

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 issue date of the 2010A Bonds, interest on the 2010A Bonds is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax. However, interest on 2010A Bonds received by certain S corporations may be subject to tax, and interest on the 2010A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2010A Bonds may have other federal tax consequences for certain taxpayers. See “TAX MATTERS—The 2010A Bonds.” In the opinion of Bond Counsel, interest on the 2010B Bonds is not excludable from gross income under Section 103 of the Code. See “TAX MATTERS—The 2010B Bonds.”

\$47,840,000

CITY OF TACOMA, WASHINGTON

Regional Water Supply System Revenue Bonds

**\$3,595,000
Series 2010A**

**\$44,245,000
Series 2010B**

(Taxable Build America Bonds – Direct Payment)

DATED: Date of Delivery

DUE: December 1, as shown on the inside cover

The City of Tacoma, Washington (the “City”), Regional Water Supply System Revenue Bonds, 2010A (the “2010A Bonds”) and Regional Water Supply System Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment) (the “2010B Bonds,” and, together with the 2010A Bonds, the “Bonds”), will be issued only as fully registered bonds under a book-entry system, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Bonds. Individual purchases of the Bonds may be made in denominations of \$5,000 or any integral multiple thereof within a single maturity of a series. Purchasers of the Bonds will not receive certificates representing their interest in the Bonds.

Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds, payable each June 1 and December 1, commencing June 1, 2011, and principal of the Bonds are payable by the Bond Registrar (currently The Bank of New York Mellon, New York, New York) to DTC, which is obligated to remit such principal and interest to its broker-dealer Participants for subsequent disbursement to beneficial owners of the Bonds. See Appendix D—“BOOK-ENTRY SYSTEM.”

Maturity Dates, Principal Amounts, Interest Rates, Yields or Prices and CUSIP Numbers on Inside Cover

The Bonds are subject to redemption by the City prior to their stated maturities as described herein under “DESCRIPTION OF THE BONDS—Optional Redemption,” “—Extraordinary Optional Redemption” and “—Mandatory Redemption.”

The Bonds are being issued to finance a portion of the costs of constructing a filtration treatment system for the Second Supply Project, to fund the Reserve Account, and to pay costs of issuance. See “THE SECOND SUPPLY PROJECT” and “PURPOSE AND APPLICATION OF BOND PROCEEDS.”

The Bonds are payable solely from a special fund of the City known as the Regional Water Supply Bond Fund, into which the City has pledged to pay out of the Revenue Fund (subject to prior payment of Operating Expenses) certain fixed amounts sufficient to pay the principal of and interest on the outstanding Regional Water Supply System Revenue Bonds, 2002, the Bonds and any Future Parity Bonds. The Revenues of the Regional System include amounts due to the City under the Second Supply Project Agreement from the Participants, including the City’s Water System. Simultaneously with the issuance of the Bonds, the City will issue \$104,085,000 of Water System Revenue and Refunding Bonds. The Bonds are not general obligations of the City, and neither the full faith and credit nor the taxing power of the City or of the State of Washington, nor any revenues of the City derived from sources other than the Regional Water Supply System, are pledged to the payment thereof. See “SECURITY FOR THE BONDS.”

This cover page includes certain information for reference only and is not a summary of matters set forth herein. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered for delivery when, as, and if issued, subject to the approval of legality by Foster Pepper PLLC, Bond Counsel, Seattle, Washington. Certain legal matters will be passed upon for the Underwriter by K&L Gates LLP, Seattle, Washington. It is expected that the Bonds will be available for delivery at the facilities of The Depository Trust Company in New York, New York, by Fast Automated Securities Transfer (FAST) on or about August 24, 2010.

Citi

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

\$3,595,000

REGIONAL WATER SUPPLY SYSTEM REVENUE BONDS, 2010A

Due December 1	Amount	Interest Rate	Yield	CUSIP No. *
2013	\$ 260,000	2.00%	0.85%	87354TAT2
2014	265,000	2.00	1.05	87354TAU9
2015	270,000	2.00	1.52	87354TAV7
2016	275,000	3.00	1.91	87354TAW5
2017	280,000	3.00	2.20	87354TAX3
2018	290,000	3.00	2.42	87354TAY1
2019	300,000	3.00	2.63	87354TAZ8
2020	310,000	3.00	2.82**	87354TBA2
2021	315,000	4.00	3.00**	87354TBB0
2022	330,000	4.00	3.15**	87354TBC8
2023	345,000	4.00	3.30**	87354TBD6
2024	355,000	4.00	3.40**	87354TBE4

\$44,245,000

REGIONAL WATER SUPPLY SYSTEM REVENUE BONDS, 2010B (TAXABLE BUILD AMERICA BONDS – DIRECT PAYMENT)

\$2,430,000 5.371% Term Bonds due December 1, 2030 @ 100%; CUSIP No.*: 87354TBF1

\$41,815,000 5.621% Term Bonds due December 1, 2040 @ 100%; CUSIP No.*: 87354TBG9

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** Priced to the June 1, 2020 par call date.

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

Any statement made in this Official Statement involving any forecast or matter of estimates or opinion, whether or not expressly so stated, is intended solely as such and not as a representation of fact. The achievement of certain results or other expectations contained in such forward looking statements involves known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward looking statements. The City does not plan to issue any updates or revisions to those forward looking statements if and when its expectations or events, conditions, or circumstances on which such statements are based occur.

The information set forth herein has been obtained from the City, the Participants and from other sources that the City believes to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

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

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

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

The initial public offering prices or yields set forth on the inside cover page hereof may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices stated on the inside cover page hereof.

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

TACOMA PUBLIC UTILITIES
3628 South 35th Street
Tacoma, Washington 98409
(253) 502-8512

MAYOR AND TACOMA CITY COUNCIL

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Jake Fey, Deputy Mayor
David Arthur Boe
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Heather Pennington, Water Resource Planning Manager
Chris McMeen, Water Quality Manager
Glen George, Water Supply Manager
Raymond West, Distribution Operations Manager

CERTAIN CITY ADMINISTRATIVE STAFF

Eric A. Anderson, City Manager
Robert K. Biles, Finance Director
Jeff Litchfield, Assistant Finance Director
Morgan D. Jacobson, City Treasurer
Elizabeth A. Pauli, City Attorney

BOND AND DISCLOSURE COUNSEL

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR

DashenMusselman Inc.
Bellevue and Mount Vernon, Washington

INDEPENDENT AUDITORS

Moss Adams LLP
Vancouver, Washington

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OFFICIAL STATEMENT

\$47,840,000

CITY OF TACOMA, WASHINGTON

\$3,595,000

**Regional Water Supply System
Revenue Bonds, 2010A**

\$44,245,000

**Regional Water Supply System Revenue Bonds, 2010B
(Taxable Build America Bonds – Direct Payment)**

INTRODUCTION

The City of Tacoma, Washington (the “City” or “Tacoma”), furnishes this Official Statement in connection with the offering of \$3,595,000 principal amount of its Regional Water Supply System Revenue Bonds, 2010A (the “2010A Bonds”) and \$44,245,000 principal amount of its Regional Water Supply System Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment) (the “2010B Bonds,” and, together with the 2010A Bonds, the “Bonds”). This Official Statement, which includes the cover page, inside cover page and appendices, provides information concerning the City, the Bonds, the Regional Water Supply System (the “Regional System”), the Second Supply Project and the City’s Water System (the “Water System”). It also includes information concerning the City of Kent (“Kent”), Covington Water District (“Covington”) and Lakehaven Utility District (“Lakehaven”), all municipal corporations of the State of Washington (the “State”) and participants, together with the City’s Water System (collectively, the “Participants”), in the Second Supply Project pursuant to the Agreement for the Second Supply Project (the “Second Supply Project Agreement”) entered into by and among the Participants effective December 19, 2002, and the Repayment Agreement relating to the Bonds (the “Repayment Agreement”) entered into by and among the Participants. See “THE SECOND SUPPLY PROJECT.”

The City is a municipal corporation under the constitution and laws of the State of Washington. The Water Division, doing business as Tacoma Water (“Tacoma Water”), of the City’s Department of Public Utilities (the “Department”) operates the Water System and the Regional System. Tacoma Water is one of the largest publicly owned water utilities in the Pacific Northwest and had 96,982 customers in 2009. See “THE CITY OF TACOMA WATER SYSTEM.”

The Bonds are being issued pursuant to Ordinance No. 27903, passed by the City Council on July 20, 2010, and Substitute Resolution No. 38087, adopted by the City Council on August 10, 2010 (together, the “Bond Ordinance”), and under the authority of chapters 35.92 and 39.46 of the Revised Code of Washington (“RCW”). Certain provisions of the Bond Ordinance are summarized in Appendix A.

The Regional System currently consists of the Second Supply Project, a water pipeline and delivery project described more fully in “THE SECOND SUPPLY PROJECT.” Tacoma, Kent, Covington and Lakehaven participate in the Second Supply Project under the terms of the Second Supply Project Agreement, which defines their rights and obligations with regard to the Second Supply Project. Tacoma has a 15/36 Participant Share and each of Kent, Covington and Lakehaven has a 7/36 Participant Share in the Second Supply Project. Generally, a Participant Share represents a Participant’s proportional right to receive and obligation to pay for water delivered by the Second Supply Project.

The Bonds are being issued to finance a portion of the costs of constructing a filtration treatment system for the Second Supply Project, to fund the Reserve Account, and to pay the costs of issuance of the Bonds, as more fully described under “PURPOSE AND APPLICATION OF BOND PROCEEDS.”

The Regional System has outstanding \$78,350,000 principal amount of Regional Water Supply System Revenue Bonds, 2002 (the “2002 Bonds” or the “Outstanding Parity Bonds”). The Bonds will be issued on parity with the Outstanding Parity Bonds. The Bonds, the Outstanding Parity Bonds and any additional bonds issued on a parity of lien with the Bonds (“Future Parity Bonds”) are referred to collectively as the “Parity Bonds.”

The Parity Bonds are special limited obligations of the City payable from and secured by Revenues of the Regional System, subject to the prior payment of Operating Expenses. Revenues of the Regional System include payments made by the Participants under the Project Agreement and the Repayment Agreement (“Participants’ Payments”) required to be deposited in the Revenue Fund. In addition, pursuant to the Bond Ordinance, certain funds and accounts, including the Debt Service Account, the Reserve Account and the Construction Account, are pledged to secure the payment of the principal of and interest on the Parity Bonds. See “SECURITY FOR THE BONDS.”

The City has further covenanted to establish, maintain and collect rates and charges for water and other goods and services sold or supplied through the facilities of its Water System sufficient to pay the cost of operation and maintenance of the Water System and to provide Gross Revenues of the Water System sufficient, together with amounts on deposit in the Revenue Fund and available for such purpose (including Participants’ Payments), to pay all Regional Supply System Costs and all obligations against Gross Revenues of the Water System now or hereafter imposed by law or contract.

The Second Supply Project Agreement allows each Participant to pay all or part of its Participant Share of the Second Supply Project capital costs either in cash or over time. Lakehaven has chosen to pay its entire share of the capital cost of Phase I of the Filtration Treatment Project in cash. Lakehaven also did not participate in the issuance of the 2002 Bonds. The remaining three Participants have chosen to have the City issue the Bonds to finance their Participant Shares. Consequently, Tacoma Water, Covington and Kent’s water utilities are obligated to pay amounts sufficient to provide for the payment of the principal of and interest on the Bonds. Under the Second Supply Project Agreement and the Repayment Agreement, Tacoma Water is responsible for payment of approximately 52% of the debt service on the Bonds and Kent and Covington are each responsible for approximately 24% of the debt service on the Bonds. Kent and Covington will pay their share to the City, which will pay the Bond Registrar. Those percentage shares are subject to change with the addition of a new participant, the payment default of a Participant, the issuance of Future Parity Bonds or the optional prepayment by an obligated Participant. The payments by Tacoma Water and by Kent constitute “Contract Resource Obligations” payable as operation and maintenance expenses from the gross revenues of their respective water utilities. The payments by Covington to the City for debt service on the Bonds constitute an operating expense so long as the Regional System is operating and if not, payable after debt service on Covington’s outstanding bonds. The Repayment Agreement governs debt service payments on the Bonds and does not otherwise affect each Participant’s rights and obligations under the Second Supply Project Agreement, and the Repayment Agreement takes precedence over the debt repayment provisions of the Second Supply Project Agreement. See “SECURITY FOR THE BONDS—Payment Obligations of the Participants.”

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

Certain capitalized words and phrases used in this Official Statement not defined herein have the meanings given in the Bond Ordinance, unless the context shall clearly indicate that another meaning is intended. See Appendix A—“SUMMARY OF THE BOND ORDINANCE—Definitions” for certain definitions.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated the date of their delivery and will be issued in the aggregate principal amount of \$3,595,000 for the 2010A Bonds and \$44,245,000 for the 2010B Bonds. The Bonds will bear interest at the rates and mature on the dates set forth on the inside cover page of this Official Statement. Interest on the Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day months, and shall be payable each June 1 and December 1, commencing June 1, 2011.

The Bonds will be issued only as fully registered bonds under a book-entry system, initially registered in the name of Cede & Co., as nominee for DTC, which will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in denominations of \$5,000 or any integral multiple thereof within a single maturity of each series. Both principal of and interest on the Bonds shall be payable in lawful money of the United States of

America. The fiscal agent of the State of Washington in New York, New York (currently The Bank of New York Mellon) will act as Bond Registrar for the Bonds. Purchasers will not receive certificates representing their interest in the Bonds. See Appendix D—“BOOK-ENTRY SYSTEM.”

Designation of the 2010B Bonds as “Build America Bonds”

The City has made irrevocable elections to have Section 54AA of the Code apply to the 2010B Bonds so that the 2010B Bonds are treated as “Build America Bonds,” and further to have Subsection 54AA(g) of the Code apply to the 2010B Bonds so that the 2010B Bonds are treated as “qualified bonds” with respect to which the City will be allowed a credit payable by the United States Treasury to the City pursuant to Section 6431 of the Code in an amount equal to 35% of the interest payable on the 2010B Bonds on each interest payment date. As a result of these elections, interest on the 2010B Bonds is not excludable from gross income of owners of the 2010B Bonds under Section 103 of the Code, and owners of the 2010B Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2010B Bonds. See “TAX MATTERS—The 2010B Bonds.” The obligation of the United States Treasury under Section 6431 of the Code to make direct payments to the City in respect of interest payments on the 2010B Bonds does not constitute a full faith and credit guarantee of the 2010B Bonds by the United States of America.

The City has authorized the Finance Director to take such actions as are necessary or appropriate for the City to receive from the United States Treasury the applicable federal direct payments in respect of the 2010B Bonds, such as the timely filing with the Internal Revenue Service of Form 8038-CP – “Return for Credit Payments to Issuers of Qualified Bonds” in the manner prescribed by Internal Revenue Service Notice 2009-26. The City also has covenanted in the Bond Ordinance that it will not take or permit to be taken on its behalf any action that would adversely affect the entitlement of the City to receive from the United States Treasury the applicable federal direct payments in respect of any bonds, including the 2010B Bonds, sold and issued as Build America Bonds. Without limiting the generality of the foregoing, the City has covenanted to comply with the provisions of the Code compliance with which would result in the interest on such 2010B Bonds being excluded from gross income for federal tax purposes but for an irrevocable election to have Section 54AA of the Code apply to the 2010B Bonds.

Optional Redemption

2010A Bonds

The 2010A Bonds maturing in years 2013 through 2019, inclusive, are not subject to redemption prior to maturity. The 2010A Bonds maturing on and after December 1, 2020, are subject to redemption at the option of the City on and after June 1, 2020, in whole or in part at any time within one or more maturities selected by the City at a price of par plus accrued interest, if any, to the date of redemption. Notwithstanding the foregoing, for so long as the 2010A Bonds are registered in the name of DTC or its nominee, selection of the 2010A Bonds for redemption shall be in accordance with the operational procedures of DTC then in effect.

2010B Bonds

The 2010B Bonds are subject to optional redemption by the City prior to their stated maturity dates, in whole or in part, on any business day, at the “Make-Whole Redemption Price,” plus accrued and unpaid interest on the 2010B Bonds to be redeemed on the date fixed for redemption. Notwithstanding the foregoing, for so long as the 2010B Bonds are registered in the name of DTC or its nominee, selection of the 2010B Bonds for redemption shall be in accordance with the operational procedures of DTC then in effect.

The “Make-Whole Redemption Price” is the greater of (i) 100% of the principal amount of the 2010B Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2010B Bonds are to be redeemed, discounted to the date on which the 2010B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” (defined below) plus 25 basis points.

“Treasury Rate” means, with respect to any redemption date for a particular 2010B Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or

interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

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

“Comparable Treasury Price” means, with respect to any redemption date for a particular 2010B Bond:

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

(2) if the yield described in (1) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

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

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

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

“Valuation Date” means a date that is no earlier than four days prior to the date the redemption notice is to be mailed.

Extraordinary Optional Redemption

2010A Bonds

The 2010A Bonds are not subject to extraordinary optional redemption.

2010B Bonds

The 2010B Bonds are subject to redemption prior to their stated maturity dates at the option of the City, in whole or in part upon the occurrence of an Extraordinary Event (defined below), at a redemption price (the “Extraordinary Redemption Price”) equal to the greater of: (i) the issue price set forth on the inside cover page of this Official Statement (but not less than 100%) of the principal amount of such 2010B Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2010B Bonds are to be redeemed, discounted to the date on which such 2010B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described above) plus 100 basis points; plus, in each case, accrued interest on such 2010B Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if a material adverse change has occurred to Section 54AA or 6431 of the Internal Revenue Code of 1986, as amended (the “Code”) (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds”) pursuant to which the City’s 35% cash subsidy payment from the United States Treasury relating to the 2010B Bonds is reduced or eliminated.

Mandatory Redemption

The 2010B Bonds maturing in the years 2030 and 2040 are Term Bonds and, if not optionally redeemed, purchased or defeased in accordance with the Bond Ordinance, are subject to mandatory redemption at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, and without premium, on December 1 in the years and principal amounts as follows:

2010B Bonds Maturing 2030	
Year (December 1)	Principal Amount
2025	\$ 370,000
2026	385,000
2027	400,000
2028	410,000
2029	425,000
2030 ⁽¹⁾	440,000

(1) Maturity.

2010B Bonds Maturing 2040	
Year (December 1)	Principal Amount
2031	\$ 455,000
2032	470,000
2033	4,495,000
2034	4,655,000
2035	4,830,000
2036	5,005,000
2037	5,185,000
2038	5,375,000
2039	5,570,000
2040 ⁽¹⁾	5,775,000

(1) Final maturity.

If the City optionally redeems, purchases or defeases 2010B Bonds that are Term Bonds, the par amount of the 2010B Bonds that are Term Bonds so redeemed, purchased or defeased shall be credited against the scheduled mandatory redemption amounts proportionately for those 2010B Bonds that are Term Bonds.

Partial Redemption

If less than all of the Bonds of a series are to be redeemed, the City may select the maturity or maturities of such Bonds to be redeemed. If less than all of the 2010A Bonds of any maturity are to be redeemed, the 2010A Bonds or portions thereof to be redeemed are to be selected by the Bond Registrar or DTC, as applicable, by lot, or in accordance with their respective standard procedures. The Bond Ordinance provides that the portion of any 2010A Bonds of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof and that in selecting portions of such 2010A Bonds for redemption, the Bond Registrar will treat each such 2010A Bond as representing that number of such 2010A Bonds of \$5,000 denomination that is obtained by dividing the principal amount of such 2010A Bonds to be redeemed in part by \$5,000.

If the 2010B Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of 2010B Bonds shall be allocated among the registered owners of such 2010B Bonds as nearly as practicable in

proportion to the principal amounts of such 2010B Bonds owned by each registered owner, subject to the authorized denominations applicable to the 2010B Bonds. This will be calculated based on the following formula:

$$\frac{(\text{principal amount to be redeemed}) \times (\text{principal amount owned by registered owner})}{(\text{principal amount outstanding})}$$

If the 2010B Bonds are registered in book-entry only form, and so long as DTC or a successor securities depository is the sole registered owner of the 2010B Bonds, partial redemptions will be done in accordance with DTC procedures. It is the City's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the City and the registered owners be made in accordance with these same proportional provisions, including pro rata pass-through distribution of principal. However, the City can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among registered owners on such a proportional basis.

Notice of Redemption

Notice of any such redemption will be given by the Bond Registrar on behalf of the City by first-class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bonds to be redeemed at the address shown on the Bond Register. The notice requirements will be deemed to be complied with when notice is mailed as provided in the Bond Ordinance, whether or not notice is actually received by the owner of any Bond. Notwithstanding the foregoing, if the Bonds are held in book-entry only form, notice of redemption will be given in accordance with the operational arrangements in effect at DTC. Interest on the Bonds called for redemption will cease to accrue on the redemption date unless the Bond or Bonds so called are not paid in full upon presentation made pursuant to the call.

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

Purchase

The City has reserved the right to purchase any of the Bonds at any time at any price.

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

If the City is unable to retain a qualified successor to DTC or the City determines that the beneficial owners should be able to obtain Bond certificates, the City shall execute, authenticate and deliver Bonds in fully registered form, in the denomination of \$5,000 or any integral multiple thereof within a single maturity of each series. Thereafter, the principal of the Bonds shall be payable at maturity or prior redemption upon presentation and surrender thereof at the principal office of the Bond Registrar, currently The Bank of New York Mellon; interest on the Bonds will be payable by check or draft mailed (except that interest may be paid by wire transfer if requested in writing by owners owning at least \$1,000,000 par value of the Bonds) on the date interest is due to the persons in whose names such Bonds are registered, at the address appearing upon the registration books on the 15th day of the month preceding an interest payment date (the record date); and the Bonds will be transferable as provided in the Bond Ordinance.

Defeasance of the Bonds

In the event that money and/or Government Obligations, maturing at such time or times and bearing interest to be earned thereon in amounts (together with such money, if necessary) sufficient to redeem and retire part or all of the Bonds in accordance with their terms, are set aside in a special account of the City to effect such redemption and retirement, and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for, and such Bonds shall cease to be entitled to any lien, benefit or security of the Bond Ordinance except the right to receive the money so set aside and pledged, and such Bonds shall be deemed not to be outstanding.

The term “Government Obligations” has the meaning given in chapter 39.53 RCW, as amended, currently: (1) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (2) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (3) public housing bonds and project notes fully secured by contracts with the United States; and (4) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

If the City defeases any 2010B Bonds, such 2010B Bonds may be deemed to be retired and “reissued” for federal income tax purposes as a result of the defeasance. See “TAX MATTERS—The 2010B Bonds—*Disposition or Retirement of 2010B Bonds*.”

PURPOSE AND APPLICATION OF BOND PROCEEDS

The Bonds are being issued to provide a portion of the funds required for the construction of a filtration treatment system (the “Filtration Treatment Project”) for the Second Supply Project, to fund the Reserve Account, and to pay the costs of issuance of the Bonds. See “THE SECOND SUPPLY PROJECT.”

The following table shows the estimated sources and uses of the Bond proceeds:

Sources of Funds	2010A Bonds	2010B Bonds
Par Amount of the Bonds	\$ 3,595,000	\$ 44,245,000
Original Issue Premium	<u>173,034</u>	<u>0</u>
Total	\$ 3,768,034	\$ 44,245,000
Uses of Funds		
Construction Account	\$ 3,456,519	\$ 40,333,481
Reserve Account Deposit	283,970	3,494,919
Issuance Expenses(1)	<u>27,545</u>	<u>416,600</u>
Total	\$ 3,768,034	\$ 44,245,000

(1) Issuance expenses include underwriter’s discount, legal fees, financial advisor’s fees, rating agency fees, and other costs incurred in connection with the issuance of the Bonds.

SECURITY FOR THE BONDS

Revenue Obligations of Regional Water Supply System

The City has established a separate utility system known as the “Regional Water Supply System” (the “Regional System”) to construct and operate the Second Supply Project and has transferred facilities of the Second Supply Project from the Water System to the Regional System. See “THE SECOND SUPPLY PROJECT.” The Bonds, the Outstanding Parity Bonds and any Future Parity Bonds are special limited obligations of the City payable from and secured by Revenues of the Regional System, subject to the prior payment of Operating Expenses. Revenues of the Regional System mean the income, revenues, receipts and loan proceeds derived by the City through the ownership and operation of the Regional System, including Participants’ Payments under the Second Supply Project Agreement. In addition, all money and investments in the Bond Fund (including the Debt Service Account and the Reserve Account) and the Construction Account (except for any Rebate Amount), together with the earnings thereon, are pledged to secure the payment of the principal of and interest on the Parity Bonds. Except as specifically provided in the Bond Ordinance, Revenues of the Regional System shall not include any income derived by the City through the ownership and operation of the Water System or any other separate utility system of the City. The terms “Operating Expenses” and “Participants’ Payments” are defined in Appendix A—“SUMMARY OF THE BOND ORDINANCE—Definitions.”

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR OF THE STATE OF WASHINGTON, NOR ANY

REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE REGIONAL SYSTEM, ARE PLEDGED TO THE PAYMENT THEREOF.

The Bonds are being issued on a parity of lien with the \$78,350,000 Outstanding Parity Bonds. The City has obligated itself to set aside and pay into the Bond Fund certain fixed amounts out of the Revenue Fund, subject to prior payment of Operating Expenses, sufficient to pay the principal of, premium, if any, and interest on the Bonds, the Outstanding Parity Bonds and any Future Parity Bonds.

Washington State law provides that the owner of a bond, such as the Bonds, the payment of which is pledged from a special fund, such as the Bond Fund, has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under Washington State law, any bondowner may bring an action to compel a city to set aside and pay into the special fund the amount which a city is obligated to set aside and pay therein.

Payment Obligations of the Participants

Tacoma Water, Kent, Covington and Lakehaven have entered into the Second Supply Project Agreement to permit, design, finance, construct, operate and maintain the Second Supply Project and to receive delivery of water from the Second Supply Project (“Project Water”). The Participants have executed a Filtration Treatment Financing Plan and will also enter into the Repayment Agreement to set forth the terms under which Tacoma Water, Kent and Covington will pay to the City their proportionate shares of the amount necessary to pay the principal of and interest on the Bonds. See “THE SECOND SUPPLY PROJECT—Project Participants.” The Bonds constitute the second borrowing by the Regional System and are “Project Bonds” under the Second Supply Project Agreement. The Bonds are being issued to pay a part of the costs of Phase I of the Filtration Treatment Project.

Under the Second Supply Project Agreement and the Repayment Agreement, the City is responsible for payment of approximately 52% of the debt service on the Bonds, Kent is responsible for paying approximately 24% of the debt service on the Bonds and Covington is responsible for paying approximately 24% of the debt service on the Bonds. See “THE SECOND SUPPLY PROJECT.” The Second Supply Project Agreement permits Participants to elect to pay cash obtained from the issuance of their own bonds, from the proceeds of loans from private or public sources, or by any other lawful means for their Participant Share of a Project Cost to be otherwise financed with the proceeds of Project Bonds. See Appendix B—“SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Certain Definitions” for definitions used in this section. Lakehaven has elected to separately pay for its respective Participant Share of the costs of Phase I of the Filtration Treatment Project. Consequently, Lakehaven has no obligation to make debt service payments on the Bonds. In addition, the Participants are obligated to pay their Participants’ Share of other costs of the Project in the following shares: Tacoma, 15/36; Kent, 7/36; Covington, 7/36; and Lakehaven, 7/36.

In the Second Supply Project Agreement, each Participant has covenanted to establish, maintain and collect rates or charges for water and other services supplied by it which shall be adequate to provide revenues sufficient to enable each Participant to make the payments required to be made pursuant to the Second Supply Project Agreement, and to pay all other charges and obligations payable from or constituting a charge or lien upon such Participant’s water utility revenues. Each Participant is obligated to make the payments required under the Second Supply Project Agreement whether or not the Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment in the operation of the Project for any reason, in whole or in part.

Under the Second Supply Project Agreement, the Participant Share of a Participant that has been in default for a period of 60 days or more on a payment obligation under the Second Supply Project Agreement (if that payment obligation includes amounts necessary for the City to make payment on any Project Bonds such as the Bonds) will be offered for assignment to the non-defaulting Participants. Any non-defaulting Participant may accept all or any portion of the defaulting Participant’s Participant Share and, upon that acceptance, will be obligated to cure a proportionate share of any existing payment default and will be responsible for paying all obligations associated with the increased Participant Share then assigned to it. In the event that other non-defaulting Participants decline any or all of the defaulting Participant’s Participant Share, Tacoma Water will automatically increase its Participant Share in an amount equal to the defaulting Participant’s Participant Share then remaining unassigned and will be responsible for the amount in default. See Appendix B— “SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS.”

A Participant's share of debt service on Parity Bonds and a Participant's Participant Share of the Project are each subject to further change upon the occurrence of certain subsequent events. First, a Participant is entitled under the Second Supply Project Agreement to sell, assign or transfer in whole or in part its rights and obligations under the Second Supply Project Agreement with the prior written consent of all other Participants. The City has covenanted in the Bond Ordinance that it will not amend the Second Supply Project Agreement in any manner that would increase or reduce a Participant's obligations to pay its share of debt service on Parity Bonds, except that it may allow for a new Participant or for an existing Participant (other than the City) to assign its interests in the Second Supply Project Agreement upon satisfaction of certain specified conditions. See Appendix B—"SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Covenants with Bondowners—New Participants; Assignments of Participants' Shares." Such a sale or assignment would affect both an existing Participant's share of debt service on the Parity Bonds and its Participant's Participant Share and would, as well, add a new Participant to the Project. Second, as described above, the Participant Share of a Participant that has been in default for a period of 60 days or more on any debt service payment obligation is offered for assignment to the non-defaulting Participants. If other non-defaulting Participants decline any or all of the defaulting Participant's Participant Share, Tacoma Water's Participant Share will increase in an amount equal to the defaulting Participant's Participant Share then remaining unassigned. Third, since any Participant may make an election to pay cash in lieu of participating in the issuance of Future Parity Bonds, the percentage shares of debt service on all Parity Bonds (including the Bonds) allocable to a Participant may change. Fourth, Participants are permitted under the Repayment Agreement to prepay all or any portion of their shares of debt service if the Bonds are then subject to optional redemption. In that event, the percentage shares of future debt service for any Participant making an optional prepayment used to redeem Bonds would be reduced, and for other Participants would be increased, as to the Bonds remaining outstanding after that optional redemption.

The occurrence of an Uncontrollable Force will not relieve any Participant of its obligation to pay money when due. The Second Supply Project Agreement requires disputed invoices to be paid in full and provides a procedure for resolving invoice disputes and reconciling disputed payments.

For a description of Tacoma Water, see the information under the heading "THE CITY OF TACOMA WATER SYSTEM." For a description of the other Participants, see Appendix C—"PARTICIPANTS IN THE SECOND SUPPLY PROJECT."

City of Tacoma. The City has declared that its obligation to pay its share of costs of the Project is a Contract Resource Obligation of its Water System. In its Water Bond Authorizing Ordinances described below, the City reserved the right to enter into contracts or other obligations for the acquisition, from facilities to be constructed, of water supply, transmission, treatment or other commodity or service relating to the Water System. Upon compliance with certain requirements of the Water Bond Authorizing Ordinances, the City may determine that such contract or obligation is a Contract Resource Obligation of its Water System and may provide that all payments under that Contract Resource Obligation (including payments prior to the time that water supply, transmission, treatment or other commodity or service is being provided, or during a suspension or after termination of supply or service) shall be operating expenses of the Water System. In the ordinance authorizing the issuance of the 2002 Bonds, the City determined that the obligations of the City under the Second Supply Project Agreement are a Contract Resource Obligation of its Water System and that all payments to be made to the City under the Second Supply Project Agreement shall be an operating expense of its Water System. In the Bond Ordinance, the City covenants to pay into the Revenue Fund in each month, as an operating expense payable from Gross Revenues of the Water System, an amount which, together with Participants' Payments and other Revenues available for such purpose, is equal to the Regional Supply System Costs which are then unpaid together with the estimated Regional Supply System Costs for the next succeeding month.

City of Kent. The obligation of Kent to make payments of debt service on the Bonds also constitutes a "contract resource obligation" payable as an operation and maintenance expense of its water utility. Kent's ordinances authorizing its outstanding water system revenue bonds provide that Kent may incur an obligation, designated as a "Contract Resource Obligation," to make payments for water supply, transmission or other commodity or service relating to its water utility. Kent may provide that all payments under a Contract Resource Obligation (including payments prior to the time that water supply, transmission, treatment or other commodity or service is being provided, or during a suspension or after termination of supply or service) shall be an operation and maintenance expense of Kent's water utility (and therefore enjoy a lien on the gross revenues of the water utility prior to the lien

of its outstanding bonds). Kent has determined that the Second Supply Project Agreement is a Contract Resource Obligation of its water utility, which means that all payments to be made by Kent under the Second Supply Project Agreement shall be operating expenses of its water utility.

Covington Water District. The payments by Covington to the City for debt service on the Bonds constitute an operating expense so long as the Regional System is operating, and if the Regional System is not operating, are payable after debt service on Covington's outstanding bonds. Covington has pledged the Gross Revenue of its Water System to pay the principal and interest of its outstanding revenue bonds, subject only to the payment of Maintenance and Operation Expenses ("Net Revenues"). Maintenance and Operation Expenses mean all expenses incurred by Covington in causing its water system to be operated and maintained in good repair, working order and condition, including without limitation: deposits, premiums, assessment or other payments for insurance, if any, on the water system, payments into pension funds, State-imposed taxes, and payments with respect to any other expenses of the water system that are properly treated as maintenance and operation expenses under generally accepted accounting principles applicable to municipal corporations. Covington has covenanted that it will include a provision in its future bond authorizing resolution enabling it to treat its share of all costs of the Second Supply Project as a contract resource obligation.

Separate Utility System

The City has established a separate utility system known as the "Regional Water Supply System" (the "Regional System") to construct and operate the Second Supply Project and has transferred facilities of the Second Supply Project from the Water System to the Regional System. See "THE SECOND SUPPLY PROJECT."

Pursuant to the City's ordinances authorizing its outstanding 2001 Water System Bonds, 2003 Water System Bonds, 2005 Water System Bonds, 2009 Water System Bonds and 2010 Water System Bonds (collectively, the "Water Bond Authorizing Ordinances"), the City is authorized to create separate systems for water supply, transmission, treatment or other commodity or service. The revenue of any such separate utility system is not included in the Gross Revenues of the Water System. Instead, the revenue of a separate utility system may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand that separate system. The City also may pledge, as an operating expense of its Water System, the Gross Revenues of the Water System to the payment of revenue obligations of a separate utility system to the extent such payments qualify as Contract Resource Obligations under the Water Bond Authorizing Ordinances.

The Water System has outstanding \$30,060,000 principal amount of Water System Revenue Bonds, 2001 (the "2001 Water System Bonds"), a portion of which will be refunded with a portion of the 2010 Water System Bonds (defined herein), \$34,880,000 principal amount of Water System Revenue and Refunding Bonds, 2003 (the "2003 Water System Bonds"), \$41,080,000 principal amount of Water System Revenue and Refunding Bonds, 2005 (the "2005 Water System Bonds"), and \$76,775,000 principal amount of Water System Revenue Bonds, 2009 (Taxable Build America Bonds – Direct Payment) (the "2009 Water System Bonds"). Concurrent with the issuance of the Bonds, the City will issue \$104,085,000 aggregate principal amount of Water System Revenue Refunding Bonds, 2010A and Water System Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment) (together, the "2010 Water System Bonds").

No Acceleration

Neither a bondowner nor any bondowners' trustee has the right under the Bond Ordinance to accelerate the payment of debt service on the Bonds in any event or upon any circumstance upon the occurrence of an Event of Default.

Rate Covenants

The City has covenanted in the Bond Ordinance to establish, maintain and collect contract charges or other amounts for water and other goods and services sold or supplied through the facilities of the Regional System that will provide the City with Revenues sufficient for the payment of Regional Supply System Costs. "Regional Supply System Costs" is defined in Appendix A.

The City has further covenanted to establish, maintain and collect rates and charges for water and other goods and services sold or supplied through the facilities of its Water System sufficient to pay the cost of operation and

maintenance of the Water System and to provide Gross Revenues of the Water System sufficient, together with amounts on deposit in the Revenue Fund and available for such purpose (including Participants' Payments), to pay all Regional Supply System Costs and all obligations against Gross Revenues of the Water System now or hereafter imposed by law or contract.

Kent, Covington and Lakehaven have covenanted in the Second Supply Project Agreement to collect water rates and charges sufficient to pay their Participant Shares. See "THE SECOND SUPPLY PROJECT—Second Supply Project Agreement and Repayment Agreement."

Reserve Account

The City has covenanted in the Bond Ordinance that on the date of Closing it will pay into the Reserve Account out of proceeds of the Bonds or other available funds and/or acquire Qualified Insurance or a Qualified Letter of Credit so that the amount in the Reserve Account at least equals the Reserve Account Requirement. The Reserve Account Requirement for the Bonds is defined in the Bond Ordinance to mean an amount equal to Average Annual Debt Service on the outstanding Bonds calculated on the date of Closing, but in no case shall the amount in the Reserve Account allocable to the Bonds exceed 10% of the proceeds of the Bonds. The Reserve Account will secure the payment of the Bonds, the Outstanding Parity Bonds and any Future Parity Bonds, if applicable. The Reserve Account Requirement for the Outstanding Parity Bonds is an amount equal to the Average Annual Debt Service on the Outstanding Parity Bonds calculated as of their closing date. The Reserve Account Requirement with respect to Future Parity Bonds will be either an amount equal to Average Annual Debt Service on such issuance of Future Parity Bonds, but in no case shall the amount in the Reserve Account allocable to such issuance of Future Parity Bonds exceed 10% of the proceeds of such bonds, or the ordinance authorizing such issuance of Future Parity Bonds may provide for the creation of a separate reserve account, in which case the Reserve Account Requirement, if any, for such issuance of Future Parity Bonds may be set in such ordinance and the Reserve Account shall not secure such series of Future Parity Bonds.

The City used 2002 Bond proceeds to fund the Reserve Account Requirement for the 2002 Bonds. As of May 31, 2010, the balance in the Reserve Account was \$5,865,000. The City may, at any time, substitute Qualified Insurance or a Qualified Letter of Credit for the money and investments in the Reserve Account. See Appendix A for the definitions of "Qualified Insurance" and "Qualified Letter of Credit." The City will value the Reserve Account and any securities therein on each December 31, and may transfer any excess to the Revenue Fund.

In the event that there shall be a deficiency in the Debt Service Account, the City shall promptly make up such deficiency from the Reserve Account. The City covenants that any deficiency created in the Reserve Account by reason of any withdrawal therefrom for payment into the Debt Service Account shall be made up from money in the Revenue Fund first available after providing for the required payments into the Debt Service Account and after providing for payments under any reimbursement agreement entered into by the City in connection with Qualified Insurance or a Qualified Letter of Credit. See Appendix A—"SUMMARY OF THE BOND ORDINANCE—Payment of and Security for Parity Bonds."

Additional Obligations

The City has, in the Bond Ordinance, reserved the right to issue Future Parity Bonds, to enter into Parity Payment Agreements (as defined in the Bond Ordinance and described below), and to issue junior lien obligations secured by a subordinate lien on Revenues of the Regional System.

Future Parity Bonds. Pursuant to the Bond Ordinance, the City has reserved the right to issue Future Parity Bonds for any lawful purpose of the City relating to the Regional System, including but not limited to, acquiring, constructing and installing additions, betterments and improvements to and extensions of, acquiring necessary equipment for, or making necessary renewals, replacements or repairs and capital improvements to the Regional System and refunding any outstanding indebtedness upon satisfaction of certain conditions set forth in the Bond Ordinance. Among other things, the Bond Ordinance requires that at the time of the issuance of such Future Parity Bonds there be no deficiency in the Bond Fund and the Second Supply Project Agreement be in full force and effect.

Except for refunding Parity Bonds meeting the conditions described below, there shall be on file prior to the issuance of any Future Parity Bonds either:

- (1) a certificate of the Finance Director (or equivalent official) of each Participant (including the City in the case of the Water System) that will be responsible for paying debt service on the Future Parity Bonds stating that “Revenues” or “Gross Revenues” (as defined in the Participant’s System bond ordinance or resolution), as determined from the financial statements of the Participant’s System, in any 12 consecutive months out of the most recent 24 months were sufficient to pay the Participant’s operation and maintenance expenses of the Participant’s System and the Participant’s portion of the debt service on the Future Parity Bonds then proposed to be issued based on the highest debt service in the next three calendar years following the year through which interest is capitalized or the Project being financed is placed in service, whichever is later, and “Net Revenues” (as defined in the Participant’s bond ordinance or resolution) for such 12-month period were sufficient to pay debt service on the Participant’s senior lien water revenue bonds and meet the Participant’s rate coverage required by such ordinance or resolution; or
- (2) for each Participant (including the City) that will be responsible for paying debt service on the Future Parity Bonds, a certificate of an Engineer or a Certified Public Accountant that the “Adjusted Revenues” (as determined in the Bond Ordinance) for each calendar year during the life of the Future Parity Bonds proposed to be issued will be sufficient to pay the operation and maintenance expenses of the Participant’s System and the Participant’s obligations under the Repayment Agreement to pay a proportionate share of the amount necessary to pay the debt service on the outstanding Parity Bonds and the Parity Bonds then proposed to be issued based on the highest debt service in the next three calendar years following the year through which interest is capitalized or the Project being financed is placed in service, whichever is later, and “Adjusted Net Revenues” (as determined in the Bond Ordinance) will be sufficient to pay debt service on the Participant’s senior lien water revenue bonds and meet the Participant’s rate coverage required by the ordinances or resolutions authorizing such senior lien bonds. In providing that certificate, the Engineer or a Certified Public Accountant may take into account certain adjustments to Net Revenue as permitted by the Bond Ordinance.

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding outstanding Parity Bonds, no such coverage certification shall be required if the issuance of such refunding Future Parity Bonds results in a present value monetary saving to the City and such refunding Future Parity Bonds will not require an increase of greater than \$5,000 in debt service payments to be paid in any Fiscal Year or calendar year thereafter than would have been required to be paid in the same Fiscal Year or calendar year for Annual Debt Service on the Parity Bonds being refunded. See Appendix A—“SUMMARY OF THE BOND ORDINANCE—Future Parity Bonds.”

Under the Second Supply Project Agreement, each Participant has the option to pay cash for or to have the City issue Future Parity Bonds to finance its Participant Share of the capital costs of the Second Supply Project. Upon each issuance of Future Parity Bonds, the Participants’ shares of debt service will be recalculated to reflect their respective aggregate shares of debt service on all outstanding Parity Bonds. Consequently, the Participants’ shares of debt service on all Parity Bonds after the issuance of Future Parity Bonds could be different than their shares of debt service on the Bonds. See “SECURITY FOR THE BONDS—Payment Obligations of the Participants.”

