	25,839	129,195
P W Trust Fund Loan - Storm Improvements	6/30/2024	0.50%	605,625	32,063	160,313
P W Trust Fund Loan - Sewer Improvements	6/30/2025	0.50%	1,216,902	72,295	433,771
Department of Ecology	10/31/2033	2.30%	638,540	28,908	482,894
Snohomish County Loan	7/1/2037	1.50%	136,250	-	136,250
Total Business-type Debt Loans			4,352,567	230,430	1,556,398
Total Loans			\$ 5,717,317	\$ 302,631	\$ 1,946,881

Capital Contracts currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installment	Balance 12/31/19
Governmental Debt:					
<u>Capital Contracts</u>					
2005 Contract - Public Safety Radio Equipment	12/01/2019	5.00%	\$ 1,595,046	\$ 131,516	\$ -
Total Capital Contracts			\$ 1,595,046	\$ 131,516	\$ -

Nonexchange Financial Guarantees currently outstanding are as follows:

NONEXCHANGE FINANCIAL GUARANTEE					
Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installment	Balance 12/31/19
Governmental Debt					
<u>Nonexchange Financial Guarantee</u>					
Edmonds Public Facilities District	12/1/2025	0.700%	\$ 1,312,868	\$ (15,587)	\$ 369,539
Total Nonexchange Financial Guarantee			\$ 1,312,868	\$ (15,587)	\$ 369,539

Debt Limit

RCW 39.36.020 provides cities with three segments of debt capacity, each equal to 2.5% of the city's assessed valuation, for a combined total of 7.5%. Allowable uses of these segments are as follows:

Segment 1 – General Governmental Purposes

The City can incur debt up to one and one-half percent (1.5%) of its assessed valuation solely with a vote of the legislative body (often referred to as “councilmanic” debt). To use the remaining one percent (1.0%), a 60 percent vote in favor of the issue by at least 40 percent of the number of voters who voted in the last general election is required.

Segment 2 – City-Owned Water and Sewer Purposes

The City can incur debt up to an additional two and one-half percent (2.5%) for water and sewer purposes with a 60 percent vote in favor of the issue by at least 40 percent of the number of voters who voted in the last general election.

Segment 3 – Acquiring and Developing Open Space, Parks Facilities, and Capital Facilities Associated with Economic Development

The City can incur debt up to an additional two and one-half percent (2.5%) for acquiring and developing open space, parks facilities, and capital facilities associated with economic development purposes with a 60 percent vote in favor of the issue by at least 40 percent of the number of voters who voted in the last general election.

Debt Limit Capacity

Item	Governmental Purposes		Water & Sewer Purposes	Park & Capital Facilities
	Without Vote (Councilmanic)	With Vote	With Vote	With Vote
	1.5%	2.5%	2.5%	2.5%
Legal Limits	\$ 153,347,010	\$ 102,231,340	\$ 255,578,349	\$ 255,578,349
Net outstanding indebtedness	(13,357,913)	-	-	-
Margin Available	\$ 139,989,096	\$ 102,231,340	\$ 255,578,349	\$ 255,578,349

Defeased Debt

In prior years, the City has defeased the 2007 general obligation bond and several revenue bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. Government securities that were placed in the trust funds. These investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and therefore removed from City financial statements.

Debt Service to Maturity

The requirements to amortize the long-term debt as of December 31, 2019 are presented below. Debt service for the LTGO bonds are met by the General Fund and certain special revenue funds, and reimbursements from proprietary funds of the City with the exception of the 2012 LTGO refunding bonds. The Public Facilities District (PFD) is obligated by inter-local agreement to pay the entire amount of the PFD's portion of the 2012 debt service over the life of the bonds. (See Note 1). Debt service for the revenue bonds is paid by the Utility Fund. Debt service for the capital contracts is expended from the General Fund. In prior years the City has typically used the General Fund to liquidate long-term liabilities other than debt.

Following is a table which reflects debt service to maturity for Governmental Activities and Business-Type Activities.

Year	GOVERNMENTAL ACTIVITIES			BUSINESS TYPE ACTIVITIES		
	Principal	Interest	Total	Principal	Interest	Total
2020	908,223	232,585	1,140,808	1,887,748	1,628,726	3,516,474
2021	953,455	206,476	1,159,931	1,947,179	1,564,837	3,512,016
2022	831,443	178,385	1,009,828	1,968,556	1,509,646	3,478,202
2023	850,509	159,367	1,009,876	1,964,084	1,447,605	3,411,689
2024	886,280	141,003	1,027,283	2,021,962	1,384,652	3,406,614
2025-2029	2,340,699	439,405	2,780,104	9,756,530	5,937,813	15,694,343
2030-2034	1,130,000	206,663	1,336,663	10,965,012	4,097,048	15,062,060
2035-2039	1,085,000	82,744	1,167,744	11,448,684	1,604,896	13,053,580
2040-2041	-	-	-	1,105,000	44,200	1,149,200
	\$ 8,985,609	\$ 1,646,628	\$ 10,632,237	\$ 43,064,755	\$ 19,219,423	\$ 62,284,178

At December 31, 2019 the City had \$2,975,640 in the Enterprise fund available for debt service.

Arbitrage – The Federal Tax Reform Act of 1986 requires tax-exempt debt issuers to pay investment income received at yields that exceed the issuer's borrowing rates to the United States Treasury. The liability is recorded at present value and payable every five years or 60 days after defeasance of the debt. At December 31, 2019, the City of Edmonds had no arbitrage liability.

Revenue Bond Debt Service Coverage – The required debt service coverage for the utility revenue bonds is 1.25. Please refer to Schedule 15 in the Statistical Section.

NOTE 14 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2019, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2019	Additions	Reductions	Ending Balance 12/31/2019	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 5,799,444	\$ 3,485,000	\$ (689,320)	\$ 8,595,125	836,022
Less:					
For issuance premiums	-	300,944	-	300,944	15,047
Total bonds payable:	5,799,444	3,785,944	(689,320)	8,896,069	851,069
Pension liabilities	5,047,360	-	(537,255)	4,510,105	-
OPEB payable	6,981,351	895,881	-	7,877,232	-
Compensated absences	2,005,858	2,594,330	(2,463,726)	2,136,462	1,895,174
Capital contracts	131,516	-	(131,516)	-	-
Governmental Loans	462,685	-	(72,201)	390,484	72,201
Nonexchange Financial Guarantee	385,126	-	(15,587)	369,539	-
Governmental activity long-term liabilities	\$ 20,813,341	\$ 7,276,155	\$ (3,909,605)	\$ 24,179,891	2,818,444
Business-type activities					
Bonds Payable:					
General obligation bonds	1,990,009	\$ -	\$ (251,650)	\$ 1,738,359	259,475
Revenue bonds	41,120,000	-	(1,350,000)	39,770,000	1,390,000
Less:					
For issuance premiums	584,219	-	(36,959)	547,260	36,959
Total bonds payable:	43,694,228	-	(1,638,609)	42,055,619	1,686,434
Pension liabilities	1,391,982	-	(475,930)	916,052	-
Compensated absences	402,618	472,671	(460,873)	414,416	354,517
Business-type Loans	1,786,827	-	(230,430)	1,556,398	238,273
Business-type activity long-term liabilities	\$ 47,275,655	\$ 472,671	\$ (2,805,842)	44,942,484	2,279,224

Internal service funds predominately serve the governmental funds. Accordingly, the December 31, 2019 long-term liabilities for the fund are included as part of the above totals for governmental activities. At year-end internal service fund balances include \$109,918 for compensated absences and \$194,856 for the total pension obligation.

The General Fund typically is used to liquidate prior years' liability for compensated absences, pensions, and other post-employment benefit obligations.

NOTE 15 – CONTINGENCIES AND LITIGATIONS

Collateralized Loan – On March 24, 2020, the City Council approved Resolution 1450 authorizing the execution of an assignment of deposit account in relation to the City's providing \$2 million collateral in support of the Edmonds Senior Center's (ESC) borrowing of up to \$2 million from First Financial Northwest Bank (FFNB) to enable it to complete construction of the Edmonds Waterfront Center. Under this arrangement, the City purchased a \$2 million Certificate of Deposit from FFNB. At the same time, the ESC opened a \$2 million Line of Credit/Term Loan (LOC) with FFNB. The LOC has a maturity date of November 1, 2027. By this date the ESC will be required to have fully repaid the LOC including any interest accrued, which will in turn require FFNB to return the collateral to the City. In the event that the ESC fails to make timely payments during the term of the LOC or fails to completely repay any amounts owed under the LOC by the maturity date, FFNB would be entitled to deduct from the City's funds on deposit any amount that the ESC fails to pay FFNB, including any balance still owing at the maturity date. The ESC has a 40-

year Ground Lease from the City, commencing April 15, 2019, which may be extended by the ESC for up to 15 years. As a protection to the City, if the ESC fails to make timely payments on the LOC, the Ground Lease will be shortened by a number of years which correspond to the amount of payments the ESC falls in arrears.