Parity Payment Agreements. The Bond Ordinance permits the City to enter into a Payment Agreement for the purpose of managing or reducing the City’s exposure to fluctuations or levels of interest rates, currencies or commodities or other interest rate, investment, asset or liability management purposes. Upon satisfaction of the requirements for the issuance of Future Parity Bonds and of additional requirements contained in the Bond Ordinance, a Payment Agreement may constitute a charge and lien on the Revenues of the Regional System equal in rank with the charge and lien of the Parity Bonds. The City has not entered into any such Parity Payment Agreements and has no plans to do so at this time. See Appendix A—“SUMMARY OF THE BOND ORDINANCE—Parity Payment Agreements.”

Junior Lien Obligations. Nothing in the Bond Ordinance prohibits the issuance of obligations of the Regional System with a lien on Revenues junior to the lien of the Parity Bonds. See Appendix A—“SUMMARY OF THE BOND ORDINANCE—Junior Lien Obligations.”

Flow of Funds

Amounts in the Revenue Fund shall be applied in each month as follows: first, to the payment of Operating Expenses for such month; and second, to the Bond Fund to pay interest, to pay principal and Mandatory

Amortization Installments, and to replenish the Reserve Account and, in the event the City has entered into any Parity Payment Agreement, to make any regularly scheduled City Payments adjusted by any regularly scheduled Receipts (provided, however, that termination payments with respect to any Parity Payment Agreement shall not rank on a parity of lien with the Parity Bonds), and, in the event the City has entered into a reimbursement agreement with respect to Qualified Insurance or a Qualified Letter of Credit or other credit facility, to make all payments required to be made on a parity of lien with the Parity Bonds pursuant to such reimbursement agreement; provided that if there is not sufficient money to make all payments under more than one such reimbursement agreement, the payments shall be made on a pro rata basis. After such required payments are made, amounts in the Revenue Fund may be used to pay junior lien obligations of the Regional System, to finance capital improvements or for any other lawful purpose of the Regional System. See Appendix A—"SUMMARY OF THE BOND ORDINANCE—Revenue Fund; Flow of Funds of the Regional System."

Additional Covenants

The Bond Ordinance also contains covenants regarding operation and maintenance of the Regional System, the Second Supply Project Agreement, sale, transfer or disposition of the Regional System, books and accounts, and maintenance of insurance. See Appendix A—"SUMMARY OF THE BOND ORDINANCE—Covenants with Bondowners."

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DEBT SERVICE REQUIREMENTS AND ADDITIONAL BORROWING

The following table shows estimated debt service requirements on the Outstanding Parity Bonds and the Bonds.

Summary of Debt and Debt Service Requirements

Year	Outstanding Parity Bonds	The Bonds		Total Parity Bond Debt Service (2)
		Principal	Interest (1)	
2010	\$ 4,681,313	--	--	\$ 4,681,313
2011	4,649,313	--	\$ 3,293,303	7,942,616
2012	4,642,313	--	2,594,286	7,236,599
2013	4,659,313	\$ 260,000	2,594,286	7,513,599
2014	4,673,219	265,000	2,589,086	7,527,305
2015	4,735,063	270,000	2,583,786	7,588,849
2016	4,766,500	275,000	2,578,386	7,619,886
2017	4,806,000	280,000	2,570,136	7,656,136
2018	4,790,000	290,000	2,561,736	7,641,736
2019	5,677,500	300,000	2,553,036	8,530,536
2020	5,692,500	310,000	2,544,036	8,546,536
2021	5,701,250	315,000	2,534,736	8,550,986
2022	5,703,750	330,000	2,522,136	8,555,886
2023	5,725,000	345,000	2,508,936	8,578,936
2024	8,088,750	355,000	2,495,136	10,938,886
2025	8,102,500	370,000	2,480,936	10,953,436
2026	8,077,500	385,000	2,461,064	10,923,564
2027	8,090,000	400,000	2,440,385	10,930,385
2028	8,087,500	410,000	2,418,901	10,916,401
2029	8,120,000	425,000	2,396,880	10,941,880
2030	8,110,000	440,000	2,374,054	10,924,054
2031	8,133,750	455,000	2,350,421	10,939,171
2032	7,638,750	470,000	2,324,846	10,433,596
2033	--	4,495,000	2,298,427	6,793,427
2034	--	4,655,000	2,045,763	6,700,763
2035	--	4,830,000	1,784,105	6,614,105
2036	--	5,005,000	1,512,611	6,517,611
2037	--	5,185,000	1,231,280	6,416,280
2038	--	5,375,000	939,831	6,314,831
2039	--	5,570,000	637,702	6,207,702
2040	--	5,775,000	324,613	6,099,613
TOTAL (2)	\$ 143,351,784	\$ 47,840,000	\$ 66,544,847	\$ 257,736,631

(1) Before 35% federal direct payments.

(2) Totals may not foot due to rounding.

Additional Borrowing

The City expects to issue additional Project Bonds to complete the Filtration Treatment Project. See “THE SECOND SUPPLY PROJECT—Filtration Treatment Project.”

THE CITY

The City of Tacoma was incorporated in 1884 and utilizes the Council Manager form of government, which is administered by a City Council under the Constitution and laws of the State of Washington and the City Charter. The City Council is composed of a Mayor and eight Councilmembers, five of whom are elected from districts which have been apportioned according to population. The three remaining positions are “at large” positions, nominated and elected City wide. The Councilmember positions are four year terms with overlapping terms to allow for the election of four new Councilmembers every two years. The Mayor is elected City-wide for a four year term and is

the presiding officer of the City Council. Councilmembers, including the Mayor, can serve no more than ten consecutive years as a member of the City Council, Mayor or combination thereof.

The City Council appoints a City Manager who is the chief executive officer of the City and who serves at the pleasure of the City Council. The City Manager is responsible to the City Council for the administration of all departments of the City with the exception of the Department of Public Utilities. The City Manager has the power to appoint department heads.

The City Manager appoints a Finance Director who supervises the financial and purchasing functions of the City, including the City's accounting system. The Finance Director is responsible for preparing the Comprehensive Annual Financial Report ("CAFR") in accordance with generally accepted accounting principles and the instructions of the State Auditor's Office. The Finance Director is responsible for the payment of principal and interest on all bonds issued by the City, including the Bonds. The Finance Director is responsible for the preparation and monitoring of the biennial budget, which provides for the servicing of debt and provides for anticipated revenues to meet the estimated costs of expenditures. The budget is presented to the City Council for its review and approval and final adoption.

The City Manager appoints a City Treasurer who is responsible for the receipt, custody and disbursement of all City funds, including funds of Tacoma Water. The City Treasurer receives all money due and belonging to the City, and keeps a detailed account of the same in the manner prescribed by the Finance Director. A Finance Committee composed of the Mayor, Finance Director and City Treasurer controls the investment of City funds.

THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA WATER

Overview

The City Charter provides for a Department of Public Utilities (the "Department") governed by a five member Public Utility Board (the "Board"). The Board is responsible for general utility policy, and its members are appointed by the Mayor and confirmed by the City Council. The Department's budget is presented to the Board for review and approval and then forwarded to the City Council for approval and inclusion in the City's budget. The Board meets bi-monthly.

The Department consists of the Light Division ("Tacoma Power"), Water Division ("Tacoma Water"), and Belt Line Railroad Division ("Tacoma Rail"). The Board serves as the sole policy board for the approval of most Department business. In the case of budgets, rates, bond issues, real property transactions, and system expansions, actions approved by the Board must also be approved by the City Council.

The Water Division consists of two separate systems: the Regional System and Tacoma Water.

The Board appoints the Director of Utilities, who is chief executive officer of the Department and serves at the pleasure of the Board. The Director, with the concurrence of the Board, has the power to appoint division superintendents.

Utility rates and charges initiated by the Board and adopted by the City Council are not subject to review or approval by any other governmental agency.

The City Charter provides that, except for a reasonable gross earnings tax imposed by the City Council for the benefit of the City's general fund, the revenues of utilities owned and operated by the City may not be used for any purposes other than the ongoing operations of the utilities and payment of debt service on utility debt. The funds of any utility may not be used to make loans to or purchase the bonds of any other utility, department, or agency of the City.

Management

Brief descriptions of the backgrounds of key officials of the City, the Department, and Tacoma Water follow.

William A. Gaines, Director of Utilities, assumed his position in October 2007, after serving as Superintendent/Chief Operating Officer of Tacoma Power for a year. Mr. Gaines, an experienced executive with approximately 30 years in the utility industry, came to Tacoma from Seattle City Light, where he served as Power Supply and Environmental Affairs Officer and as Power Management Executive. He spent much of his career as an executive officer at Puget Sound Energy, where he served as Vice President for Engineering and Contracting and as Vice President for Energy Supply. Mr. Gaines is active in regional industry groups including the Public Power Council, Pacific Northwest Utilities Conference Committee and Western Systems Power Pool, and sits on the Board of the Tacoma/Pierce County Chamber of Commerce and the Pierce County Economic Development Board. Mr. Gaines received a B.S. degree in electrical engineering from Washington State University and an M.B.A. from the University of Puget Sound. He also attended the executive development program at Stanford University.

Linda McCrea, P.E., Superintendent, Water Division, joined the City in 1980, became the Water Distribution Manager in 1993, became Deputy Water Superintendent in 2006 and was appointed Superintendent in January 2010. She has a B.S. in civil engineering from the University of Washington.

Jane Evancho, P.E., Rates and Financial Analysis Manager, joined the City in 1987, became the Water Resource Planning Manager in 1993 and became the Rates and Financial Analysis Manager in July 2009. She has a B.S. and M.S. in agricultural engineering from Oregon State University.

Steven Standley, P.E., Interim Water Distribution Engineering Manager, joined the City in 1992 with the Public Works Department. He joined Tacoma Water in 2000 and became interim Distribution Engineering Manager in April 2010. He holds a B.S. in Civil Engineering from Saint Martin's University, a B.A. in Business Administration and a B.S. in Mathematics from Washington State University.

Heather Pennington, P.E., Resource Planning Manager, joined Tacoma Water in 1994, and became Tacoma Water's interim Distribution Manager in 2006, Distribution Engineering Manager in 2007 and Resource Planning Manager in July 2009. She holds an M.B.A. from Pacific Lutheran University and a B.S. in environmental engineering from Northwestern University.

Chris McMeen, P.E., Water Quality Manager, joined the City in 2002. He has over 20 years experience in the drinking water industry, including work as an engineering consultant, drinking water regulator, utility engineer, and since 2004, Water Quality Manager for Tacoma Water. He has a B.S. and M.S. in civil engineering from the University of Washington.

Glen George, P.E., Water Supply Manager, joined the City in 1992 as a Civil Engineer and became the Water Supply Manager in March 2010. He has a B.S. in civil engineering from the University of Washington.

Raymond West, Water Distribution Operations Manager, joined Tacoma Water in 1975 and became Assistant Distribution Manager in 1998 and the Distribution Operations Manager in 2007. He has several certifications including electronics and a State of Washington Water Works Operator license.

Budgetary Policies

The Tacoma Water biennial budget is proposed by the Public Utility Board and adopted by the City Council with legal budgetary control at the fund level, i.e., expenditures may not exceed budgeted appropriations at the fund level. The City Manager or Director of Utilities, as appropriate, may authorize transfers within funds; however, the City Council must approve, by ordinance, any amendments that increase the total expenditures for the fund.

Auditing

Accounting systems and budgetary controls are prescribed by the Office of the State Auditor in accordance with RCW 43.09.200 and RCW 43.09.230. State statutes require audits for cities 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 which 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 contracts with Moss Adams LLP to perform the annual audit of the financial statements of Tacoma Water. The audited financial statements of Tacoma Water for fiscal years 2008 and 2009 prepared by Tacoma Water and audited by Moss Adams LLP are contained in Appendix E. Moss Adams LLP, the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Moss Adams LLP also has not performed any procedures related to this Official Statement.

Retirement System

Substantially all employees of Tacoma Water are covered by a contributory retirement plan administered by the City's Employee Retirement System. The Retirement System covers employees of the City other than law enforcement officers, fire fighters, and railroad employees, who are covered by retirement plans operated by other entities. Contributions by Tacoma Water in 2009 totaled approximately \$1,518,000. The contribution rate for Tacoma Water's covered payroll is currently set at 18.0% of gross wages for 2010 (9.36% paid by Tacoma Water and 8.64% paid by employees). Tacoma Water is current in all payments to the Retirement System. Further details about the plan are provided in Note 9 in Appendix E—"INDEPENDENT AUDITORS' REPORT AND CITY OF TACOMA WATER SYSTEM 2008 AND 2009 FINANCIAL STATEMENTS."

Milliman Inc., an actuarial firm, performed an actuarial valuation of the Retirement System as of January 1, 2009, which found that due to the rapid decline of the investment markets in 2008, based on the actuarial value of assets, the contribution rates in effect for 2009 and approved for 2010 are sufficient to meet the actuarial costs of the Retirement System. However, based on the market value of the assets as of January 1, 2009, and the assumptions in the actuarial valuation, additional contribution rate increases may be needed in future years. As of April 30, 2010, the funding status on a market basis for assets in the Retirement System was 87.6%. The City is actively monitoring the Retirement System.

Other Post-Employment Benefits

The City allows retirees to participate in medical, dental and vision programs from the time retirement begins until they qualify for Federal funded programs. The City uses pay as you go funding, and upon retirement the retiree is responsible for paying a blended premium, which prior to retirement was paid by the City. The benefit is an implicit subsidy to the retiree. As of December 31, 2009, the City's net OPEB obligation was \$18,872,723, of which \$878,592 was related to the Water System. Further details about OPEB are provided in Note 10 in Appendix E—"INDEPENDENT AUDITORS' REPORT AND CITY OF TACOMA WATER SYSTEM 2008 AND 2009 FINANCIAL STATEMENTS."

Taxation

Under the City Charter and State law, the City Council may impose a gross earnings tax not exceeding 8.0% upon the revenues of Tacoma Water. The current tax rate is 8.0%. Under the Bond Ordinance, the gross earnings tax is subordinate to the payments required to be made into any fund or funds previously or subsequently created for the payment of the principal of and interest on water revenue bonds of the City.

Tacoma Water pays an excise tax imposed by the State of Washington presently at the rate of 5.029% of gross revenues, with certain exceptions. Tacoma Water also pays miscellaneous fees, licenses, and sales and use taxes. Certain of these taxes and payments are Operation and Maintenance Expenses of the Water System and Operating Expenses of the Regional System.

Program of Insurance

Tacoma Water currently maintains insurance policies and a self insurance program. The insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public officials liability. The current insurance policies have deductibles or self insured retention of \$250,000 for buildings and vehicles, and \$1,000,000 for general comprehensive liability. The public officials policy has a deductible of \$200,000 for employee practices liability and \$100,000 for all other issues. The general comprehensive liability policies provide \$20 million of coverage. The City has a policy to cover extraordinary worker's compensation claims with a limit of \$25 million and \$1 million per occurrence. Earthquake coverage has a 3% per building self-insured retention.

Tacoma Water participates in the Department's self insurance claim fund (the "Self Insurance Fund") for payment of third party claims. As of December 31, 2009, assets in the Self Insurance Fund totaled \$4.6 million, which exceeds accrued and incurred but not reported liabilities. Tacoma Water's premium payments in both 2009 and 2008 totaled \$120,000. Contributions are routinely reviewed to determine their adequacy. The Self Insurance Fund is dedicated and requires a two thirds vote of the City Council before it can be used for anything except insurance or casualty losses. The City and the other Second Supply Project Participants separately insure or self insure the Second Supply Project and potential liabilities arising from or related to the Second Supply Project.

Performance and fidelity bonds covering all employees are provided in amounts up to \$1 million (subject to a \$50,000 deductible per occurrence).

The City maintains a separate self insurance fund for payment of third party claims against the general fund and certain utilities (not including the Water System).

Financial Policies

Tacoma Water has formally adopted certain goals as a guide to financial management and rate setting. These goals are included in the Water Rate Policies and are periodically reviewed and approved by the Board and City Council after any modification. These goals include rates based on cost of service within a customer class, restrictions on the term of debt, a minimum of 50% of routine capital financed with current revenues, that long term major projects be financed through debt, and maintenance of a minimum of 45 days of operating cash. The policies provide that water rates must be designed to adequately fund acquisition of new resources and conservation. The Board and City Council approved the amended Water Rate Policies in January 2003.

Tacoma Water operates under the guidance of a ten year business plan, which was most recently revised in 2010 to cover the period 2011 through 2020. This plan identifies key planning goals and customer, operational, and capital programs that the utility must address. The plan also addresses financing and rate requirements necessary to support the implementation of the operations and capital programs. This document serves as the basis for developing Tacoma Water's budget and is reviewed by the Board and City Council pursuant to budget and rate adjustment approval.

State law and City policies permit City utilities to borrow on a short-term basis from the General Fund. Tacoma Water has not borrowed from the General Fund and has no plans to do so.

Labor Relations

Tacoma Water has approximately 280 employees, many of which are represented by Local 483-International Brotherhood of Electrical Workers ("IBEW"), one of the 12 labor organizations that represent City employees. Other units representing Tacoma Water employees include Local 117-Teamsters, Local 17-Professional and Technical Engineers, and Local 120-AFSCME. Negotiations with unions are conducted by a team chaired by a Human Resources Labor Relations staff member selected by the Human Resources Director, who reports directly to the City Manager. Management of Tacoma Water strives to promote sound labor relations policies that are beneficial both to its operations and to its employees. This cooperative effort has precluded a significant work stoppage among utility employees for the last several decades, although there was an 11 day work stoppage by clerical members of IBEW, Local 483, in 1992.

As provided by State law, matters that are delegated by the City Charter to the City's Civil Service Board are established by law and are not negotiated at the bargaining table. Such matters include issues relating to tenure of employment, hiring, recruitment, and termination. Additionally, retirement benefits through the Tacoma City Employees' Retirement System historically have been recommended by the Tacoma Retirement Board, which includes representatives of City employees and retirees, as well as City management, and approved by the City Council.

Investments

The investment of Tacoma Water's temporary excess funds is administered by the City Treasurer on behalf of the City's Finance Committee. The City has an investment policy that was last amended in August 2007 (the "Investment Policy"). The City Treasurer submits written reports of investment activity to the Finance Committee. The Finance Committee meets quarterly, and more often as needed.

In accordance with such Investment Policy, the City invests a portion of these excess funds in the Washington State Local Government Investment Pool (the "LGIP"). The Water System also currently invests its funds in the City's investment pool. The City Treasurer operates the investment portfolio as the Tacoma Treasury Investment Pool, where each fund has an undivided interest in the pool and earnings are allocated daily to each fund. The City may invest in the following securities in accordance with State law: U.S. Treasury and Agency Obligations, Certificates of Deposits with qualified Washington State Public Depositories, Bankers Acceptances, Commercial Paper, Repurchase and Reverse Repurchase Agreements, and any other future investment authorized by State statute. The Investment Policy, which has been awarded the Certification for Excellence by the Municipal Treasurers' Association of the United States and Canada, establishes diversification requirements for each security type. The maturity of any individual security is limited to five years for operating funds and the average maturity of the portfolio may not exceed three years. Bond reserve accounts may be invested for longer periods. Reverse repurchase transactions are limited to 5% of the portfolio. The City does not borrow money for the primary purpose of investing.

The State Treasurer's Office administers the LGIP, an \$8.7 billion fund that invests money on behalf of more than 460 participants (as of December 31, 2009). In its management of LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public funds. These are, in priority order, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) to 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. The LGIP is restricted to investments with maturities of one year or less, and the average life typically is less than 90 days. Investments permitted under the guidelines of the LGIP 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.

As of December 31, 2009, the City's cash and investments, on a fair value basis, totaled \$951 million, of which a portion was Tacoma Water funds. The portfolio was distributed in various types of investment instruments in the following percentages:

**City Investments
(As of December 31, 2009)**

Bank Interest-Bearing Accounts	6.86%
LGIP	21.26
Municipal Securities	14.23
Federal Agricultural Mortgage Corp (Farmer Mac)	2.32
Federal Home Loan Mortgage Assn (Freddie Mac)	19.60
Federal Farm Credit Bank (Farm Credit)	4.11
Federal Home Loan Bank (Home Loan)	9.67
Federal National Mortgage Ass'n (Fannie Mae)	19.84
U.S. Treasuries	0.08
Secured Repurchase Agreements	0.92
Commercial Paper	1.11
Total	100.00%

THE SECOND SUPPLY PROJECT

Description of the Second Supply Project

To meet its own future water supply requirements as well as to increase regional supply, in 1968 Tacoma Water began developing the Second Supply Project, which includes a second supply pipeline from Tacoma Water's Green River resource (the "Second Supply Pipeline"). The Second Supply Project is the major source of Tacoma Water's water supply. For a description of Tacoma Water, see "THE CITY OF TACOMA WATER SYSTEM."

The Second Supply Project consists of the following components: (i) water from the exercise of Tacoma Water's Second Diversion Water Right (up to 100 cubic feet per second) ("cfs"); (ii) the Second Supply Pipeline; (iii) improvements made at the headworks diversion dam and intake; (iv) Second Supply Project fisheries and environmental enhancements; (v) the right to store water as a result of the Howard Hanson Dam Additional Storage Project; and (vi) Treatment Facilities (disinfection, pH adjustment, fluoridation, and ozone). The Second Supply Pipeline is approximately 34 miles long and varies from 48 to 90 inches in diameter. Its route follows a more northerly route than Tacoma Water's Pipeline No. 1, traversing south King County and thereby making water available to the urbanized areas north and east of Tacoma. In addition to increasing water supply, the Second Supply Project increases flexibility and reliability of water delivery in both Tacoma Water's and the other Participants' service areas. The Second Supply Project became operational in October 2005. All components of the Second Supply Project are complete, with the exception of the Howard Hanson Dam additional water storage project, which is expected to be completed in 2017.

Tacoma Water owns the Second Supply Project. It also is the holder of the Second Diversion Water Right and the operator of the Second Supply Project. The Second Supply Project is a separate utility system of the City.

Tacoma, Kent, Covington, and Lakehaven (the "Participants") participate in the Second Supply Project under the terms of the Second Supply Project Agreement, which defines their rights and obligations with regard to the Second Supply Project. Tacoma has a 15/36 Participant Share and each of Kent, Covington, and Lakehaven has a 7/36 Participant Share in the Second Supply Project. Generally, a Participant Share represents a Participant's proportional right to receive and obligation to pay for water delivered by the Second Supply Project. See "SECURITY FOR THE BONDS – Payment Obligations of the Participants."

In October 2002, the City issued the 2002 Bonds in the principal amount of \$82,700,000. Tacoma Water is responsible for paying debt service on approximately \$43,600,000 of the outstanding principal amount on the 2002 Bonds. Kent and Covington are each responsible for paying debt service on approximately \$17,750,000 and \$17,000,000, respectively, of the outstanding principal amount on the 2002 Bonds. The City's obligation to pay its share of costs of the Second Supply System is a Contract Resource Obligation payable from Gross Revenues of the Water System as an operation and maintenance expense of the Water System. The total project cost was approximately \$232 million, including financing costs. The remaining costs were paid for by the individual Participants through a combination of cash contributions and low interest loans from the State of Washington.

Filtration Treatment Project

The Second Supply Project Agreement envisioned that future state or federal regulations may require additional or different Treatment Facilities in order for Project Water to remain in compliance with water quality regulations. The Second Supply Project Agreement defines the costs associated with additional or different Treatment Facilities to be Project Costs, apportioned to each of the Participants on the basis of their Participant Share. Further, the Second Supply Project Agreements call for the Project Committee (as described under “Second Supply Project Agreement and Repayment Agreement—*Project Committee*”) to make a determination of what Treatment Facilities should be added to the Second Supply Project. Representatives from Kent, Covington and Lakehaven participated in the treatment plant decision process conducted by Tacoma Water. Further, the Covington and Lakehaven Boards and the Kent City Council have each adopted a resolution approving the installation of a filtration treatment system for the Second Supply Project in order to address public health, supply reliability and regulatory compliance issues associated with the Second Supply Project water supply.

The Green River is one of the few remaining major unfiltered surface water supplies in the country. In 2006, the U.S. Environmental Protection Agency promulgated the Long Term 2 Enhanced Surface Water Treatment Rule (“LT2”) establishing new requirements for all water utilities serving water from lakes or rivers to provide treatment for inactivation or removal of *Cryptosporidium*. *Cryptosporidium* is a naturally-occurring microorganism that can be found in open surface water sources such as the Green River, and has been responsible for waterborne disease outbreaks in some public water systems. While years of monthly testing from the Green River indicates that the presence of this organism is extremely rare, the LT2 regulation requires Tacoma Water to install additional treatment for *Cryptosporidium* by 2014. During 2009 and early 2010, the Participants worked with a consulting team to analyze potential strategies for LT2 compliance. A broad list of alternatives was narrowed to the two most feasible: (1) a hybrid winter/summer filtration alternative and (2) an ultraviolet light (UV) disinfection with clearwell storage alternative. Numerous aspects of these two alternatives were evaluated, including: water quality and public health protection; regulatory uncertainty, particularly the risk of violating criteria for remaining unfiltered; yield and reliability; operational flexibility and capital and life cycle costs. Following substantial analysis, significant public outreach and communication, and careful briefings and deliberation by the Tacoma Public Utility Board and City Council, the filtration option was selected as the best solution for the long-term benefit of the utility customer.

The evaluation and decision process are detailed in the Green River Long Term 2 Enhanced Surface Water Treatment Rule Water Treatment Evaluation and Decision Process Final Summary Report. The team ultimately recommended the hybrid winter/summer filtration option, which was approved by the Tacoma Public Utility Board on March 24, 2010, and by the Tacoma City Council on May 25, 2010.

Tacoma Water has elected to complete design and construction of the Filtration Treatment Project using the General Contractor/Construction Manager method of project delivery allowed under RCW 39.10.340. A qualified engineering design firm and a qualified general contractor/construction manager will be chosen through a request for proposals.

The Bonds are being issued to finance the costs of Phase I of the Filtration Treatment Project except for Lakehaven’s share (for which Lakehaven is paying cash). Phase I work is anticipated to be those portions of the Filtration Treatment Project completed between July 2010 and August 2013. It is anticipated that final design, permitting, and early stages of construction will be completed by August 2013. This will include major earthwork and likely the early stages of major concrete placement. Phase II work will complete the concrete, major piping, and treatment process construction steps, leading toward an operational filtration plant by the end of 2014.

The Filtration Treatment Project is expected to cost between \$169 million and \$217 million. A portion of the Filtration Treatment Project (approximately 43.45%) will benefit Tacoma Water’s first diversion operations and the costs of which will be the responsibility of Tacoma Water. A portion of the 2010 Water System Bonds expected to be issued simultaneously with the issuance of the Bonds will finance the costs of the portion of the Filtration Treatment Project benefitting Tacoma Water. The estimated cost of Phase I of the Filtration Treatment Project through approximately August 2013, is between \$77.5 million and \$99.6 million. The current estimated cost of Phase II of the Filtration Treatment Project, which includes all costs necessary to complete the Filtration Treatment Project after Phase I, is between \$91.5 million and \$117.4 million.

Second Supply Project Agreement and Repayment Agreement

The term of the Second Supply Project Agreement extends through the Operating Life of the Second Supply Project, including all renewals and replacements thereof and additions thereto. Consistent with the Second Supply Project Agreement, the Participants expect that the Second Supply Project will have an operating life of no less than 100 years. The Second Supply Project Agreement provides that all obligations incurred during its term will survive its termination or expiration, and such obligations will survive until satisfied. Capitalized terms used but not otherwise defined in this section have the meanings ascribed to them in Appendix B—“SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS.”

Rights and Obligations. The Second Supply Project Agreement confers rights and imposes obligations on all four Participants, including Tacoma Water, and on Tacoma Water as operator of the Second Supply Project (the “Project Operator”). Each Participant has contractual rights under the Second Supply Project Agreement (i) to use an undivided share of the Second Supply Project equal to its project capacity share and to use available excess project capacity; (ii) to schedule for delivery and receive its Participant Share of Second Diversion Water at its points of delivery; (iii) to schedule for delivery and receive additional water at its points of delivery; and (iv) to its Participant share of storage. Each Participant has a contractual obligation (i) to receive Second Diversion Water and additional water scheduled for delivery by and delivered to it; and (ii) to pay its Participant Share of Project Costs. See Appendix B—“SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Rights and Obligations of the Participants.”

As Project Operator, Tacoma Water is responsible for the day-to-day operation of the Second Supply Project and is obligated, consistent with the approved Project Annual Budget then in effect, to operate and maintain the Second Supply Project in a manner that is consistent with Prudent Utility Practice. Tacoma Water also is responsible as Project Operator for, among other things, (i) monitoring the delivery of Project Water to each Participant and (ii) calibrating and testing for accuracy no less than once each year the Master Meter and all Delivery Meters. See Appendix B—“SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Rights and Obligations of the City.”

Water deliveries are scheduled on a weekly basis by an assigned Tacoma Water engineer. Tacoma Water tracks availability of run-of-the-river water for the Second Supply System and also tracks and coordinates delivery of stored water at Howard Hanson Dam. Tacoma Water maintains financial and water accounting records for the Second Supply Project, providing reports to the Participants in accordance with the Second Supply Project Agreement. Daily flow records and other daily data are available to the Participants through a secure website. A monthly meeting is held by the Project Committee to discuss any issues or concerns related to the Second Supply Project. An operations subcommittee also meets bi-monthly to deal with operations issues.

Project Committee. Decisions are made by a Project Committee, consisting of one representative of each Participant. For the Project Committee to take action, a quorum of not less than three Participants is required, with Tacoma’s presence mandatory. For approval of certain matters, including approval of capital expenditures contained in an annual budget and approval or revision of any Financing Plan, an affirmative vote of 29/36ths of the Project Committee votes and three of the Participants is required. Further, in order to vote on a Financing Plan, the representative of each Participant must present to the Project Committee a resolution by its governing body indicating the nature of the vote to be cast by the representative. See Appendix B—“SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Project Committee.” A Financing Plan sets forth the purpose, amount, repayment schedule and timing of any proposed Project Bond issuances. The Participants have executed a Financing Plan for the Bonds.

Under the Second Supply Project Agreement, the Participant Share of a Participant that has been in default for a period of 60 days or more on any payment obligation under the Second Supply Project Agreement (if that payment obligation includes amounts necessary for the City to make payments on any Project Bonds) will be offered for assignment to the non-defaulting Participants. In the event that other non-defaulting Participants decline any or all of the defaulting Participant’s Participant Share, Tacoma Water will increase its Participant Share in an amount equal to the defaulting Participant’s Participant Share then remaining unassigned and will be responsible for the amount in default.

Project Annual Budget and Capital Budget. Under the Second Supply Project Agreement, the Second Supply Project operates under an annual budget, which must include both the amounts necessary to operate and maintain the Second Supply Project and any proposed capital expenditures for any renewals, replacements, additions or improvements to the Second Supply Project.

The Second Supply System's first capital project annual budget, not including initial project construction, was approved for the year 2008. Tacoma Water is required to submit to the Project Committee by no later than each July 1 a proposed Project Annual Budget for the next calendar year. By no later than October 15 the Project Committee must approve the Project Annual Budget as submitted by Tacoma Water or approve a Project Annual Budget as revised by the Project Committee. If the Project Committee has not approved a Project Annual Budget by January 1, Tacoma Water may operate the Project and expend funds in accordance with the Project Annual Budget from the immediately preceding calendar year. See Appendix B—"SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Project Annual Budgets."

The City is working with the Second Supply Project partners to permit the City to establish a Second Supply Project operating reserve account.

Annual Operating Plans. Detailed provisions of the Second Supply Project Agreement govern, among other things, (i) the scheduling, withdrawal and use of Second Diversion Water from Storage, (ii) the metering of Project Water, (iii) the introduction into the Second Supply Project of Additional Water, (iv) the Storage of Second Diversion Water upon completion of Phase I of the Howard Hanson Additional Storage Project, (v) the uses of Project Capacity and Excess Project Capacity, and (vi) the effects of Uncontrollable Force affecting the water systems of the Participants on the obligations of the Participants under the Second Supply Project Agreement. See Appendix B—"SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS."

Payment of Project Costs. The Second Supply Project Agreement governs the City's billing of Participants, no more frequently than once in each calendar month, for costs set forth in the Project Annual Budget then in effect. The Second Supply Project Agreement requires disputed invoices to be paid in full, and provides a procedure for resolving invoice disputes and reconciling disputed payments. Payments will be considered past due and will accrue a late payment charge if not received on or before the Due Date. Tacoma Water may elect to suspend deliveries of scheduled Project Water to any Participant for which an invoice or portion thereof remains unpaid for a period of 30 days after the Due Date, such suspension to apply until the Participant has paid in full all amounts due and owing. See Appendix B—"SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Invoices; Payments."

Payment of Bonds: Defaults in Payment. All bonds issued for the Regional System to finance the Second Supply Project ("Project Bonds") are required to be issued in accordance with a Financing Plan submitted by Tacoma Water and approved by the Project Committee. In lieu of paying its respective Participant Share of amounts necessary for the City to repay Project Bonds, a Participant may elect to fund all or any part of its Participant Share of a Project Cost by the payment of cash. Lakehaven has elected to pay cash for its Participant Share of the Project Costs being financed by the other Participants with the proceeds of the Bonds. The Repayment Agreement governs the payments by Kent and Covington of their shares of amounts necessary for the Regional System to pay principal of and interest on the Bonds. See Appendix B—"SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Project Financing and the Repayment Agreement." The Bond Ordinance governs the payments by Tacoma Water of the principal of and interest on the Bonds.

Under the Second Supply Project Agreement, the Participant Share of a Participant that has been in default for a period of 60 days or more on any payment obligation under the Second Supply Project Agreement (if that payment obligation includes amounts necessary for the City to make payments on any Project Bonds such as the Bonds) will be offered for assignment to the non-defaulting Participants. In the event that other non-defaulting Participants decline any or all of the defaulting Participant's Participant Share, Tacoma Water will increase its Participant Share in an amount equal to the defaulting Participant's Participant Share then remaining unassigned. See Appendix B—"SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Debt Service Payment Defaults."

Project Participants

Four Washington municipalities are the Participants in the Second Supply Project in the following fractional shares: Tacoma - 15/36; Kent - 7/36; Covington - 7/36; and Lakehaven - 7/36 (“Participant Shares”). Each Participant is entitled to use its Participant Share of Project Capacity and Second Diversion Water and is obligated to pay its Participant Share of Project Costs pursuant to the Second Supply Project Agreement. Under that agreement, Participants may elect to pay their Participant Share of certain Project Costs by participating in the City’s issuance of “Project Bonds” or may elect to pay cash to the City for their Participant Share of those Project Costs. See “THE SECOND SUPPLY PROJECT—Second Supply Project Agreement and Repayment Agreement” and Appendix B—“SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS—Project Financing and the Repayment Agreement.” For purposes of the Second Supply Project Agreement, the Bonds are Project Bonds. Lakehaven has elected to separately pay its Participant Share of the Filtration Treatment Project Costs being otherwise financed with the proceeds of the Bonds. Therefore, only the City, Kent and Covington are obligated to pay debt service on the Bonds. See “SECURITY FOR THE BONDS—Payment Obligations of the Participants.”

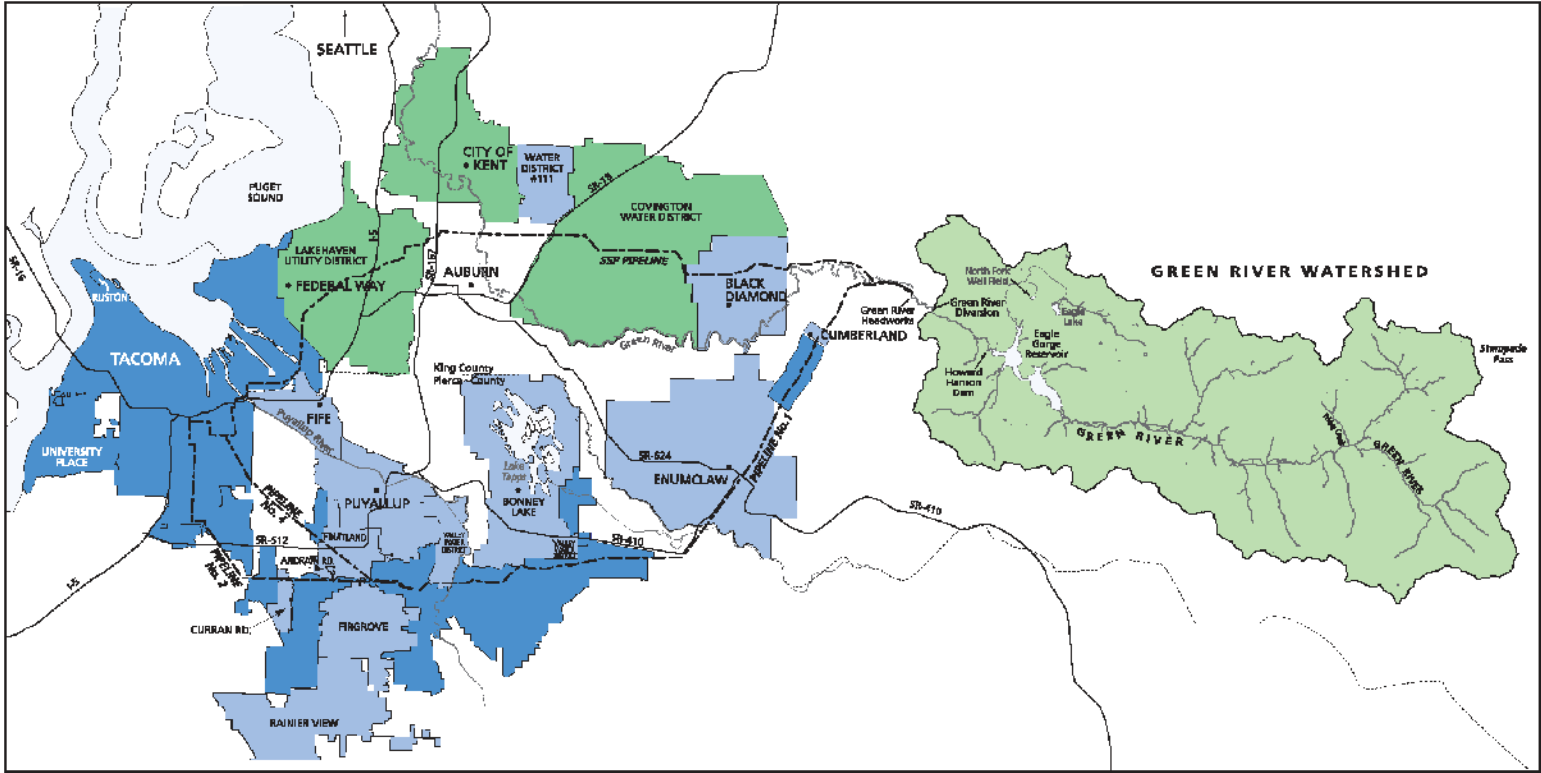
Tacoma Water. Tacoma Water is described under the heading “THE CITY OF TACOMA WATER SYSTEM.”

City of Kent. Kent is a code city of the State of Washington, incorporated in 1890. It is organized under a mayor-council form of government and has an estimated 2010 population of 88,760. Kent’s water utility is managed by Kent’s Director of Public Works who is accountable to the city council, which sets rates and charges and authorizes borrowings for the utility. Kent’s water utility service area encompasses the city and certain unincorporated areas of King County. See Appendix C—“PARTICIPANTS IN THE SECOND SUPPLY PROJECT—The City of Kent.”

Covington Water District. Covington was established in 1960. Covington is governed by a five-member board of commissioners and managed by a general manager. Covington provides water service to an urban and rural area in southeastern King County east of the cities of Kent and Auburn. Covington currently provides water service to all of the City of Covington and approximately 60% of the City of Maple Valley, both new cities incorporated in 1997. Although the City of Black Diamond annexed 1.23 square miles of Covington in 1998, Covington continues to provide water service to that area as well. Covington provides service to certain unincorporated areas of King County; approximately 40% of its customer base is from those areas. As the result of a November 2000 election, Water District No. 94 merged into Covington. See Appendix C—“PARTICIPANTS IN THE SECOND SUPPLY PROJECT—Covington Water District.”

Lakehaven Utility District. Lakehaven (formerly Federal Way Water and Sewer District) was established in 1956. It is governed by a five-member board of commissioners and managed by a general manager. Lakehaven is located between the cities of Seattle and Tacoma in King and Pierce Counties. Lakehaven’s northern boundary is one mile south of Kent, the southern boundary overlaps slightly the Pierce County line, the western boundary follows the Puget Sound shoreline and the eastern boundary overlaps slightly the western city limits of Auburn. Lakehaven provides service to most of the City of Federal Way and to small portions of the cities of Auburn, Pacific, Edgewood, Des Moines and Milton. In addition, Lakehaven serves an unincorporated area of King County approximately 18 square miles east of Federal Way and west of Auburn. Lakehaven is contributing cash to pay its share of the costs of Phase I of the Filtration Treatment Project and is not responsible for a share of debt service on the Bonds. See Appendix C—“PARTICIPANTS IN THE SECOND SUPPLY PROJECT—Lakehaven Utility District.”

The following map shows the service areas of the Participants:



Environmental Issues

The City's Habitat Conservation Plan for its Green River operations has been approved by the National Marine Fisheries Service and the U.S. Fish and Wildlife Service, resulting in the July 2001 issuance of an Incidental Take Permit to Tacoma pursuant to the Endangered Species Act. This Incidental Take Permit is for a term of 50 years, which provides critical long-term certainty for Tacoma's water supply operations on the Green River. A programmatic environmental impact statement ("EIS") for the Second Green River Diversion and Transmission Project was prepared in 1980, and a project-specific EIS was prepared in 1987 and updated in 1994. See also "THE CITY OF TACOMA WATER SYSTEM—Endangered Species Act Compliance."

To gain support from the many interested parties potentially affected by the Second Supply Project, Tacoma Water has used a consensus approach to solving various environmental issues including obtaining the 404 permit and extension associated with completion of the Second Supply Project. Issues now resolved include the negotiation of a comprehensive mitigation program with King County that will mitigate certain adverse environmental impacts, such as temporary damage to wetlands, caused by the construction of the Second Supply Pipeline.

Agreement with Muckleshoot Tribe

After five years of negotiations, an agreement was signed in August 1995 with the Muckleshoot Indian Tribe (the "Muckleshoots") that recognizes the importance of the Green River to the Muckleshoots' fisheries and cultural history. The settlement package has a cost of approximately \$30 million and includes five basic elements: (1) building a fish restoration facility and paying for annual operation and maintenance of that facility or, at the Muckleshoots' election, making an equivalent cash payment; (2) providing for enhanced flows in the Green River; (3) transferring certain lands; (4) establishing a trust fund payable over 40 years which is intended to provide for the general welfare, educational and other needs of the Muckleshoots; and (5) providing for limited access into the Green River watershed. The settlement resolves past damage claims by the Muckleshoots for Tacoma Water's historical operations on the river, gains the Muckleshoots' support for the Second Supply Project and provides a basis for a long-term cooperative working relationship on the Green River. Funding for a substantial portion of the settlement with the Muckleshoots was included in the Project's 2002 financing costs.

Water Use

The Second Supply Project began operations in October 2005. Water used by the Participants appears below.