Other Contingencies – The City has recorded in its financial statement all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes that it is probable that the City will have to make payment. In the opinion of management, the City’s insurance policies are adequate to pay all known or pending claims.

Grants – The City participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that any such disallowances, if any, will be immaterial.

NOTE 16 – RISK MANAGEMENT

The City of Edmonds is exposed to various risks of loss from torts; thefts of damage or destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters.

The City and its employees contribute to the State of Washington’s Department of Labor and Industries for Workers’ Compensation. There were no settlements in excess of coverage in any of the prior three years.

The City of Edmonds is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed the WCIA on January 1, 1981. The WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and jointly contracting for risk management services. WCIA has a total of 163 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members’ deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members’ deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall. The City currently has no such assessments due to WCIA. Insurance settlements have not exceeded coverage in any of the past three years.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA’s assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the daily operations of WCIA.

The City incurred no settlements in excess of coverage in any of the prior three years.

NOTE 17 – COMMITMENTS

The City has several capital improvement projects in progress. As of December 31, 2019, the City’s outstanding material contractual obligations, which include construction and engineering contracts, are summarized below:

Contract Name	Original Amount	Expenditures to Date	Remaining Commitment
Waterfront Redevelopment	4,941,543	336,212	4,605,331
84th Ave Overlay	1,133,024	938,101	194,923
238th St. Island & Downtown Ramps	374,236	320,495	53,741
Five Corners Recoating Project	3,753,096	3,543,800	209,296
Dayton Street Stormwater Pump Station	1,948,320	331,806	1,616,514
Dayton St. Utility Replacement (3rd to 9th)	6,965,896	3,269,933	3,695,964
2019 Storm Maintenance Project	174,511	104,023	70,488
Hwy 99 Gateway Revitalization	419,827	343,682	76,145
2017 Waterline Replacement Program	626,823	399,239	227,584
Lake Ballinger Sewer Trunk Main Study	295,148	68,794	226,354
2018/2019 Capital Projects CM, Engineering & Inspection	503,200	266,017	237,183
Civic Center Complex	3,490,000	488,908	3,001,092
Fishing Pier/Olympic Beach	143,800	87,024	56,776
Accessible Playground	100,000	-	100,000
Outdoor Fitness Zones	175,000	-	175,000
	\$ 25,044,424	\$ 10,498,035	\$ 14,546,390

NOTE 18 – NONEXCHANGE FINANCIAL GUARANTEE

In 2008, the City of Edmonds guaranteed the 17-year, \$4 million general obligation bond issuance of the Edmonds Public Facilities District (PFD), a legally separate district within the City, in accordance with the authority provided by the Washington State Legislature and codified in RCW Chapters 35.57 and 39.46. The City guaranteed repayment of these bonds through a Contingent Loan Agreement (CLA) with the PFD, and has advanced funds to the PFD to assist with debt service on these bonds.

In 2018 the PFD refinanced these bonds by issuing a 10-year Note to First Financial Northwest Bank (FFNB) in the amount of \$2,803,516. At the same time the City purchased an interest bearing Certificate of Deposit in the amount of \$2,803,516 to be held by FFNB as collateral. Each time the PFD makes a principal payment on the loan, the amount held in the Certificate of Deposit will be reduced by the amount of the principal payment.

In the event that the PFD is unable to make a payment, the CLA requires that the City will loan the PFD enough for the PFD to be able to make the required payment. As of December 31, 2019, the City has loaned the PFD a total of \$1,206,191. These advances are shown in the City’s Statement of Net Position as a Due from Component Unit. The City has determined that it is more likely than not that the City will be required to continue loaning portions of the PFD’s debt service payments based on the CLA. The amount of the liability recognized is the best estimate of the discounted present value of the future outflows expected to be incurred as a result of the CLA. The City expects to recover the entire balance of current and future loans to the PFD.