Regional Water Supply System					
Total Water Use					
(MG)					
	2005	2006	2007	2008	2009
Tacoma	679	3,757	6,881	9,461	8,700
City of Kent	0	22	6	35	271
Lakehaven Utility District	103	733	1,279	1,718	780
Covington Water District	0	48	352	446	422
Total Use	782	4,560	8,518	11,660	10,173

Operating Results

The following table shows selected historical revenues and expenses for the Regional Water Supply System for the years 2005 through 2009. The Participants are billed monthly.

Regional Water Supply System Historical Operating Results (Year ending December 31)					
	2005 (1)	2006	2007	2008	2009
Operating Revenues					
Tacoma Water	\$ 2,260,332	\$ 3,480,386	\$ 3,577,801	\$ 3,738,462	\$ 3,737,135
Kent	991,507	1,255,835	1,358,547	1,630,416	1,211,628
Covington	866,538	1,308,919	1,327,949	1,601,782	1,177,764
Lakehaven	71,279	212,700	382,082	660,194	328,090
Total Operating Revenue	\$ 4,189,656	\$ 6,257,839	\$ 6,646,379	\$ 7,630,854 (2)	\$ 6,454,617
Operating Expenses					
Operating & Maintenance	\$ 314,507	\$ 2,130,748	\$ 2,377,499	\$ 2,300,026	\$ 2,629,850
Depreciation	768,841	3,413,341	3,513,441	4,803,549	4,792,037
Total Operating Expenses	\$ 1,083,348	\$ 5,544,089	\$ 5,890,940	\$ 7,103,575	\$ 7,421,887
Net Operating Income (Loss)	\$ 3,106,308	\$ 713,750	\$ 755,439	\$ 527,279	\$ (967,270)
Non-Operating Revenue (Expenses)					
Other Income	\$ 0	\$ 56,160	\$ 43,532	\$ 14,360	\$ 0
Interest Income	185,041	282,278	355,782	293,709	184,332
Interest Charges (Net)	(3,775,570)	(4,354,244)	(4,083,294)	(3,411,937)	(3,918,240)
Total Non-Operating Revenue (Expense)	\$ (3,590,529)	\$ (4,015,806)	\$ (3,683,980)	\$ (3,103,868)	\$ (3,733,908)
Net Income (Loss) Before Capital Contributions	\$ (484,221)	\$ (3,302,056)	\$ (2,928,541)	\$ (2,576,589)	\$ (4,701,178)
Debt Service Calculation Adjustments					
Add: Capital Contributions from Participants	\$ 11,992,817	\$ 6,600,000	\$ 6,084,072	\$ 1,131,930	\$ 0
Add: Depreciation	768,841	3,413,341	3,513,441	4,803,549	4,792,037
Add: Interest Charges (Net)	3,775,570	4,354,244	4,083,294	3,411,937	3,918,240
Add: Use of Other Available Funds (3)	0	0	0	0	1,096,214
Net Regional Water Supply System Revenue Available for Debt Service	\$ 16,053,007	\$ 11,065,529	\$ 10,752,266	\$ 6,770,827	\$ 5,105,313
Debt Service on Outstanding Bonds	\$ 4,687,313	\$ 4,687,313	\$ 4,767,813	\$ 4,995,313	\$ 5,105,313

(1) The Regional Water Supply System began operations in 2005.

(2) Increase from prior years was due to capital charges of approximately \$625,000 billed to the Second Supply Project Participants.

(3) The Rate Covenant requires the City to maintain and collect rates that, together with amounts on deposit in the Revenue Fund, are sufficient to pay the cost of operation and maintenance of the Water System and debt service and other costs. See Appendix A—"SUMMARY OF THE BOND ORDINANCE – Covenants with Bondowners." The City currently bills the Second Supply System partners based on actual expenses so occasionally there are timing differences. When this occurs within the Regional Water Supply System funds other Regional Water Supply System funds are used to adjust for these differences, as occurred in 2009.

Capital Improvement Program

The following table shows the 2010-2018 capital improvement program for the Regional System.

Regional Water Supply System 2010-2018 Capital Improvement Program (\$000)

Uses of Funds	2010	2011	2012	2013	2014	2015	2016	2017	2018
Filtration Project	\$ 3,805	\$ 3,925	\$29,487	\$50,301	\$ 8,013	--	--	--	--
Major Water Treatment Equipment	56	--	--	56	56	\$ 56	\$ 56	\$ 56	\$ 56
Watershed Betterments	90	90	90	90	90	90	90	90	90
HCP Required Fish Habitat Projects	367	249	249	249	249	--	--	--	--
Additional Improvements	--	1,917	28	--	--	481	--	--	--
Total Uses	\$ 4,318	\$ 6,181	\$29,854	\$50,696	\$ 8,408	\$ 627	\$ 146	\$ 146	\$ 146

Source: 2009 – 2010 RWSS Project Committee approved budgets; 2011-2014, DRAFT Tacoma Water Business Plan 2011-2020, Capital Projects, May 26, 2010, Filtration based on cash flow projection.

The Bonds and Future Parity Bonds are expected to finance a portion of the Filtration Treatment Project. The remaining improvements are expected to be funded through cash payments from the Participants and state loans.

THE CITY OF TACOMA WATER SYSTEM

Sources of Supply

The primary current source of supply for the Water System is a headworks diversion on the Green River approximately 30 miles east of the City, which is capable of supplying up to approximately 167 million gallons per day (“MGD”) to Tacoma Water and its Second Supply Project partners. See “THE SECOND SUPPLY PROJECT.” Water withdrawn at the headworks is chlorinated, fluoridated, treated with ozone, and pH adjusted before being introduced into Pipeline No. 1 and the Second Supply pipeline. Pipeline No. 1 transports up to 72 MGD through or near the cities of Enumclaw, Buckley, Bonney Lake, Puyallup, and other urbanized areas before discharging it into McMillin Reservoir. The Second Supply pipeline transports up to 95 MGD through the cities of Black Diamond, Auburn, Federal Way, and Tacoma before discharging into Pipeline No. 4. The Green River diversion and Pipeline No. 1 were originally constructed in 1913. Over the years, nearly all of the original Pipeline No. 1 has been replaced and improvements to the diversion dam have occurred as a component of the Second Supply Project. The Second Supply pipeline itself began delivering water in October 2005.

The watershed, located above the diversion, consists of approximately 230 square miles of timbered and mountainous terrain. The U.S. Army Corps of Engineers (the “Army Corps”) constructed Howard Hanson Dam and Reservoir in 1961, forming the Eagle Gorge Reservoir, about three miles upstream from Tacoma Water’s headworks diversion dam. The primary authorized purpose of the dam is to provide flood control for the Green River valley during the winter. Secondary authorized purposes include augmentation of low summer flows downstream of the dam, irrigation and storing water for municipal water supply purposes by Tacoma Water and its Second Supply Project partners. The Army Corps is responsible for managing flood control and due to damage caused by a storm event in January 2009, is currently engaged in major rehabilitation of the Howard Hanson Dam to maintain the structural integrity of the dam and assure future flood control. The Army Corps is responsible for costs of this project. Tacoma Water has taken preemptive steps to protect the infrastructure in case of high river flows if the Army Corps is required to release larger than normal amounts of water.

In the 1970s, Tacoma Water drilled seven wells on the North Fork of the Green River (the “North Fork Wells”) approximately six miles upstream from the headworks. The North Fork Wells have been effective in maintaining the quality of Tacoma Water’s main water supply during high turbidity in the Green River source. The well water either blends with the river water or replaces the river water depending on the level of turbidity.

In addition to the North Fork Wells, Tacoma Water has a number of wells within its service area that can be used to meet peak summer water demands. During a typical year, approximately 95% of the Water System’s water supply is from the Green River and 5% is from these wells. The following table summarizes the water supplied by source during 2009 to meet the peak and average water requirements for Tacoma Water only, it does not include capacity or production values for the Participants (see the “THE SECOND SUPPLY PROJECT.”)

**Tacoma Water
2009 Sources of Supply of the Water System
(MGD)**

Source	Peak Capacity	Peak Day Production**	Average Production**
Surface Water Sources:			
Green River	111.58*	85.54	50.97
Groundwater Sources:			
Wells	52.16	17.10	3.40
Total Sources	163.74	102.64	54.37

* Tacoma’s Peak Green River Capacity is limited by pipe/plant capacity (see “Water Rights” discussion below), which is 72 mgd for Pipeline No. 1 plus 15/36 of 95mgd (39.58mgd) for the Second Supply Pipeline.

** 2009 Tacoma water use (excludes Regional System use by the Participants).

With the Second Supply Project described in the previous section, the Water System has sufficient water supply to meet its current customers and expected growth until at least 2050.

Agreement with Cascade Water Alliance

Tacoma Water entered into an agreement with the Cascade Water Alliance (“Cascade”) that entitles Cascade to a permanent supply of four MGD of water (average daily demand) each year, and an additional guaranteed reserved supply of six MGD (average daily demand) through 2026, declining to one MGD (average daily demand) in 2030 (the “Additional Supply”), and discontinuing thereafter. Increased deliveries are available during peak season. The agreement includes minimum purchase requirements from 2009 through 2025, and entitles Cascade to additional temporary water, based on availability. The agreement required that Cascade pay system development charges and capacity reservation fees to Tacoma, in addition to paying for the metered water based on wholesale water rates. Cascade is obligated to provide Tacoma with a plan by December 1, 2015 that demonstrates Cascade’s ability to provide for the long term water needs of its Members; if Cascade does not do so, Tacoma may terminate its obligation to provide the Additional Supply. Termination for the reasons described in the previous sentence applies only to Additional Supply, and not to the permanent supply of four MGD (average daily demand).

Tacoma is currently in discussions with Cascade regarding a new contract to provide for additional long-term wholesale water supply.

Water Rights

Tacoma Water has water rights on the Green River in excess of its current needs, which include a water right claim for 73 MGD (the “First Diversion Water Right”) plus a Water Permit for the Second Diversion Water Right of up to 15/36 of 65 MGD. Second Diversion Water is conditional based on Green River flow and is, therefore, only available approximately 60% of the time on an annual basis. However, Second Diversion Water may be stored behind Howard Hanson Dam in the spring, and as the water is being stored at a rate not to exceed the Second Diversion Water Right rate, it may be withdrawn at a later date, at any rate. Therefore, when needed in the peak season, water from the Green River source may be used at a rate that is limited only by pipe/plant capacity.

Water rights for the Water System's 25 wells, most of which are located within its water service area, total 87 MGD, with an installed pumping capacity of 60 MGD.

During the last decade it has become increasingly difficult for Washington State water systems to obtain new water rights because of uncertainties in the administration of these rights. Major concerns include legal challenges to the Washington State Department of Ecology's ("Ecology") authority to administer water rights and concern that the additional appropriation of water in many areas might deplete limited resources. At this time, there is no foreseeable near term resolution of this issue. Some water systems in King and Pierce counties have had a water moratorium in the recent past, restricting development. These circumstances make Tacoma Water's Second Diversion Water Right on the Green River for 65 MGD particularly valuable and attractive to the Participants in the Second Supply Project as well as potentially to other systems in the vicinity of Tacoma Water's existing transmission pipelines. These other systems have experienced occasional water shortages due to increased demands resulting from customer growth.

Endangered Species Act Compliance

In 1998, the National Marine Fisheries Service ("NMFS") listed Puget Sound Chinook salmon as a threatened species. Subsequently, the U.S. Fisheries & Wildlife Service ("USFWS") listed bull trout as a threatened species. Pursuant to regulations, NMFS and USFWS have extended to these threatened species the same level of protection the Endangered Species Act ("ESA") provides for endangered species. This level of protection includes a prohibition on "taking" the species, which may include not only harm to members of the species, but also adverse effects or destruction of habitat. This caused water utilities throughout the region to assess their potential liability under the ESA. Tacoma Water has approached these issues within a multi faceted response strategy. First, it developed a Habitat Conservation Plan under Section 10 of the ESA, which was approved by the NMFS and USFWS in 2001, to protect its source of supply operations on the Green River. The Habitat Conservation Plan provides authorization under the ESA for Tacoma Water's water supply operations on the Green River. Although the protection of the threatened Chinook salmon was the incentive for plan development, the Habitat Conservation Plan eventually was approved to provide coverage for 32 aquatic and terrestrial species. This significantly reduces the risk to Tacoma Water that future water supply operations may be disrupted due to ESA issues. Second, Tacoma Water has adopted a "take" avoidance strategy for its field operations on the water distribution system. Section 4(d) of the ESA allows certain categories of activities defined by federal rule to be conducted without "take" liability. In 2001, Tacoma Public Utilities obtained coverage under this provision for a wide variety of its utility maintenance activities by adopting and implementing the federally approved "Regional Road Maintenance Endangered Species Act Program Guidelines." Tacoma Water has modified its operation to obtain coverage under this program for many of its day to day operations.

Water Quality and Treatment

Watershed monitoring and protection programs are critical to ensuring high water quality. Well managed, unpopulated watersheds minimize potential adverse effects on the water supply. Tacoma Water has a well organized watershed control program with inspectors who patrol the watershed to protect against any unauthorized entry. Tacoma Water owns approximately 10% of the watershed area including much of the land adjacent to the Green River and the Howard Hanson Reservoir located approximately three miles upstream from the Green River Headworks. The land that is not owned by Tacoma Water is either U.S. Forest Service property or is owned by timber companies or the Washington State Department of Natural Resources. There are no permanent residents living within the watershed boundaries. Tacoma Water, the timber companies, and the State Department of Natural Resources work cooperatively to ensure that timber harvesting and other activities comply with watershed control best management practices, thereby minimizing any potential adverse impacts on water quality. Tacoma Water has in place agreements with all of the timber companies to document their commitment to use these best management practices.

Tacoma Water's Watershed Control Program has been approved by the Washington State Department of Health ("WSDOH") and allows the Water System's Green River supply to remain unfiltered, provided that Tacoma Water implements this program, submits regular monitoring reports, and meets the established water quality standards at all times.

Tacoma Water adds chlorine, fluoride, ozone and sodium hydroxide (to raise the pH of the water) at the Green River Headworks. As discussed under “THE SECOND SUPPLY PROJECT—Filtration Treatment Project,” new regulations require additional treatment of the Green River supply, and filtration has been selected to meet this requirement.

The water from Tacoma Water’s wells is chlorinated before being introduced into the distribution system. The water quality is monitored on a regular basis in accordance with the requirements of the WSDOH and the U.S. Environmental Protection Agency (“U.S. EPA”). One of Tacoma Water’s 30 wells is equipped with an air stripping tower to remove organic compound contamination, which was discovered during the early 1980s. This treatment maintains water quality by keeping contaminants in this water to levels that are below the detectable limits. Contaminant levels in this groundwater source have also decreased as a result of the cleanup of the pollution source, and significantly more rigorous land use controls within the City to protect groundwater.

Water System Security

Tacoma Water, along with many other major water utilities, is taking increased steps to protect its water supply facilities and to prevent contamination of the water supply. Tacoma Water has taken actions to secure the source of supply on the Green River through increased surveillance of watershed activities and closing additional areas to access. Security has been tightened regarding chemical deliveries to Tacoma Water facilities, additional monitoring of water quality has been initiated, and security provisions are reviewed on an ongoing basis to assure adaptive reaction to any changes in threat status. A system wide analysis was completed in early 2003 with the support of a U. S. EPA grant.

Water System Operations

Water Quality Section. The Water Quality Section of Tacoma Water is responsible for managing, operating and maintaining the Green River Headworks and watershed; assuring security and natural resource management of Tacoma Water lands including the watershed; providing for fish and wildlife habitat management, and installing, operating and maintaining water treatment equipment within the system. Water Quality personnel respond to all matters relating to water quality from the source to the customer, and monitor for contaminants as required by State and Federal regulations, and as required to meet customer needs and expectations. The section must assure compliance with the federal Safe Drinking Water Act, as implemented through WSDOH.

The Water Quality Section operates the Green River intake for both water supply and an adult salmon fish trap and sort facility. Major water quality and regulatory drivers have led to initiatives for significant investments in water treatment infrastructure. A new chemical treatment plant began operation in 2005, providing capacity for the Second Supply Project, and significantly improved safety and reliability for the addition of chlorine, fluoride, and sodium hydroxide. In 2007 ozone treatment was added to enhance system disinfection, eliminate seasonal poor taste and odor in the natural water, and reduce the levels of regulated chlorinated organic compounds that form after chlorine disinfection. The cost of this treatment was included in the Second Supply Project partnership agreement.

In addition to the watershed and treatment operations associated with the Green River supply, the Water Quality Section operates and maintains disinfection treatment equipment for the groundwater supplies at three reservoir locations, and at several smaller groundwater sites.

Water Supply Section. The Water Supply Section has responsibility for water supply resources, water transmission lines larger than 24 inches in diameter, reservoirs within the distribution system, pumping stations, and pressure reducing valves. The Water Supply Section also has responsibility for overall Water System operations and it controls all elements of the Water System that are integral to Water System operations. Water System operations are managed from the Water Control Center, located in the Tacoma Water Distribution Center, which is staffed 24 hours a day.

Tacoma Water’s water transmission and distribution system consists of 141 miles of transmission pipelines ranging in size from 28 to 96 inches in diameter, 23 booster pump stations, 181 million gallons of reservoir storage, and 1,198 miles of distribution pipeline ranging in size from two to 24 inches in diameter. The distribution system includes a number of pressure zones; most are supplied by reducing the pressure gradient from the McMillin Reservoir and the remainder require additional pumping of water to serve higher areas.

Tacoma Water's pipeline system delivers adequate supply for municipal use and fire protection throughout its service area. An independent evaluation conducted by the Washington Survey and Rating Bureau in 1997 found the condition of Tacoma Water's water facilities and the City's fire fighting capabilities to be very good. The Bureau makes the results of its evaluations available to the insurance industry which uses the information to determine, among other things, insurance rates for community water systems. The overall score of the most recent evaluation, which included a survey of the City's fire department, was Class 2 on a scale of 1 to 10, with Class 1 being the highest or best score. Also, the evaluation indicated a significant improvement in the water supply sections of the review as compared to the previous evaluation conducted in 1976. Only four cities in the state received a score of Class 2; no cities received a Class 1 designation.

The storage available in the Water System is capable of supplying approximately three days at the average daily usage rate. To maintain better water quality within the Water System, storage was reduced by approximately 100 MG when the Second Supply Pipeline was placed in service.

Tacoma Water also has approximately 22 interties with 11 wholesale purveyor systems. Some of these interties are used to supply wholesale water to the systems on a regular basis and others are available for peak or emergency demands of these systems. In several instances, these interties are capable of providing Tacoma Water with a limited amount of emergency water supply.

Water Distribution Operations Section. The Water Distribution Operations Section is responsible for the operation and maintenance of the distribution system, which includes all of the distribution mains, hydrants, valves, service connections, meters, and other distribution system features. Tacoma Water has made significant improvements during the last few years in its operations and maintenance programs.

Tacoma Water has implemented maintenance plans for all components of the water distribution system. Crews are scheduled to perform routine and preventive maintenance activities for the system based on various operational criteria and customer concerns. This assures that resources are allocated cost effectively and based on objective priorities.

Water Distribution Engineering Section. The Water Distribution Engineering Section engineering staff supports the operation and maintenance crews as well as engineering for distribution main projects for both private development and Tacoma Water's capital improvement program. This staff evaluates and approves permits for Water System extensions including developer installed systems. The section prepares the design of developer systems rather than simply approving a system designed by the developer's engineer, which is the more common approach taken by water utilities. Past benchmarking and cost analysis has shown that this approach not only assures a timely response and quality design for the developer but is less expensive than hiring a private engineering firm. The Water Distribution Engineering Section has implemented a major water main replacement program. Beginning in 1995, Tacoma Water formalized this program and has since ramped up project funding for its replacement priorities as well as replacement work conducted in conjunction with public road projects and work by other jurisdictions. Subsequent cycles of evaluation of the program continue to refine the criteria for main replacement based on an evolving asset management structure.

Washington State Department of Health/U.S. Environmental Protection Agency Requirements. Tacoma Water must comply with the requirements of the rules and regulations promulgated by the U.S. EPA pursuant to the Safe Drinking Water Act. WSDOH is delegated by U.S. EPA to administer these regulations in the State of Washington. In addition, WSDOH has rules and regulations for the design and operation of water systems. WSDOH provides oversight of water systems including reviews, approvals, and monitoring of performance.

Tacoma Water has a Comprehensive Water Plan (the "Plan"), which was approved by WSDOH in 2006 and is required to be updated in 2012. The Plan includes projections of future water demand requirements for several scenarios and presents an Integrated Resource Development Strategy for meeting future water demands. The Plan sets forth Tacoma Water's proposed program of supply development and system capital improvements. It also describes the financial plan for funding these improvements and includes required sections on emergency response and routine operations. This plan must be developed and resubmitted for approval every six years.

Customers, Water Sales, and Rates

Tacoma Water serves residential, commercial, and industrial customers, a special rate large industrial customer, municipal and other governmental customers, and wholesale customers. In 2009, revenues were attributed 66% to residential service, and 26% to commercial and industrial service, including the Simpson Tacoma Kraft Company ("Simpson"). The remaining approximately 8% was accounted for by service to municipal and other governmental customers and to wholesale customers.

Simpson is the largest customer of Tacoma Water and accounted for approximately 7.6% of total water sales revenue in 2009. In 2009 the 10 largest customers combined accounted for 16.4% of total water sales revenue.

Special Contract

The City and Simpson executed a 10 year contract in 2006, which expires in 2015. The contract currently provides that the City will furnish 15.9 MGD to Simpson on a uniform basis, 24 hours a day. Tacoma Water encouraged conservation at the Simpson facility, and the current use rate of 15.9 MGD represents a significant improvement in water use efficiency over the 30 MGD used by Simpson in previous years. Overall reduction in water use by Simpson has been supported by Tacoma Water through the development of a contract amendment to provide rate incentives for conservation. Pursuant to the contract, Simpson would not be required to take water if its paper mill operations shut down, but would be required to pay liquidated damages.

Water Rates

Washington State law provides that municipalities may establish water rates by action of the City Council, independent from review or approval by any state board or commission.

Tacoma Water's rate structure consists of two basic components, a monthly minimum and a monthly consumption charge. In addition, the City charges a one time system development charge on new services to more equitably distribute the costs associated with growth. As described under "Financial Policies," the Board has adopted a water rate policy that, among other provisions, provides that rates be set based on cost of service within a customer class.

The current water rates were implemented on January 1, 2010. The changes resulted in an average annual increase in water charges of approximately 3%. Rate increases since 2001 are summarized in the following table.

Tacoma Water Rate Increases	
Year	Average Annual Increase
2002	9.5%
2003	8.2
2004	8.2
2005	8.0
2006	8.0
2007	7.5
2008	7.5
2009	3.9
2010	2.9

The Board and the City Council have committed to increase rates to cover costs of the Filtration Project. A decision on the specific rate increases is expected in the latter half of 2010. As part of that process, the Board and the City Council may consider changes to rate policies.

Tacoma Water's current water rates are summarized in the table below.

**Tacoma Water
Current Water Rates and Charges**

Size of Meter (inches)	Customer Charge Per Month	
	Inside City Limits	Outside City Limits
5/8	\$ 15.33	\$ 18.40
3/4	23.00	27.60
1	38.33	46.00
1-1/2	76.65	91.98
2	122.64	147.17
3	229.96	275.95
4	383.26	459.91
6	766.53	919.84
8	1,226.45	1,471.74
10	1,763.02	2,115.62
12	2,587.03	3,104.44

Consumption Up to and Including:	Charge for Water Used per Month (per ccf (1))	
Residential	Inside City Limits	Outside City Limits
Each 100 cubic feet of consumption		
October through May.....	\$ 1.251	\$ 1.502
First 500 cubic feet of consumption		
June through September	1.251	1.502
Each 100 cubic feet of consumption over 500		
cubic feet June through September	1.564	1.878
Commercial and Industrial		
General	1.360	1.632
Large Volume (over 65,000 cubic feet		
annually)	1.206	1.447
Parks and Irrigation		
For each 100 cubic feet.....	1.698	2.038

(1) ccf = 100 cubic feet

Tacoma Water's charges for water service are competitive with those of other major water utilities in the Pacific Northwest as well as other regional water utilities. The results of a comparison of Tacoma Water's current rates with those of other water utilities located both in major metropolitan areas in the region and in the greater Pierce County area are set forth in the following table.

Comparison of Average Monthly Water Bills

UTILITY	5/8" RESIDENTIAL (10 ccf/month)	2" COMMERCIAL (150 ccf/month)
Tacoma Water	\$ 27.84	\$ 326.64
Major Regional Water Systems:		
City of Bellevue, WA	39.79	466.10
City of Everett, WA	23.50	259.50
Portland, OR Water Bureau	31.78	373.38
Seattle Public Utilities	47.56	550.57
San Francisco, CA	37.59	523.20
Neighboring Water Systems:		
City of Kent, WA	42.28	595.66
City of Puyallup, WA	24.99	329.49
Covington Water District, WA	40.80	511.08
Lakehaven Utility District, WA	20.28	234.67

Source: Individual Utilities. Off-peak season 2010 rate (inside city where applicable).

In 1990, Tacoma Water implemented a system development charge ("SDC"), which is a one time charge on new services and primarily is collected on new construction. The charge is calculated for meters three inches or larger, based upon water use projections. The result of this new fee structure was an increase in SDC revenues. The SDC fees were designed to pay for approximately 50% of growth related capital costs. In addition, Tacoma Water periodically collects contributions from property owners that are restricted to specific capital projects. The table below does not include these contributions.

The following table shows annual funds recognized as revenues from SDCs from 2005 through 2009. In 2009, Tacoma Water deposited approximately \$35 million of SDCs into the Rate Stabilization Account, and consequently, these SDCs are not reflected in the table.

Tacoma Water Annual SDC Revenue

Year	SDC Recognized Revenue
2005	\$ 5,769,592
2006	12,688,488
2007	2,953,984
2008	1,754,475
2009	404,451

Historical Revenue and Expenses

The following table shows selected historical revenues and expenses for Tacoma Water for the years 2005 through 2009. The following table is based on consolidated financial statements that include Tacoma Water and the Second Supply System.

Tacoma Water Historical Operating Results					
	2005	2006	2007	2008	2009
Operating Revenues (1)					
Residential and Domestic	\$ 27,611,024	\$ 31,216,429	\$ 32,645,594	\$ 34,592,712	\$ 36,643,366
Commercial & Industrial	7,174,647	7,751,215	8,298,263	8,978,703	9,659,078
Special Rate—Simpson	3,511,199	3,222,324	3,917,760	4,371,527	4,153,327
Municipal (2)	316,562	363,455	396,131	349,722	380,267
Other Public Bldgs. & Grounds (3)	1,409,107	1,596,360	1,644,166	1,680,603	1,861,111
Unbilled (4)	0	1,067,323	37,113	417,145	187,966
Sales to Other Water Utilities	1,599,919	1,640,803	1,433,705	1,251,815	1,776,686
Total Water Sales	\$ 41,622,458	\$ 46,857,909	\$ 48,372,732	\$ 51,642,227	\$ 54,661,801
Other Operating Revenues (5)	3,523,458	3,538,345	4,353,478	5,382,313	9,331,955
Total Operating Revenue	\$ 45,145,916	\$ 50,396,254	\$ 52,726,210	\$ 57,024,540	\$ 63,993,756
Operating Expenses (1)					
Operating & Maintenance	\$ 26,448,761	\$ 29,165,168	\$ 31,076,515	\$ 33,387,663	\$ 34,055,463
Depreciation	9,386,363	11,556,821	11,363,970	13,016,544	13,845,799
Taxes (6)	2,995,424	3,407,187	2,924,930	2,881,877	3,093,311
Total	\$ 38,830,548	\$ 44,129,176	\$ 45,365,415	\$ 49,286,084	\$ 50,994,573
Net Operating Income (Loss)	\$ 6,315,368	\$ 6,267,078	\$ 7,360,795	\$ 7,738,456	\$ 12,999,183
Non-Operating Revenue (Expenses) (1)					
Other Income	\$ 746,048	\$ 674,934	\$ 306,680	\$ 61,265	\$ 497,331
Interest Income	1,695,578	4,603,137	5,255,881	3,730,407	1,955,385
Gain from Disposition of Property	4,622,927	0	4,200,000	0	26,100
Interest Charges (Net)	(7,185,197)	(8,403,448)	(8,484,405)	(8,406,264)	(9,076,156)
Total Non-Operating Revenue (Expense)	\$ (120,644)	\$ (3,125,377)	\$ 1,278,156	\$ (4,614,592)	\$ (6,597,340)
Net Income (Loss) Before Capital Contributions (1)	\$ 6,194,724	\$ 3,141,701	\$ 8,638,951	\$ 3,123,864	\$ 6,401,843
Less: RWSS Net Income (Loss) Before Capital Contributions (7)	(484,221)	(3,302,056)	(2,928,541)	(2,576,589)	(4,701,178)
Net Tacoma Water Net Income (Loss) Before Capital Contributions	\$ 6,678,945	\$ 6,443,757	\$ 11,567,492	\$ 5,700,453	\$ 11,103,021
Debt Service Calculation Adjustments (8)					
Less: Restricted Income	\$ (138,874)	\$ (288,349)	\$ (784,445)	\$ (623,867)	\$ (273,694)
Less: Gain from Disposition of Property	(4,622,927)	0	(4,200,000)	0	(26,100)
Add: Depreciation	8,617,522	8,143,480	7,850,529	8,212,995	9,053,762
Add: Interest Charges (Net)	3,411,166	4,220,331	4,399,711	4,323,860	5,157,916
Add: SDC Revenues (9)	5,769,592	12,688,488	2,953,984	1,754,475	404,451
Net Tacoma Water Revenue Available for Debt Service	\$ 19,715,424	\$ 31,207,707	\$ 21,787,271	\$ 19,367,916	\$ 25,419,356
Debt Service on Outstanding Bonds (10)	\$ 7,513,003	\$ 10,433,270	\$ 10,433,970	\$ 10,438,208	\$ 10,432,133
Debt Service Coverage	2.62x	2.99x	2.09x	1.86x	2.44x

(1) Includes Regional System operating results. See "Regional Water Supply System Historical Operating Results."

(2) Retail sales to City facilities.

(3) Retail sales to governmental entities other than the City.

(4) Accrued revenue for water service provided and not billed in the current year.

(5) Includes Kent, Covington and Lakehaven payments for the Regional System, as well as Public Fire Protection fees and Cascade Water Alliance fees.

(6) Excludes City gross earnings tax, which is payable after debt service.

(7) Includes all Regional System revenues and expenses, including depreciation before Capital Contributions.

- (8) All adjustments exclude Regional System.
- (9) Excludes deferred SDC revenue and SDC revenue deposited to the Rate Stabilization Account. See “SECURITY FOR THE BONDS.”
- (10) Includes debt service on Tacoma Water parity bonds only.

Capital Improvement Program

Tacoma Water biennially prepares a ten-year business plan, which includes capital improvements, additions and renovations to the Water System necessary to address engineering recommendations, regulatory requirements and water quality standards and to provide for present and projected future customer needs. From this projection of need, Tacoma Water derives its Capital Improvement Program for the Water System. This program is an element of the City’s Growth Management Act (“GMA”) Comprehensive Plan, which contains a six-year projection of projects and is updated annually. The following table summarizes Tacoma Water’s 2010-2015 Capital Improvement Program.

Tacoma Water 2010-2015 Capital Improvement Program (\$000)

	2010	2011	2012	2013	2014	2015
Uses of Funds						
General Plant	\$ 1,343	\$ 1,972	\$ 1,972	\$ 669	\$ 669	\$ 669
Water Supply	22,066	3,422	6,804	4,080	3,921	5,246
Water Quality	1,940	680	280	1,456	690	1,180
Water Distribution	15,590	15,949	16,349	15,735	15,735	15,735
Second Supply System Projects(1)	3,073	8,412	4,353	30,586	30,028	13,998
Environ Stewardship/Conservation	<u>200</u>	<u>450</u>	<u>450</u>	<u>1,450</u>	<u>500</u>	<u>500</u>
Total Uses	\$ 44,212	\$ 30,885	\$ 30,209	\$ 53,800	\$ 51,573	\$ 37,358

(1) Includes Tacoma Water’s First Diversion and Second Supply System Filtration Project funding obligations.
Source: DRAFT Tacoma Water Business Plan 2011-2020, Capital Projects, May 26, 2010.

The Water System plans to fund these improvements with a combination of revenues from operations, Water System development funds, proceeds from the Bonds and Future Parity Bonds, Tacoma Water bonds and future parity bonds and other miscellaneous revenue. See “Water Quality and Treatment.”

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the State have the ability to initiate legislation and modify existing legislation through the powers of initiative and referendum, respectively. The initiative power in Washington 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% (initiative) 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 Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

LITIGATION CONCERNING THE BONDS AND TACOMA WATER

There is no litigation pending or threatened in any court (local, state or federal) to restrain or enjoin the issuance or delivery of the Bonds, or questioning the creation, organization, existence, or title to office of the officers of the Department, the Water Division or the City or the creation, organization or existence of the Regional Water Supply System, the validity or enforceability of the Second Supply Project Agreements or the Bond Ordinance or the proceedings for the authorization, execution, sale and delivery of the Bonds.

The City and Tacoma Water are parties to lawsuits in their normal course of business, but neither the City nor Tacoma Water believes that any of such litigation will have a significant adverse impact upon the financial condition of the City or Tacoma Water.

Public Fire Protection Cost Recovery. In response to an October 2008 Washington State Supreme Court ruling that public fire protection costs are the responsibility of general government, Tacoma Water removed these costs from the water rates effective January 19, 2009. Public fire protection costs were invoiced to the cities and counties served by Tacoma. Representatives from the larger entities (Pierce County and the cities of University Place and Federal Way) declined to pay these costs. Tacoma Water filed suit in Pierce County Superior Court to have its legal rights determined. The defendants moved the case to King County Superior Court, where a judge has entered an order on summary judgment ruling that the hydrant costs in areas with franchise agreements must be incorporated back into the utility rates. An appeal of this decision has been filed by Tacoma Water. This affects approximately \$2.28 million worth of unpaid hydrant costs for the 2009-2010 budget.

TAX MATTERS

The 2010A Bonds

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 issue date of the 2010A Bonds, interest on the 2010A Bonds is excluded from gross income for federal income tax purposes.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the 2010A Bonds in order to maintain the exclusion of the interest on the 2010A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2010A Bond proceeds and the facilities financed or refinanced with 2010A Bond proceeds, limitations on investing gross proceeds of the 2010A Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the 2010A 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 2010A Bonds could become taxable retroactive to the date of issuance of the 2010A Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City’s compliance with such requirements.

Alternative Minimum Tax. Under existing federal law, interest on the 2010A Bonds received by individuals and corporations is not treated as an item of tax preference for purposes of the federal alternative minimum tax, and interest on the 2010A Bonds received by corporations is not taken into account in determining adjusted current earnings of corporations for purposes of the federal alternative minimum tax.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the 2010A 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 2010A Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 2010A 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 2010A Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the 2010A Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2010A Bonds could adversely affect the market value and liquidity of the 2010A Bonds until the audit is concluded, regardless of its ultimate outcome.

De Minimis Safe Harbor Exception for Tax-Exempt Interest Expense of Financial Institutions. The City has not designated the 2010A Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code. However, pursuant to Section 265(b)(7) of the Code, the 2010A Bonds are not taken into account in determining the portion of the total interest expense of a bank or other financial institution that is allocable to tax-exempt interest (and with respect to which 100% of the interest expense otherwise would be disallowed) to the extent that the average adjusted bases of tax-exempt obligations held by a bank or other financial institution does not exceed 2% of the average adjusted bases of all assets of the bank or other financial institution. To the extent that the 2010A Bonds are not taken into account under this *de minimis* safe harbor exception, only 20% of the interest expense of a bank or other financial institution allocable to the 2010A Bonds is disallowed as a deduction for federal tax purposes.

Original Issue Premium. The 2010A Bonds have been sold at prices reflecting original issue premium (“Premium Bonds”). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the 2010A 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 2010A Bonds into account in determining gross income.

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

The 2010B Bonds

This advice was written to support the promotion or marketing of the 2010B Bonds. This advice is not intended or written to be used, and may not be used, by any person or entity for the purpose of avoiding any penalties that may be imposed on any person or entity under the Code. Prospective purchasers of the 2010B Bonds should seek advice based on their particular circumstances from an independent tax advisor.

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

This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect). This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances, such as an Owner who may purchase 2010B Bonds in the secondary market, or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt

organizations, non-U.S. persons, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, or dealers in securities. Accordingly, before deciding whether to purchase any 2010B Bonds, prospective purchasers should consult their own tax advisors regarding the United States federal income tax consequences, as well as tax consequences under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty, of purchasing, holding, owning and disposing of the 2010B Bonds.

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

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

Disposition or Retirement of 2010B Bonds. Upon the sale, exchange or other disposition of a 2010B Bond, or upon the retirement of a 2010B Bond (including by redemption), an Owner will recognize capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner’s adjusted tax basis in the 2010B Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes.

Defeasance of 2010B Bonds. If the City defeases any 2010B Bonds, such 2010B Bonds may be deemed to be retired and “reissued” for federal income tax purposes as a result of the defeasance. In such event, the Owner of a 2010B Bond would recognize a gain or loss on the 2010B Bond at the time of defeasance.

Backup Withholding. An Owner may, under certain circumstances, be subject to “backup withholding” (currently the rate of this withholding tax is 28%, but may change in the future) with respect to interest on the 2010B Bonds. This withholding generally applies if the owner of a 2010B Bond (a) fails to furnish the Bond Registrar or other payor with its taxpayer identification number; (b) furnishes the Bond Registrar or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other “reportable payments” as defined in the Code; or (d) under certain circumstances, fails to provide the Bond Registrar or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the Owner is not subject to backup withholding. Any amount withheld may be creditable against the Owner’s U.S. federal income tax liability and be refundable to the extent it exceeds the Owner’s U.S. federal income tax liability.

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

Reporting of Interest Payments. Subject to certain exceptions, interest payments made to beneficial owners with respect to the 2010B Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address and Taxpayer Identification Number of the beneficial owner. A copy of Form 1099 is required to be sent to each beneficial owner of a 2010B Bond.

ERISA CONSIDERATIONS

The Employees Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. All fiduciaries of Plans should consult their own tax advisors with respect to the consequences of any investment in the 2010B Bonds.

DESCRIPTION OF RATINGS

Moody's Investors Service and Standard & Poor's, a Division of the McGraw-Hill Companies, Inc. have assigned their municipal bond ratings of "Aa2" and "AA," respectively, to the Bonds. Ratings were applied for by the City and certain information was supplied by the City and the other Participants to the rating agencies to be considered in evaluating the Bonds. The ratings reflect only the views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward, suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the ratings would be likely to have an adverse effect on the market price of the Bonds.

UNDERWRITING

The 2010A Bonds are being purchased by Citigroup Global Markets Inc. (the "Underwriter") at an aggregate price of \$3,750,222, which represents the principal amount of the 2010A Bonds, plus an original issue premium of \$173,034, less an Underwriter's discount of \$17,812. The 2010B Bonds are being purchased by the Underwriter at an aggregate price of \$43,956,307, which represents the principal amount of the 2010B Bonds, less an Underwriter's discount of \$288,693. After the initial public offering, the public offering prices may be varied from time to time.

Citigroup Inc., the parent company of Citigroup Global Markets Inc., the Underwriter of the Bonds, has informed the City that it has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of its new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

FINANCIAL ADVISOR

DashenMusselman Inc. has acted as financial advisor to Tacoma Water in connection with the issuance of the Bonds. The financial advisor has not audited, authenticated, or otherwise verified the information set forth in this Official Statement or the other information available from Tacoma Water with respect to the appropriateness, accuracy, and completeness of the disclosure of such information, and the financial advisors make no guarantee, warranty, or other representation on any matter related to such information. DashenMusselman Inc. is an independent financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading of municipal securities or any other negotiable instruments.

APPROVAL OF COUNSEL

Legal matters incident to the authorization, issuance, and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached as Appendix F. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, 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. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Certain legal matters will be passed upon for the Underwriter by its counsel, K&L Gates LLP, Seattle, Washington, and any opinion of such counsel will be limited in scope, addressed solely to the Underwriter, and cannot be relied upon by investors.

LIMITATIONS ON REMEDIES

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 Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency, and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F.

CONTINUING DISCLOSURE UNDERTAKING

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events. To assist the Underwriter in meeting the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"), as applicable to a participating underwriter for the Bonds, the City will undertake (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, annual financial information and operating data of the type included in this Official Statement as generally described below ("annual financial information"); and to the MSRB timely notice of the occurrence of any of the following events with respect to the Bonds (as currently defined as follows or as redefined by MSRB in the future), if material: (i) principal and interest payment delinquencies; (ii) non payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax exempt status of the 2010A Bonds; (vii) modifications to rights of holders of the Bonds; (viii) Bond calls (other than scheduled mandatory redemptions of Term Bonds for which notice is given pursuant to Exchange Act Release 34-23856); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes. 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 (i) annual financial statements of Tacoma Public Utilities Water Division, which statements will include the Water Division Fund, prepared (except as otherwise noted therein) in accordance with the Budget Accounting and Reporting System presented by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute), which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided; (ii) principal amount of outstanding Parity Bonds and debt service coverage; and (iii) list of current Participants if other than the Participants at the date of the Bond Ordinance; and will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (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, 2010).

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.

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 the Rule and with an opinion of bond counsel.

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 shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. In addition, the City's obligations under the Undertaking shall terminate if those provisions of the Rule that require the City to comply with the Undertaking are invalid, have been repealed retroactively, or otherwise do not apply in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel to the City, and the City provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. No failure by the City or other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder or beneficial owner of a Bond will be to seek an order of specific performance from an appropriate court to compel the City or other obligated person to comply with the Undertaking.

Compliance with Continuing Disclosure Undertakings

The City has complied with all prior undertakings under the Rule.

Other Obligated Persons

The City agrees to provide or cause to be provided, either directly or through a designated agent, to the MSRB, as designated by the SEC, in accordance with the Rule, in electronic format as prescribed by the MSRB accompanied by identifying information as prescribed by the MSRB, with respect to each "Obligated Person," such Obligated Person's audited financial statements prepared in accordance with generally accepted accounting principles; provided, that if such Obligated Person's financial statements are not yet available, the City shall provide unaudited financial statements in substantially the same format, and audited financial statements when they become available. "Obligated Person" means any person or entity which, at the time, is obligated directly or indirectly by contract, generally or through an enterprise, fund or account, to make payment in the then current or any succeeding Fiscal Year to be applied to pay at least 10% of the aggregate amount of principal of and interest scheduled to become due in such year on the Bonds. Kent and Covington are currently "Obligated Persons" with respect to the Bonds.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such, and are not a representation of fact. This Official Statement is not to be construed as an agreement or contract between the City and the purchasers or owners of any Bonds.

CITY OF TACOMA, WASHINGTON,
DEPARTMENT OF PUBLIC UTILITIES

By /s/ Linda McCrea
Superintendent, Water Division

By /s/ Robert K. Biles
Finance Director

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APPENDIX A

SUMMARY OF THE BOND ORDINANCE

Following is a summary of the principal, substantive provisions of the Bond Ordinance, which summary is qualified in its entirety by reference to the complete text of the Bond Ordinance on file with the City Clerk.

Definitions

As used in the Bond Ordinance, the following words have the following meanings:

“Accreted Value” means, with respect to any Capital Appreciation Bond, as of the time of calculation, the sum of the amount representing the initial principal amount of such bond plus interest accrued, compounded thereon as of the most recent compounding date. With respect to any particular Payment Date, the Accreted Value is the amount set forth on the Accreted Value Table included as part of the form of Capital Appreciation Bond. In the event the Accreted Value of any Capital Appreciation Bond is required to be determined as of a date other than the Payment Date, the Accreted Value shall be determined by adding to the Accreted Value for the next preceding Payment Date the product obtained by multiplying (a) the difference between the Accreted Value for the next Payment Date and the Accreted Value for the next preceding Payment Date, by (b) the ratio obtained by dividing by 180 the number of days elapsed since the next preceding Payment Date (calculated on the basis of a 360-day year of 12 30-day months).

“Accreted Value Table” means the Accreted Value Table printed on the Capital Appreciation Bonds reflecting the Accreted Value of such Bonds as of any Payment Date.

“Annual Debt Service” means the amount required to be paid in a calendar year for (1) interest due in such calendar year on all outstanding Parity Bonds (excluding the accrued interest paid to the City upon issuance of Parity Bonds), (2) principal of all outstanding Serial Bonds due in such calendar year, and (3) any Mandatory Amortization Installment for such calendar year. If on such date of calculation the interest rate on any Variable Interest Rate Bonds shall then be fixed for a specified period, including pursuant to a Payment Agreement, the interest rate used for such specified period for the purpose of the foregoing calculation shall be such actual interest rate. For purposes of computing Annual Debt Service on any Parity Bonds which constitute Balloon Indebtedness, it shall be assumed that the principal of such Balloon Indebtedness, together with interest thereon at the rate applicable to such Balloon Indebtedness, shall be amortized in equal annual installments over a term equal to the lesser of (1) 25 years or (2) the average weighted useful life (expressed in years and rounded to the next highest integer) of the properties and assets constituting the project (if any) financed out of the proceeds of such Balloon Indebtedness. The interest on Parity Bonds designated as Build America Bonds or similar bonds, including the 2010B Bonds, for purposes of calculating the Annual Debt Service for purposes of the Reserve Requirement, shall be based on the net interest after the 35% federal direct payment or such other federal direct payment to be received for the 2010B Bonds and Future Parity Bonds.

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

“Balloon Indebtedness” means any series of Parity Bonds more than 25% of the principal of which, in accordance with the terms of such Parity Bonds, is due and payable in any one Fiscal Year either by reason of the stated maturity date of such Parity Bonds or pursuant to a sinking fund installment; provided that with respect to any Parity Bonds issued as Term Bonds, such Bonds shall only be treated as Balloon Indebtedness if more than 25% of the principal thereof is due in any one Fiscal Year pursuant to the applicable sinking fund requirement or upon the stated maturity date thereof (assuming that the only principal due on the stated maturity date thereof will be the principal remaining outstanding after all redemptions have been made pursuant to the applicable sinking fund requirement).

“Bond Obligation” means, as of any given date of calculation, the sum of (1) the aggregate principal amount of all outstanding Current Interest Bonds and (2) the aggregate Accreted Value of all outstanding Capital Appreciation Bonds calculated as of the date of calculation if that date is a Payment Date or as of the next preceding Payment Date if the date of calculation is not a Payment Date.

“Build America Bonds” means any series of Parity Bonds to which the City irrevocably elects to have Section 54AA of the Code apply.

“Capital Appreciation Bonds” means Parity Bonds, the interest on which accrues and compounds, payable at maturity or earlier redemption.

“Certified Public Accountant” means an independent licensed certified public accountant (or firm of certified public accountants) selected by the City.

“Current Interest Bonds” means Parity Bonds, the interest on which is paid periodically.

“Engineer” means an independent licensed professional engineer (or firm of licensed professional engineers) selected by the City and experienced and skilled in the operation of water systems of comparable size and character to the Regional System.

“Fiscal Year” means the fiscal year used by the City at any time. At the time of the adoption of the Bond Ordinance, the Fiscal Year is the 12-month period beginning January 1 of each year.

“Future Parity Bonds” means any revenue bonds or any other revenue obligations of the City, issued in accordance with the Bond Ordinance after the date of issuance of the Bonds, that are secured by a lien and charge equal to the lien and charge securing the payment of the principal of and interest on the Bonds.

“Gross Revenues of the Water System” means in any Fiscal Year of the Water System all of the revenues of the Water System, including but not limited to revenue from the sale or transmission of water; the sale, lease or furnishing of other commodities, services, properties or facilities; the imposition of connection, capital improvement or other charges; utility local improvement district assessments that are pledged to Water System Bonds; and earnings from the investment of money in the Water System Revenue Fund. However, Gross Revenue shall not include earnings of the Regional System or a separate utility system that may be acquired or constructed by the City; principal proceeds of Water System bonds or other borrowings; grants or other capital contributions to the Water System; or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund Water System obligations (until commingled with other earnings and revenues of the Water System defined as Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States government under the Code.

“Mandatory Amortization Installment” means, for any Fiscal Year, the principal amount of Term Bonds required to be purchased, redeemed or paid in such year as established by the ordinance or resolution of the City authorizing the issuance of such Term Bonds.

“Maximum Interest Rate” means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest, which shall be set forth in any ordinance authorizing such Bond, that shall be the maximum rate of interest such Bond may at any time bear.

“Net Revenues” means, for any period, the excess of Revenues over Operating Expenses for such period, excluding from the computation of Revenues any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of properties, rights or facilities of the Regional System or gains or losses resulting from the early extinguishment of debt or the requirements to mark assets or liabilities to market.

“Operating Expenses” means all expenses incurred by the City in causing the Regional System to be operated and maintained in good repair, working order and condition, including without limitation: deposits, premiums, assessments or other payments for insurance, if any, on the Regional System; payments into pension funds; State-imposed taxes; payments made to any other person or entity for the receipt of water supply or transmission or other right, commodity or service; payments made to any other person or entity that are required in connection with the operation of the Regional System or the acquisition or transmission of water and that are not subordinate to the lien of the Parity Bonds; and payments with respect to any other expenses of the Regional System that are properly treated as operation and maintenance expenses under generally accepted accounting principles applicable to municipal corporations. Operating Expenses do not include any depreciation or taxes levied or imposed by the City,

Payment Agreement payments, or payments to the City in lieu of taxes, any Rebate Amount, or capital additions or capital replacements to the Regional System.

“Outstanding Parity Bonds” means the outstanding 2002 RWSS Bonds.

“Parity Bonds” means the Outstanding Parity Bonds and any Future Parity Bonds.

“Parity Payment Agreement” means a Payment Agreement under which the City’s payment obligations are expressly stated to be secured by a pledge of and lien on Net Revenues on an equal and ratable basis with the Net Revenue required to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on Parity Bonds.

“Participants’ Payments” means all payments received from the Participants under the Project Agreement.

“Participants’ Systems” or “Participant’s System” means the City’s Water System, the City of Kent’s water system, Covington Water District’s water system, and Lakehaven Utility District’s water and sewer system.

“Payment” means, for purposes of the provisions of the Bond Ordinance relating to parity derivative products, any payment (designated as such by an ordinance) required to be made by or on behalf of the City under a Payment Agreement and which is determined according to a formula set forth in the Payment Agreement.

“Payment Agreement” means a written agreement, for the purpose of managing or reducing the City’s exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by the City and a Qualified Counterparty, all as authorized by any applicable laws of the State. Such agreement may or may not be characterized by a structure of reciprocity of payment.

“Payment Date” means the dates on which principal and/or interest on the Parity Bonds is due and payable. For purposes of the section of the Bond Ordinance relating to parity derivative products, “Payment Date” means any date specified in the Payment Agreement on which a City Payment or Receipt is due and payable under the Payment Agreement.

“Payor” means a Qualified Counterparty to a Payment Agreement that is obligated to make one or more payments thereunder.

“Permitted Investments” means investments that are now or may hereafter be permitted to the City by the laws of the State of Washington.

“Qualified Counterparty” means a party (other than the City or a party related to the City) who is the other party to a Payment Agreement that has or whose obligations are unconditionally guaranteed by a party that has at least an investment grade rating from a Rating Agency or who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

“Qualified Insurance” means any municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), which insurance company or companies, as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest rating categories by two Rating Agencies.

“Qualified Letter of Credit” means any letter of credit issued by a financial institution for the account of the City on behalf of the owners of the Parity Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit is currently rated in one of the two highest rating categories by two Rating Agencies.

“Rating Agencies” means Moody’s, S & P or another nationally recognized rating agency rating municipal bonds.

“Receipt” means any payment (designated as such by an ordinance) to be made to, or for the benefit of, the City under a Payment Agreement by the Payor.

“Regional Supply System Costs” means with respect to each month all costs attributable to the Regional System, to the extent not paid from the proceeds of Parity Bonds or other sources, resulting from the ownership, operation, maintenance and termination of, and repair, renewals, replacements, additions, improvements, betterments and modifications to the Regional System, including without limitation (1) Operating Expenses, (2) the amount required to be paid into the Bond Fund, (3) any amount that the City may be required during such month to pay for the prevention or correction of any unusual loss or damage or for renewals, replacements, repairs, additions, improvements, betterments, and modifications that are necessary to keep the Regional System in good operating condition, to improve the operation thereof or to prevent a loss, and (4) all other charges or obligations against the Revenues.

“Regional System” means the Regional Water Supply System, comprised of certain property and facilities to obtain and receive deliveries of water for the Participants from the exercise by Tacoma of the Second Diversion Water Right from the Green River and granted by the State of Washington Department of Ecology, which property and facilities include (i) a Main Branch pipeline to Tacoma with a 72 MGD nominal capacity; (ii) Headworks improvements associated with the Second Diversion Water Right; (iii) related fisheries and environmental enhancements; (iv) improvements and additions to the Howard Hanson Dam to raise the summer storage pool to elevation 1,167 in phase I to provide an additional 20,000 acre feet of water storage, together with improvements and additions related to accommodating fish passage; and (v) additional related water treatment facilities; and as the same will be added to, improved and extended for as long as any of the Parity Bonds are outstanding. The Regional System shall not include the Water System or any other separate system.

“Reserve Account Requirement” means for the 2002 Bonds and the 2010 Bonds, an amount equal to Average Annual Debt Service on the outstanding Bonds, but in no case shall the amount in the Reserve Account allocable to the Bonds exceed 10% of the proceeds of such Bonds. The Reserve Account Requirement, with respect to Future Parity Bonds will be either (1) an amount equal to Average Annual Debt Service on such issuance of Future Parity Bonds, but in no case shall the amount in the Reserve Account allocable to such issuance of Future Parity Bonds exceed 10% of the proceeds of such bonds, or (2) the ordinance authorizing such issuance of Future Parity Bonds may provide for the creation of a separate reserve account, in which case the Reserve Account Requirement, if any, for such issuance of Future Parity Bonds may be set in such ordinance and the Reserve Account created by Ordinance No. 27001 shall not secure such series of Future Parity Bonds. In the case of Variable Interest Rate Bonds, for the purpose of calculating Annual Debt Service, the interest rate thereon shall be calculated on the assumption that such bonds will bear interest during such period at a rate equal to the rate most recently reported by The Bond Buyer as the Bond Buyer Index for long-term revenue bonds as of the date the Parity Bonds are sold; provided, that if on such date of calculation the interest rate on such bonds shall then be fixed for a specified period, the interest rate used for such specified period for the purpose of the foregoing calculation shall be such actual interest rate.

“Revenues” means the income, revenues, receipts and loan proceeds derived by the City through the ownership and operation of the Regional System, including Participants’ Payments, but, except as provided in the Bond Ordinance, shall not include any income derived by the City through the ownership and operation of the Water System or any other separate utility system of the City.

“Variable Interest Rate” means a variable interest rate or rates to be borne by a series of Parity Bonds or any one or more maturities within a series of Parity Bonds. The method of computing such variable interest rate shall be specified in the ordinance authorizing such series of Parity Bonds. Such variable interest rate shall be subject to a Maximum Interest Rate and there may be an initial rate specified, in each case as provided in such ordinance, or a stated interest rate that may be changed from time to time as provided in the ordinance authorizing such Bonds. Such ordinance shall also specify either (i) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (ii) the time or times upon which any change in such variable interest rate shall become effective.

“Variable Interest Rate Bonds” for any period of time means Parity Bonds that during such period bear a Variable Interest Rate, provided that Parity Bonds the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be Variable Interest Rate Bonds.

“Water System” means the water system of the City as it now exists, and all additions thereto and betterments and extensions thereof at any time made, but shall not include the Regional System or any future separate water system created by the City.

“Water System Bonds” means the City’s (i) \$32,900,000 original principal amount of Water System Revenue Refunding Bonds, 2001; (ii) \$51,380,000 original principal amount of Water System Revenue and Refunding Bonds, 2003; (iii) \$46,550,000 original principal amount of Water System Revenue and Refunding Bonds, 2005; (iv) \$76,755,000 original principal amount of Water System Revenue Bonds, 2009; (v) \$29,100,000 original principal amount of Water System Revenue Refunding Bonds, 2010A; and (vi) \$74,985,000 original principal amount of Water System Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment), issued pursuant to Ordinance Nos. 26849, 27109, 27405, 27837 and 27902, respectively, and any obligations thereafter issued on a parity with such Water System Bonds.

Regional System—Creation; Administration; Transfer of Facilities

A separate water supply and transmission utility system designated as the Regional Water Supply System has been created within the Water Division of the Department. The Regional System shall be administered by the Department as a separate utility system within the Water Division in accordance with the same administrative requirements of the City Charter, the Tacoma Municipal Code and state law as are applicable to the administration of the Water System.

Revenue Fund; Flow of Funds of the Regional System

Revenue Fund. The City will pay into the Revenue Fund all of the Revenues and all other money required to be paid into the Revenue Fund pursuant to the Bond Ordinance. The City has covenanted to pay into the Revenue Fund in each month, as an operating expense of the Water System, from Gross Revenues of the Water System an amount which, together with other Participants’ Payments and other Revenues available for such purpose, is equal to the Regional Supply System Costs which are then unpaid together with the estimated Regional Supply System Costs for the next succeeding month. The Treasurer may create separate accounts within the Revenue Fund.

Flow of Funds. In each month, the City shall apply amounts in the Revenue Fund first, to the payment of Operating Expenses for such month and second, to the deposit in the Bond Fund of the amounts required pursuant to the Bond Ordinance and, in the event the City has entered into any Parity Payment Agreement (as described in the Bond Ordinance) on a parity of lien with the Parity Bonds, to make any regularly scheduled City Payments adjusted by any regularly scheduled Receipt (provided, however, that termination payments with respect to any Parity Payment Agreement shall not rank on a parity of lien with the Parity Bonds); and, in the event the City has entered into a reimbursement agreement authorized by the Bond Ordinance, to make all payments required to be made on a parity of lien with the Parity Bonds pursuant to such reimbursement agreement in connection with a Qualified Letter of Credit, Qualified Insurance, or other credit facility, provided that if there is not sufficient money to make all payments under more than one such reimbursement agreement, the payments shall be made on a pro rata basis. After such required payments are made, amounts in the Revenue Fund may be used to pay junior lien obligations of the Regional System, to finance capital improvements or for any other lawful purpose of the Regional System.

Payment of and Security for Parity Bonds

Bond Fund. The Bond Fund shall be used solely for the purposes of paying the principal of, premium, if any, and interest on Parity Bonds and retiring Parity Bonds prior to maturity. The Bond Fund contains the Debt Service Account and the Reserve Account. The City has obligated itself irrevocably to set aside and to pay into the Bond Fund out of the Revenue Fund amounts sufficient (together with other available funds on hand and paid into the Bond Fund) to pay the principal of, premium, if any, and interest on the Bonds and all other Parity Bonds from time to time outstanding as the same respectively become due and payable, either at the maturity thereof or in accordance with the terms of any Mandatory Amortization Installment schedule established for the retirement of Term Bonds. The fixed amounts to be paid into the Bond Fund, to the extent that such payments are not made from bond proceeds or from other money that may legally be available therefor, shall be made out of the Revenue Fund into the Bond Fund in the following order of priority: first, to pay interest; second, to pay principal and Mandatory Amortization Installments; and third, into the Reserve Account.

Money in the Bond Fund shall be transmitted to the Bond Registrar in amounts sufficient to meet the maturing installments of principal of, premium, if any, and interest on all Parity Bonds when due.

Money in the Bond Fund may, at the option of the City, be invested and reinvested as permitted by law in Permitted Investments. At the City's option, earnings on investments in the Bond Fund may be retained in the Bond Fund or transferred to the Revenue Fund, except that earnings on investments in the Reserve Account shall first be applied to remedy any deficiency in such Account.

The City will pay into the Reserve Account out of proceeds of the Bonds and/or acquire Qualified Insurance so that the amount in the Reserve Account at least equals the Reserve Account Requirement. The City may, at any time, substitute Qualified Insurance or a Qualified Letter of Credit for the money and investments in the Reserve Account or may substitute money and investments for Qualified Insurance or a Qualified Letter of Credit in accordance with the Bond Ordinance. Such Qualified Insurance or Qualified Letter of Credit shall not be cancelable on less than five years' notice.

On receipt of a notice of cancellation of any Qualified Letter of Credit or Qualified Insurance or upon notice that the entity providing the Qualified Letter of Credit or Qualified Insurance no longer meets the requirements specified in the Bond Ordinance, the City shall substitute a Qualified Letter of Credit or Qualified Insurance in the amount required to make up the deficiency created in the Reserve Account or in the alternative shall deposit, on or before the 25th day of each of the 36 succeeding calendar months (commencing with the 25th day of the calendar month next following the date of the notice) one thirty-sixth of the amount sufficient, together with other money and investments on deposit in the Reserve Account, to equal the Reserve Account Requirement in effect as of the date the cancellation or disqualification of the entity becomes effective.

Valuation of the amount in the Reserve Account and all subaccounts therein shall be made by the City on each December 31 and may be made on any other date. Such valuation shall be at the market value of the obligations in such account and such subaccounts (including accrued interest); provided, that investments which mature within one year shall be valued at their maturity value. If at any time the money and value of Permitted Investments in the Reserve Account shall exceed the amount of money and value of Permitted Investments then required to be maintained therein, such excess may be transferred to the Revenue Fund.

In the event that there shall be a deficiency in the Debt Service Account, the City shall promptly make up such deficiency from available funds in the Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency, and if a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the City shall then draw from any Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility in sufficient amount to make up the deficiency. The City has covenanted in the Bond Ordinance that any deficiency created in the Reserve Account by reason of any withdrawal for payment into the Debt Service Account shall be made up from money in the Revenue Fund first available after providing for the required payments into such Debt Service Account and after providing for payments under any reimbursement agreement entered into by the City under the Bond Ordinance.

The Bond Ordinance does not require the establishment of a Reserve Account Requirement for any Future Parity Bonds. The Reserve Account Requirements, if any, with respect to Future Parity Bonds will be specified in the ordinance authorizing the issuance of such Future Parity Bonds. The ordinance authorizing the issuance of Future Parity Bonds shall provide for further approximately equal monthly payments into the Reserve Account from the money in the Revenue Fund, in such amounts and at such times so that by no later than five years from the date of issuance of such Future Parity Bonds or by the final maturity established for such series of Future Parity Bonds, whichever occurs first, there will be credited to the Reserve Account an amount equal to the Reserve Account Requirement, if any. The City may obtain Qualified Insurance or a Qualified Letter of Credit for amounts required by to be paid out of the Reserve Account. Such Qualified Letter of Credit or Qualified Insurance shall not be cancelable on less than five years notice.

When a series of Parity Bonds is refunded in whole or in part, money may be withdrawn from the Reserve Account to pay or provide for the payment of refunded Parity Bonds; provided that immediately after such withdrawal there shall remain in or be credited to the Reserve Account money, Qualified Insurance, Qualified Letter of Credit and

Permitted Investments in an amount equal to the Reserve Account Requirement or so much thereof as is then required to be maintained.

Pledge of Net Revenue and Lien Position. The Parity Bonds are special limited obligations of the City payable from and secured solely by Revenues, including the amount of Gross Revenues of the Water System and Participants' Payments required to be deposited in the Revenue Fund pursuant to the Bond Ordinance, subject to the prior payment of Operating Expenses, and other funds specifically pledged thereunder. The City has pledged as security for the payment of the principal, premium, if any, and interest on the Parity Bonds in accordance with their terms and the provisions of the Bond Ordinance, and any City Payments or reimbursement obligations as set forth therein:

(1) the proceeds of the sale of the Parity Bonds to the extent held in the funds and accounts established by the Bond Ordinance,

(2) the Revenues, including such Gross Revenues of the Water System and Participants' Payments as provided therein, and

(3) the money and investments, if any, credited to the funds and accounts established by the Bond Ordinance, and the income therefrom.

The Revenues and other money and securities pledged shall immediately be subject to the lien of the pledge without any physical delivery or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the City.

All Parity Bonds shall be equally and ratably payable and secured under the Bond Ordinance, except as to insurance which may be obtained by the City to insure the repayment of one or more series or maturities within a series.

Contract Resource Obligation. The obligations of the City under the Project Agreement shall be treated as a Contract Resource Obligation of the Water System to the Regional System for all purposes of the Water Bond Authorizing Ordinances, including for the purpose of treating all amounts payable by the City under the Project Agreement as Operation and Maintenance Expenses of the Water System as defined in the Water Bond Authorizing Ordinances.

Payments from the Water System. The City covenants that it shall pay into the Revenue Fund in each month, as an operating expense of its Water System, from Gross Revenues of the Water System an amount which, together with other Participants' Payments and other Revenues available for such purpose, is equal to the Regional Supply System Costs which are then unpaid together with the estimated Regional Supply System Costs for the next succeeding month.

Covenants with Bondowners

The City covenants with the owner of each Bond at any time outstanding, as follows:

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

Rate Covenants. The City shall establish, maintain and collect contract charges or other amounts for water and other goods and services sold or supplied through the facilities of the Regional System that will provide the City with Revenues sufficient for the payment of Regional Supply System Costs. The City shall establish, maintain and collect rates and charges for water and other goods and services sold or supplied through the facilities of the Water System sufficient to pay the cost of operation and maintenance of the Water System and to provide Gross Revenues of the Water System sufficient, together with amounts on deposit in the Revenue Fund and available for such purpose (including Participants' Payments), to pay all Regional Supply System Costs and all obligations against Gross Revenues of the Water System.

New Participants; Assignments of Participants' Shares. The City will not amend the Project Agreement in any manner that would materially impact the security for Parity Bonds, increase or reduce a Participant's obligations to pay its share of debt service on the Bonds or any Future Parity Bonds, other than to allow for a new Participant or an existing Participant (other than the City) to assign its interests in the Project Agreement if (i) the new Participant signs a project agreement substantially in the form of the Project Agreement, (ii) the new Participant's water system is rated in one of the three highest categories by one Rating Agency, (iii) the Participant's resolutions or ordinances authorizing outstanding water revenue bonds permit the Participant to pay all costs it owes under the Project Agreement as an operating and maintenance expense of its water system and any other utility that is combined with its water system, (iv) the tax-exempt status of any outstanding Parity Bonds issued as tax-exempt obligations or the entitlement of the City to receive federal direct payments from the United States Treasury with respect to any outstanding Parity Bonds issued as Build America Bonds will not be affected, and (v) to the extent that the new Participant's share of debt service on any Parity Bonds exceeds 10%, the new Participant shall execute a continuing disclosure undertaking that satisfies the requirements of the Rule.

Sale, Transfer or Disposition of the Regional System. The City may sell, transfer or otherwise dispose (each, as used in this subparagraph, a "transfer") of any of the works, plant, properties, facilities or other part of the Regional System only consistent with State law, the City Charter and one or more of the following:

(1) The City may exchange any part of the Regional System for works, plant, properties or facilities of substantially the same type, use and value; or

(2) The City may transfer if the facilities or property transferred are not material to the operation of the Regional System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Regional System or are no longer necessary, material or useful to the operation of the Regional System; or

(3) The City may sell, lease, mortgage or otherwise dispose of the Regional System if the aggregate depreciated cost value of the facilities or property being transferred in any Fiscal Year comprise no more than 5% of the assets of the Regional System; or

(4) The City may transfer if provision is made for the replacement thereof or for the payment, redemption or other retirement of a principal amount of Parity Bonds equal to the greater of the following amounts:

A. An amount in the same proportion to the net Bond Obligation of Parity Bonds then outstanding (defined as the total Bond Obligation of such Parity Bonds outstanding less the amount of cash and investments in the Debt Service Account) that the revenues attributable to the part of the Regional System transferred for any 12 consecutive of the most recent 24 months bears to the total revenues for such period; or

B. An amount in the same proportion to the net Bond Obligation of Parity Bonds then outstanding that the book value of the part of the Regional System sold or disposed of bears to the book value of the entire Regional System immediately prior to such transfer.

Books and Accounts. It will keep proper books, records and accounts with respect to the operations, income and expenditures of the Regional System in accordance with generally accepted accounting practices relating to municipal utilities, and will cause those books, records and accounts to be audited on an annual basis by the State Auditor or by a Certified Public Accountant selected by the City. It will prepare annual financial and operating statements after the close of each Fiscal Year of the Regional System showing in reasonable detail the financial condition of the Regional System.

Maintenance of Insurance. The City will keep the Regional System insured against risks, accidents or casualties, at least to the extent that insurance is deemed prudent and/or necessary by the other Participants; provided, the City may, with the other Participants' approval, institute or continue a self-insurance program with respect to any or all of the aforementioned risks. In the event of any loss or damage, the City will use insurance funds to repair or replace the damaged portion of the insured properly; or in the event the City should determine not to repair or reconstruct such damaged portion of the properties of the Regional System, the proceeds of such insurance or self-insurance funding shall be transferred to the Reserve Account to the extent that such transfer shall be necessary to make up any deficiency in the Reserve Account and the balance, if any, shall at the option of the City, be used for repairs,

renewals, replacements, or additions to or extension of the Regional System or be used in the retirement of Parity Bonds prior to maturity.

Future Parity Bonds

The City has reserved the right to issue Future Parity Bonds for any lawful purpose of the City relating to the Regional System, including but not limited to, acquiring, constructing and installing additions, betterments and improvements to and extensions of, acquiring necessary equipment for, or making necessary renewals, replacements or repairs and capital improvements to the Regional System and refunding any outstanding indebtedness. The City covenants that Future Parity Bonds shall be issued only upon compliance with the following conditions:

- (1) The Project Agreement shall be in effect.
- (2) At the times of the issuance of such Future Parity Bonds there is no deficiency in the Bond Fund or in any of the accounts therein.
- (3) The ordinances authorizing the issuance of the Future Parity Bonds shall require that there shall be paid into the Reserve Account in the Bond Fund (A) from the proceeds of such Future Parity Bonds an amount such that the amount on deposit in the Reserve Account, allowing for any amount covenanted in an ordinance authorizing the issuance of outstanding Parity Bonds to be paid into the Reserve Account over five years in equal monthly installments as provided in the Bond Ordinance, is equal to the Reserve Account Requirement, if any, or (B) from the Revenue Fund in not more than five years in equal monthly installments as provided in the Bond Ordinance such that the amount on deposit in the Reserve Account is equal to the Reserve Account Requirement. Upon the issuance of any Future Parity Bonds, the City shall recalculate the Reserve Account Requirement.
- (4) Without obtaining a certificate described in A or B below, Future Parity Bonds may be issued for refunding purposes as described below. For all other Future Parity Bonds there shall be on file with the City Clerk either:

A. A certificate of the Director of Finance (or equivalent official) of each Participant (including the City in the case of the Water System) that will be responsible for paying debt service on the Future Parity Bonds stating that “Revenues” or “Gross Revenues” (as defined in the Participant’s System bond ordinances or resolutions) in any 12 consecutive months out of the most recent 24 months preceding the delivery of the Future Parity Bonds then proposed to be issued, as determined from the financial statements of the Participant’s System, were sufficient to pay the operation and maintenance expenses of the Participant’s System and the Participant’s portion of the debt service on the Future Parity Bonds then proposed to be issued based on the highest debt service in the next three calendar years following the year through which interest is capitalized or the Project being financed is placed in service, whichever is later, and “Net Revenues” (as defined in the Participant’s System bond ordinances or resolutions) for such 12 month period were sufficient to pay debt service on the Participant’s senior lien water revenue bonds and meet the Participant’s rate coverage required by such ordinance or resolution; or

B. For each Participant (including the City) that will be responsible for paying debt service on the Future Parity Bonds, a certificate of an Engineer or a Certified Public Accountant showing that the “Adjusted Revenues” for each calendar year during the life of the Future Parity Bonds proposed to be issued will be sufficient to pay the operation and maintenance expenses of the Participant’s System and the Participant’s portion of the debt service on outstanding Parity Bonds and on the Future Parity Bonds then proposed to be issued based on the highest debt service in the next three calendar years following the year through which interest is capitalized or the Project being financed is placed in service, whichever is later, and “Adjusted Net Revenues” will be sufficient to pay debt service on the Participant’s senior lien water revenue bonds and meet the Participant’s rate coverage required by the ordinance or resolution authorizing such senior lien bonds.

The “Adjusted Revenues” or “Adjusted Net Revenues,” as applicable, shall be the Participant’s System water revenue for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds (the “Base Period”) as adjusted by such Engineer or Accountant to take into consideration changes in revenues estimated to occur under the following conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, shall be outstanding:

(1) the additional revenues that would have been received if any change in rates and charges adopted prior to the date of such certificate and subsequent to the beginning of the Base Period and effective within 12 months of the certificate had been in force during the full Base Period;

(2) the additional net revenues that would have been received if any facility of the Participant's System that became fully operational after the beginning of the Base Period had been so operating for the entire Base Period;

(3) the additional revenues to the Participant's System estimated by such Engineer or Accountant to be received (a) as a result of any additions, betterments and improvements to and extensions of any facilities of the Participant's System which are under construction at the time of such certificate or (b) as a result of improvements to the Regional System to be constructed or acquired from the proceeds of the Future Parity Bonds to be issued; and

(4) the additional revenues that would have been received if any customers added to the Participant's System during the Base Period or subsequent thereto had been customers for the entire Base Period.

Such Accountant or Engineer may rely upon, and the Accountant's or Engineer's certificate shall have attached thereto, financial statements of the Participant's System, certified by the Director of Finance, showing income and expenses for the period upon which the same is based.

In the event that any Future Parity Bonds provided for in the Bond Ordinance are issued for refunding purposes and the issuance of such refunding Future Parity Bonds results in a present value monetary saving to the City and such refunding Future Parity Bonds will not require an increase of greater than \$5,000 in debt service payments to be paid in any Fiscal Year or calendar year thereafter than would have been required to be paid in the same Fiscal Year or calendar year for Annual Debt Service on the Parity Bonds being refunded, then the requirements of paragraph (4) above need not be complied with to permit such refunding Future Parity Bonds to be issued, although the provisions of paragraphs (1), (2) and (3) above must still be complied with.

In making any calculations required to be made by a Director of Finance or the Engineer or Accountant in paragraph (4) above, in the case of Variable Interest Rate Bonds, for purposes of calculating Annual Debt Service the interest rate thereon shall be calculated on the assumption that such bonds will bear interest at a rate equal to the rate most recently reported by The Bond Buyer as the Bond Buyer's Index for long-term revenue bonds; provided, that if on such date of calculation the interest rate on such bonds shall then be fixed to maturity, the interest rate used for such specified period for the purpose of the foregoing calculation shall be such actual interest rate.

Reimbursement Obligations

In the event that the City elects to meet the Reserve Account Requirement as to any issue of Parity Bonds through the use of a Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement device, the City may contract with the entity providing such Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement device that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds.

In the event that the City elects additionally to secure any issue of Variable Interest Rate Bonds through the use of a letter of credit, insurance or other equivalent credit enhancement device, the City may contract with the entity providing such letter of credit, insurance or other equivalent credit enhancement device that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds; provided, that the payments due under such reimbursement agreement are such that if such reimbursement obligation were a series of Future Parity Bonds, such Future Parity Bonds could be issued in compliance with the provisions of the Bond Ordinance.

Parity Payment Agreements

A Payment made under a Payment Agreement may be on a parity with the Bonds if the Payment Agreement satisfies the requirements for Future Parity Bonds described in the provisions of the Bond Ordinance relating to Future Parity Bonds, taking into consideration regularly scheduled Payments and Receipts (if any) under the Payment Agreement. The following shall be conditions precedent to the use of any Payment Agreement on a parity with the Bonds:

(1) The City shall obtain an opinion of Bond Counsel on the due authorization and execution of such Payment Agreement, the validity and enforceability thereof and opining that the action proposed to be taken is authorized or permitted by the Bond Ordinance or the applicable provisions of any supplemental ordinance and will not adversely affect the excludability for federal income tax purposes of the interest on any outstanding Parity Bonds issued as tax-exempt obligations or the entitlement of the City to receive federal direct payments from the United States Treasury with respect to any outstanding Parity Bonds issued as Build America Bonds.

(2) Prior to entering into a Payment Agreement, the City shall adopt an ordinance setting forth such matters and provisions as required by the Bond Ordinance.

If the City enters into a Parity Payment Agreement, Payments shall be made from the Debt Service Account in the Bond Fund and Annual Debt Service shall include any regularly scheduled City Payments adjusted by any regularly scheduled Receipts during a Fiscal Year. Receipts shall be made directly into the Bond Fund. Obligations to make unscheduled payments, such as termination payments, may not be entered into on a parity with the Bonds.

Junior Lien Obligations

The City may issue bonds, notes, or other obligations secured by a lien and charge junior to the lien and charge of the Parity Bonds. The City may enter into Payment Agreements with a claim on Net Revenues junior to that of the Bonds.

Advance Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available to pay the principal of and interest on the Bonds as the same become due and to redeem, refund or defease all such then-outstanding Bonds (the "Defeased Bonds") and to pay the costs of such refunding or defeasance. In the event that money and/or "Government Obligations," as such obligations are now or may hereafter be defined under RCW 39.53 or other applicable State law, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire the Bonds in accordance with their terms are set aside in a special account and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for and such Bonds shall cease to be entitled to any lien, benefit or security of the Bond Ordinance except the right to receive the funds so set aside and pledged, and such Bonds shall be deemed not to be outstanding under the Bond Ordinance.

Amendatory or Supplemental Ordinances

Without Bond Owners' Consent. The Council may pass an ordinance supplemental to the Bond Ordinance, for one or more of the following purposes:

(1) To add covenants which shall not adversely affect the interests of the owners of any Parity Bonds or to surrender any right or power reserved to or conferred upon the City; or

(2) To cure any ambiguities or correct any defective provision contained in the Bond Ordinance or any ordinance authorizing Parity Bonds and which shall not adversely affect the interest of the owners of the Parity Bonds.

Any such supplemental ordinance of the City may be passed without the consent of the owners of any Parity Bonds if the City obtains an opinion of Bond Counsel to the effect that such supplemental ordinance is solely for one or more of the purposes stated above and will not adversely affect the interests of the owners of Parity Bonds.

With Bond Owners' Consent. With the consent of the owners of not less than 51% in aggregate Bond Obligations of the Parity Bonds at the time outstanding, the City may pass an ordinance or ordinances supplemental thereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Bond Ordinance or of any supplemental ordinance; provided, however, that no such supplemental ordinance shall:

(1) Extend the fixed maturity of any Parity Bonds, or reduce the rate of interest thereon, or extend the times of payment of interest thereon from their due dates, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the owner of each bond so affected; or

(2) Reduce the aforesaid percentage of bondowners required to approve any such supplemental ordinance, without the consent of the owners of all of the Parity Bonds then outstanding.

It shall not be necessary for the consent of bondowners to approve the particular form of any proposed supplemental ordinance, but it shall be sufficient if such consent shall approve the substance thereof. To the extent the Bonds are insured, the Insurer may consent on behalf of owners of the Bonds to any amendment to the Bond Ordinance so long as the Insurer is not in default on its obligations to pay.

Defaults and Remedies

Events of Default. The following shall constitute "Events of Default" with respect to the Parity Bonds:

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

(2) If the City defaults in the performance of any of the covenants, conditions and agreements in the Bond Ordinance or any ordinance authorizing Parity Bonds and such default or defaults have continued for six months after it has received from the Bondowners' Trustee or from the registered owners of not less than 25% in principal amount of the Parity Bonds, a written notice specifying and demanding the cure of such default. However, if the default in the performance of any covenants, conditions and agreements is one which cannot be completely remedied within the six months after written notice has been given, it shall not be an Event of Default as long as the City has taken active steps within the six months after written notice to remedy the default and is diligently pursuing such remedy; or

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

Bondowners' Trustee. So long as such Event of Default has not been remedied, a bondowners' trustee (the "Bondowners' Trustee") may be appointed by the registered owners of 25% in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed by such registered owners of the Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such Bondowners' Trustee. Any Bondowners' Trustee shall be a bank or trust company organized under the laws of the State of Washington or the State of New York or a national banking association. The bank or trust company acting as Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed, by the registered owners of a majority in principal amount of the Parity Bonds. The Bondowners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

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

Suits at Law or in Equity. Upon the happening of an Event of Default and during the continuance thereof, the Bondowners' Trustee may, and upon the written request of the registered owners of not less than 25% in principal amount of the Parity Bonds outstanding shall, take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the registered owners of the Parity Bonds, to collect any amounts due and owing to or from the City, or to obtain other appropriate relief, and may

enforce the specific performance of any covenant, agreement or condition contained in the Bond Ordinance or in any ordinance authorizing Parity Bonds.

The remedy of acceleration is expressly denied to the registered owners of the Parity Bonds. The respective registered owners of the Parity Bonds shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the lawful trustee of the respective registered owners of those Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any documents for the receipt of money; and to do all acts that the registered owner might have done in person. The Bondowners' Trustee may not consent to accept or adopt, on behalf of any registered owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any registered owner, or may not vote the claims of the registered owners in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City is a party.

Application of Money Collected by Bondowners' Trustee. Any money collected by the Bondowners' Trustee shall be applied in the following order of priority:

- (1) to the payment of the charges, expenses, advances and compensation of the Bondowners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys; and
- (2) to the payment of interest then due on the Parity Bonds in the order of maturity of such installments and, if the amount available is not sufficient, then to the payment thereof ratably; and
- (3) to the payment of the unpaid principal amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the payment of which money is held, whether at maturity or by redemption, in the order of their due dates and, if the amount available shall not be sufficient, then to the payment thereof ratably).

Duties and Obligations of Bondowners' Trustee. The Bondowners' Trustee shall not be liable except for the performance of such duties as are specifically set forth in the Bond Ordinance. During an Event of Default, the Bondowners' Trustee shall exercise such of the rights and powers vested in it and shall use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bondowners' Trustee shall have no liability for any act or omission to act except for the Bondowners Trustee's own negligent action or failure to act, or its own willful misconduct.

The Bondowners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bondowners' Trustee.

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

Suits by Individual Bondowners Restricted. Neither the registered owner nor the beneficial owner of any Parity Bond shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of the same unless an Event of Default has happened and is continuing; a Bondowners' Trustee has been appointed; and such owner previously shall have given to the Bondowners' Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted; and

- (1) the registered owners of 25% in principal amount of the Parity Bonds, after the occurrence of such Event of Default, have made written request of the Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action or proceeding; and
- (2) there have been offered to the Bondowners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and
- (3) the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

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APPENDIX B

SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENTS

The following is a summary of certain provisions of the Agreement for the Second Supply Project (the “Project Agreement”), and the Repayment Agreement among the City of Tacoma, Covington Water District, the City of Kent and Lakehaven Utility District (the “Repayment Agreement”). This summary is qualified in its entirety by reference to the complete texts of the Project Agreement and Repayment Agreement (collectively, the “Project Agreements”).

Definitions

As used in the Project Agreement, the following words have the following meanings:

“Additional Water” means water from any source, other than First Diversion Water and Second Diversion Water, that is proposed by any Participant for introduction into the Project, and such introduction is approved by the Project Committee, pursuant to the Project Agreement.

“Annual Operating Plan” means the plan for the operation of the Project during any Operating Year that is prepared in accordance with the Project Agreement.

“Capital Expenditures” means expenditures of funds subsequent to Initial Project Construction, which are in excess of \$500, or such other amount as may be established by the Project Committee, are made to enhance the value or extend the life of the Project, and are contained in the Capital Expenditures element of any Project Annual Budget. This definition is to be used after Initial Project Construction for the purpose of categorizing costs for preparing the Project Annual Budget. This definition has no application to the treatment of costs incurred during Initial Project Construction, or to costs incurred pursuant to agreements entered into prior to the Project being placed in operation, and does not limit or require the Participants to utilize a similar definition in accounting for the costs of the Project on such Participant’s books of account.

“Due Date” means the date by which payment of any invoice issued pursuant to the Project Agreement is due to Tacoma or to an established escrow agent, which date shall be the close of business on the 30th day after an invoice is issued, or the next regular business day of Tacoma.

“Excess Project Capacity” means any capacity of the Project that is available during any Operating Year, or any portion thereof, as a result of one or more Participants not making full use of their Project Capacity Share.

“First Diversion Water” means water obtained under Tacoma’s First Diversion Water Right Claim.

“Fixed O&M Costs” means the costs incurred by Tacoma to operate and maintain the Project in accordance with the Project Agreement, which are neither Capital Expenditures nor Variable O&M Costs, and that do not vary based on the quantity of Project Water delivered to the Participants.

“Headworks” means those Tacoma water system facilities located along a certain one-half mile section of the Green River near Palmer, Washington, that generally include the river diversion structures and the water control building/employee residence area.

“Howard Hanson Dam Additional Storage Project” means, under Phase I, the construction of certain environmental enhancement features and raising the summer storage pool to elevation 1,167 which will make available additional storage for water for municipal water supply purposes, and under Phase n, the construction of additional environmental enhancement features and raising the summer storage pool to elevation 1,177, which will make available additional water for fishery and municipal water supply purposes.

“Initial Project Construction” means the design, construction and placing in commercial operation those Project elements set forth in the Initial Project Construction Budget and the Initial Project Construction Schedule.

“Interest Rate” means for each day that it is applied a rate equal to 1/365 of the prime interest rate for preferred customers established from time to time by Bank of America, or such other bank as may be designated by the Project Committee pursuant to the Project Agreement. When used to calculate the late payment charge pursuant to

the Project Agreement, three percentage points shall be added to such prime interest rate for each 30 days that the payment of any invoice remains past due.

“Master Meter” means the meter located at or near the Headworks that measures the flow of Project Water into the Second Supply Pipeline through the Headworks.

“Operating Life” means the period during which the Project is operational and capable of fulfilling its delivery function in a reasonably efficient and economical manner.

“Operating Year” means any consecutive 12 month period commencing on each July 1st, and ending on the following June 30th.

“Participants” means the City of Tacoma, Department of Public Utilities, Water Division; the City of Kent, Washington; the Covington Water District; and the Lakehaven Utility District.