The liability recognized for nonexchange financial guarantees by the City for 2019 is as follows:

<u>Balance</u> <u>12/31/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2019</u>
\$ 385,126	\$ -	\$ 15,587	\$ 369,539

NOTE 19 – SUBSEQUENT EVENTS

On February 29, 2020, Washington State Governor Jay Inslee declared a state of emergency in response to new cases of COVID-19, directing state agencies to use all resources necessary to prepare for and respond to the outbreak. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes. On March 23, 2020 the Governor announced a statewide order requiring everyone in the state to stay at home, unless they are pursuing an essential activity. The initial order was for two weeks, and was extended through May 4. Similar measures were taken across the country and around the world. These drastic measures in response to the pandemic, including the closing of many businesses and limiting the activities of other businesses, will have a significant impact to the local, regional, and national economies. The length of time these measures will be in place, and the full extent of the financial impact to the City of Edmonds is unknown at the time of publication of this document.

On March 24, 2020, the City Council approved Resolution 1450, authorizing the execution of assignment of deposit account in relation to the City’s providing of \$2 million collateral in support of the Edmonds Senior Center’s borrowing of up to \$2 million from First Financial Northwest Bank (FFNB) to provide funding that will enable them to complete construction of the Edmonds Waterfront Center. Under this agreement, the Senior Center will take out a Line of Credit/Term Loan with a maturity date of November 1, 2027, from FFNB in an amount not to exceed \$2 million. The City has agreed to guarantee this loan by purchasing a Certificate of Deposit from FFNB, to be held in collateral as long as there are amounts owing by the Senior Center to FFNB under the terms of the Line of Credit/Term Loan.

On July 7, 2020, the City Council approved a motion authorizing the City to initiate the Wastewater Treatment Plant Incinerator Replacement and Carbon Recovery Project. Through this motion the City Council authorized the Mayor to sign the necessary documents between the City and the Department of Enterprise Systems to deliver this project for the maximum guaranteed price of \$26,121,040. Further Council action in 2020 will likely include selling revenue bonds to support this project.

NOTE 20 – HEALTH AND WELFARE

The City of Edmonds is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2019, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current

members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board. In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

**FIREMEN'S PENSION FUND OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS***

	2019	2018
Total OPEB Liability		
Service Cost	\$ -	\$ -
Interest	272,551	225,578
Changes in Actuarial Assumptions	961,775	9,075
Differences Between Expected and Actual Experience	-	(578,428)
Benefit Payments and Withdrawals	(338,445)	(388,253)
Net Change in Total OPEB Liability	895,881	(732,028)
Total OPEB Liability - Beginning	6,981,351	7,713,379
Total OPEB Liability - Ending	<u>\$ 7,877,232</u>	<u>\$ 6,981,351</u>
Covered Payroll	\$ -	\$ -
Total OPEB Liability as a % of Covered Payroll	N/A	N/A

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

* Until a full 10-year trend is compiled, only information for those years available is presented.

FIREMEN'S PENSION FUND
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY
AND RELATED RATIOS
LAST 10 FISCAL YEARS*

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	26,547	19,147	23,528	15,991	16,365	30,016
Changes in Benefits Provided	-	-	-	188,817	-	-
Differences Between Expected and Actual Experience	67,664	96,849	-	17,054	-	(256,011)
Changes in Actuarial Assumptions	(55,159)	(4,985)	37,919	(13,330)	-	(31,502)
Benefit Payments and Withdrawals	(119,116)	(53,203)	(48,062)	(27,936)	(26,175)	(24,481)
Net Change in Total Pension Liability	(80,064)	57,808	13,385	180,596	(9,810)	(281,978)
Total Pension Liability - Beginning	722,641	664,833	651,448	470,852	480,662	762,640
Total Pension Liability - Ending	\$ 642,577	\$ 722,641	\$ 664,833	\$ 651,448	\$ 470,852	\$ 480,662
Fiduciary Net Position						
Contributions - Employer	\$ 15,000	\$ 39,297	\$ 46,613	\$ 47,449	\$ 38,775	\$ 21,581
Contributions from state fire insurance premium tax	48,232	-	-	-	-	-
Net Investment Income	6,605	5,662	4,455	2,296	1,629	662
Benefit Payments and Withdrawals	(119,116)	(53,203)	(48,062)	(27,936)	(26,175)	(24,481)
Medical Payments from Fund	(20,417)	-	-	-	-	-
Other	(1,269)	(538)	(1,222)	(214)	-	-
Change in Fiduciary Net Position	-	-	-	-	96	-
Fiduciary Net Position - Beginning	(70,965)	(8,782)	1,784	21,595	14,325	(2,238)
Fiduciary Net Position - Ending	217,698	226,480	224,696	203,101	188,776	191,014
	<u>146,733</u>	<u>217,698</u>	<u>226,480</u>	<u>224,696</u>	<u>203,101</u>	<u>188,776</u>
Net Pension Liability	\$ 495,844	\$ 504,943	\$ 438,353	\$ 426,752	\$ 267,751	\$ 291,886
Fiduciary Net Position as a % of the Total Pension Liability	22.8%	30.1%	34.1%	34.5%	43.1%	39.3%
Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A
Net Pension Liability as a % of the Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Until a full 10-year trend is compiled, only information for those years available is presented.