“Participant Share” means that fraction of the Project and Project Costs that each Participant is entitled to use and each Participant is obligated to pay. Each Participant’s Share is as follows: Tacoma - 15/36; Kent - 7/36; Covington - 7/36; and Lakehaven - 7/36.

“Project” means

- (i) the water from the exercise of the Second Diversion Water Right (up to 100 cfs);
- (ii) the Second Supply Pipeline commencing at the Headworks and continuing to Tacoma’s Pipeline No. 4 near the Portland Avenue Reservoir (approximately thirty-four miles with a nominal capacity of seventy-two mgd);
- (iii) a portion of the improvements at the Headworks diversion dam and intake (associated with the Second Diversion Water Right);
- (iv) a portion of the Project fisheries and environmental enhancements;
- (v) the right to store water as a result of the Howard Hanson Dam Additional Storage Project (up to 20,000 acre-feet per year of municipal water supply storage available for withdrawal during each Operating Year in Phase I and options to participate in Phase II); and
- (vi) the expansion of existing or the construction of additional Treatment Facilities.

“Project Annual Budget” means the budget for all of the costs of the Project for each Operating Year, including the costs of operation, maintenance, insurance, renewal, replacement, additions and improvements to the Project, that are approved by the Project Committee.

“Project Bonds” means those bonds issued by Tacoma’s separate system pursuant to the Project Agreement for the purpose of providing funds for the payment of certain Project Costs.

“Project Capacity Share” means the right of each Participant to use its Participant Share of the Project available under varying operating conditions to move Second Diversion Water from the Headworks to their respective Point(s) of Delivery, and for such other uses as set forth in the Project Agreement.

“Project Committee” means the committee constituted pursuant to the Project Agreement.

“Project Costs” means costs, including but not limited to Fixed O&M Costs, Variable O&M Costs, Initial Project Construction Costs and Capital Expenditures, which Tacoma incurs to permit, design, construct, operate, maintain, insure, decommission, improve, renew, add to or replace the Project, and the costs incurred by Tacoma or any other Participant which qualify as Reimbursable Costs.

“Project Cost Estimate” means the estimate of the costs of Initial Project Construction.

“Project Operator” means Tacoma.

“Project Specifications” means the specifications that will govern Initial Project Construction.

“Project Water” means all water, including First Diversion Water, Second Diversion Water and Additional Water, that is introduced into and that uses some portion of the Project, regardless of its source.

“Prudent Utility Practice” means at a particular time any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time a decision is made (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the water utility industry in the Puget Sound region), would be expected to accomplish the desired result at the lowest reasonable cost consistent with Project longevity, reliability, safety and expedition.

“Reimbursable Costs” mean costs incurred by a Participant, other than costs incurred pursuant to the Project Agreement, to plan, design and construct facilities that are subsequently incorporated into the Project, and which are reviewed and approved pursuant to the Project Agreement, and may include to the extent incurred the costs of project specific environmental documents, rights of way, real property acquisition, engineering and design, permitting and regulatory approvals, surveying, field investigations, inspections, material, labor expenses, financing costs, state and local taxes, project administration up to and including the project manager, special legal counsel, consulting services related to the project, and indirect costs of up to 10% of the direct labor costs of the project, but shall not include the costs of programmatic environmental documents, project administration costs for personnel above project manager, costs of in-house legal counsel, accounting or purchasing personnel, or gross earnings taxes.

“Second Diversion Water” means water that is obtained under the provisions of the Second Diversion Water Right.

“Second Diversion Water Right” means the permit for the right to divert water from the Green River envisioned by Tacoma Water in its 1980 Water Supply Plan.

“Storage” means the retention of water at the Howard Hanson Dam until withdrawn therefrom.

“Surcharge Rate” means a rate equal to four times the highest wholesale water rate for sales to retail water utilities that Tacoma then has in effect.

“Treatment Facilities” means facilities that are necessary to ensure that the quality of Project Water is in compliance with all applicable federal and state drinking water regulations, laws and standards, including without limitation chlorination, fluoridation, corrosion control and filtration facilities.

“Uncontrollable Force” means any event or occurrence that is beyond the reasonable control of a Participant and which by the exercise of due diligence and reasonable foresight such Participant could not have reasonably been expected to avoid or remove, and includes but is not limited to flood, earthquake, storm, accident, fire, lightning and other natural catastrophes, epidemic, war, labor or material shortage, strike or labor dispute, or sabotage, and also includes restraint by an order of a court of competent jurisdiction or by regulatory authorities against any action taken or not taken by a Participant, after a good faith effort by such Participant to obtain: (a) relief from such order; or (b) any necessary authorizations or approvals from any governmental agency or regulatory authority. In no event shall the duty of a Participant to make any payment under the Project Agreement be excused by reason of an Uncontrollable Force.

“Variable O&M Costs” means the costs incurred by Tacoma to operate and maintain the Project in accordance with the Project Agreement, and which are neither Capital Expenditures nor Fixed O&M Costs, and which costs vary based on the quantity of Project Water delivered to a Participant during an Operating Year.

Rights and Obligations of the Participants

The Participants have entered into the Project Agreement in order to permit, design, finance, construct, operate and maintain the Project and to receive deliveries of Project Water. Each Participant has a contractual right (i) to use an undivided share of the Project equal to its Project Capacity Share and to use available Excess Project Capacity; (ii) to schedule for delivery and receive its Participant Share of Second Diversion Water at its Points of Delivery;

(iii) to schedule for delivery and receive Additional Water at its Points of Delivery; and (iv) to its Participant Share of Storage. Each Participant has a contractual obligation, among others, (i) to receive Second Diversion Water and Additional Water scheduled for delivery and delivered and (ii) to pay its Participant Share of Project Costs.

Rights and Obligations of the City

Tacoma holds the Second Diversion Water Right and will own the Project. Tacoma will be the Project Operator and will be responsible for the operation of the Project, including, (i) coordination of Storage with the Army Corps of Engineers; (ii) delivery at specified pressures of Project Water as scheduled by the Participants to their Points of Delivery; (iii) reading and testing of the Master Meter and all Delivery Meters; (iv) ensuring that all delivered Project Water is in compliance with all applicable state and federal drinking water laws, regulations and standards; (v) obtaining and maintaining required permits, approvals and regulatory authorizations needed to operate the Project; and (vi) performing maintenance, renewals, replacements, improvements and additions to the Project. As Project Operator Tacoma will, consistent with the approved Project Annual Budget then in effect, operate and maintain the Project in a manner that is consistent with Prudent Utility Practice.

Project Committee

The Project Agreement creates a Project Committee composed of one representative of each Participant. The Project Agreement directs the minimum frequency of Project Committee meetings and permits any Participant to convene a Project Committee meeting upon prescribed notice. Action by the Project Committee requires a quorum of not less than three Participants, one of which must be Tacoma as Project Operator. Representatives of the Participants are entitled to vote in proportion to their Participant Shares: 15 votes for Tacoma, 7 votes for Covington, 7 votes for Kent, and 7 votes for Lakehaven. All decisions shall be decided by a simple majority of the votes cast by the Participants present; provided, the affirmative vote of 29/36 of the Project Committee votes and of three of the Participants is required for (i) any amendment or modification to the Project Specifications; (ii) approval of Treatment Facilities other than as set forth in the Project Agreement; (iii) any amendment to the Initial Project Construction Budget or the Initial Project Construction Schedule; (iv) approval of any change order exceeding either (a) one-half of the original contingency for the contract for which the change order is requested or (b) \$500,000; (v) approval of the Capital Expenditures contained in any Project Annual Budget; and (vi) approval or revision of any Financing Plan. The affirmative vote of all Participants is required for any determination of the Operating Life.

Participants' Operating Plans; Annual Operating Plan

On or before April 1st of each year, Tacoma will provide to each Participant a written estimate of the expected availability of the Project and of Second Diversion Water for the next Operating Year. Not later than 30 days after receipt of that information each Participant shall submit to all Participants a written draft operating plan for the next Operating Year including, (i) the amount of Additional Water and Second Diversion Water that it expects to receive from the Project in each week during the next Operating Year, (ii) the amount of Second Diversion Water it expects to place in Storage, (iii) the timing and amount of expected withdrawals from Storage, and (iv) if applicable, the quantity, duration, timing and specific facilities that are intended to be used if it expects to make use of Excess Project Capacity during the next Operating Year. Within 30 days after receipt of the Participants' draft operating plans, Tacoma shall submit to the Project Committee a draft Annual Operating Plan that incorporates the Participants' draft operating plans submitted to it. All requests for the use of Excess Project Capacity to move Second Diversion Water (and, in the case of Tacoma, to move First and Second Diversion Water) shall be satisfied first, with any Excess Project Capacity remaining thereafter made available to fulfill requests to move Additional Water. The Project Committee may approve an Annual Operating Plan for the next Operating Year as submitted by Tacoma or may revise it. Any constraint or diminution in the capacity of the Project to deliver Project Water, or in the amount or availability of Second Diversion Water or Storage, shall be apportioned to all Participants in proportion to their Participant Share.

Delivery of Water

The Project Committee will formulate procedures by which Tacoma will provide Participants with information regarding the availability and delivery of Second Diversion Water available as run of river water. As Project Operator Tacoma will monitor the delivery of Project Water to each Participant. It will deduct from a Participant's balance of water remaining in Storage an amount equal to deliveries of Project Water it has received in excess of its scheduled amount. Provisions of the Project Agreement govern one Participant's protests over another's taking of excess Project Water to its detriment and Project Committee consideration of the imposition of the Surcharge Rate.

Metering of Water

The Master Meter to measure the flow of Project Water will be located at the Headworks. Each Participant's Delivery Meters will be located at its Points of Delivery. The Project Committee is responsible for establishing the size and flow range within which each Delivery Meter must operate. Tacoma is responsible for calibration, and for testing for accuracy no less than once each year, the Master Meter and all Delivery Meters.

Water Quality

Project Water available to the Participants pursuant to the Project Agreement is required to be in compliance with all applicable state and federal drinking water laws, regulations and standards. The Project Committee is responsible for making all necessary determinations regarding actions needed to maintain water quality and Treatment Facilities to be added to the Project for these purposes. The Participants have agreed that, to the extent that additional or different Treatment Facilities become necessary to meet applicable state or federal drinking water laws, regulations or standards, they will take the steps necessary to add such Treatment Facilities to the Project. The costs of so doing will be treated as Project Costs, and will be apportioned to each of the Participants on the basis of its Participant Share.

Tacoma will increase the capacity of the Treatment Facilities used for chlorination, fluoridation, ozone and corrosion control to accommodate First Diversion Water. Tacoma will be responsible for paying the incremental costs for such increased treatment capacity. If it is subsequently required that First Diversion Water and Second Diversion Water be given filtration treatment, then Tacoma shall upon commencement of construction of such filtration facility pay a credit calculated pursuant to the Project Agreement.

Additional Water

Detailed provisions of the Project Agreement govern the introduction by Participants of Additional Water into the Project. The Project Committee will determine whether the proposed introduction of Additional Water (i) is consistent with the proposing Participant's rights under the Project Agreement; (ii) conforms with all applicable state and federal drinking water laws, regulations and standards; and (iii) is compatible with the water quality of Project Water at the point of introduction into the Project. The Participant introducing Additional Water into the Project will be responsible for paying costs associated with that introduction. Tacoma is responsible for testing and monitoring the quality and quantity of any Additional Water.

Storage

Phase I of the Howard Hanson Additional Storage Project will provide storage for Second Diversion Water. When Phase I is completed, each Participant will have the right between February 15 and June 30 to store Second Diversion Water in proportion to its Participant Share of Second Diversion Water. The Howard Hanson Project Cooperation Agreement between Tacoma and the Army Corps of Engineers will govern the timing and amount of storage available to the Participants.

Use of Project and Project Capacity

Tacoma has the right to use its Project Capacity Share to move First Diversion Water when it deems it appropriate. Tacoma also has the right to use any Excess Project Capacity available to it under the Project Agreement to move First Diversion Water and, in such event, the First Diversion Water will have the same priority to Excess Project Capacity as Second Diversion Water. First Diversion Water moved through the Project shall not be subject to the requirements of the Project Agreement relating to delivery of Additional Water (see "Additional Water" above) but shall be subject to all other provisions thereof.

Excess Project Capacity

Each Participant is entitled under the Project Agreement to schedule the use of its Project Capacity Share to deliver Project Water to its Points of Delivery, notwithstanding the use of such Project Capacity as Excess Project Capacity by any other Participant. Excess Project Capacity shall be first made available to Participants for the delivery of Second Diversion Water to their Points of Delivery, and in the case of Tacoma for the delivery of First and Second

Diversion Water, and then any Excess Project Capacity remaining shall be made available to Participants for the delivery of Additional Water.

Uncontrollable Force

The Project Agreement contains provisions addressing Uncontrollable Force affecting the water systems of the Participants. A Participant subject to an Uncontrollable Force will be excused from performance under the Project Agreement only for the duration of and to the extent of the Uncontrollable Force. A Participant is not required to prevent or settle any strike or labor dispute in order to obtain relief from Uncontrollable Force under the Project Agreement.

If Tacoma loses the use, in part or in whole, of its Pipelines Nos. 1, 2 or 4 due to an Uncontrollable Force, and as a consequence experiences a water supply shortage on its water system, then Tacoma may use the Project to move First Diversion Water if so doing will alleviate its water supply shortage. For that purpose, Tacoma may curtail or interrupt deliveries of Project Water to other Participants, so long as the reductions to the deliveries of Project Water to other Participants are (i) made to all other Participants in proportion to the Participant Share of each Participant; (ii) do not exceed the reductions in deliveries of Project Water being experienced by Tacoma; and (iii) do not cause a water shortage on the water system of the other Participants that exceeds the water supply shortage being experienced by Tacoma.

Initial Project Construction

Tacoma's Responsibilities. During Initial Project Construction, Tacoma is responsible for designing, constructing, testing and placing in operation the Project. Tacoma is required to seek the advice of the Project Committee on all substantial matters relating to Initial Project Construction and to give due consideration to the Project Committee's advice.

Reimbursable Costs. The Participants incurred certain specified Reimbursable Costs. Any such Reimbursable Costs entitle the Participant that incurred them to a credit in an amount of those Reimbursable Costs to be applied against its Participant Share of the Project Costs attributable to Initial Project Construction. The Participants have set forth a procedure by which Reimbursable Costs may be submitted, approved or disapproved by the Project Committee, and arbitrated if necessary by a neutral third party.

Termination. If construction of the Project is terminated prior to the completion of Initial Project Construction, and the Participants have unanimously agreed in writing that there is no reasonable set of circumstances under which the Project can be expected to be completed, then each Participant may take such actions as it deems necessary to take delivery of its Participant Share of the Second Diversion Water as available during any calendar year. Prior to taking such action, each Participant will negotiate in good faith and reach agreement with Tacoma to establish a payment to Tacoma to compensate for the costs associated with the delivery and use of Second Diversion Water. The Project Agreement provides that the rights and obligations of the Participants described in this paragraph will survive the termination of the Project Agreement and will be fully enforceable subsequent thereto.

Project Financing and the Repayment Agreement

All Project Bonds must be issued in accordance with a Financing Plan submitted by Tacoma and approved by the Project Committee, must be for the purpose of financing Project Costs and may be issued by Tacoma's Regional system.

In lieu of paying its respective Participant Share of amounts necessary to repay Project Bonds, any Participant may elect to fund all or any part of its Participant Share of a Project Cost by the payment of cash, such cash to be obtained from the proceeds of its own bonds, from loan proceeds obtained from private or public sources or by any other lawful means. A Participant making the cash election must make its payments in the amounts and at the times specified by the Project Committee in the relevant Financing Plan and Project Annual Budgets. Except to the extent of an election to pay cash, the Participants have agreed to pay in the amounts and at the times required by the covenants of the Project Bonds their Participant Share of all amounts necessary to repay those Project Bonds. The obligation of the Participants to make payments to pay all amounts necessary to repay Project Bonds will survive the expiration or termination of the Project Agreement and will be fully enforceable subsequent thereto.

The Participants have also entered into the Repayment Agreement to set forth the particular terms under which they will pay to the City their proportionate shares of the City's debt service obligations on the Bonds and to set forth other matters relating to the Bonds. The payments provisions of the Repayment Agreement take precedence over the Bond payment provisions of the Project Agreement. Pursuant to the Repayment Agreement, Kent and Covington will each pay to Tacoma Water their proportionate shares of the City's debt service on the Bonds. A final schedule showing Kent's and Covington's proportionate share of the payments required to be made to the City to pay debt service on the Bonds will be attached to the Repayment Agreement. The City will not be required to bill for these payments. In the Repayment Agreement, Kent and Covington have each made covenants not to amend their existing bond ordinances or resolutions, respectively, in a manner that would limited the obligation thereunder to pay Project costs or that would allow the holders of the debt issued thereunder to accelerate that debt in an event of a default. The Participants have agreed not to amend the Repayment Agreement in any material respects so long as the Bonds are outstanding.

Funding from sources other than Project Bonds and Participants' cash payments will be applied to the costs of constructing, operating or enhancing the Project, as determined by the Project Committee, so that all Participants share the financial benefits of such funding in proportion to their Participant Share. Federal, state or local loans to an individual Participant to assist it in providing for its Participant Share of Project Costs are not required to be shared under the Project Agreement.

Project Annual Budgets

Not later than each July 1, Tacoma will submit to the Project Committee a proposed Project Annual Budget for the next calendar year. Each proposed Project Annual Budget will contain, at a minimum, (i) amounts necessary to operate and maintain the Project, (ii) proposed Capital Expenditures, (iii) amounts necessary to replenish any Project contingency funds, (iv) amounts and timing of payments due on outstanding Project Bonds and of proposed Project Bond issuances, and (v) payment schedules for all elements in the Project Annual Budget. By no later than October 15 the Project Committee will approve the Project Annual Budget as submitted by Tacoma or approve a Project Annual Budget as revised by the Project Committee. If the Project Committee has not approved a Project Annual Budget by January 1, Tacoma may operate the Project and expend funds in accordance with the Project Annual Budget from the immediately preceding calendar year. Project Annual Budgets may be revised as provided in the Project Agreement.

Invoices; Payments

No more frequently than once each month Tacoma will send invoices for the payment of costs as set forth in the Project Annual Budget to each Participant. Each invoice also will set forth the operation and maintenance costs that vary with use, based on the use of the Project by the Participant in the preceding month or months calculated using the rate for such use contained in the Project Annual Budget then in effect. Invoices are due and payable on or before the Due Date, with payment to be made by wire transfer or such other means as agreed to by Tacoma and the Participant, subject to the following: (i) amounts required to be paid to satisfy principal and interest obligations on Project Bonds and related covenants will be made to the Project Bond escrow agent or fiscal agent; and (ii) all other payments shall be made to the bank or account designated by Tacoma; provided, however, that a Participant electing to pay cash toward its Participant Share of Project Costs will make that payment to the Project Bond escrow agent which will, as a common paymaster and subject to the approval of Tacoma or the Project Committee, as appropriate, direct that payment for Project Costs. Disputed invoices are required to be paid in full. A procedure for resolving invoice disputes and reconciling disputed payments is set forth in the Project Agreement.

A payment will be considered past due if it has not been received in full by Tacoma or the Project Bond escrow agent on or before the Due Date. Past due amounts will accrue a late payment charge, in an amount equal to the product of the unpaid invoice amount and the Interest Rate, for each day that the invoice remains unpaid. In addition, Tacoma may elect to suspend deliveries of scheduled Project Water to any Participant for which any invoice or portion thereof remains unpaid for a period of 30 days after the Due Date, such suspension to remain in effect until the Participant has paid all amounts due.

Each Participant has covenanted that it will establish, maintain and collect rates or charges for water and other services, facilities and commodities sold, furnished or supplied by it which shall be adequate to provide revenues sufficient to enable the Participant to make the payments required to be made pursuant to the terms of the Project

Agreement, and to pay all other charges and obligations payable from or constituting a charge or lien upon such revenues. Each Participant is obligated under the Project Agreement to make the payments required thereby whether or not the Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment in the operation of the Project for any reason, in whole or in part. Such payments are not subject to any reduction, whether by offset or otherwise, and will not be conditioned upon the performance or nonperformance of any Participant, or of any entity under the Project Agreement or any other agreement or instrument.

Payment Defaults

Tacoma will make a written demand for payment within ten days on any Participant that fails to make any payment in full when due for a period of 45 days or more. If the failure to pay is not cured within ten days, the Participant will be in default. In addition to the remedies described in "Invoices; Payments" above, the Project Committee will offer for assignment to the non-defaulting Participants a pro rata share of the Participant Share of a Participant if (i) that Participant has been in default of payment for a period of 60 days or more and (ii) the payment in default includes any amounts necessary to make payment on any Project Bonds. The assignment of a defaulting Participant's Participant Share will vest in the assignee all rights and obligations that the defaulting Participant could have exercised by virtue of its Participant Share under the Project Agreement including the right to use a pro rata share of the Second Diversion Water. If any non-defaulting Participant declines to accept all or any portion of the defaulting Participant's Participant Share, such Participant Share (or the remaining portion thereof) will be reoffered to the remaining non-defaulting Participants until no unassigned Participant Share of the defaulting Participant remains or no Participant wishes to accept any additional assignment. If after following that process all or a portion of the Participant Share of the defaulting Participant remains, then Tacoma will have its Participant Share increased in an amount equal to the defaulting Participant's Participant Share remaining after any reassignment. Any Participant accepting the assignment of all or any portion of the defaulting Participant's Participant Share will, upon that acceptance, cure a proportionate share of any existing payment default and be responsible for the payment of all obligations associated under the Project Agreement with the Participant Share so assigned to it. An assumption of the payment obligations of a defaulting Participant by non-defaulting Participants will not relieve the defaulting Participant of its liability for those payments under the Project Agreement, and the Participants assuming those payment obligations will have a right of recovery from the defaulting Participant.

If a Participant Share of a defaulting Participant is assigned to other Participants, the non-defaulting Participants will enter into good faith negotiations to revise by mutual agreement the apportionment of votes and the Project Committee approval requirements pursuant to the Project Agreement. Any such revision will be done in a manner that recognizes the change in Participant Share resulting from such reassignment while maintaining the Participants' initial intentions as expressed in the Project Agreement. Absent an agreement to such a revision, and notwithstanding a reassignment of Participant Shares, no Participant will be entitled to cast the votes allocated to the defaulting Participant.

Dispute Resolution

Except as otherwise provided in the Project Agreement, all disputes are to be resolved by binding arbitration. The Participants have agreed to make good faith efforts to resolve by informal discussion any dispute arising under or in connection with the Project Agreement. The award of the arbitrators will be final, may include such relief as the arbitrators deem appropriate and may be enforced in any court having jurisdiction. The Participants have agreed that, pending a decision in any binding arbitration pursuant to the Project Agreement, they will continue to fulfill their respective duties under the Project Agreement.

Termination of the Project

When the Project is terminated, the Participants will use any proceeds obtained from selling all or any portion of the Project for salvage to satisfy any obligation then outstanding on any Project Bonds. After satisfying all such obligations, the remaining proceeds will be used to satisfy any other cost of the Project that remains unpaid. Any salvage proceeds then remaining will be divided among the Participants in accordance with their Participant Shares.

Term and Termination of the Project Agreement

The Project Agreement will remain in effect during the Operating Life of the Project, including all renewals and replacements thereof and additions thereto. The Project Agreement provides that all obligations incurred during its term will survive its termination or expiration, and will survive until satisfied.

Upon termination of the Project Agreement, each Participant will be entitled to participate in any subsequent project that is constructed, in whole or in part, to make Second Diversion Water available to one or more of the Participants, and each Participant will have the right to obtain and use a share of Second Diversion Water and Storage then available on a basis and in amounts comparable to such Participant's rights under the Project Agreement.

Term and Amendment of the Repayment Agreement

The Repayment Agreement is effective the date of closing of the Bonds, and will expire when the Bonds are no longer outstanding under the Bond Ordinance. The Participants have agreed not to amend the Repayment Agreement in any material respect while the Bonds remain outstanding.

Assignment

Except as otherwise provided therein, no rights and obligations under the Project Agreement may be sold, assigned or otherwise transferred in whole or in part by a Participant to a party that is not a Participant without the prior written consent of all other Participants, which consent shall not be unreasonably withheld.

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APPENDIX C

PARTICIPANTS IN THE SECOND SUPPLY PROJECT

The information in this Appendix C has been furnished to the City by the City of Kent, Covington Water District, and Lakehaven Utility District (the other “Participants”) for use in this Official Statement. Such information is not to be construed as a representation by or on behalf of the City. Although the City has no reason to believe that the information in this Appendix C is not accurate or complete, the City has not independently verified such information and does not guarantee the accuracy or completeness of such information. At or prior to the time of delivery of the Bonds, each Participant will certify to the City that the information pertaining to such Participant in this Appendix C and elsewhere in this Official Statement is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements in this Appendix C and elsewhere in this Official Statement pertaining to such Participant, in light of the circumstances under which they were made, not misleading.

The City of Kent

Under the Second Supply Project Agreement, the City of Kent, Washington (“Kent”) is entitled to use its 7/36 Participant Share of the Project and is obligated to pay its Participant Share of Project Costs. See “THE SECOND SUPPLY PROJECT—Project Participants.” Kent is responsible for paying approximately 24% of the debt service on the Bonds and approximately \$17,750,000 of the remaining debt service on the 2002 Bonds. The following provides a brief summary of Kent and its water collection and distribution system (the “Kent Water System”).

Introduction. Kent is an optional municipal code city located in South King County, Washington. Kent was incorporated in 1890 and, in 2010, had an estimated population of 88,760. Kent is governed by a mayor and a seven-member City Council.

The Kent Water System was established in 1920, has a service area of approximately 27 square miles, served approximately 13,123 accounts in 2009, and presently consists of the sources of water shown below. The Kent Water System is accounted for as a separate enterprise fund for purposes of Kent’s annual budget and annual financial report.

Water Supply. Kent Water System’s sources of water supply as of December 31, 2009 included: Clark Springs, Kent Springs, East Hill well, the Regional Water Supply System, 212th Plant, Armstrong Springs, Seven Oaks, Garrison Creek and O’Brian well. The Kent Water System’s total reliable pumping capacity is about 39.8 gallons per day (“GPD”) from 16 water wells, interties, and two springs, and has approximately 21 million gallons of reservoir capacity and 1.254 million gallons of surface storage capacity. Auxiliary power generators are provided at selected pumping stations. Kent considers the Kent Water System’s source, storage, and transmission capabilities to be adequate for its customers.

Customer Information. In 2009, the Kent Water System provided water service to approximately 13,123 accounts, approximately 73.5% of which were residential. Customer data and usage by class for the last five years is presented below.

	Kent Water System Water Consumption (ccf)				
	2005	2006	2007	2008	2009
Residential	1,901,130	1,975,502	1,971,693	1,948,817	2,003,436
Other	1,649,518	1,727,064	1,649,072	1,662,026	1,522,469
Total	3,550,648	3,702,566	3,620,765	3,485,113	3,525,905

Source: The City of Kent

**Kent Water System
Annual Water Billing**

	2005	2006	2007	2008	2009
Residential	\$1,519,806	\$1,643,480	\$1,584,022	\$1,539,689	\$2,178,431
Other	5,751,540	5,995,349	5,881,214	5,616,060	7,383,646
Total	\$7,271,346	\$7,638,829	\$7,465,236	\$7,155,749	\$9,561,077

Source: The City of Kent

The following table identifies the Kent Water System's ten largest customers by billings.

**Largest Customers of the Kent Water System
As of December 31, 2009**

Customer	Billings
Boeing Defense & Space Group	\$ 204,800
Danone Waters of North America	156,273
King County	132,583
Air Liquide Industrial US LP	112,887
Ralcorp Frozen Bakery Products	94,433
Kings Command Foods	80,995
Aramark Uniform Services	79,948
Rexan Beverage Can Co.	74,490
Northwest Center for Retarded	62,997
Heinz North America/Truesoups	51,461

Source: The City of Kent

Water Rates. The following table shows the Kent Water System's current water rates (for both summer and winter consumption). Water rates were increased effective December 31, 1999, January 1, 2003, January 1, 2004, January 1, 2005, June 1, 2009 and most recently January 1, 2010.

**Kent Water System
Water Rates**

<u>Monthly bill/ccf</u>	<u>Rate(l)</u>
<u>Inside City</u>	
5/1-9/30 (summer rates)	
Less than or equal to 700 cf(2)	\$3.66 per 100 cf
Greater than 700 cf	\$4.66 per 100 cf
10/1-4/30 (winter rates)	
Less than or equal to 700 cf	\$2.77 per 100 cf
Greater than 700 cf	\$3.75 per 100 cf
<u>Outside City</u>	
5/1-9/30 (summer rates)	
Less than or equal to 700 cf	\$4.46 per 100 cf
Greater than 700 cf	\$5.48 per 100 cf
10/1-4/30 (winter rates)	
Less than or equal to 700 cf	\$3.66 per 100 cf
Greater than 700 cf	\$4.66 per 100 cf

(1) This does not include a fixed monthly demand charge for service and meter.

(2) cf = cubic feet.

Source: The City of Kent

Outstanding Debt. As of December 31, 2009, the City of Kent had \$24,790,000 in Combined Utility System Revenue Bonds outstanding, payable in part from the City of Kent's water system revenues.

Bond Ordinance. Pursuant to Ordinance No. 3925, Kent issued its Combined Utility System Revenue Bonds, Series 2009. Under the bond ordinance, Kent has pledged the Net Revenue of the System and ULID Assessments.

"System" means (a) the water collection and distribution system of the City of Kent, as it existed as of the passage of Ordinance No. 3925, and including all additions, betterments and extensions at any time made; (b) the sanitary sewage collection and disposal system of the City of Kent, as it now as it existed as of the passage of Ordinance No. 3925, and including all additions, betterments and extensions at any time made; (c) the storm and surface water utility of the City of Kent, as it existed as of the passage of Ordinance No. 3925, and including all additions, betterments and extensions at any time made, and (d) any other system or utility that may lawfully be combined with the foregoing.

"Net Revenue" means Revenue of the System less Costs of Maintenance and Operation.

"Revenue of the System" means all of the earnings and revenues received by the City of Kent from the maintenance and operation of the System and connection and capital improvement charges collected for the purpose of defraying the costs of capital facilities of the System, including investment earnings, but excluding government grants, proceeds from the sale of System property, City of Kent taxes collected by or through the System, principal proceeds of bonds and earnings or proceeds from any investment in a trust, defeasance or escrow fund created to

defeasement or refund System obligations (until commingled with any other earnings and revenues of the System) or held in a special account for the purpose of paying a rebate to the United States Government under the Code. Revenue of the System shall also include any federal or state reimbursements or operating expenses to the extent such expenses are included as Costs of Maintenance and Operation; provided, however, that Revenue of the System shall not include ULID Assessments. Amounts withdrawn from the Coverage Stabilization Account shall increase Revenue for the period in which they are withdrawn, and amounts deposited in the Coverage Stabilization Account shall reduce Revenue for the period during which they are deposited. Credits to or from the Coverage Stabilization Account that occur within 90 days after the end of a fiscal year may be treated as occurring within such fiscal year. .

“Costs of Maintenance and Operation” means all reasonable expenses incurred by the City of Kent in causing the System of the City of Kent to be operated and maintained in good repair, working order and condition, deposits, premiums, assessments or other payments for insurance, if any, on the System; payments into pension funds; State-imposed taxes; amounts due under Contract Resource Obligations (but only at the times described in Ordinance 3925); payments made to any other person or entity that are required in connection with the operation of the System or the acquisition or transmission of water or sewer or storm water and that are not subordinate to the lien of Parity Bonds; and payments with respect to any other expenses of the System that are properly treated as operation and maintenance expenses under generally accepted accounting principles applicable to municipal corporations, but shall not include any payments for principal or interest or into the Reserve Account, depreciation or taxes levied or imposed by the City or payments to the City in lieu of taxes, or capital additions or capital replacements to the System.

The City of Kent has covenanted to establish, maintain and collect rates and charges for service of its System for so long as any bonds are outstanding under Ordinance No. 3925 as will permit it to maintain Net Revenue in each fiscal year at least equal to 120% of the amounts required in such fiscal year to be paid as scheduled debt service (principal and interest) on all parity bonds, subtracting from the scheduled debt service (1) the amount of ULID Assessments collected in such year and (2) Debt Service Offsets, including without limitation federal interest subsidy payments designated as such. Furthermore, in determining compliance with the Rate Covenant, Net Revenues are subject to adjustment to reflect the following: (a) it is the intent of the City of Kent that regularly scheduled net payments under parity derivative products be reflected in the calculation of debt service with respect to the associated parity bonds and not as adjustments to revenue or costs of maintenance and operation, and (b) Revenue and Costs of Maintenance and Operation may be adjusted, regardless of then-applicable generally accepted accounting principles, for certain items (*e.g.*, to omit unrealized gains or losses in investments) to reflect more fairly the System’s annual operating performance.

Under the resolution, the City of Kent has reserved the right to issue future bonds with a lien on Net Revenue on a parity with the lien thereon of its outstanding system revenue bonds and parity payment agreements, upon compliance with certain conditions set forth therein.

The City of Kent’s obligations to debt service on the 2002 Bonds and the Bonds are Contract Resource Obligations of the City of Kent, payable as Costs of Maintenance and Operation. Kent may at any time enter into one or more contracts or obligations for the acquisition, from facilities to be constructed, of water, sewer or storm water supply, transmission, treatment or other commodity or service relating to the System. Kent may determine that such contract or other obligation is a Contract Resource Obligation, and may provide that all payments under the Contract Resource Obligation (including payments prior to the time that water, sewer or storm water supply, transmission, treatment or other commodity or service is being provided, or during a suspension or after the termination of supply or service) shall be Costs of Maintenance and operation if certain conditions and requirements are met. Contract Resource Obligations treated as Costs of Maintenance and Operation therefore enjoy a prior lien on Revenue of the System.

Certain Historical Results. The following table shows historical operating revenues and expenses for the Kent Water System for the past five years.

**Kent Water System
Historical Financial Results for the Years Ended December 31**

	2005	2006	2007	2008	2009 (1)
OPERATING REVENUES					
Sales	7,586,980	8,056,225	8,153,815	8,315,263	11,370,578
Charges for services	145,253	170,698	185,375	455,656	435,741
Other operating revenue	3,267	28,388	2,914	8,007	70,218
TOTAL OPERATING REVENUES	<u>7,735,500</u>	<u>8,255,311</u>	<u>8,342,104</u>	<u>8,778,926</u>	<u>11,876,537</u>
Non-Operating Revenue(2)	9,634,857	1,017,239	997,729	530,775	(110,757)
TOTAL REVENUE	<u>17,370,357</u>	<u>9,272,550</u>	<u>9,339,833</u>	<u>9,309,701</u>	<u>11,765,780</u>
OPERATING EXPENSES(3)					
Salaries and wages	1,571,373	1,705,513	1,821,701	1,958,483	2,079,644
Benefits	543,940	579,430	632,889	654,349	736,993
Supplies	483,097	586,744	517,119	553,701	539,574
Services and charges	3,877,967	4,444,580	4,393,055	5,406,516	5,141,974
TOTAL OPERATING EXPENSES	<u>6,476,377</u>	<u>7,316,267</u>	<u>7,364,764</u>	<u>8,573,049</u>	<u>8,498,185</u>
BALANCE AVAILABLE FOR DEBT SERVICE	10,893,980	1,956,283	1,975,069	736,652	3,267,595
DEBT SERVICE					
Revenue Bonds	120,341	146,976	204,187	230,324	82,463
Public Works Trust Fund Payments(4)	1,049,449	1,049,450	1,059,028	1,059,028	1,059,028
TOTAL DEBT SERVICE	<u>1,169,790</u>	<u>1,196,426</u>	<u>1,263,215</u>	<u>1,289,352</u>	<u>1,141,491</u>
BALANCE AVAILABLE FOR CAPITAL IMPROVEMENTS AND OTHER PURPOSES	9,724,190	759,857	711,854	(552,700)	2,126,104
DEBT SERVICE COVERAGE(5)	90.53x	13.31x	9.67x	3.20x	39.62x

(1) Preliminary, unaudited.

(2) Includes interest income.

(3) Excludes depreciation.

(4) Repayment of State Public Works Trust Fund Loans.

(5) Debt service coverage calculated on revenue bond debt service only.

Source; City of Kent

Covington Water District

Under the Second Supply Project Agreement, Covington Water District (“Covington”) is entitled to use its 7/36 Participant Share of the Project and is obligated to pay its Participant Share of Project Costs. Covington is responsible for paying approximately 24% of the debt service on the Bonds, and approximately \$17,000,000 of the remaining debt service on the 2002 Bonds. See “THE SECOND SUPPLY PROJECT—Project Participants.” The following provides a brief summary of Covington and its financial condition.

Introduction. Covington was organized in 1960 for the purpose of providing water services to areas of southeastern King County, east of Kent and the City of Auburn. Covington encompasses approximately 55 square miles, including unincorporated areas as well as all of the City of Covington and 60% of the City of Maple Valley. Neither city has a utility department and Covington continues to provide water to these incorporated areas. 1.23 square miles of Covington’s service area was annexed to the City of Black Diamond in 1998. Covington continues to serve the area as the City of Black Diamond has insufficient water to do so.

Covington is managed by a five-member Board of Water Commissioners. The Board serves as the governing body of Covington and has the authority to set rates and charges. The Board appoints a general manager, who is responsible for the administration of Covington. Covington operates its facilities with a total of approximately 46 full- and part-time employees.

Water Supply. The Covington system contains approximately 266.6 miles of mains and appurtenances including approximately 2,100 fire hydrants. Covington presently has 11 active wells with water rights totaling 5,971 gallons per minute (“GPM”). Present pump capacity is 9,080 GPM. All of Covington’s average daily water demand (approximately 3 MGD) can be met from its own wells. Summer water demand (approximately 6 MGD) is met through a combination of Covington’s wells, water purchased through a contract with the City of Auburn, and the Tacoma Second Supply water. Covington purchases up to 0.75 million gallons per day from Auburn, however, Covington’s service from Auburn can be interrupted. The District is a partner in the Cascade Water Alliance which is presently developing Lake Tapps as a regional water supply source. The partnerships in the Regional System and with Cascade Water Alliance assure the District of a sufficient water supply well into the future. Covington has storage tanks at nine sites with a storage capacity of approximately 23.5 million gallons.

Customer Information. Covington provides water service to approximately 20,690 accounts, of which approximately 95% are single-family residential. Customer data and usage by class for the last five years is presented below.

**Covington Water District Water Sales
(including Flat Rate)**

	2005	2006	2007	2008	2009
Residential	\$6,245,835	\$7,364,903	\$7,265,287	\$7,770,845	\$8,807,658
Non-residential	397,649	475,425	504,205	496,808	551,706
Wholesale	0	0	0	0	0
Hydrant Meter Rental	103,994	135,814	61,892	64,738	16,134
Total	\$6,747,478	\$7,976,142	\$7,831,384	\$8,332,391	\$9,375,498

Source: Covington Water District.

The following table shows Covington’s five largest customers based upon consumption and billing amount in 2009.

**Covington Water District
Largest Customers**

Customer Name	Consumption (ccf)	Amount
Washington National Golf LLC	33,502	\$93,834
Druids Glen/Access Golf LLC	10,666	35,683
Camp Berachah	7,727	26,772
Kentwood High School	6,011	38,657
Kentlake High School	5,756	39,721

Water Rates. Water rates and charges are set by resolution. Covington adopted the following rate schedule effective January 1, 2010. All water bills include a fixed and a commodity charge.

Covington Water District
Water Rates and Charges
(Effective January 1, 2010)

Flat Rate Charge by Meter Size

Meter Size	Residential	Irrigation	Schools	Commercial & Other	Wholesale
5/8" meter	\$ 30.00	\$ 21.33	\$ 42.65	\$ 42.65	\$ 81.75
3/4" meter	36.49	27.82	55.63	55.63	99.45
1" meter	49.64	40.77	81.54	81.54	135.25
1 1/2" meter	82.58	73.19	146.38	146.38	225.05
2" meter	121.97	112.08	224.16	224.16	332.35
3" meter	227.25	215.82	431.63	431.63	619.25
4" meter	345.75	332.23	664.46	664.46	942.15

Residential Customers Billed Every Other Month (\$ for ccf)

	Less than 8 ccf	9-14 ccf	15-20 ccf	21-34 ccf	More than 34 ccf
Single Meter					
Winter	\$2.36	\$3.46	\$4.56	\$5.77	\$6.90
Summer	2.36	3.46	5.97	8.32	9.88
Dual Meter (Inside Use)					
Winter	2.36	3.46	4.56	5.77	6.90
Summer	2.36	3.46	5.97	8.32	9.88
Dual Meter (Outside Use)					
Winter	2.36	3.46	4.56	5.77	6.90
Summer				8.32(1)	9.88
Special Benefit Area #1 (Timberlane)					
Winter	2.36	3.46	4.56	5.77	6.90
Summer	2.36	3.46	5.97	8.32	9.88

(1) Less than 34 ccf.

Residential Customers Billed Every Month (\$ for ccf)					
	Less than 4 ccf	5-7 ccf	8-10 ccf	11-17 ccf	More than 17 ccf
Sugarloaf					
Winter	\$2.36	\$3.46	\$4.56	\$5.77	\$6.90
Summer	2.36	3.46	5.97	8.32	9.88
	Less than 116 ccf	117-203 ccf	204-290 ccf	291-493 ccf	More than 493 ccf
Ravensdale (serving 29 accounts through a master meter)					
Winter	\$2.36	\$3.46	\$4.56	\$5.77	\$6.90
Summer	2.36	3.46	5.97	8.32	9.88
	Less than 40 ccf	41-70 ccf	71-100 ccf	101-170 ccf	More than 170 ccf
Special Benefit Area #2 (Supplying 10 Properties)					
Winter	\$2.36	\$3.46	\$4.56	\$5.77	\$6.90
Summer	2.36	3.46	5.97	8.32	9.88

Non-Residential Customers Billed Every Other Month		
	All Winter Usage	All Summer Usage
Commercial Inside Use	\$ 2.66	\$4.79
Commercial Outside use	2.57	6.43
Multi-Family (Apartments)	2.66	4.79
Government	2.66	4.79
Fire Sprinkler (Non-Fire Use Only)	2.66	4.79
Schools	2.66	4.79

Non-Residential Customers Billed Every Month			
	Flat Charge	All Winter Usage	All Summer Usage
Hydrant Meter Rental (per week)	\$59.70	\$3.46	\$8.32
Residential Service Meter Rental (per week)	11.95	3.46	8.32
Irrigation (per month)	21.35	2.78	6.95

Source: Covington Water District

Outstanding Debt. As of April 1, 2010, Covington had outstanding \$3,180,000 principal amount of Water Revenue Refunding Bonds, 2001. In addition, Covington has outstanding Public Works Trust Fund Loans in the total principal amount of \$14,921,814.

Bond Resolution. Pursuant to Covington Resolution No. 3071, Covington has pledged the Gross Revenue of its Water System to pay the principal and interest of its outstanding revenue bonds, subject only to the payment of Maintenance and Operation Expenses ("Net Revenues"). Additionally the outstanding revenue bonds are secured by the gross amount of all assessments from any existing utility local improvement district ("ULID") and connection charges. The revenue bonds are special obligations of Covington, payable only from the Bond Fund.

The Water System means Covington's existing water supply system, as the same shall be added to, bettered, improved and extended, for as long as any parity revenue bonds are outstanding.

Gross Revenue of the Water System means all of the earnings and revenues received by Covington from the maintenance and operation of the Water System and all earnings from the investment of money on deposit in the various funds of Covington, including from the collection of connection charges. However, Gross Revenue shall not include principal proceeds of future parity bonds or other borrowings, assessments, government grants, tax proceeds, earnings from investments in the reserve account, or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund Water System obligations (until commingled with other earnings and revenues of the Water System defined as Gross Revenue) or held in a special account for the purpose of paying rebate to the United States.

Maintenance and Operation Expenses mean all expenses incurred by Covington in causing its Water System to be operated and maintained in good repair, working order and condition, including without limitation: deposits, premiums, assessment or other payments for insurance, if any, on the Water System, payments into pension funds, State-imposed taxes, and payments with respect to any other expenses of the Water System that are properly treated as maintenance and operation expenses under generally accepted accounting principles applicable to municipal corporations. The term Maintenance and Operation Expenses does not include any depreciation or capital addition or capital replacements to the Water System.

Under the resolutions, Covington is to deposit all Gross Revenue of the Water System, except for earnings on the Bond Fund and other funds, to the Maintenance Fund, to be used for the following purposes in the following order of priority: (a) to pay Maintenance and Operation Expenses; (b) to pay principal of and interest on outstanding parity bonds; (c) to reimburse any provider of a municipal bond insurance policy; (d) to replenish the reserve account; (e) to pay any junior lien revenue obligation; and (f) to retire by redemption or purchase any outstanding revenue bonds or short-term revenue obligations of Covington, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the Water System, to make deposits into the Rate Stabilization Account, or for any other lawful Covington System purposes.

Covington has covenanted to establish, maintain and collect rates and charges for water service (and for all other utility services that may be provided by Covington's System) which, together with collections of Assessments, will make available for the payment of principal of and interest on outstanding revenue bonds and any future parity bonds in an amount equal to at least 1.25 times average annual debt service.

Under the resolutions, Covington has reserved the right to issue future bonds with a lien on Net Revenue of the Covington System on a parity with the lien thereon of its outstanding revenue bonds, upon compliance with certain conditions set forth therein.

Certain Historical Results. The following table shows Covington's historical operating revenues (without connection revenue) for the past five years.

**Covington Water District
Historical Financial Results for the Years 2005 - 2009**

DEBT SERVICE WITH CONNECTION REVENUE	2005	2006	2007	2008	2009
OPERATING REVENUES:					
Water Service	6,747,478	\$7,976,142	\$7,831,384	\$8,332,391	\$9,375,498
Street Light Service	153,743	140,537	153,280	155,370	172,908
Other Revenue	296,745	307,969	421,359	160,997	416,774
Misc. (Net of Rev/Exp Reimbursement)					
TOTAL OPERATING REVENUES	7,197,966	8,424,648	8,406,023	8,648,758	9,965,180
OPERATING EXPENSES:					
Supply & Pumping	132,593	114,206	121,236	244,739	394,417
Purchased Water	834,874	848,496	686,084	769,692	811,211
Treatment	139,951	302,079	281,519	203,944	164,506
Facility Operations Division	647,812	874,290	995,446	1,133,361	1,036,400
Engineering Division	381,343	365,660	321,774	323,137	503,839
Water Resource & Env'tl. Division	267,424	313,811	345,870	397,138	433,328
Business Services Department	1,011,258	1,204,579	1,452,891	1,467,581	1,527,447
Administration	960,649	1,177,670	1,282,566	1,278,413	1,517,666
Street Light Expense	124,897	139,625	109,849	145,989	144,174
Taxes	362,976	442,408	393,903	424,509	424,946
Depreciation Expense	1,969,356	2,565,807	2,888,091	2,980,240	2,950,484
TOTAL OPERATING EXPENSES	6,833,133	8,348,632	8,879,229	9,368,743	9,908,418
NET OPERATING INCOME (LOSS) BEFORE RESERVE	364,833	76,016	(473,206)	(719,985)	56,762
NONOPERATING REVENUES (EXPENSES)					
Total nonoperating revenue (expenses)	14,576	(203,022)	(97,849)	(893,685)	(1,037,823)
Capital Contributions	13,003,995	9,961,169	5,231,244	5,899,323	3,257,704
TOTAL AVAIL./DEBT SERVICE	\$10,220,706	\$8,560,986	\$6,596,050	\$7,988,435	\$4,150,717
DEBT SERVICE REQUIREMENTS	\$905,415	\$909,355	\$907,293	\$903,013	\$911,158
BOND DEBT COVERAGE RATIO	11.29	9.41	7.27	8.77	10.21

Lakehaven Utility District

Under the Second Supply Project Agreement, the Lakehaven Utility District (“Lakehaven”) is entitled to use its Participant Share of the Project and is obligated to pay its Participant Share of Project Costs. Lakehaven is not responsible for paying debt service on the 2002 Bonds or the Bonds. See “THE SECOND SUPPLY PROJECT—Project Participants.” Lakehaven has a combined water and sewer system. The following provides a brief summary of Lakehaven and its financial condition.

Introduction. Lakehaven was incorporated in 1956. In 1985, voters authorized the consolidation of King County Water District No 124 into Lakehaven Sewer District. In conjunction with this merger, Lakehaven Sewer District changed its name to “Federal Way Water and Sewer District.” A merger with King County Water District No. 56 was completed in November, 1987. In 1994, Lakehaven changed its name to “Lakehaven Utility District,” as it is now known.

In general, Lakehaven is located in the southwest corner of King County adjacent to the Pierce County boundary. Puget Sound and the Green River Valley border Lakehaven on the west and east respectively. Lakehaven’s northern border generally follows South 280th Street, except for a narrow strip of land extending north along the Puget Sound to South 252nd Street. Lakehaven provides service to most of the City of Federal Way and to small portions of the cities of Auburn, Pacific, Edgewood, Des Moines, and Milton. In addition, Lakehaven serves an unincorporated area of King County approximately 18 square miles east of Federal Way and west of Auburn. Lakehaven encompasses an area of approximately 34 square miles with a service population of approximately 112,000 people. Lakehaven is primarily residential in character with approximately 75% of the land area devoted to single-family dwellings.

Lakehaven is governed by a five-member Board of Commissioners, and managed under the direction of its General Manager. Lakehaven employs approximately 100 employees.

Water Supply. Lakehaven’s water system includes 450 miles of mainline, 24 wells, and 12 storage tanks with an approximate storage capacity of 31 million gallons. The average daily pumping rate is about 10.7 million gallons per day (“MGD”). Lakehaven’s sewer system includes 340 miles of mainline, 28 pump stations and two secondary wastewater treatment plants. The Redondo Plant is designed for an average flow of 5.6 MGD. The Lakota Plant is designed for an average flow of 10.0 MGD.

Customer Information. Lakehaven provides water service to approximately 29,238 accounts, 93% of which are residential. Customer data and usage by class for the last five years is presented below.

Lakehaven Customer Usage By Class (ccf)

	2005	2006	2007	2008	2009
Residential	3,816,695	4,150,773	3,959,140	3,746,930	3,912,350
Non-residential	866,653	904,010	889,129	889,129	844,940
Total	4,683,348	5,054,783	4,848,269	4,572,282	4,757,290

Source: Lakehaven

Lakehaven Annual Water Billing (in \$1000)

	2005	2006	2007	2008	2009
Residential	\$6,064	\$6,705	\$6,460	\$6,642	\$7,494
Non-residential	1,409	1,585	1,512	1,601	1,817
Total	\$7,473	\$8,290	\$7,972	\$8,243	\$9,311

Source: Lakehaven

The following table shows Lakehaven's five largest customers based on billings in 2009.

Lakehaven's Largest Customers

Customer Name	Consumption (ccf)	Amount
Kw Mgmt (Campus View)	41,964	\$ 215,906
Equity Residential (Panther Ridge)	30,580	161,166
Forest Cove	27,831	157,151
West Campus	27,591	156,436
Federal Way School District	34,403	141,652

Source: Lakehaven

Water Rates.

Lakehaven's Water Rates Effective January 1, 2010

Customer Classification	Meter Size	Fixed Monthly	Bi-Monthly Fee	Plus (+)	Block One 0-16 CCF	Block Two 17-21 CCF	Block Three 22-50 CCF	Block Four Over 50 CCFr
Single Family Residential	5/8"	\$9.02	\$18.04	Plus	\$0.96	\$1.79	\$2.68	\$3.23
	3/4"	11.89	23.78	Plus	0.96	1.79	2.68	3.23
	1"	17.64	35.28	Plus	0.96	1.79	2.68	3.23
	1-1/2"	32.02	64.04	Plus	0.96	1.79	2.68	3.23

Customer Classification	Meter Size	Fixed Monthly	Bi-Monthly Fee	Plus (+)	Winter Per CCF	Summer Per CCF
Non-Residential	5/8"	\$8.94	\$17.88	Plus	\$1.24	\$2.56
(Commercial, Irrigation, Public Authority)	3/4"	11.79	23.56	Plus	1.24	2.56
	1"	17.46	34.92	Plus	1.24	2.56
	1-1/2"	31.64	63.28	Plus	1.24	2.56
	2"	48.67	97.34	Plus	1.24	2.56
	3"	94.07	188.14	Plus	1.24	2.56
	4"	145.15	290.30	Plus	1.24	2.56
	6"	287.04	574.08	Plus	1.24	2.56

Dormant Charge
for Irrigation

\$8.94 \$17.88

	Fixed Monthly	Bi-Monthly Fee	Plus (+)	Winter Per CCF	Summer Per CCF
Multi-Family Residential (Per Dwelling Unit)	\$6.38	\$12.76	Plus	\$0.96	\$1.08

	Meter Size	Fixed Monthly	Bi-Monthly Fee	Plus (+)	Winter Per CCF	Summer Per CCF
Fire Sprinkler	5/8"	\$5.28	\$10.56	Plus	\$1.24	\$2.56
	3/4"	6.29	12.58	Plus	1.24	2.56
	1"	8.30	16.60	Plus	1.24	2.56
	1-1/2"	13.34	26.68	Plus	1.24	2.56
	2"	19.39	38.78	Plus	1.24	2.56
	3"	35.51	71.02	Plus	1.24	2.56
	4"	53.64	107.28	Plus	1.24	2.56
	6"	104.02	208.04	Plus	1.24	2.56

Source: Lakehaven

**Lakehaven's Sewer Rates
Effective January 1, 2010**

	FIXED MONTHLY	FIXED BI- MONTHLY	USAGE CHARGE PER CCF
Single/Multi- Family Residential	\$11.00	\$22.00	\$2.09 (usage based on wet month average)
King County/METRO	11.00	22.00	3.75 (usage based on wet month average)
Pierce County	11.00	22.00	2.75 (usage based on wet month average)

Non-Residential	FIXED MONTHLY	FIXED BI- MONTHLY	CCF
SIC#1	\$11.00	\$22.00	\$2.09
SIC #2	11.00	22.00	3.37
SIC #3	11.00	22.00	4.64
SIC #4	11.00	22.00	5.91
SIC #5	11.00	22.00	7.18

Source: Lakehaven

Outstanding Debt. As of December 31, 2009, Lakehaven had outstanding \$16,795,000 in water revenue bonds (including \$595,000 of its Water and Sewer Improvement and Refunding Revenue Bonds, 1998 and \$16,200,000 of its Water and Sewer Revenue Refunding Bonds, 2005), as well as \$11,926,980 in Public Works Trust Fund Loans.

Bond Resolution. Pursuant to Lakehaven Resolution Nos. 93-724 and 98-854 authorizing Lakehaven's outstanding water revenue bonds, such bonds are secured by a pledge of the Net Revenues of the Water System. The bonds are further secured by a lien on any Utility Local Improvement District ("ULID") Assessments levied in any future ULID if the bonds secured by these ULID Assessments are issued on a parity of lien with Lakehaven's outstanding water revenue bonds. The bonds are special fund revenue obligations of Lakehaven, payable solely from the bond fund into which is deposited Net Revenue of the Lakehaven water system.

Water System means the existing combined water supply and distribution system and sanitary sewage collection and disposal system of Lakehaven, and any additional utility combined therein pursuant to law, as the same shall be added to, bettered, improved and extended, for as long as any of the parity water revenue bonds of Lakehaven are outstanding.

Net Revenue is defined to include all of the earnings and revenues received by Lakehaven from the ownership, maintenance and operation of the Water System and all earnings from the investment of money on deposit in the various funds of Lakehaven (except earnings produced by amounts or securities in any other refunding or defeasance escrow) and excluding Assessments, government grants, tax proceeds and principal proceeds of bonds or other obligations of Lakehaven, less Maintenance and Operation Expenses.

Maintenance and Operation Expenses are defined to mean all expenses incurred by Lakehaven in causing the Water System to be operated and maintained in good repair, working order and condition, including all administrative and other expenses attributable to the Water System, and payments to other entities for the transmission, treatment and disposal of sewage, and the supply, transmission, delivery and storage of water, but shall not include any depreciation expenses or Lakehaven or city levied taxes or charges in lieu of taxes.

Gross Revenue of the Lakehaven System, except for earnings on the Bond Fund and funds other than the Maintenance Fund, shall be credited to the Maintenance Fund of Lakehaven to be used only for the following purposes, in the following order of priority: (a) to pay Maintenance and Operation Expenses; (b) to pay principal of and interest on outstanding parity bonds; (c) to replenish the Reserve Account or repay Reserve Policy Costs; (d) to pay junior lien revenue obligations; and (e) to retire by redemption or to purchase any outstanding revenue bonds or other revenue obligations of Lakehaven, to make necessary additions, betterments, improvements and repairs to or extensions and replacements to the Water System, or for any other lawful Lakehaven purpose.

Under the resolutions, Lakehaven has covenanted to meet a Coverage Requirement, defined as Net Revenue of the Water System at least equal to 1.25 times the annual debt service in that current year on applicable bonds which are

not Assessment Bonds and also at least equal to the annual debt service in that year plus Reserve Policy Costs, plus Net Revenue of the Water System (not used in the coverage calculation for bonds which are not Assessment Bonds), together with collections on Assessments, at least equal to 1.00 times the Annual Debt Service in that current year on all Assessment Bonds.

Under the resolutions, Lakehaven has reserved the right to issue future bonds with a lien on Net Revenue of the Water System on a parity with the lien thereon of its outstanding water revenue bonds, upon compliance with certain conditions set forth therein.

Certain Historical Results. The following table shows historical operating revenues and expenses for the past five years.

Lakehaven
Historical Financial Results for the Years 2005-2009

	2005	2006	2007	2008	2009
OPERATING REVENUES					
Customer Sales & Service Fees	\$ 18,687,507	\$ 19,537,331	\$ 19,427,435	\$ 20,162,542	\$ 21,986,967
Permits, Inspection & Delinquency Fees	337,858	338,078	318,788	320,512	328,794
Developer Revenues & Administrative Charges	387,767	493,338	494,260	399,983	339,124
Street Lighting Revenues	338,091	338,877	339,759	340,617	341,884
Total Operating Revenues	\$ 19,751,223	\$ 20,707,624	\$ 20,580,242	\$ 21,223,654	\$ 22,996,769
OPERATING EXPENSES					
Maintenance & Operations	\$ 8,703,950	\$ 10,118,027	\$ 12,948,985	\$ 12,451,911	\$ 12,831,892
Administrative & General	3,539,361	4,053,880	3,222,669	3,447,967	3,683,990
Depreciation and Amortization	6,512,807	6,881,231	7,283,646	7,684,971	7,152,585
Taxes, Other Than Income Tax	611,361	586,403	547,054	615,434	655,617
Total Operating Expenses	\$ 19,367,479	\$ 21,639,541	\$ 24,002,354	\$ 24,200,283	\$ 24,324,084
Net Operating Income	\$ 383,744	\$ (931,917)	\$ (3,422,112)	\$ (2,976,629)	\$ (1,327,315)
NON-OPERATING INCOME (EXPENSE)(I)					
Interest Expense and Financing Costs	\$ (1,348,870)	\$ (1,181,087)	\$ (1,143,899)	\$ (1,042,010)	\$ (812,103)
Amortization of Debt Expenses	(43,403)	(56,041)	(46,829)	(36,941)	(27,749)
Gain(Loss) on Disposal of Fixed Assets	16,331	88,782	0	8,107	8,016
Interest Income	887,775	1,333,259	977,553	579,405	271,931
Other Income	76,983	91,557	174,848	164,637	311,199
Total Non-Operating Income (Expense)	\$ (411,184)	\$ 276,470	\$ (38,327)	\$ (326,802)	\$ (248,706)
Net Income to Retained Earnings	\$ (27,440)	\$ (655,447)	\$ (3,460,439)	\$ (3,303,431)	\$ (1,576,021)
Capital Contributions	\$ 6,482,230	\$ 4,537,009	\$ 5,116,652	\$ 5,868,034	\$ 3,444,864
Balance Available For Capital Improvements And Other Purposes	\$ 27,534,761	\$ 27,310,982	\$ 24,456,976	\$ 19,516,199	\$ 15,369,212
Total Debt Service	\$ 2,937,621	\$ 3,170,717	\$ 4,047,686	\$ 3,371,895	\$ 3,579,564
Debt Service Coverage					
Assessment	71.05	58.14	30.41	29.76	20.89
Non-Assessment	3.42	2.90	2.16	2.15	2.16

Source: Lakehaven

APPENDIX D

BOOK-ENTRY SYSTEM

The following information has been provided by the Depository Trust Company, New York, New York (“DTC”). The City makes no representation regarding the accuracy or completeness thereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the DTC Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds 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 in the principal amount of each such maturity and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 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.

When notices are given, they shall be sent by the Bond 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.

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

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

Payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by DTC 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 DTC Participant and not of DTC (nor its nominee), the Bond Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC or any successor (the "Depository") may determine not to continue to act as securities depository for the Bonds, and the City may advise the Depository of its determination to discontinue book-entry of the Bonds through such Depository. If the City is unable to retain a qualified successor to the Depository or the City has determined that it is in the best interest of the City not to continue the book-entry system of transfer or that the interests of Beneficial Owners might be adversely affected if the book-entry system is continued, Bond certificates will be delivered to the Beneficial Owners or their nominees in registered form, in the denomination of \$5,000 or any integral multiple of \$5,000. In the event the book-entry system is discontinued, the persons to whom Bond certificates are delivered and in whose names the Bonds are registered will be treated as "bondowners" for all purposes of the Bond Ordinance.

With respect to Bonds registered on the Bond Register in the name of Cede & Co., as nominee of DTC, the City and the Bond Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom a DTC Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds; (ii) the delivery to any DTC Participant or any other person, other than a bondowner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption; (iii) the payment to any DTC Participant or any other person, other than a bondowner as shown on the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given action taken by DTC as registered owner; or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede & Co., in whose name each Bond is registered on the Bond Register, as the holder and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. For the purposes of this Official Statement, the term "Beneficial Owner" shall include the person for whom the DTC Participant acquires an interest in the Bonds.

APPENDIX E

**INDEPENDENT AUDITORS' REPORT AND
CITY OF TACOMA WATER SYSTEM 2008 AND 2009 FINANCIAL STATEMENTS**

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ANNUAL

TACOMA WATER

2009

**FINANCIAL
REPORT**



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Public Utility Board

LAURA FOX

Chair

PETER THEIN

Vice-Chair

ROBERT CASEY

Secretary

DAVID NELSON

Member

WOODROW JONES

Member

WILLIAM A. GAINES
Director of Utilities/CEO

LINDA MCCREA
Superintendent

ROBERT K. BILES
Finance Director

DEPARTMENT OF PUBLIC UTILITIES
CITY OF TACOMA

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA WATER

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FINANCIAL DATA

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INDEPENDENT AUDITOR'S REPORT

Chair and Members of the Public Utility Board
City of Tacoma, Washington Department of Public Utilities, Water Division
Tacoma, Washington

We have audited the accompanying balance sheets of City of Tacoma, Washington Department of Public Utilities, Water Division as of December 31, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Tacoma, Washington Department of Public Utilities, Water Division as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The statistical data and additional supplemental information following the financial statements and notes to the financial statements are also not a required part of the basic financial statements but are supplementary information provided for purposes of additional analysis. We did not audit or perform any other procedures on this information and express no opinion on it.

Moss Adams LLP

Portland, Oregon
April 28, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Water's (the Utility) financial performance provides an overview of the financial activities for the years ended December 31, 2009 and 2008. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the Utility's financial activities, and identify changes in the Utility's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America applied on a consistent basis and include amounts that are based on management's best estimates and judgments.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2009 and 2008, include Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets and Statements of Cash Flows. The Balance Sheets present information on all of the Utility's assets and liabilities, with the difference between the two reported as net assets. The Statements of Revenues, Expenses and Changes in Net Assets report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, investing and financing activities.

The notes to the financial statements provide additional disclosures that are essential to a full understanding of the data provided in the financial statements. They are an integral part of the Utility's presentation of financial position, results of operations and changes in cash flows.

Financial Highlights

- The assets of Tacoma Water exceeded its liabilities by \$412.6 million in 2009 and by \$404.0 million in 2008. Of these amounts, \$13.5 million in 2009 and \$8.2 million in 2008 may be used to meet Tacoma Water's ongoing obligation to citizens and creditors.
- Tacoma Water's total net assets increased by \$8.6 million in 2009 and \$12.2 million in 2008. The 2009 increase is largely attributed to a rate increase, Public Fire Protection fees for fire hydrants and unfilled positions resulting from the slowdown in development.
- Tacoma Water's operating revenues equaled \$64.0 million, an increase of \$7.0 million or 12.2% in 2009 compared to 2008 operating revenues of \$57.0 million. The increase is due to an average 4.0% rate increase and Public Fire Protection fees billed to other government agencies. Public Fire Protection fees are a new revenue source resulting from a 2008 Washington State Supreme Court ruling, which requires fire protection costs to be billed to local governments and not to the water utilities. There are approximately 9,840 hydrants at \$303.10 each annually.
- In 2009, Tacoma Water's net utility plant of \$604.7 million increased by \$14.1 million or 2.4% over 2008's \$590.6 million balance. Major projects contributing to the 2009 increase are construction of Howard Hanson Dam Additional Water Storage, replacement of Pipe No.1 at the Puyallup River and replacement of the In-take Bridge at the Headworks.

- Tacoma Water's Long-Term Liabilities increased by \$73.3 million during the current fiscal year and decreased by \$8.4 million during 2008. Tacoma Water issued new Build America Bonds for \$76.8 million and initiated draws from two State Public Trust Fund Loans for \$4.9 million in 2009. The Utility also secured a \$6.1 million loan from the Drinking Water State Revolving Fund during 2009.
- This year the Utility is reporting Rate Stabilization (deferred revenues) for \$35.5 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. Tacoma Water's basic financial statements are comprised of two components: 1) financial statements, 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

For 2009, the Utility is reporting operating income of \$13.0 million compared to \$7.7 million in 2008 and \$7.4 million in 2007. The Utility's 2009 operating revenue increased by 12.2% versus 3.5% increase in operating expenses. Net income for 2009 is \$8.6 million compared to \$12.2 million in 2008 and \$16.9 million in 2007. Of the net income, capital contributions for 2009 were \$7.1 million compared to \$14.1 million in 2008 and \$12.8 million in 2007. There were 450 new meters installed for 2009 compared to 859 new meters installed in 2008 and 1,093 new meters installed for 2007. This continuing decline in new meter installations is the result of the economic downturn in the housing market.

The following table highlights Tacoma Water's operating results for the years 2009 - 2007.

Operating Results (In thousands)					
	2009	2008	2007	09/08 Increase (Decrease)	08/07 Increase (Decrease)
Operating Revenues	\$ 63,994	\$ 57,025	\$ 52,726	\$ 6,969	\$ 4,299
Operating Expenses	50,995	49,286	45,365	1,709	3,921
Operating Income	12,999	7,739	7,361	5,260	378
Net Non-Operating Income (Expenses)	(6,597)	(4,615)	1,278	(1,982)	(5,893)
Capital Contributions	7,121	14,137	12,801	(7,016)	1,336
Federal BAB Subsidies	244	-	-	245	-
Transfers Out	(5,185)	(5,014)	(4,563)	(171)	(451)
Change in Net Assets (Net Income)	\$ 8,582	\$ 12,247	\$ 16,877	\$ (3,664)	\$ (4,630)

Net Assets

Net assets may serve over time as a useful indicator of the Utility's financial position. Assets exceeded liabilities by \$412.6 million for 2009, \$404.0 million for 2008 and \$391.8 million for 2007. Therefore, net assets increased by \$8.6 million or 2.1% in 2009 from 2008 and \$12.2 million or 3.1% in 2008 from 2007. The net increase in 2009 was due to an average 4.0% rate increase and Public Fire Protection fees. The changes in prior years were largely due to capital contributions. Capital contributions for 2009 were \$6.0 million for system development charges and \$1.2 million for donated fixed assets entirely from private contracts. In the year 2008, capital contributions were \$8.6 million for system development charges and \$5.6 million for donated fixed assets entirely from private contracts. In the year 2007, capital contributions were \$9.3 million for system development charges and \$3.5 million for donated assets all from private contracts.

The investment in capital assets net of related debt or the Utility's equity investment in capital assets for 2009 is \$369.6 million, a decrease of \$13.9 million or 3.6% compared to 2008. Investment in capital assets for 2008 was \$383.5 million, an increase of \$23.5 million or 6.5% compared to 2007's \$360.0 million.

Restricted net assets for 2009 were \$22.9 million, an increase of \$15.4 million from 2008. Restricted net assets for 2008 were \$7.5 million, reflecting a decrease of \$4.3 million from 2007. The majority of the increase in restricted net assets in 2009 was in System Development Charges (SDC). Capital projects financed with system development charges in 2008 were reimbursed with Build America Bonds in 2009 increasing restricted net assets in the SDC fund by \$13.1 million compared to 2008.

In 2009, unrestricted net assets were \$20.1 million, an increase of \$7.1 million over 2008. This was the result of increased operating revenues of \$7.0 million and increased operating expenses of \$1.7 million. Unrestricted net assets for 2008 were \$13.0 million, representing a decrease of \$6.9 million from 2007's balance of \$19.9 million.

The analysis below highlights changes in Tacoma Water's net assets for the years 2009, 2008 and 2007.

Tacoma Water's Net Assets
(In thousands)

Description	2009	2008	2007	09/08 Increase (Decrease)	08/07 Increase (Decrease)
Net Utility & Non-Utility Plant	\$ 605,205	\$ 591,141	\$ 569,041	\$ 14,064	\$ 22,100
Current and Other Assets	172,810	105,781	123,788	67,029	(18,007)
Total Assets	<u>\$ 778,015</u>	<u>\$ 696,922</u>	<u>\$ 692,829</u>	<u>\$ 81,093</u>	<u>\$ 4,093</u>
Net Assets:					
Invested in Capital Assets, Net of Related Debt	\$ 369,573	\$ 383,507	\$ 360,036	\$ (13,934)	\$ 23,471
Restricted	22,902	7,502	11,826	15,400	(4,324)
Unrestricted	20,118	13,001	19,901	7,117	(6,900)
Total Net Assets	<u>412,593</u>	<u>404,010</u>	<u>391,763</u>	<u>8,583</u>	<u>12,247</u>
Long-Term Liabilities	292,165	218,869	227,316	73,296	(8,447)
Current and Other Liabilities	73,257	74,043	73,750	(786)	293
Total Liabilities	<u>365,422</u>	<u>292,912</u>	<u>301,066</u>	<u>72,510</u>	<u>(8,154)</u>
Total Net Assets & Liabilities	<u>\$ 778,015</u>	<u>\$ 696,922</u>	<u>\$ 692,829</u>	<u>\$ 81,093</u>	<u>\$ 4,093</u>

Revenues

Total operating revenues increased to \$64.0 million in 2009 up \$7.0 million or 12.2% compared to 2008. Of this, \$3.0 million was related to water sales and \$4.0 was related to other operating revenues. The increase was \$4.3 million or 8.2% in 2008 to \$57.0 million compared to \$52.7 million in 2007.

Water sales increased by \$3.0 million, or 5.8% in 2009 to \$54.7 million compared to \$51.6 million in 2008. Water sales increased by \$3.3 million or 6.8% in 2008 compared to 2007's \$48.4 million. Effective January 19, 2009, the Public Utility Board approved an average 4.0% rate increase resulting in \$2.1 million additional revenues from residential and domestic customers, \$0.7 million from commercial and industrial customers and \$0.5 million from other customers. In 2008, an average 7.5% rate increase from 2007 resulted in \$1.9 million additional revenues from residential and domestic customers. Special rate revenue from

Simpson Tacoma Kraft in 2009 dropped due to approximately 4.8% lower consumption compared to 2008. As a result of a new contract with Simpson Tacoma Kraft, special rate revenue increased in 2008 compared to 2007.

The following table highlights Tacoma Water's water sales by type of customer for 2009, 2008 and 2007.

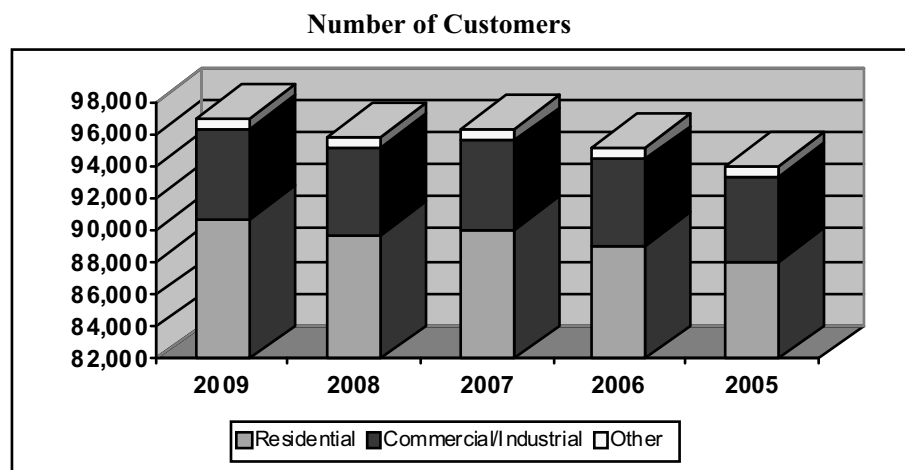
Water Sales (In thousands)					
Type of Customer	2009	2008	2007	09/08 Increase (Decrease)	08/07 Increase (Decrease)
Residential and Domestic	\$ 36,643	\$ 34,593	\$ 32,646	\$ 2,050	\$ 1,947
Commercial and Industrial	9,659	8,979	8,298	680	681
Special Rate – Simpson Tacoma	4,153	4,372	3,918	(219)	454
Municipal	381	349	396	31	(47)
Other Public Buildings and Grounds	1,861	1,680	1,644	181	36
Sale to Other Utilities	1,777	1,252	1,434	525	(182)
Unbilled Revenue	188	417	37	(229)	380
Total	\$ 54,662	\$ 51,642	\$ 48,373	\$ 3,019	\$ 3,269

The largest portion of the Utility's revenues was from sales to residential and domestic customers. Approximately 67.0% of water sales were to residential and domestic customers in both 2009 and 2008, and 67.5% in 2007. Residential sales are followed by commercial and industrial sales at 17.7% for 2009, 17.4% for 2008 and 17.2% for 2007. Special rate sales to Simpson Tacoma Kraft represent 7.6% of total sales for 2009, 8.5% in 2008 and 8.1% in 2007.

Customers

Over the last five years, the overall number of customers has grown at a steady rate of approximately 1.0% per year except 2008, which declined 0.4%. In 2009, there were 96,982 customers of which 90,677 or 93.5% were residential. The remaining 5,636 or 5.8% were commercial and industrial, and 669 or 0.7% were other rate classes combined.

Below is a graphical representation of the number of customers by customer type for the last 5 years.



Expenses

Operating expenses in 2009 increased \$1.7 million or 3.5% compared to 2008. Operating expenses in 2008 increased \$3.9 million or 8.6% compared to 2007. The largest increase was depreciation expense of \$0.8 million or 6.4% in 2009 and \$1.7 million or 14.5% in 2008 reflecting the increase in depreciable assets of \$23.9 million and \$34.0 million, respectively.

Other 2009 significant increases were in production expense by \$0.8 million or 11.7% and administrative and general expense of \$0.4 million or 5.7% compared to 2008. Of the \$0.8 million increase in production expense in 2009, \$0.6 million was source of supply and \$0.2 million was water treatment. Additional labor costs, relative to operations and maintenance have been incurred since the completion of several Second Supply Projects in 2008. In addition, Tacoma Water built a fish crowding facility and implemented environmental stewardship programs increasing source of supply expenses. The Utility also funded repairs for flood damages in January 2009. In addition, there were increased payroll related costs in 2009. Production expenses in 2008 increased \$0.9 million or 13.9 % and administrative and general expense increased \$0.4 million or 6.3 % compared to 2007.

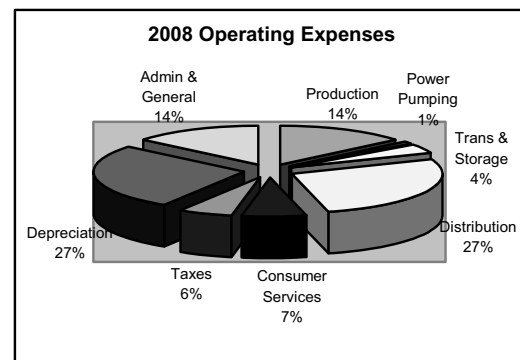
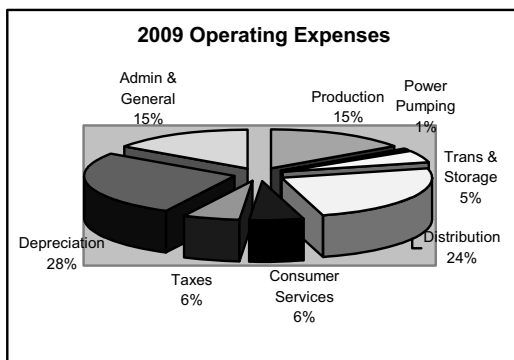
Distribution expense decreased by \$0.8 million or 5.8% in 2009 as a result of controlling expenses and not filling various positions in response to the economic downturn. In 2008, distribution expense increased by \$1.2 million or 10.3% due to an increase in labor and related benefit costs of \$0.8 million and fleet replacement fees of \$0.2 million.

The following table highlights Tacoma Water's operating expenses for 2009 – 2007.

Operating Expenses (in thousands)

Category	2009	2008	2007	09/08 Increase (Decrease)	08/07 Increase (Decrease)
Source of Supply	\$ 4,893	\$ 4,306	\$ 3,396	\$ 587	\$ 910
Water Treatment	2,984	2,743	2,793	241	(50)
Total Production Expense	7,877	7,049	6,189	828	860
Power Pumping Expense	395	343	361	52	(18)
Transmission and Storage Expense	2,529	2,151	2,615	378	(464)
Distribution Expense	12,452	13,223	11,990	(771)	1,233
Customer Accounting and Service	3,119	3,354	3,083	(235)	271
Taxes	3,093	2,882	2,925	211	(43)
Depreciation	13,846	13,016	11,364	830	1,652
Administrative and General	7,684	7,268	6,838	416	430
Total Operating Expenses	\$ 50,995	\$ 49,286	\$ 45,365	\$ 1,709	\$ 3,921

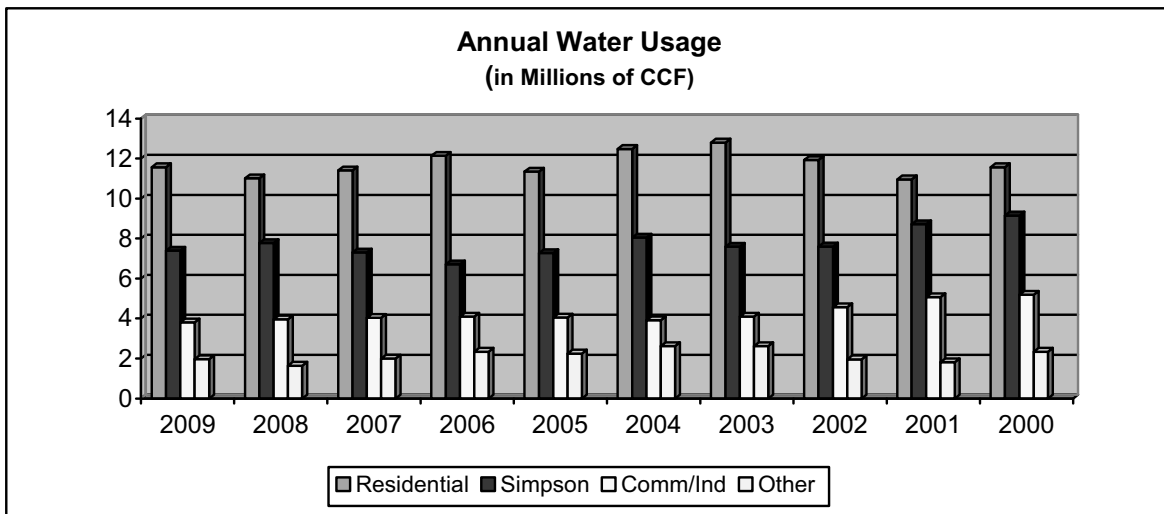
The following is a graphical presentation of Tacoma Water's operating expenses.



Water Users

The Utility generates the majority of its revenues from its residential and domestic customer base. Residential customers used 11.6 million CCF (100 cubic feet) or approximately 46.8% of the 24.7 million CCF of water consumed by the Utility's customers in 2009; Simpson Tacoma Kraft Company used approximately 7.4 million CCF or 29.9%; commercial and industrial customers used 3.8 million CCF or 15.4%. The remaining 2.0 million CCF or 7.9% was consumed by other customers.

Looking at the 10-year water usage trend, year 2000 was the highest with 28.25 million CCF, which declined over the next two years picking up in 2003 with 27.06 million CCF. However, the trend shows a decline in usage over the next six years to current year usage of 24.7 million CCF. This trend can be explained by plumbing code changes, conservation activities and reduction of use by the high water consuming commercial/industrial users.



Capital Assets—Utility Plant

Tacoma Water has invested in a broad range of utility assets. At the end of 2009, Tacoma Water had \$604.7 million in net utility plant, an increase of \$14.1 million or 2.4% from 2008. At the end of 2008, Tacoma Water had \$590.6 million in net utility plant, an increase of \$22.1 million or 3.9% from 2007. In the current year, the distribution crews installed 1,981 new water services.

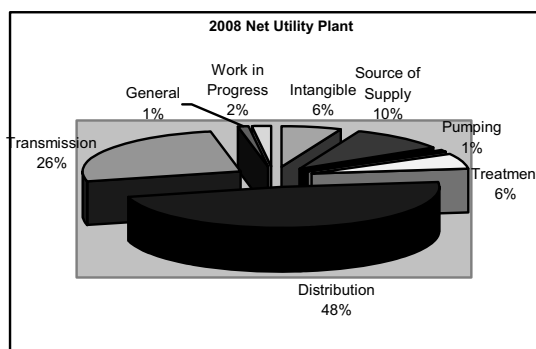
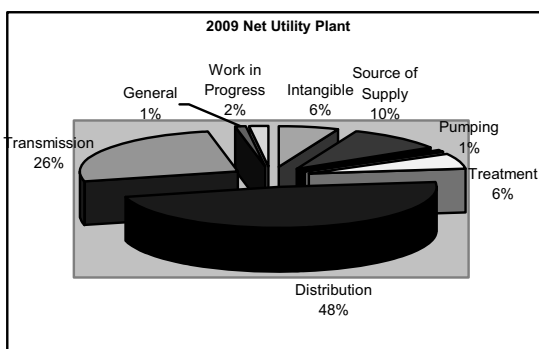
The Utility invests the majority of its capital in distribution facilities. In 2009, it invested \$292.2 million or 48.3%; in 2008, \$282.7 million or 47.9%; and in 2007, \$259.1 million or 45.6% of net utility plant. In addition, Tacoma Water added or replaced 7.7 miles of main in 2009; compared to 23.7 miles in 2008; and 19.9 miles in 2007. The decrease in main additions or replacements were due to delays in joint projects and lack of private contract developments with only 19 completed for 2009 compared to an average of 36 per year over the last 7 year period.

The following table summarizes Tacoma Water's capital assets, net of accumulated depreciation, for the years ended December 31, 2009, 2008 and 2007.

Capital Assets, Net of Accumulated Depreciation
(In thousands)

Net Utility Plant	2009	2008	2007	09/08 Increase (Decrease)	08/07 Increase (Decrease)
Intangible Plant	\$ 34,771	\$ 34,845	\$ 34,795	\$ (74)	\$ 50
Source of Supply Plant	60,243	57,207	57,877	3,036	(670)
Pumping Plant	6,489	6,363	5,267	126	1,096
Water Treatment Plant	37,761	37,635	39,155	126	(1,520)
Transmission Plant	156,919	155,412	154,112	1,507	1,300
Distribution Plant	292,211	282,746	259,120	9,465	23,626
General Plant	7,880	6,457	5,313	1,423	1,144
Construction Work In Progress	8,384	9,928	12,854	(1,544)	(2,926)
Total	\$ 604,658	\$ 590,593	\$ 568,493	\$ 14,065	\$ 22,100

The following graphs provide a visual presentation of the allocation of Tacoma Water's capital investment in 2009 and 2008.



Debt Administration

As of year end 2009, the Utility had outstanding revenue bond obligations of \$263.0 million (net of unamortized bond premiums and loss on refundings), an increase of \$70.7 million or 36.8% from 2008 amounts. The Utility issued new Build America Bonds in 2009 for \$76.8 million. As of year end 2008, Tacoma Water had outstanding revenue bond obligations of \$192.3 million (net of unamortized bond premiums and loss on refundings), a decrease of \$6.2 million or 3.2% from 2007 amounts. The Utility did not issue new bonds in 2008 or 2007.

All outstanding bonds are rated Aa2 by Moody's Investors Service on their Global Scale and AA by Standard & Poor's.

The Utility is required by its bond covenants to maintain a times debt service coverage of 1.25. In 2009, principal and interest were covered 1.87 times, in 2008, were covered 1.66 times, and in 2007, were covered 1.66 times.

At the end of 2009, the Utility had an outstanding State loan balance of \$28.1 million, an increase of \$3.1 million. At the end of 2008, Tacoma Water had an outstanding State loan balance of \$25.0 million, a decrease of \$1.7 million from the 2007 balance of \$26.7 million. During 2009, the Utility entered into a Drinking Water State Revolving Loan that is part of the American Recovery and Reinvestment Act (ARRA) for \$6.1 million but no draws were made in 2009. This loan is to comply with the State Drinking Water Act and Bilateral Compliance

Agreement with the Washington State Department of Health to reconstruct McMillin Reservoir. Also during 2009, Tacoma Water initiated draws of \$4.5 million from 2008 and \$0.4 million from 2006 agreements with Washington State Public Works Board.

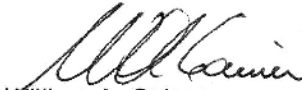
Additional information on Tacoma Water's long-term debt can be found in Note 4 of the financial statements and in the supplementary Statistical Data.

Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the information in this annual report. We prepared the financial statements according to accounting principles generally accepted in the United States of America and they fairly portray Tacoma Water's financial position and operating results.

Moss Adams LLP has audited the financial statements. We have made available to them all pertinent information necessary to complete the audit. Management considers and takes appropriate action on audit recommendations.

Management has established and maintains a system of internal controls, which includes organizational, administrative and accounting processes. These controls provide reasonable assurance that records and reports are complete and reliable, that assets are used appropriately and that business transactions are carried out as authorized.



William A. Gaines
Director of Utilities/CEO



Robert K. Biles
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

BALANCE SHEETS

	DECEMBER 31,	
	2009	2008
ASSETS		
UTILITY PLANT		
In Service, at Original Cost	\$ 729,441,103	\$ 705,571,558
Less - Accumulated Depreciation	(133,167,004)	(124,906,754)
Total	596,274,099	580,664,804
Construction Work In Progress	8,383,676	9,928,454
Net Utility Plant	604,657,775	590,593,258
NON-UTILITY PROPERTY, NET	547,480	547,541
SPECIAL FUNDS		
Construction Funds	60,374,546	13,930,776
Debt Service Funds	2,873,339	2,092,216
Bond Reserve Funds	10,325,529	5,884,382
Other - Investments	56,165,823	53,318,912
Notes & Contracts Receivable - SDC & Other	3,662,577	5,084,574
Total Special Funds	133,401,814	80,310,860
CURRENT ASSETS		
Operating Funds Cash and Equity in		
Pooled Investments	20,541,247	9,035,906
Accounts Receivable	6,712,210	5,418,276
(Net of Allowance for Doubtful Accounts		
of \$364,083 in 2009 and \$335,032 in 2008)		
Accrued Unbilled Revenues	3,779,538	3,591,571
Materials and Supplies	2,523,703	2,617,021
Receivables from Affiliates	1,188,333	455,711
Prepayments.....	1,008,812	1,032,982
Total Current Assets	35,753,843	22,151,467
DEFERRED CHARGES		
Unamortized Debt Expense	2,307,813	1,865,740
Other Deferred Charges	1,346,681	1,453,416
Total Deferred Charges	3,654,494	3,319,156
TOTAL ASSETS	<u>\$778,015,406</u>	<u>\$696,922,282</u>

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

NET ASSETS AND LIABILITIES	DECEMBER 31,	
	2009	2008
NET ASSETS		
Invested in Capital Assets, Net of Related Debt ...	\$369,573,230	\$383,506,857
Restricted for:		
Regional Water Supply System Construction Fund .	8,466,341	2,644,292
Water Assurance and System Development Charges .	13,082,805	3,656,612
Debt Service Funds	1,352,909	1,201,618
Unrestricted	20,117,386	13,000,925
Total Net Assets	412,592,671	404,010,304
LONG-TERM LIABILITIES, NET OF CURRENT MATURITIES		
Revenue Bonds	256,923,578	186,406,888
Public Works Trust Fund Loans	24,593,077	21,338,420
Drinking Water State Revolving Fund Loan	1,771,579	1,932,632
Muckleshoot Agreements	8,877,172	9,191,075
Total Long-Term Liabilities.....	292,165,406	218,869,015
CURRENT LIABILITIES		
Current Maturities of Long-Term Liabilities	8,008,168	7,801,533
Accrued Taxes	1,088,676	1,221,907
Accrued Expenses and Contracts Payable	1,847,920	2,685,678
Salaries, Wages and Fringe Benefits Payable	682,764	573,350
Interest Payable	1,520,430	890,598
Accrued Compensated Absences	2,496,237	2,280,006
Customers' Deposits	266,231	246,805
Payables to Affiliates	1,753,749	588,428
Total Current Liabilities	17,664,175	16,288,305
DEFERRED CREDITS		
Retained on Contract Payments	31,491	34,650
Customer Advances for Construction	4,286,630	6,038,897
Rate Stabilization	35,463,689	-
Deferred Revenue - SDC & Other.....	14,200,293	50,058,137
Other Deferred Credits	1,611,051	1,622,974
Total Deferred Credits	55,593,154	57,754,658
Total Liabilities	365,422,735	292,911,978
TOTAL NET ASSETS AND LIABILITIES	\$778,015,406	\$696,922,282

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	YEAR ENDED DECEMBER 31,	
	2009	2008
OPERATING REVENUES		
Sale of Water	\$54,661,801	\$51,642,227
Other Operating Revenues	6,198,724	1,489,921
Contract Resource Obligation Revenues	3,133,231	3,892,392
Total Operating Revenues	63,993,756	\$57,024,540
OPERATING EXPENSES		
Operations	15,376,300	15,716,720
Production	7,876,564	7,048,696
Administrative and General	10,802,599	10,622,247
Depreciation	13,845,799	13,016,544
Other Taxes	3,093,311	2,881,877
Total Operating Expenses	50,994,573	49,286,084
Net Operating Income	12,999,183	7,738,456
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	1,955,385	3,730,407
Proceeds from Disposition of Property	26,100	-
Other	497,331	61,265
Interest on Long-Term Debt	(10,027,675)	(9,428,638)
Amortization of Debt Expense, Premium and Loss on Refunding	6,509	29,855
Interest Charged to Construction	945,010	992,519
Total Non-Operating Revenues (Expenses)	(6,597,340)	(4,614,592)
Net Income Before Capital Contributions and Transfers	6,401,843	3,123,864
Capital Contributions		
Cash	5,954,544	8,554,112
Donated Fixed Assets	1,166,449	5,583,493
Federal BAB Subsidies	244,683	-
Transfers		
City of Tacoma Gross Earnings Tax	(4,998,197)	(4,500,155)
Transfer to Other Funds	(186,955)	(514,327)
CHANGE IN NET ASSETS (NET INCOME)	8,582,367	12,246,987
TOTAL NET ASSETS - BEGINNING OF YEAR	404,010,304	391,763,317
TOTAL NET ASSETS - END OF YEAR	\$412,592,671	\$404,010,304

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$62,756,537	\$56,262,503
Cash Paid to Suppliers	(14,832,501)	(14,693,692)
Cash Paid to Employees	(19,165,463)	(18,116,480)
Taxes Paid	(3,226,542)	(2,584,749)
Net Cash From		
Operating Activities	25,532,031	20,867,582
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(186,955)	(514,327)
Transfer Out for Gross Earnings Tax	(4,998,197)	(4,500,155)
Net Cash From Non-Capital		
Financing Activities	(5,185,152)	(5,014,482)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(25,798,794)	(27,515,917)
Proceeds from Disposition of Property	26,100	-
Proceeds from PWTF Loan	4,850,000	-
Proceeds from Sale of Bonds	76,775,000	-
Debt Issuance Costs	(618,875)	-
Principal Payments on Long-Term Debt	(7,938,664)	(8,440,371)
Interest Paid	(9,397,843)	(9,422,709)
System Development Charges, CIAC and Other	5,215,037	7,728,561
Net Cash From Capital and		
Related Financing Activities	43,111,961	(37,650,436)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	1,955,385	3,730,407
Other Net Non-Op Revenues and Expenses	497,331	61,265
Net Change in Deferred Charges	106,736	(1,366,647)
Net Cash From Investing Activities	2,559,452	2,425,025
Net Change in Cash and Equity in		
Pooled Investments	66,018,292	(19,372,311)
Cash & Equity in Pooled Investments at January 1 ...	84,262,192	103,634,503
Cash & Equity in Pooled Investments at December 31 .	\$150,280,484	\$84,262,192

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

	YEAR ENDED DECEMBER 31,	
	2009	2008
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$12,999,183	\$7,738,456
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	13,845,799	13,016,544
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	(1,237,218)	(762,037)
Receivables from Affiliates	(732,622)	(360,688)
Materials and Supplies	93,318	(267,966)
Prepayments	24,168	196,303
Accrued Taxes	(133,231)	297,128
Salaries, Wages and Fringe Benefits Payable	109,414	182,629
Accrued Compensated Absences	216,231	240,788
Customers' Deposits	19,426	20,086
Accrued Expenses and Contracts Payable	(837,758)	713,056
Payables to Affiliates	1,165,321	(146,717)
Total Adjustments	12,532,848	13,129,126
Net Cash From Operating Activities	<u>\$25,532,031</u>	<u>\$20,867,582</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$129,739,237	\$75,226,286
Cash and Equity in Pooled Investments in Operating Funds	20,541,247	9,035,906
Cash and Equity in Pooled Investments at December 31	<u>\$150,280,484</u>	<u>\$84,262,192</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations of Tacoma Water. The Water Division, doing business as Tacoma Water, is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department). The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations such as system expansion, issuance of bonds and fixing of utility rates and charges are initiated and executed by the Board, but also require formal City Council approval.

Tacoma Water owns and operates the City's Water System which includes a surface water supply source (the Watershed); several extensive well fields; a water transmission system consisting of several pipelines, water treatment and quality facilities; various reservoirs, standpipes and pump stations; and an extensive distribution system. Tacoma Water supplies water to approximately 97,000 customers and has approximately 280 employees. Tacoma Water's service area includes the City of Tacoma and urbanized areas of Pierce and South King Counties. Water service outside the City limits is provided under franchises granted by both Pierce and King Counties. Tacoma Water is organized functionally as Water Supply, Water Quality, Water Distribution, Second Supply Project and Water Resource Planning.

Water Supply designs, constructs, maintains and operates the water supply structures, wells, pumping stations, reservoirs, standpipes, transmission mains and associated property. Water use by retail customers varies from year to year primarily because of weather conditions, customer growth, economic conditions in Tacoma Water's service area and conservation efforts.

Water Quality operates and maintains the Green River Watershed and Headworks, operates and maintains water treatment equipment and monitors water quality.

Water Distribution engineers, designs, constructs, operates and maintains all distribution system facilities including mains, hydrants, valves, service connections and metering.

Water Resource Planning provides planning for cost-effective resources to meet future needs, including water supply projects and conservation activities. Resource Planning manages watershed lands to provide for fisheries and wildlife populations, manages real estate property acquisitions and dispositions, and acquires and grants right-of-way easements.

Second Supply Project was developed to meet Tacoma Water's own future water supply requirements as well as to increase regional supply. The Second Supply Project Pipeline is approximately 34 miles long. Its route follows a more northerly route than Tacoma Water's existing Pipeline No. 1, traversing south King County and thereby making water available to the urbanized areas north and east of the City. Tacoma Water owns and operates the Second Supply Project. (See Note 5)

Shared Services. Tacoma Water receives certain services from other departments and agencies of the City, including those normally considered to be general and administrative. Tacoma Water is charged for services received from other City departments and agencies and additionally, must pay gross earnings tax to the City.

Basis of Accounting and Presentation. The financial statements of Tacoma Water are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

fund accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

Tacoma Water follows the provisions set forth in regulatory accounting guidance. In general, regulatory accounting permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers.

Tacoma Water generally follows the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners and the Division of Audits of the State Auditor's Office. Tacoma Water is exempt from payment of Federal income tax.

Utility Plant and Depreciation. Utility plant is stated at original cost (See Note 2), which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. Assets are capitalized when the cost exceeds \$5,000 and the useful life exceeds one year.

Provision for depreciation is made using the straight-line method, based on estimated economic lives of related operating assets placed in service at the beginning of the year. The composite depreciation rates for 2009 and 2008 were 2.27% and 2.26%, respectively. When utility plant assets are retired, their original cost together with removal cost, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized.

Allowance for Funds Used During Construction (AFUDC). AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense. Net interest expenses in 2009 and 2008 of \$.32 million and \$.48 million, respectively, was capitalized.

Asset Valuation. Tacoma Water periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based on discounted future cash flow. Tacoma Water has no impaired assets.

Special Funds. (See Note 3) In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds, which consist of cash and investments, are restricted for specific uses including capital additions, debt service and extraordinary operations and maintenance costs.

Materials and Supplies. Materials and supplies consist primarily of items for construction and maintenance of utility plant and are valued at the lower of average cost or market.

Accounts Receivable. Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on Tacoma Water's historical losses, review of specific problem accounts, the existing economic conditions and the financial stability of its customers. Generally, Tacoma Water considers accounts receivable past due after 30 days.

Bond Premium, Issuance Costs and Loss on Refunding. Bond premium and issuance costs are amortized using the bonds outstanding method over the terms of the issues to which they pertain. Loss on refunding is amortized on the straight-line basis over the remaining life of the old debt or the life of the new debt, whichever is shorter. Bond issuance costs are included in deferred charges with other components recorded in long-term debt.

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

Compensated Absences. The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO (personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy. The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. Vacation pay and PTO are recorded as a liability and expense in the year earned.

Employees in the original policy who accumulate sick leave will receive 25% of the value at retirement or 10% upon termination for any other reason. In the event of death, beneficiaries receive 25% of the value. The accrued liability is computed at 10%, which is considered the amount vested. Sick leave pay is recorded as an expense in the year earned.

Contributions in Aid of Construction and System Development Charges. GASB Statement No. 33, which addresses accounting for contributed capital, requires that contributed capital be recognized as revenue. Capital contributions include new service connections and system development charges. System development charges are collected on all new services prior to installation to ensure required new source, transmission and storage facilities needed to meet new demands are funded. The charge was developed using a cost-of-service approach and includes a share of historical plant investment and projected future outlays that will increase system capacity. Because the funds collected for this charge can only be used for system expansion projects, the balance is reflected as restricted in Tacoma Water's net assets. System development charges on uncompleted projects are recorded in deferred credits.

Revenues. Service rates are authorized by the Tacoma City Council. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year-end. Utility revenues are derived primarily from the sale and transmission of water. Utility revenue from water sales is recognized when the water is delivered to and received by the customer.

Tacoma Water receives contract resource obligation revenue and debt service payments from our partners in the Second Supply Project Agreement which are recorded as operating revenue.

Environmental Remediation Costs. The Utility recognizes environmental obligations according to GASB Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations". Accruals for expected pollution remediation outlays are recorded when one of five obligating events occurs and adjusted as further information develops or circumstances change. The five obligating events are applied when the Division is: 1) compelled to take action because of an imminent endangerment, 2) the Division is in violation of a pollution prevention-related permit or license, 3) the Division is named or evidence indicates that it will be named by a regulator as a responsible party or potentially responsible party, 4) named in a lawsuit to compel participation in pollution remediation or 5) the Division commences or legally obligates itself to commence pollution remediation. Tacoma Water does not have any environmental obligations at this time.

Costs related to environmental remediation are charged to expense when the liability is recognized; outlays are capitalized when goods and services are acquired under specific circumstances as described in Statement No. 49. Measurement is based on the current value of the outlays for the individual remediation components using the expected cash flow technique, adjusted for recoveries from other parties and insurance.

Cash and Equity in Pooled Investments and Policies. Tacoma Water's cash is deposited with the City Treasurer in the City's general investment pool for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

City's general investment pool are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Assets. Interest earned on such pooled investments is allocated to the participating funds based on each fund's average daily cash balance during the allocation period.

The general investment pool operates like a demand deposit account in that all City departments, including Tacoma Water, may deposit cash into the pool at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits investments in Certificates of Deposit with qualified public depositories (as defined in RCW 39.58), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by any State or Local Government, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Liquidity required to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the WA State LGIP and/or a Municipal Investor demand deposit account maintained with U.S. Bank.

Tacoma Water's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2009 and 2008 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (PDPC).

Use of Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Tacoma Water used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, OPEB, self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

Significant Risks and Uncertainty. Tacoma Water is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations, and federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

Net Assets. Net assets consist of the following components:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of capital assets.
- Restricted – This component consists of net assets on which constraints are placed. Constraints include those imposed by creditors, contributors, enabling legislation or by law.
- Unrestricted – This component of net assets consists of net assets that are available for use.

Reclassifications. Changes have been made to prior year account classifications as needed to conform to the current year presentation format.

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

Rate Stabilization Account. The Utility has established a rate stabilization account to reduce year-to-year variations in rates. Amounts deposited into the account are excluded from the statement of revenues, expenses and changes in net assets in accordance with regulated operations. Revenue will be recognized in subsequent periods in accordance with rate decisions.

NOTE 2 UTILITY PLANT. A summary of the balances and changes in utility plant follows:

	Balance December 31, 2008	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2009
Intangible Plant	\$ 34,882,081	\$ 439,179	\$ (512,624)	\$ -	\$ 34,808,636
Source of Supply Plant	68,588,758	4,649,084	(88,981)	-	73,148,861
Pumping Plant	8,698,417	314,031	(7,032)	-	9,005,416
Water Treatment Plant	43,467,416	1,639,732	(4,586)	-	45,102,562
Transmission Facilities	184,130,846	4,492,744	(7,285)	-	188,616,305
Distribution Facilities	342,635,738	13,485,840	(2,130,187)	-	353,991,391
General Plant	<u>23,168,302</u>	<u>2,632,072</u>	<u>(845,487)</u>	<u>(186,955)</u>	<u>24,767,932</u>
Total Water Plant In Service	705,571,558	27,652,682	(3,596,182)	(186,955)	729,441,103
Less Accumulated Depreciation	<u>124,906,754</u>	<u>13,845,799</u>	<u>(3,083,558)</u>	<u>(2,501,991)</u>	<u>133,167,004</u>
	580,664,804	13,806,883	(512,624)	2,315,036	596,274,099
Construction Work In Progress	<u>9,928,454</u>	<u>25,920,949</u>	<u>-</u>	<u>(27,465,727)</u>	<u>8,383,676</u>
Net Utility Plant	<u>\$ 590,593,258</u>	<u>\$ 39,727,832</u>	<u>\$ (512,624)</u>	<u>\$ (25,150,691)</u>	<u>\$ 604,657,775</u>

NOTE 3 SPECIAL FUNDS. Cash and equity in pooled investments included in Tacoma Water's Special Funds consist of:

Cash and Equity in Pooled Investments	2009	2008
Construction Funds	\$ 60,374,546	\$ 13,930,776
Other	<u>69,364,691</u>	<u>61,295,510</u>
Total	<u>\$129,739,237</u>	<u>\$ 75,226,286</u>

NOTE 4 LONG-TERM DEBT. Long-term debt activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$190,250,000	\$76,775,000	\$(5,880,000)	\$261,145,000	\$6,075,000
Plus: Unamortized Premium	3,267,239	-	(361,921)	2,905,318	-
Less: Unamortized Loss on Refundings	<u>(1,230,351)</u>	<u>-</u>	<u>178,611</u>	<u>(1,051,740)</u>	<u>-</u>
Net Revenue Bonds	192,286,888	76,775,000	(6,063,310)	262,998,578	6,075,000
Public Works Trust Fund Loans	22,913,182	4,850,000	(1,574,760)	26,188,422	1,595,345
Drinking Water State Revolving Fund Loan	<u>2,093,684</u>	<u>-</u>	<u>(161,053)</u>	<u>1,932,631</u>	<u>161,052</u>
Total Long-Term Debt	217,293,754	81,625,000	(7,799,123)	291,119,631	7,831,397
Muckleshoot Liability (See Note 11)	<u>9,376,794</u>	<u>-</u>	<u>(322,851)</u>	<u>9,053,943</u>	<u>176,771</u>
Total Long-Term Liabilities	<u>\$226,670,548</u>	<u>\$81,625,000</u>	<u>\$ (8,121,974)</u>	<u>\$300,173,574</u>	<u>\$8,008,168</u>

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

Tacoma Water's long-term debt at December 31 consists of the following payable from revenues of Tacoma Water:

SENIOR LIEN BONDS

	<u>2009</u>	<u>2008</u>
2001 Water System Revenue Bonds, with interest rates ranging from 4.0% to 5.25%, due in yearly installments ranging from \$415,000 to \$4,795,000 through 2023.	\$30,060,000	\$30,460,000
2002 Regional Water Supply System Revenue Bonds, with interest rates ranging from 4.0% to 5.50%, due in yearly installments ranging from \$800,000 to \$1,025,000 and term bonds due in installments ranging from \$1,100,000 to \$7,400,000 through 2032.	78,350,000	79,150,000
2003 Water System Revenue and Refunding Bonds, with interest rates ranging from 4.0% to 5.25%, due in yearly installments ranging from \$1,725,000 to \$3,505,000 through 2023.	34,880,000	37,830,000
2005 Water System Revenue and Refunding Bonds, with interest rates ranging from 3.5% to 5.0%, due in yearly installments ranging from \$1,695,000 to \$4,760,000 through 2025.	41,080,000	42,810,000
2009 Water System Revenue Bonds, with interest rate at 5.751%, with Build America Bond (BAB) rebate at 35% of interest, yield rate at 3.738%, due in yearly installments starting in 2033 ranging from \$9,800,000 to \$12,210,000 through 2039.	<u>76,775,000</u>	<u>-</u>
Subtotal Sr. Lien Debt	261,145,000	190,250,000
Unamortized premium	2,905,318	3,267,239
Unamortized loss on refunding	(1,051,740)	(1,230,351)
Less Current Portion of Revenue Bond Debt	<u>(6,075,000)</u>	<u>(5,880,000)</u>
Long-term Portion of Revenue Bond Debt	<u>\$256,923,578</u>	<u>\$186,406,888</u>

Scheduled principal maturities on the bonds and interest payments (BAB interest rebates are included in the Total Interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Total Interest</u>	<u>BAB Interest Rebate</u>
2010	\$6,075,000	\$13,785,375	\$1,661,268
2011	\$6,280,000	\$13,220,200	\$1,545,366
2012	\$6,550,000	\$12,941,813	\$1,545,365
2013	\$6,880,000	\$12,627,013	\$1,545,366
2014	\$7,230,000	\$12,295,319	\$1,545,365
2015-2019	\$43,210,000	\$55,914,113	\$7,726,828
2020-2024	\$53,790,000	\$43,532,120	\$7,726,828
2025-2029	\$32,655,000	\$32,319,401	\$7,726,828
2030-2034	\$41,665,000	\$23,695,553	\$7,529,569
2035-2039	\$56,810,000	\$10,040,671	\$3,514,235

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

The fair value of Tacoma Water's long-term debt is based on quoted market prices. The fair market value of the Water System Revenue Bonds at December 31, 2009 and 2008 was \$181,195,852 and \$113,010,415, respectively. The fair market value of the Regional Water Supply System Revenue Bonds at December 31, 2009 and 2008 was \$81,919,789 and \$66,957,498, respectively.

The carrying amounts of the Washington State Public Works Board Loans and Drinking Water State Revolving Fund Loan approximate the fair value since such loans are exclusive and have no market.

Tacoma Water's revenue bonds are secured by the net revenue of Tacoma Water and all cash and investments held in the bond funds and construction funds. The bonds are also subject to certain financial and non-financial covenants.

JUNIOR LIEN DEBT

	<u>2009</u>	<u>2008</u>
Public Works Trust Fund Loans		
2001 Public Works Trust Fund construction loan for the Second Supply Project (SSP), with interest of .5% per annum, due in yearly installments of \$533,333 through 2021.	\$6,400,000	\$6,933,333
2001 Public Works Trust Fund pre-construction loan for the SSP Howard Hanson Dam Additional Storage Project, with interest of .5% per annum, due in yearly installments of \$52,632 through 2021.	631,579	684,212
2002 Public Works Trust Fund construction loan for the Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$531,250 through 2022.	6,906,250	7,437,500
2002 Public Works Trust Fund pre-construction loan for the Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$54,180 through 2021.	650,155	704,335
2004 Public Works Trust Fund pre-construction loan for the design of the Green River Ozone Facility with interest of .5% per annum, due in yearly installments of \$53,363 through 2024.	800,438	853,802
2006 Public Works Trust Fund construction loan for the Green River Ozone Treatment Plant, with interest of .5% per annum, due in yearly installments of \$370,588 through 2026.	6,300,000	6,300,000
2008 Public Works Trust Fund construction loan for the McMillin Reservoir Reconstruction, with interest of .5% per annum, due in yearly installments of \$236,842 from 2011 through 2029.	4,500,000	-

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

JUNIOR LIEN DEBT (CONTINUED)

	<u>2009</u>	<u>2008</u>
Drinking Water State Revolving Fund Loan		
2002 construction loan for the Portland Avenue Reservoir, with interest of 2.5% per annum, due in yearly installments of \$161,053 through 2021.	<u>1,932,631</u>	<u>2,093,684</u>
Subtotal Junior Lien Debt	28,121,053	25,006,866
Less current portion of debt	<u>(1,756,397)</u>	<u>(1,735,814)</u>
Long-Term portion of Junior Lien Debt	<u>\$26,364,656</u>	<u>\$23,271,052</u>

Scheduled principal maturities of junior lien debt and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$1,756,397	\$169,991
2011	\$1,993,240	\$167,255
2012	\$1,993,240	\$154,068
2013	\$1,993,240	\$140,880
2014	\$1,993,240	\$127,693
2015-2019	\$9,966,200	\$440,657
2020-2024	\$6,500,109	\$135,313
2025-2029	\$1,925,387	\$ 23,322

NOTE 5 SECOND SUPPLY PROJECT AGREEMENT. Four Washington municipalities are the Participants in the Second Supply Project under the terms of the Second Supply Project Agreement, which defines their rights and obligations with regard to the Second Supply Project. Tacoma Water has a 15/36 Participant Share and each of the City of Kent, Covington Water District and Lakehaven Utility District has a 7/36 Participant Share in the Second Supply Project. Each Participant has contractual rights under the Second Supply Project Agreement (i) to use an undivided share of the Project equal to its project capacity share and to use available excess project capacity; (ii) to schedule for delivery and receive its Participant Share of Second Diversion Water at its points of delivery; (iii) to schedule for delivery and receive additional water at its points of delivery; and (iv) to its Participant Share of storage. Each Participant has a contractual obligation (i) to receive Second Diversion Water and additional water scheduled for delivery and delivered to it and (ii) to pay its Participant Share of Project Costs, including but not limited to Fixed and Variable O & M Costs, Initial Project Construction Costs and Capital Expenditures. Kent and Covington, in the "Repayment Agreement", pledge to pay Tacoma Water a defined share of the principal and interest debt service on the Regional Water Supply System Bonds. The term of the Second Supply Project Agreement extends through the operating life of the Second Supply Project including all renewals and replacements thereof and additions thereto. The Second Supply Project Agreement provides that all obligations incurred during its term will survive its termination or expiration and will survive until satisfied.

NOTE 6 SIGNIFICANT CUSTOMER. Contracted sales to Simpson Tacoma Kraft Company (Simpson) accounted for 7.6% and 8.5% of Tacoma Water's total water sales in 2009 and 2008, respectively.

Tacoma Water has contracted with Simpson to supply certain quantities of water under a take-or-pay arrangement at a specified rate through July 31, 2015.

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 7 FLEET SERVICES FUND. The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of the Department vehicles and related equipment. Transfers of vehicles and equipment from Tacoma Water to the Fleet Services Fund are accounted for as transfers.

Tacoma Water pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Water in 2009 and 2008 were \$3,120,417 and \$3,396,652, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle and to return any excess funds to customers based on their scheduled monthly payments. The solvency of the Replacement Fund also allowed Fleet Services to return a portion of interest earned on Fund investments for the year to their customers. In 2009 and 2008, Fleet Services returned 75% of the interest earned on the capital replacement reserve to Tacoma Water's replacement fund. The amounts refunded in 2009 and 2008 were \$104,897 and \$154,246, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 8 SELF-INSURANCE FUND. The Department of Public Utilities maintains a self-insurance program and insurance policies. The Department has established a self-insurance fund to insure Tacoma Water and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Water are flooding, wind damage, chemical spills and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

Tacoma Water is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Water and administrative expenses of the Fund. Tacoma Water's premium payments totaled \$120,000 in both 2009 and 2008. Assets in the Self-Insurance Fund total \$4.6 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Water's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

Performance and fidelity bonds covering all employees are provided in amounts up to \$1 million (subject to a \$50,000 deductible per occurrence). The insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current insurance policies have deductibles or self insured retentions of \$250,000 for buildings and vehicles and \$1 million for general comprehensive liability. The public officials policy has a \$200,000 deductible for employee practices liability and \$100,000 deductible for all other issues. The general comprehensive liability policies provide \$20 million of coverage. The City has a policy to cover extraordinary worker's compensation claims with a limit of \$25 million (\$1 million deductible).

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 9 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS). Pursuant to GASB Statement No. 50, "Pension Disclosures", this note disclosure emphasizes the employer disclosures and detailed information presented in an independent Comprehensive Annual Financial Report (CAFR) issued by the Retirement System. Further detailed information regarding these disclosures can be found in that report which may be obtained by writing to Tacoma Employees' Retirement System, 747 Market Street, Room 1544, Tacoma, Washington 98402.

1. **Plan Description and Contribution Information:** The System is a single employer, defined benefit retirement plan covering employees of the City of Tacoma and is administered in accordance with Revised Code of Washington (RCW) Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 1,846 vested retirees and beneficiaries of deceased retirees currently receiving benefits and 366 vested terminated employees entitled to future benefits and 3,142 active members of the Tacoma Employees' Retirement System, as of December 31, 2009.
2. **Basis of Accounting:** The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. The employer contribution rate is determined by the actuarial funding method identified as the "entry age cost method".
3. **Investments:** Equity securities, fixed income securities, real estate and short-term investments are all reported at fair market value. Fair market value was determined by the custodian bank utilizing standard industry practices and verified by the performance consultant. No investment in any one corporation or organization exceeded 5% of net assets available for benefits.
4. **Contracts:** The System has no securities of the employer or related parties included in the plan assets. The System has not made any loans to the employer in the form of notes, bonds or other instruments.
5. **Contribution Rates:** Covered employees are required by Chapter 1.30 of the Tacoma City Code to contribute a percentage of their gross wages to the System, and the employer contributes an additional percentage. The contribution rates are provided in the following table:

<u>Applicable Period</u>	<u>City Rate</u>	<u>Member Rate</u>	<u>Total Rate</u>
1/1/2001 to 2/1/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64%	7.36%	16.00%
1/1/2010 Forward	9.72%	8.28%	18.00%

Contributions city-wide totaled \$33.6 million in 2009 (\$17.9 million employer contributions and \$15.7 million employee contributions); contributions totaled \$28 million in 2008 (\$14.9 million employer contributions and \$13.1 million employee contributions).

6. **Funding Status and Progress:** Historical trend information about TERS is presented herewith as supplementary information. This information is based on the most recent actuarial valuation performed, dated January 1, 2009, and is intended to help assess TERS funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

7. Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date:	January 1, 2009
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Percentage of the System's Projected Payroll
Remaining Amortization Period:	30 years; open
Asset Valuation Method:	Assets are valued at market value, with a four-year smoothing of all market value gains and losses.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases	4.25%
Includes Inflation at	3.25%
Post-Retirement Benefit Increases	2.125%

SCHEDULE OF FUNDING PROGRESS: (\$ in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/05	\$807.3	\$754.3	(\$53.0)	107.0%	\$172.5	(30.7%)
1/1/07	\$1,021.3	\$895.8	(\$125.5)	114.0%	\$175.0	(71.7%)
1/1/09	\$1,097.3	\$1,002.3	(\$95.0)	109.5%	\$197.4	(48.1%)

ANNUAL PENSION COST AND NET PENSION OBLIGATION:

The City's annual pension cost and net pension obligation to the Retirement System for 2009 were as follows:

	(\$ in millions)
Annual Required Contribution (ARC)	\$15.2
Interest on Net Pension Obligation	(0.1)
Adjustment to ARC	<u>0.1</u>
Annual Pension Cost (APC)	15.2
Contributions made	<u>18.0</u>
Increase (Decrease) in Pension Obligation	(2.8)
Net Pension Obligation at beginning of year	<u>(1.0)</u>
Net Pension Obligation at end of year	<u><u>\$(3.8)</u></u>

TREND INFORMATION
(\$ in millions)

Year Ending	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
12/31/07	\$13.6	100%	\$(0.4)
12/31/08	\$14.3	104%	\$(1.0)
12/31/09	\$15.2	118%	\$(3.8)

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description. The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. Generally accepted accounting principles require that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future.

Funding Policy. The City uses pay-as-you go funding; contributions to a separate trust are not required.

Annual OPEB Cost and Net OPEB Obligation. The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (4.00%).

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded. For inactive employees, the AAL is equal to the present value of benefits. For active employees, the actuarial present value of the projected benefits of each individual is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age). The portion attributed to service between entry age and the valuation date is the actuarial accrued liability.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year.

The Annual Required Contribution (ARC) is the amount the City would be required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2009 is 28 years.

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a liability or Net OPEB Obligation on the City's balance sheet.

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

The following table is a summary of actuarial valuation results as of January 1, 2009 with a comparison to the results from the January 1, 2007 valuation.

	<u>January 1, 2007</u>	<u>January 1, 2009</u>
Total membership:		
Active employees	3,674	3,633
Terminated vested employees	247	355
Retired employees	729	677
Dependents	184	138
Total	<u>4,834</u>	<u>4,803</u>
Annual Benefit Payments	\$ 8,527,863	\$ 8,319,788
Discount rate	4.00%	4.00%
Present Value of Benefits (PVB)	\$ 236,595,810	\$ 266,167,781
Actuarial Accrued Liability (AAL)	\$ 178,137,499	\$ 205,168,072
Assets	\$ -	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 178,137,499</u>	<u>\$ 205,168,072</u>
Normal Cost	\$ 4,949,734	\$ 5,615,626
Annual Required Contribution (ARC)	\$ 14,159,338	\$ 16,761,978

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of December 31, 2009.

<u>Value of Subsidy at 4.00% Interest Rate</u>	<u>Total Value of Benefits</u>	<u>Member Paid Premiums</u>	<u>City Paid Benefits</u>
Present Value of Benefits (PVB)	\$ 381,316,670	\$ 115,148,889	\$ 266,167,781
Actuarial Accrued Liability (AAL)	\$ 256,534,861	\$ 51,366,789	\$ 205,168,072
Normal Cost	\$ 10,222,755	\$ 4,607,129	\$ 5,615,626
Annual Benefit Payments	\$ 10,601,879	\$ 2,282,091	\$ 8,319,788

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for Tacoma Water as of December 31, 2009.

	City	Tacoma Water
Determination of Annual Required Contribution		
Normal Cost at Year-end	\$ 5,615,626	\$ 342,040
Amortization of UAAL	11,146,352	122,319
Annual Required Contribution (ARC)	<u>\$ 16,761,978</u>	<u>\$ 464,359</u>
Determination of Net OPEB Obligation		
Annual Required Contribution (ARC)	\$ 16,761,978	\$ 464,359
Interest on prior year Net OPEB Obligation	417,211	19,820
Adjustments to ARC	<u>(416,955)</u>	<u>(17,129)</u>
Annual OPEB Cost	16,762,234	467,050
Actual benefits paid	<u>8,319,788</u>	<u>83,965</u>
Increase in Net OPEB Obligation	8,442,446	383,085
Net OPEB Obligation - 1/1/09	10,430,277	495,507
Net OPEB Obligation - 12/31/09	<u>\$ 18,872,723</u>	<u>\$ 878,592</u>

Funded Status and Funding Progress.

The following table shows the annual OPEB costs and net OPEB obligation for three years.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Tacoma Water	City	Tacoma Water	City	Tacoma Water
12/31/2007	\$ 14,159,338	\$ 378,274	\$ 8,527,863	\$ 115,133	\$ 5,631,475	\$ 263,141
12/31/2008	\$ 14,065,769	\$ 373,902	\$ 9,266,967	\$ 141,536	\$ 10,430,277	\$ 495,507
12/31/2009	\$ 16,762,234	\$ 467,050	\$ 8,319,788	\$ 83,965	\$ 18,872,723	\$ 878,592

As of January 1, 2009, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 4% interest rate, the actuarial accrued liability for benefits was \$205.2 million, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability of \$205.2 million.

Actuarial Methods and Assumptions. The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

The portion of actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the Unfunded Actuarial Accrued Liability (UAAL). In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls over 30 years for non-Law Enforcement Officers and Fire Fighter Retirement Pension System 1 (LEOFF 1) groups; for LEOFF 1, the UAAL is amortized as a level dollar amount over 30 years.

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2009
Census Date	January 1, 2009
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	28 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirement, disability and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate	4.0% for pay-as-you-go funding
Medical Cost Trend	2008 10.0%
	2009 8.7%
	2010 7.9%
	2011 7.0%
	2012-2015 6.5%
	2016-2020 6.4%
	2059 5.3%
Projected Payroll Increases	4.25%

Eligibility:

Disability - Five years of service are required for non-service connected disability.

TERS members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits):

- Age 55 with 10 years of service
- 20 years of service

NOTE 11 COMMITMENTS AND CONTINGENCIES

Capital Improvements. The financial requirement for Tacoma Water's 2009/2010 biennial Capital Improvement Program is approximately \$105 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2009, the remaining financial requirement was approximately \$84.2 million. The remaining financial requirement for Capital Improvement Programs relating to prior bienniums is approximately \$12.8 million.

Muckleshoot Indian Tribe Settlement. A mutually beneficial settlement agreement was reached with the Muckleshoot Indian Tribe in 1995. The settlement package has a cost of approximately \$30 million and includes five basic elements: 1) building a fish restoration facility and annual operation and maintenance of that facility, or in the alternative, providing \$12 million (indexed at 1995 dollars) into a fish restoration fund; 2) providing for enhanced flows in the Green River; 3) transferring certain lands; 4) establishing a trust fund payable over 40 years which is intended to provide for the general welfare, educational and other needs of the Tribe; and 5) limited access into the Green River Watershed. The settlement resolved past damage claims by the Tribe for Tacoma Water's historical operations on the river, gain the Tribe's support for the Second Supply Project and provide the basis for a long-term, cooperative working relationship on the Green River. Tacoma Water has been implementing this agreement.

TACOMA WATER
NOTES TO FINANCIAL STATEMENTS
(continued)

Robison Construction Inc. The Contractor has filed suit related to two “additional work” claims arising out of work done by its subcontractor Northwest Boring, in boring tunnels for the I-5 and Green River crossings related to Tacoma Water’s Second Supply Pipeline construction project. The contractor alleges damages in the amount of \$3,478,416. Tacoma Water disputes these claims, and the parties are engaging in settlement discussions.

City of Federal Way, City of University Place, and Pierce County. The Washington State Supreme Court ruled that the local governments are required to pay for local fire hydrant services, not water utilities. Three local governments have failed to pay Tacoma Water for local fire hydrant services totaling \$2.4 million for the 2009-2010 biennium. The City has filed a declaratory judgment suit to determine who is liable for paying for such services. The Utility has recorded operating revenues and accounts receivable for the services.

General Legal Matters. The Utility is involved in various litigation in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on the Utility’s financial position beyond amounts already accrued as of December 31, 2009.

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STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TEN-YEAR FINANCIAL REVIEW

BALANCE SHEET	2009	2008	2007	2006
ASSETS				
Utility Plant - Net	\$604,657,775	\$590,593,258	\$568,493,015	\$542,837,619
Special Funds & Non-Util Prop	133,949,294	80,858,401	99,062,414	111,884,788
Current Assets	35,753,843	22,151,467	23,150,235	20,256,759
Deferred Charges	3,654,494	3,319,156	2,123,339	2,622,731
Total Assets	\$778,015,406	696,922,282	692,829,003	677,601,897
NET ASSETS	412,592,671	404,010,304	391,763,317	374,885,816
LIABILITIES AND EQUITY				
Long-Term Debt	292,165,406	218,869,015	227,315,790	231,066,402
Current Liabilities	17,664,175	16,288,305	15,169,687	21,418,548
Deferred Credits	55,593,154	57,754,658	58,580,209	50,231,131
Equity	-	-	-	-
Total Liabilities and Equity ...	-	-	-	-
Total Liabilities	365,422,735	292,911,978	301,065,686	302,716,081
TOTAL NET ASSETS AND LIABILITIES ...	778,015,406	\$696,922,282	\$692,829,003	\$677,601,897
STATEMENT OF INCOME				
OPERATING REVENUES				
Residential and Domestic	\$36,643,366	\$34,592,712	\$32,645,594	\$31,216,429
Commercial and Industrial	9,659,078	8,978,703	8,298,263	7,751,215
Special Rate--Simpson/Other	4,153,327	4,371,527	3,917,760	3,222,324
Municipal	380,267	349,722	396,131	363,455
Other Public Bldgs and Grounds ...	1,861,111	1,680,603	1,644,166	1,596,360
Unbilled	187,966	417,145	37,113	1,067,323
Sales to Other Water Utilities ...	1,776,686	1,251,815	1,433,705	1,640,803
Total Water Sales	54,661,801	51,642,227	48,372,732	46,857,909
Other Operating Revenues	9,331,955	5,382,313	4,353,478	1,919,802
Total Operating Revenues	63,993,756	57,024,540	52,726,210	48,777,711
OPERATING EXPENSES				
Operation and Maintenance	34,055,463	33,387,663	31,076,515	29,165,168
Taxes	3,093,311	2,881,877	2,924,930	3,407,187
Depreciation	13,845,799	13,016,544	11,363,970	11,556,821
Total Operating Expenses	50,994,573	49,286,084	45,365,415	44,129,176
NET OPERATING INCOME (LOSS)	12,999,183	7,738,456	7,360,795	4,648,535
NON-OPERATING REVENUES (EXPENSES)				
Other Income	497,331	61,265	306,680	2,293,477
Interest Income	1,955,385	3,730,407	5,255,881	4,603,137
Gain from Disposition of Property	26,100	-	4,199,382	-
Interest Charges (Net)	(9,076,156)	(8,406,264)	(8,484,405)	(8,403,448)
Net Income (Loss) Before				
Contributions & Transfers	6,401,843	3,123,864	8,638,333	3,141,701
Total Capital Contributions	7,120,993	14,137,605	12,801,825	30,462,788
Grants & Federal BAB Subsidies	244,683	-	-	-
Transfers Out **	(5,185,152)	(5,014,482)	(4,562,657)	(4,302,274)
NET INCOME (LOSS)	\$8,582,367	\$12,246,987	\$16,877,501	\$29,302,215

* Beginning in 2001, results have been reclassified to conform to the new GASB No. 34, Financial Reporting Model for Local Governments.

** Beginning in 2001, City Gross Earnings Tax is reported as a transfer out rather than an operating expense in accordance with GASB No. 34.