**FIREMEN'S PENSION FUND
SCHEDULE OF CITY CONTRIBUTIONS
LAST 10 FISCAL YEARS**

Year	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percent of Covered Payroll	Annual Money Weighted Rate of Return Net of Investment Expense
2019	\$ 82,874	\$ 42,815	\$ 40,059	\$ -	N/A	3.75%
2018	43,194	39,297	3,897	-	N/A	2.58%
2017	43,194	46,613	(3,419)	-	N/A	1.99%
2016	25,353	47,449	(22,096)	-	N/A	1.08%
2015	25,353	38,775	(13,422)	-	N/A	0.83%
2014	44,223	21,581	22,642	-	N/A	0.35%
2013	44,223	(3,576)	47,799	-	N/A	0.17%
2012	38,602	42,004	(3,402)	-	N/A	0.14%
2011	38,602	(6,229)	44,831	-	N/A	0.16%
2010	40,903	31,197	9,706	-	N/A	0.26%

* Until a full 10-year trend is compiled, only information for those years available is presented.

**SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*
(SEE INDEPENDENT AUDITOR'S REPORT)**

PERS 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.979600%	\$ 3,766,920	\$ 13,393,923	28.12%	67.12%
2018	0.090868%	4,058,195	12,701,466	31.95%	63.22%
2017	0.109876%	5,213,702	13,404,013	38.90%	61.24%
2016	0.101894%	5,472,188	14,068,530	38.90%	57.03%
2015	0.101786%	5,324,534	13,688,460	38.90%	59.10%

Notes to Schedule:

*Information is presented only for those years for which information is available.

PERS 2/3

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.119772%	\$ 1,163,393	\$ 13,101,081	8.88%	97.77%
2018	0.109886%	1,876,206	12,370,371	15.17%	95.77%
2017	0.133191%	4,627,751	13,053,673	35.45%	90.97%
2016	0.121658%	6,125,384	12,502,808	48.99%	93.29%
2015	0.121602%	4,344,909	11,627,811	37.37%	89.20%

Notes to Schedule:

*Information is presented only for those years for which information is available.

**SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 JUNE 30 (MEASUREMENT DATE)
 LAST 10 FISCAL YEARS*
 (SEE INDEPENDENT AUDITOR'S REPORT)**

LEOFF 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer	Total	Covered Payroll
2019	0.053590%	\$ (1,059,266)	\$ (7,164,848)	\$ (8,224,114)	\$ -
2018	0.053132%	(964,613)	(6,524,615)	(7,489,228)	-
2017	0.055859%	(847,504)	(5,732,485)	(6,579,989)	-
2016	0.055141%	(568,110)	(5,363,896)	(5,932,006)	-
2015	0.054022%	(651,084)	(5,125,471)	(5,776,555)	-

Year	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.00%	148.78%
2018	0.00%	144.42%
2017	0.00%	135.96%
2016	0.00%	123.74%
2015	0.00%	127.36%

Notes to Schedule:

*Information is presented only for those years for which information is available.

**SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 JUNE 30 (MEASUREMENT DATE)
 LAST 10 FISCAL YEARS*
 (SEE INDEPENDENT AUDITOR'S REPORT)**

LEOFF 2

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer	Total	Covered Payroll
2019	0.192032%	\$ (4,448,792)	\$ (2,913,363)	\$ (7,362,155)	\$ 6,764,235
2018	0.180721%	(3,669,030)	(797,902)	(4,466,932)	6,513,429
2017	0.201856%	(2,801,107)	(545,988)	(3,347,095)	3,524,363
2016	0.184178%	(1,071,235)	(229,538)	(1,300,773)	3,059,830
2015	0.183336%	(1,884,327)	(409,091)	(2,293,418)	2,861,034

Year	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	-65.77%	119.43%
2018	-56.33%	118.50%
2017	-79.48%	113.36%
2016	-35.01%	106.04%
2015	-65.86%	111.67%

Notes to Schedule:

*Information is presented only for those years for which information is available.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

PERS 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percent of Covered Payroll
2019	\$ 710,800	\$ (710,800)	\$ -	\$ 13,939,730	5.10%
2018	676,511	(676,511)	-	12,882,202	5.25%
2017	639,839	(639,839)	-	12,597,735	5.08%
2016	620,544	(620,544)	-	12,099,373	5.13%
2015	583,605	(583,605)	-	11,674,157	5.00%

Notes to Schedule:

*Information is presented only for those years for which information is available.

PERS 2/3

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percent of Covered Payroll
2019	\$ 1,054,573	\$ (1,054,573)	\$ -	\$ 13,663,708	7.72%
2018	942,080	(942,080)	-	12,560,116	7.50%
2017	842,249	(842,249)	-	12,270,542	6.86%
2016	743,678	(743,678)	-	11,845,981	6.28%
2015	710,849	(710,849)	-	11,203,929	6.34%

Notes to Schedule:

*Information is presented only for those years for which information is available.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

LEOFF 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percent of Covered Payroll
2019	\$ -	\$ -	\$ -	\$ -	N/A
2018	-	-	-	-	N/A
2017	-	-	-	-	N/A
2016	-	-	-	-	N/A
2015	-	-	-	-	N/A

Notes to Schedule:

*Information is presented only for those years for which information is available.

LEOFF 2

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percent of Covered Payroll
2019	\$ 354,709	\$ (354,709)	\$ -	\$ 6,769,231	5.24%
2018	180,384	(180,384)	-	6,552,661	2.75%
2017	176,008	(176,008)	-	6,142,987	2.87%
2016	154,521	(154,521)	-	3,059,830	5.05%
2015	144,483	(144,483)	-	2,861,034	5.05%

Notes to Schedule:

*Information is presented only for those years for which information is available.

CITY OF EDMONDS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures		Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards		
CDBG - Entitlement Grants Cluster							
Assistant Secretary for Community Planning and Development, Housing and Urban Development, Department of	Community Development Block Grants/Entitlement Grants	14.218	HCS-18-21-1807-224	-	186,329	-	-
Total CDBG - Entitlement Grants Cluster:				-	186,329	-	-
Office of Justice Programs, Justice, Department of (via Washington State Patrol)	National Criminal History Improvement Program (NCHIP)	16.554	2018-RU-BX-K029	14,616	-	-	-
Office of Justice Programs, Justice, Department of	Bulletproof Vest Partnership Program	16.607	N/A	-	7,645	-	-
Highway Planning and Construction Cluster							
Federal Highway Administration, Transportation Department of (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	CM-2542(001)	212	-	-	-
Federal Highway Administration, Transportation Department of (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	CM-2511(004)	96,226	-	-	-
Federal Highway Administration, Transportation Department of (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-2509(001)	424,774	-	-	-
Federal Highway Administration, Transportation Department of (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	SRTS-0365(013)	187,951	-	-	-
Total Highway Planning and Construction Cluster:				709,163	-	-	709,163
National Safety Cluster							
National Highway Traffic Safety Administration, Transportation, Department of (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	5,353	-	-	-
National Highway Traffic Safety Administration, Transportation, Department of (via Washington Association of Sheriffs & Police Chiefs)	State and Community Highway Safety	20.600	N/A	2,285	-	-	-
Total Highway Safety Cluster:				7,638	-	-	7,638
Federal Emergency Management Agency, Homeland Security, Department of (via Seattle Fire Department)	Port Security Grant Program	97.056	EMW-2015-PU-00230 & EMW-2017-PU-00063	4,138	-	-	-
Total Federal Awards Expended				\$735,555	\$193,974	-	\$929,529

The accompanying notes are an integral part of this schedule

CITY OF EDMONDS, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2019

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Edmonds' financial statements. The City uses the modified accrual accounting method which is followed in all government funds, expendable trust, and agency funds and the full accrual accounting method in its proprietary funds.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
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