2005 (As Restated)	2004	2003 (As Restated)	2002 * (As Restated)	2001 * (As Restated)	2000 (As Restated)
\$515,240,672	\$449,792,203	\$391,992,687	\$328,497,886	\$258,090,234	\$239,797,425
124,884,569	86,235,235	128,107,319	111,051,760	45,226,731	22,993,841
15,880,090	21,804,006	19,223,128	16,097,870	9,791,934	7,492,155
2,938,485	2,954,978	3,380,733	2,957,394	1,202,418	1,759,241
658,943,816	560,786,422	542,703,867	458,604,910	314,311,317	272,042,662
345,583,601	327,326,910	305,678,001	273,351,382	225,440,687	-
224,760,581	199,174,091	203,913,661	170,542,535	77,292,631	43,110,621
12,820,700	14,542,631	12,150,879	11,896,274	7,567,108	6,173,108
75,778,934	19,742,790	20,961,326	2,814,719	4,010,891	3,779,256
-	-	-	-	-	218,979,677
-	-	-	-	-	\$272,042,662
313,360,215	233,459,512	237,025,866	185,253,528	88,870,630	
\$658,943,816	\$560,786,422	\$542,703,867	\$458,604,910	\$314,311,317	
\$27,611,024	\$26,589,163	\$24,497,359	\$21,277,778	\$18,033,215	\$16,799,076
7,174,647	6,619,432	5,809,774	5,442,100	5,329,293	5,259,844
3,511,199	3,293,335	3,044,266	2,726,194	2,514,362	2,436,500
316,562	308,884	218,852	206,254	275,146	265,789
1,409,107	1,523,562	1,353,062	1,190,054	1,014,132	1,023,816
-	(903,969)	680,497	194,702	312,477	(69,633)
1,599,919	1,622,206	1,531,004	876,610	712,813	877,672
41,622,458	39,052,613	37,134,814	31,913,692	28,191,438	26,593,064
1,428,135	792,302	871,547	858,133	823,504	876,559
43,050,593	39,844,915	38,006,361	32,771,825	29,014,942	27,469,623
26,448,761	25,590,407	23,675,319	20,931,027	20,873,670	19,660,327
2,995,424	2,480,667	2,276,909	1,802,616	1,708,422	3,903,305
9,386,363	8,934,860	7,469,798	6,810,105	5,948,292	5,353,022
38,830,548	37,005,934	33,422,026	29,543,748	28,530,384	28,916,654
4,220,045	2,838,981	4,584,335	3,228,077	484,558	(1,447,031)
2,841,371	1,190,100	1,108,555	1,100,448	160,164	2,576,530
1,695,578	1,484,779	1,586,825	1,047,376	1,477,894	1,515,542
4,622,927	4,500	2,872,246	793,002	-	-
(7,185,197)	(6,253,392)	(3,655,291)	(2,787,024)	(1,613,155)	(1,542,018)
6,194,724	(735,032)	6,496,670	3,381,879	509,461	1,103,023
24,453,875	25,597,104	28,892,401	47,599,106	9,166,126	-
-	803,224	344,857	-	-	-
(3,951,776)	(4,016,387)	(3,407,309)	(3,070,290)	(3,214,577)	-
\$26,696,823	\$21,648,909	\$32,326,619	\$47,910,695	\$6,461,010	\$1,103,023

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

BOND DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2009

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$ 6,075,000	\$ 13,785,375	\$ 19,860,375
2011	6,280,000	13,220,200	19,500,200
2012	6,550,000	12,941,813	19,491,813
2013	6,880,000	12,627,013	19,507,013
2014	7,230,000	12,295,319	19,525,319
2015	7,625,000	11,960,967	19,585,967
2016	8,010,000	11,604,437	19,614,437
2017	8,445,000	11,213,343	19,658,343
2018	8,900,000	10,787,768	19,687,768
2019	10,230,000	10,347,599	20,577,599
2020	10,745,000	9,841,024	20,586,024
2021	11,290,000	9,303,368	20,593,368
2022	11,855,000	8,744,193	20,599,193
2023	12,480,000	8,139,455	20,619,455
2024	7,420,000	7,504,080	14,924,080
2025	7,805,000	7,133,080	14,938,080
2026	5,750,000	6,742,830	12,492,830
2027	6,050,000	6,455,330	12,505,330
2028	6,350,000	6,152,830	12,502,830
2029	6,700,000	5,835,330	12,535,330
2030	7,025,000	5,500,330	12,525,330
2031	7,400,000	5,149,080	12,549,080
2032	7,275,000	4,779,080	12,054,080
2033	9,800,000	4,415,330	14,215,330
2034	10,165,000	3,851,732	14,016,732
2035	10,545,000	3,267,143	13,812,143
2036	10,940,000	2,660,700	13,600,700
2037	11,345,000	2,031,541	13,376,541
2038	11,770,000	1,379,090	13,149,090
2039	12,210,000	702,197	12,912,197
	<u>\$261,145,000</u>	<u>\$230,371,577</u>	<u>\$491,516,577</u>

The amounts above reflect debt service requirements, and do not include the portion funded in the current year of \$506,000.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Income	\$66,821,912	\$61,944,933	\$59,690,011	\$67,902,294	\$49,402,606
Less: Operating Exp .	<u>37,148,774</u>	<u>36,269,540</u>	<u>34,001,445</u>	<u>32,572,355</u>	<u>29,444,185</u>
Income Available for Debt Service	<u>\$29,673,138</u>	<u>\$25,675,393</u>	<u>\$25,688,566</u>	<u>\$35,329,939</u>	<u>\$19,958,421</u>
Bond Redemption	5,896,250	6,046,250	5,739,167	5,352,500	4,200,000
Bond Interest	<u>9,941,993</u>	<u>9,465,014</u>	<u>9,699,636</u>	<u>9,867,600</u>	<u>8,635,950</u>
Debt Service Payable	<u>\$15,838,243</u>	<u>\$15,511,264</u>	<u>\$15,438,803</u>	<u>\$15,220,100</u>	<u>\$12,835,950</u>
Times Debt Service Covered.....	1.87	1.66	1.66	2.32	1.55

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

WATER PLANT IN SERVICE - YEAR 2009

PLANT ACCOUNTS

	Book Cost 1/1/09	Additions 2009
INTANGIBLE PLANT	\$ 34,882,081	\$ 439,179
SOURCE OF SUPPLY	68,588,758	4,649,084
PUMPING PLANT	8,698,417	314,031
WATER TREATMENT PLANT	43,467,416	1,639,732
TRANSMISSION PLANT	184,130,846	4,492,744
DISTRIBUTION PLANT	342,635,738	13,485,840
GENERAL PLANT	23,168,302	2,632,072
TOTAL WATER PLANT IN SERVICE	705,571,558	27,652,682
CONSTRUCTION WORK IN PROGRESS	9,928,454	25,920,949
TOTAL	<u>\$ 715,500,012</u>	<u>\$ 53,573,631</u>

DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/09	Annual Accrual Cr.
INTANGIBLE PLANT	-	\$ 37,500	\$ -
SOURCE OF SUPPLY PLANT	2.957	11,382,207	1,612,720
PUMPING PLANT	2.513	2,335,845	224,636
WATER TREATMENT PLANT	3.620	5,831,965	1,513,922
TRANSMISSION PLANT	1.668	28,718,430	3,004,159
DISTRIBUTION PLANT	1.876	59,889,719	6,468,116
GENERAL PLANT	7.915	16,711,088	1,022,246
TOTAL PLANT DEPRECIATION		<u>\$ 124,906,754</u>	<u>\$ 13,845,799</u>

1. Total Water Plant in Service includes non-depreciable land and land rights of \$ 19,692,192
2. Total Book Cost of Plant Retired \$ (3,596,182)
Add: Cost of Water Rights Sold: 512,624
Total Retirements \$ (3,083,558)

Retirements 2009	Transfers & Adjustments	Book Cost 12/31/09
\$ (512,624)	\$ -	\$ 34,808,636
(88,981)	-	73,148,861
(7,032)	-	9,005,416
(4,586)	-	45,102,562
(7,285)	-	188,616,305
(2,130,187)	-	353,991,391
(845,487)	(186,955)	24,767,932
(3,596,182)	(186,955)	729,441,103
-	(27,465,727)	8,383,676
<u>\$ (3,596,182)</u>	<u>\$ (27,652,682)</u>	<u>\$ 737,824,779</u>

Book Cost of Plant Retired	Cost of Removal	Salvage, Transfers and Adjustments	Accumulated Depreciation 12/31/09
\$ -	\$ -	\$ -	\$ 37,500
(88,981)	-	-	12,905,946
(7,032)	(36,554)	-	2,516,895
(4,586)	-	-	7,341,301
(7,285)	(18,581)	-	31,696,723
(2,130,187)	(2,446,856)	-	61,780,792
(845,487)	-	-	16,887,847
<u>\$ (3,083,558)</u>	<u>\$ (2,501,991)</u>	<u>\$ -</u>	<u>\$ 133,167,004</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER BILLED
DECEMBER 31, 2009

	MILLION GALLONS, TOTAL		MILLION GALLONS, AVG DAILY	
	YEAR 2009	YEAR 2008	YEAR 2009	YEAR 2008
WATER BILLED				
Residential and Domestic	8,668.93	8,241.84	23.75	22.58
Commercial and Industrial	2,857.36	2,964.44	7.83	8.12
Special Rate - Simpson ...	5,540.04	5,817.76	15.18	15.94
Municipal	78.81	72.60	0.22	0.20
Other Public Bldgs and Grounds	548.75	518.08	1.50	1.42
Sales to Other Utilities	847.60	636.84	2.32	1.74
	<u>18,541.49</u>	<u>18,251.56</u>	<u>50.80</u>	<u>50.00</u>

NOTE: For conversion purposes, there are approximately 748 gallons in every 100 cubic feet of water.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER SALES - 2009

WATER SALES	AVERAGE MONTHS BILLED	C. CU. FT.	AMOUNT
RESIDENTIAL AND DOMESTIC SERVICE			
Single and Multiple Houses - Inside City	54,089	5,064,471	\$16,298,502
Multiple Unit Dwellings - Inside City	3,200	1,662,002	3,859,125
Sprinkling Services (Inside and Outside)	404	211,525	559,979
Fire Services (Inside and Outside)	123	1,048	48,752
Single and Multiple Houses - Outside City	31,108	3,624,350	12,878,836
Multiple Unit Dwellings - Outside City	1,753	1,003,029	2,998,172
Total Residential and Domestic Service	90,677	11,566,425	36,643,366
COMMERCIAL AND INDUSTRIAL SERVICE			
High Use Commercial (Inside and Outside)	11	1,190,924	1,476,530
Single and Multiple Buildings - Inside City	3,559	2,059,380	4,777,461
Sprinkling Services (Inside and Outside)	240	184,097	500,226
Fire Services (Inside and Outside)	1,036	12,765	1,828,482
Single and Multiple Buildings - Outside City ...	790	359,187	1,076,379
Total Commercial and Industrial Service	5,636	3,806,353	9,659,078
SERVICES WITH SPECIAL RATE			
Simpson Tacoma Kraft Company	1	7,386,109	4,153,327
MUNICIPAL WATER SERVICES			
Fountains, Buildings and Grounds	175	101,106	322,918
Fire Services	34	1,073	57,349
Total Municipal Water Service	209	102,179	380,267
OTHER PUBLIC BUILDINGS AND GROUNDS			
Single and Multiple Buildings - Inside	178	357,476	797,894
Single and Multiple Buildings - Outside	58	99,663	271,184
Fire Services	81	273,656	578,251
Sprinkling Services	124	1,852	213,782
Total Other Public Buildings and Grounds	441	732,647	1,861,111
SALES TO OTHER UTILITIES - Total	18	1,127,243	1,776,686
Unbilled Revenue			187,966
TOTAL WATER SALES	96,982	24,720,956	\$54,661,801

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATISTICS
AS OF DECEMBER 31, 2009

2009 average daily consumption exclusive of pulp mills . . .	39,390,000	gallons
Average daily consumption--pulp mills	15,220,000	gallons
Total average daily consumption	54,610,000	gallons
2009 maximum daily consumption . . . July 27, 2009	114,200,000	gallons
2009 minimum daily consumption . . . January 15, 2009 . . .	33,210,000	gallons
Total water produced in 2009 *	21.3 billion	gallons

Average daily consumption per single family	
residential service	208

Miles of transmission and wells supply mains -	
28" to 96" diameter (includes North Fork wells system) . .	141

Miles of distribution mains - 2" to 24" in diameter	1,198
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Active services	96,983
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Fire hydrants (within the City limits including Ruston) . . .	5,938
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The primary source of Tacoma's water supply is the Green River with replacement from the North Fork wells during periods of excessive river turbidity. The Green River source consists of a 72 MGD water right plus a 27 MGD share of an interruptable, junior water right. A secondary supply, during peak-use periods, of 55 MGD is available from wells in the Tacoma area.

Tacoma's water supply has an excellent record for unsurpassed quality, meeting all the standards of the U.S. Environmental Protection Agency and the Washington State Department of Health.

There are 1,339 miles of mains in the system ranging in size from 2 inches to 96 inches in diameter. Storage facilities are provided at 14 different locations having a total of 10 separate concrete basins or reservoirs and 12 steel standpipes or reservoirs with a combined storage capacity of approximately 181,559,600 gallons. Of this storage capacity, 108,440,100 gallons are located at McMillin Reservoir approximately 14 miles southeast of Tacoma. The amount of water available from this location on demand is limited by the established design capacity of the transmission lines interconnecting it and the City distribution system. Water pressure in the distribution mains ranges from 30 to 125 pounds per square inch.

* Includes water for losses and self-consumption.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2009

FEDERAL

Social Security (FICA)		\$1,406,217
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STATE OF WASHINGTON

Retail Sales	255,711	
Utilities and Business Activities Tax	2,679,147	
Total		2,934,858

COUNTY

Real Property	10,160	
Total		10,160

MUNICIPALITIES

City of Tacoma Gross Earnings Tax	4,998,197	
City of Lakewood Administrative Fee	4,685	
City of Puyallup Administrative Fee	9,940	
City of University Place Administrative Fee	406,489	
City of Fircrest Administrative Fee	4,923	
		5,424,234

TOTAL TAXES		\$9,775,469
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Taxes as a % of Total Revenues of \$65,949,141		14.82%
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EMPLOYEE WELFARE CONTRIBUTIONS

Industrial Insurance and Medical Aid	\$427,124	
Pensions	1,518,463	
Medical Insurance	2,701,256	
Dental Insurance	367,488	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$5,014,331
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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2009 WATER RATES

			READY TO SERVE CHARGE PER MONTH	
			INSIDE TACOMA	OUTSIDE TACOMA
METER SIZE				
5/8	inch	.....	\$15.07	\$18.08
3/4	inch	.....	\$21.61	\$27.13
1	inch	.....	\$37.68	\$45.22
1-1/2	inch	.....	\$75.35	\$90.42
2	inch	.....	\$120.56	\$144.67
3	inch	.....	\$226.05	\$271.26
4	inch	.....	\$376.75	\$452.10
6	inch	.....	\$753.50	\$904.20
8	inch	.....	\$1,205.60	\$1,446.72
10	inch	.....	\$1,733.05	\$2,079.66
12	inch	.....	\$2,543.06	\$3,051.67

			CHARGE FOR WATER USED PER MONTH PER 100 CUBIC FEET	
			INSIDE TACOMA	OUTSIDE TACOMA
<u>Residential Service</u>				
Each 100 cubic ft. of water consumption during the winter months of October through May			\$1.230	\$1.476
First 500 cubic ft. of water consumption per month during the summer months of June through September			\$1.230	\$1.476
Each 100 cubic ft. of water consumption over 500 cubic ft. during the summer months of June through September			\$1.538	\$1.878
<u>Commercial and Industrial</u>				
General Service			\$1.275	\$1.530
Large Volume Service (over 65,000 cubic feet annually)			\$1.094	\$1.313
<u>Parks and Irrigation Service</u>				
Each 100 cubic feet of water consumption			\$1.547	\$1.856

City of Tacoma water services are 100% metered.

Where service conditions are considered extraordinary, the Water Division may, with City Council approval, enter into contracts for periods up to 20 years.

Water rates were established by Ordinance No. 27778 and were effective January 19, 2009.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2009 FIRE PROTECTION RATES

RATES FOR FIRE PROTECTION SERVICE ON A SEPARATE METER ARE AS FOLLOWS:

METER SIZE		MONTHLY CHARGE	WATER INCLUDED FOR MONTHLY LEAKAGE AND TESTING PURPOSES (100 Cubic Feet)
2	inch	\$16.40	2.99
3	inch	\$23.88	2.99
4	inch	\$39.89	2.99
6	inch	\$89.49	2.99
8	inch	\$159.31	2.99
10	inch	\$249.19	2.99
12	inch	\$398.58	2.99

No charge is made for water used through a fire service in extinguishing fires of incendiary or accidental origin if the customer, at the location where the use occurs, gives written notice to the Division within ten days from the time of such fire. Use of water through a fire service for purposes other than extinguishing fires of incendiary or accidental origin is charged as follows:

MONTHLY CHARGE

12 times the monthly service charge (minimum).

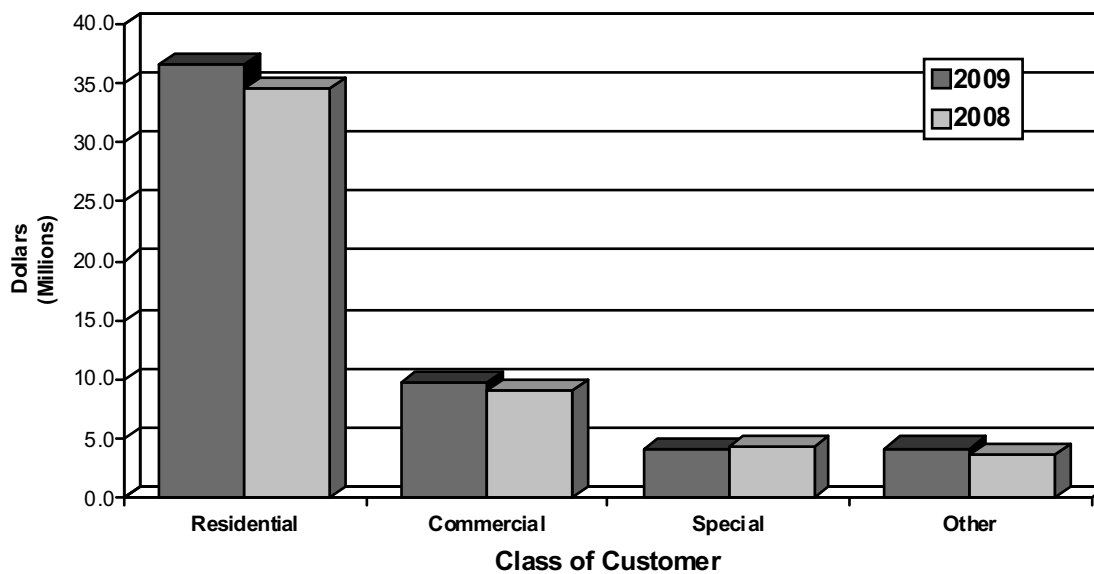
CONSUMPTION

Rates per 100 cubic feet per month \$2.501

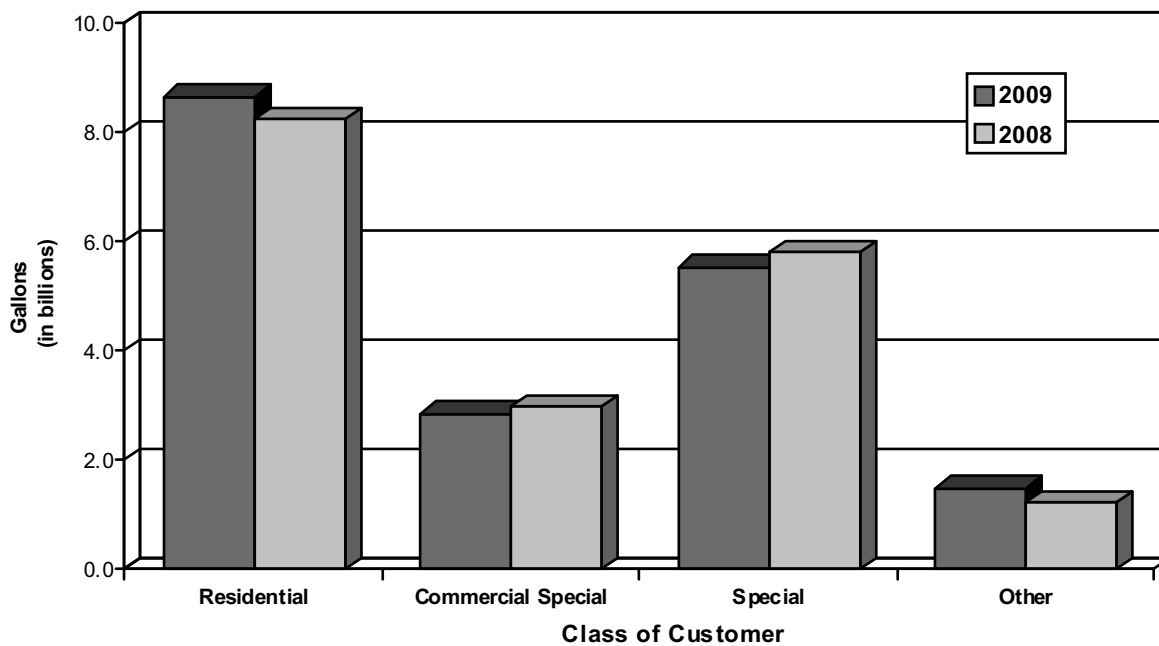
The above rates for fire service shall apply where City water is used for all purposes on such premises exclusive of that amount allowed for testing and leakage.

The Fire Protection Rates were established by Ordinance No. 27778 and were effective January 19, 2009.

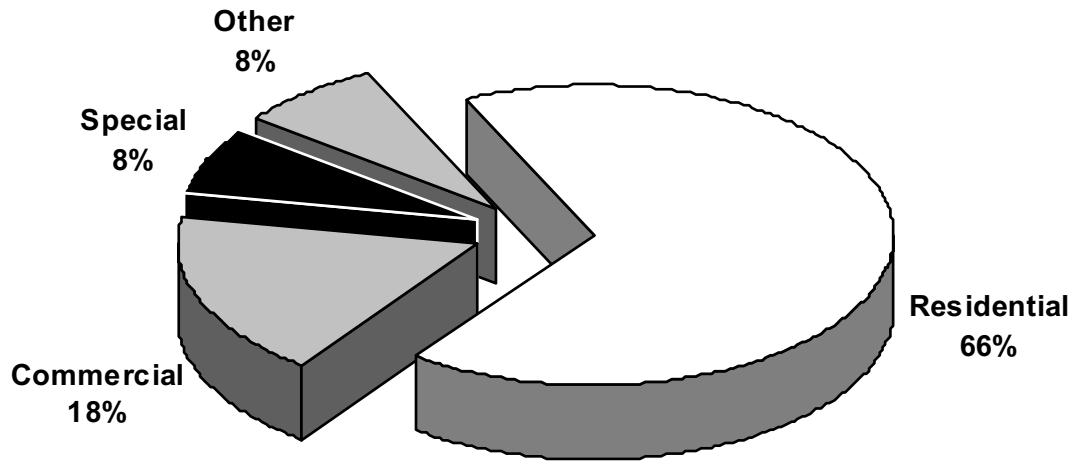
WATER SALES
Year to Date - December 2009 & 2008



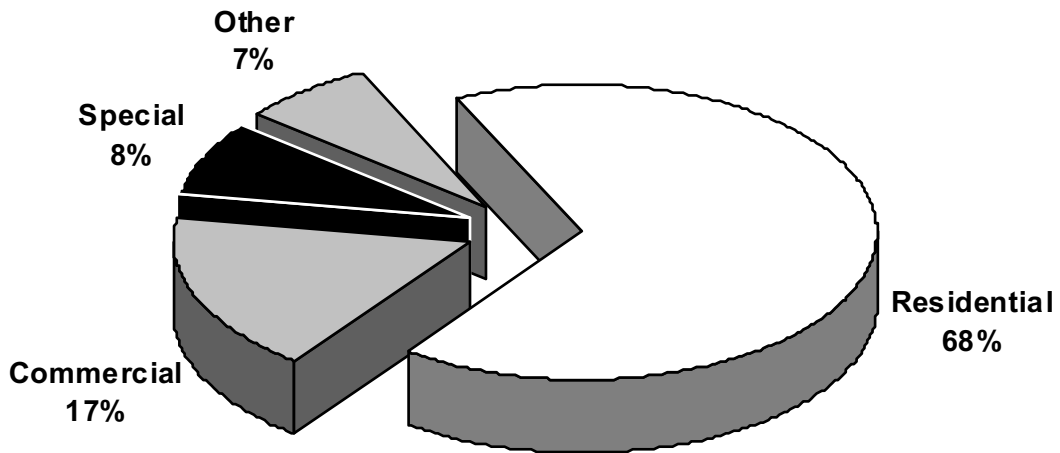
WATER CONSUMPTION
Year to Date - December 2009 & 2008



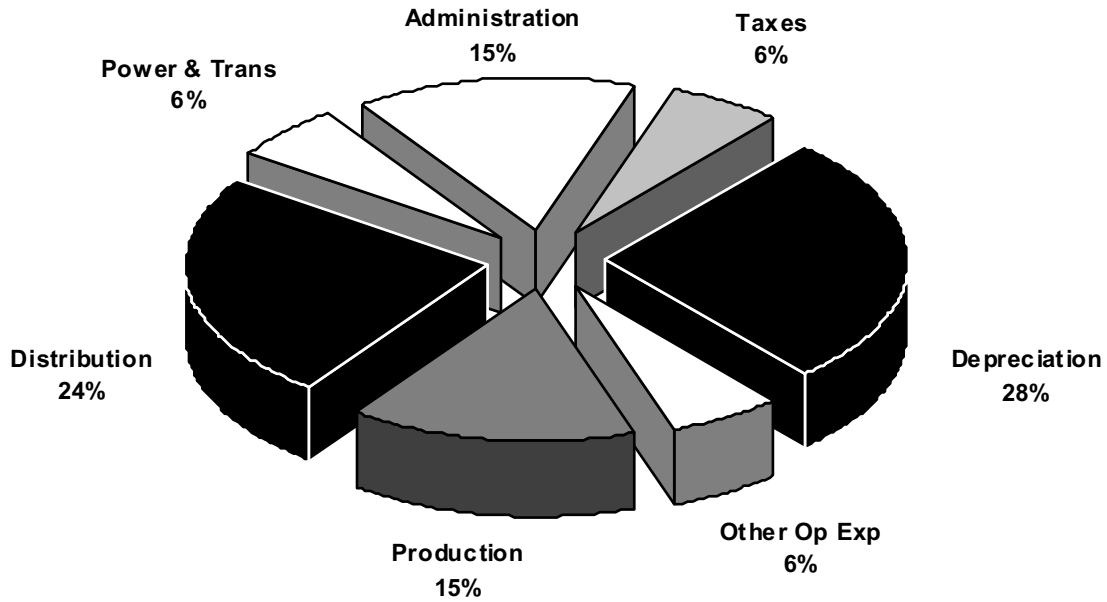
WATER SALES
Year to Date - December 2009
(\$54,661,801)



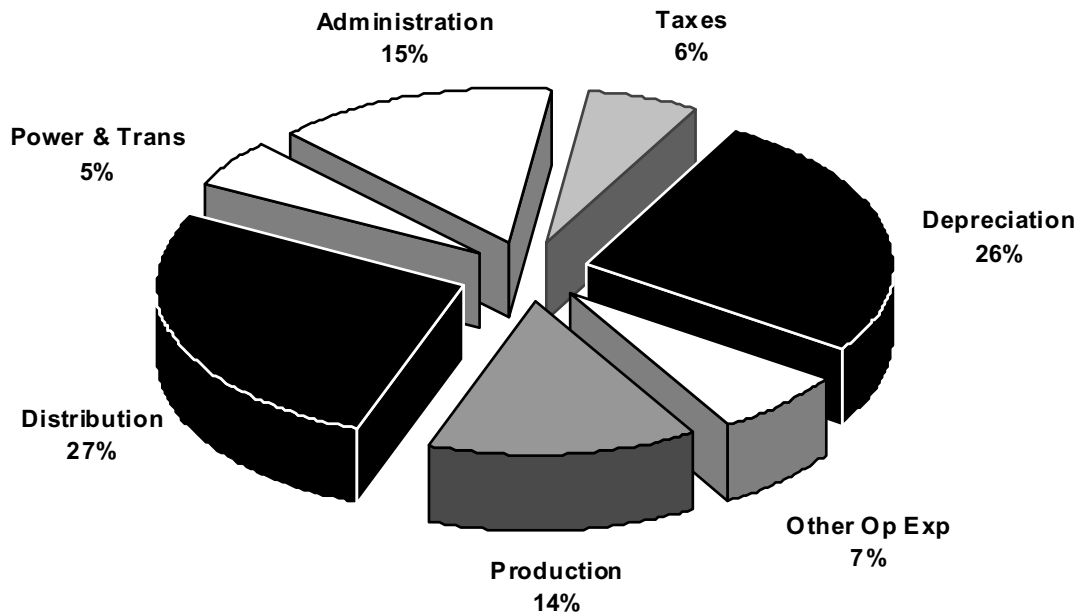
WATER SALES
Year to Date - December 2008
(\$51,642,227)



TOTAL OPERATING EXPENSES *
Year to Date - December 2009
(\$50,994,573)

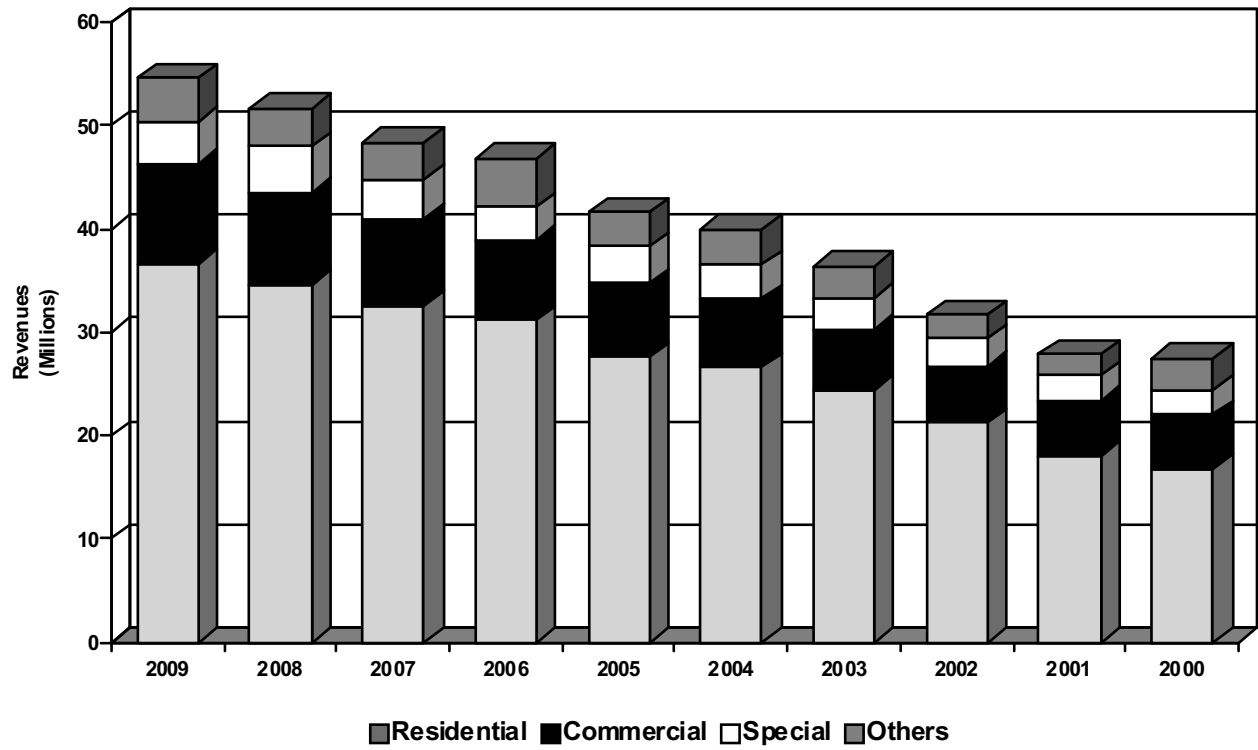


TOTAL OPERATING EXPENSES *
Year to Date - December 2008
(\$49,286,084)

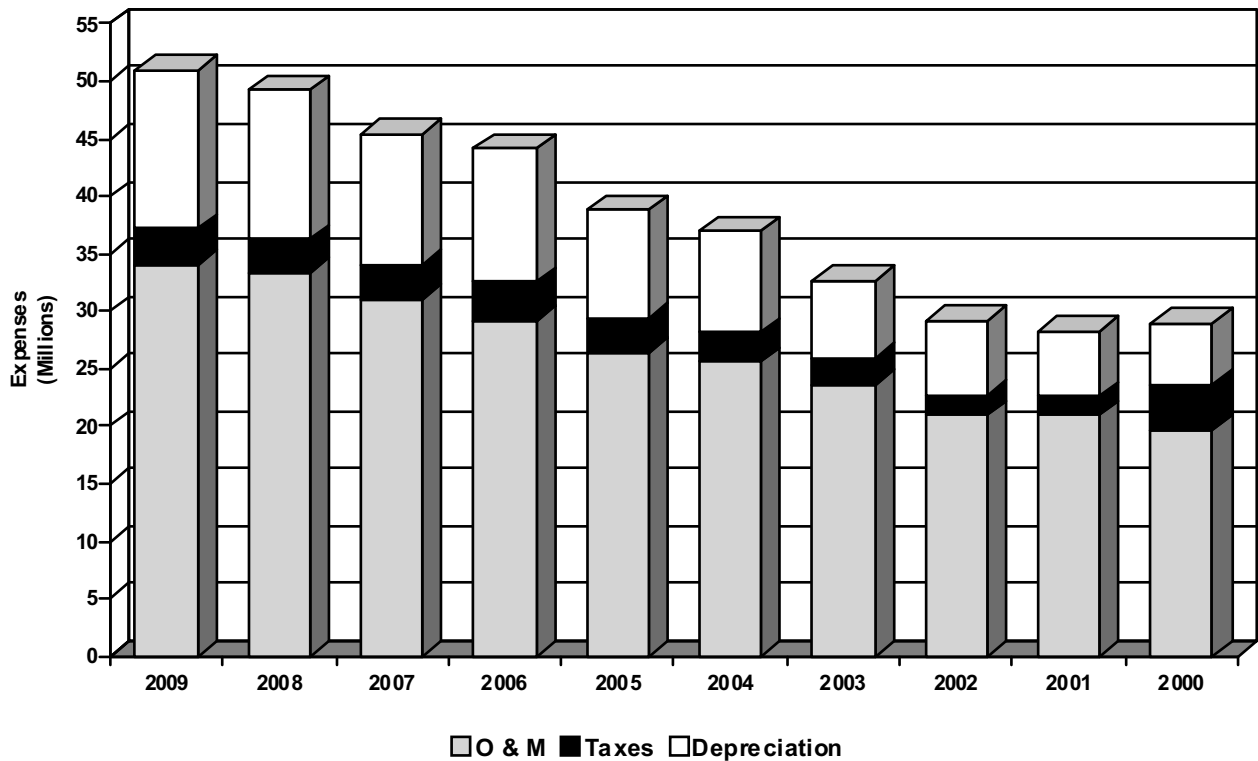


* City Gross Earnings Taxes are not included in Total Operating Expenses.

TEN-YEAR SUMMARY OF WATER SALES



TEN-YEAR SUMMARY OF OPERATING EXPENSES



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SUPERINTENDENT'S REPORT 2009

During 2009, Tacoma Water continued to focus on its mission to protect public health, support the economy of the region, enhance the quality of life of our customers and fulfill our role as an environmental steward of the substantial natural resources entrusted to our use. Progress was made in many areas in spite of revenue issues such as a significant downturn in development resulting in fewer hookup fees and system development charges and lower water sales than were projected.

Protecting public health by providing safe drinking water was advanced by planning for future treatment of the Green River and in-town groundwater sources as required by federal and state regulations. Support of the economy throughout the region was accomplished through the delivery of reliable supply at a competitive rate and by participation in numerous infrastructure projects including Sound Transit and urban redevelopment projects in various locations in Tacoma. Quality of life of our customers was furthered through the development of an Asset Management Program designed to protect their water system infrastructure investment along with providing a level of service they expect. Pursuit of our environmental commitments in 2009 included participation in multi-jurisdictional and multi-stakeholder committees working to restore habitat for threatened salmon populations in the Green/Duwamish watershed.

Water sales revenue in 2009 was down approximately 3% from the forecast, but would have been considerably worse if not for a heat wave in July that resulted in higher than expected sales. Of more significance this year was the slowdown in development. As a result Tacoma Water staff assigned to respond to development projects were reassigned to needed system renewal and replacement work. Additionally, many positions were left vacant and expenses monitored and limited to assure expenditures were less than revenues for the year.

Employees performed exceptionally well in 2009. Even though staffing was down, considerable accomplishments were achieved. The year started with a storm and record flooding in the area. An extraordinary response from staff kept water flowing to customers. The year ended with a freeze that caused frozen pipes and plumbing resulting in hundreds of calls for service. Tacoma Water staff worked around the clock to respond quickly and efficiently. Mid-2009, a reorganization was adopted throughout the division to better align key functions and provide a more focused attention on financial management within Tacoma Water. Tacoma Water's Pipe Tapping Team became the national champions at the American Water Works Association National Conference with the first ever flawless performance and fastest time. Finally, a Quality Team of Water employees researched and developed an employee recognition program. The awards program is focused on advancing Tacoma Water's Leadership Principles. The program will begin implementation in 2010.

Tacoma Water entered into an agreement to wheel water between Lakewood Water District and Rainier View Water Company. This wheeling arrangement assures Rainier View, an existing wholesale customer

of Tacoma Water, will purchase wholesale water from Tacoma before purchasing water from Lakewood. Additionally, it generates revenue from existing infrastructure without having any detrimental service impacts to Tacoma customers. Other policy issues addressed during the year include further discussion of take or pay rate for wholesale customers and the opportunity to partner with Tacoma Public Works Environmental Services Division on reuse.

Water Resource Planning

The Resource Planning section structure was revised in July 2009 in support of the larger Tacoma Water reorganization to provide improved alignment and focus in key areas. The section, restructured to include resource planning, water conservation, and engineering planning units, implemented programs in 2009 which further the mission and goals of Tacoma Water as generally described below.

Planning for the Future

Water Resource Planning staff participated in the County's effort to update the Pierce County Coordinated Water System Plan: a state required plan. Tacoma Water updated the water demand forecast extending it from 2040 to 2060 to facilitate conversations with the Cascade Water Alliance regarding long range supply options. Tacoma Water's 2009-2018 Business Plan and Performance Management Program were formally communicated with staff in 2009. Finally, Tacoma Water took significant steps in 2009 with our Asset Management Program. Through an engagement with CH2M Hill, Tacoma Water participated in a Blue Ribbon panel of top asset management practitioners, trained staff on advanced asset management concepts, participated in an operations survey at our headworks treatment facilities, and completed a framework and roadmap for program implementation.

Ensuring Future Supplies

In 2009, Tacoma Water continued its partnership with Tacoma Power to implement the clothes washer rebate program and the conservation leave behind kit associated with the refrigerator-recycling program. Tacoma Water partnered with TPU grounds maintenance to install weather-based irrigation controllers on TPU properties to study and determine the water saving potential of this technology. In 2009, Tacoma Water implemented its annual summer water conservation public awareness campaign "Watering too much?" The campaign included general advertising as well as a mailed conservation packages to the top 10% of residential summer water users.

Additional educational efforts included public events, presentations, workshops, youth education, the creation of new brochures, and further development of the EnviroHouse. An educational sign was developed and installed at the new Ben Gilbert Park north of the Tacoma Municipal Building to promote water wise landscaping. Through public events and workshops over 6,000 customers were reached. Approximately 4,000 conservation related items such as water conservation kits and shower timers were given away. Tacoma Water continues to work with Community/Media Services to provide articles

about water conservation in the quarterly U* newsletter, and to redevelop webpage content for the TPU website.

Engineering Planning

Water's SAP group has supported, as well as participated in, the successful implementation of Phase I of the Mobile Solution 2009 technical software upgrade. Phase II of the Mobile Solution upgrade will be completed by March 2010. This upgrade covers the reformatting and consolidation of existing work order completion forms. In addition, Phase II will clean up job codes by deletion or deactivation of the unused codes.

Tactical recommendations regarding acquiring King and Pierce County data presented in the 2008 GIS analysis by Enspira Solutions, Inc., were implemented in 2009. The King County GIS data was acquired in 2009 and Tacoma Water has started mapping our distribution infrastructure in SW King County. In addition, Pierce County GIS data conversion issues in place since 2007 have been resolved and Pierce County GIS data is being updated.

The Planning group supported Tacoma Water in 2009 with infrastructure replacement analysis in response to the economic downturn. The group additionally supported City of Tacoma economic development efforts in 2009 including the McMenamins-Elks Building, Frank Russell Sites, LeMay Car Museum, Port of Tacoma YTTI Terminal, Andersen High Rise, Beacon Senior Center, SSA/Puyallup Terminal, and Point Ruston Development. The planning group also provided hydraulic modeling support for not only planned capital work but as a tool to analyze developing situations with existing infrastructure such as the chlorine residual issue in the McKinley area.

Regional Water Supply System

Although the Regional Water Supply System was established as a separate system from Tacoma Water, year 2009 marks the first time since operations began in 2005 that the Regional Water Supply System had a separate budget, making the preparation of monthly budget to actual reports possible. A rating review on the Regional Water Supply System was conducted by Standard & Poor's during 2009 which resulted in a rating increase to AA from AA-.

To address the Department of Revenue's decision that capital contributions received by Tacoma from our Project Partners are subject to a 1.5% business and operations tax, Tacoma filed a Complaint for Tax Refund and Notice of Appeal with the Thurston County Superior Court. A trial date of October 2010 has been established for the Appeal.

Relationships with our Project Partners remain strong. Monthly Project Committee meetings continued, with the Project Committee approving two amendments to the Partnership Agreement and the 2010 O&M and capital budget during 2009. Monthly meetings with the Army Corps of Engineers and the Partners began in 2009 to improve the lines of communication on capital project and financial issues associated with the Howard Hanson Dam Additional Water Storage Project. The Operations Committee

continued to meet during 2009 to coordinate and communicate on Regional Water Supply System operations issues and our Project Partners were actively engaged in Tacoma's Water Treatment decision-making process.

The Partners used water stored with the Hanson Dam Additional Water Storage project during the 2009 peak demand time. Only half of the stored water was available in 2009 due to dam safety issues.

Water Supply

The Water Supply section made progress in 2009 on its mission of operating, maintaining and improving the infrastructure that forms Tacoma's water supply system.

Infrastructure construction

The construction contract for the McMillin Reservoir Replacement Project was awarded and construction began in the latter part of 2009. This major project will replace the last of our open reservoir basins with two large covered concrete tanks. The construction of Phase 1 of the replacement of Pipeline 1 at the Puyallup River was completed and the pipeline placed in service. Extensive Supervisory Control and Data Acquisition (SCADA) system improvements were completed at several key facilities as was the installation of several new external corrosion control facilities.

Infrastructure design

Design and permit work continued on Phase 2 of the Pipeline 1 replacement project at the Puyallup River. This phase replaces the bridge crossing with a pipeline under the river, and also replaces a long section of pipeline located on piers over a wetland. Several other major projects were at various stages of design during 2009. These include the relocation of Pipelines 2 and 4 where they cross Sound Transit right-of-way, a new well facility, modifications to Pipelines 1 and 2 to accommodate McMillin Reservoir replacement and a new 1.5 MW generator installation to serve as standby power for the North Fork well field. We also continued with planning for new microwave and radio communications facilities to strengthen the reliability and redundancy of communications within our service area and between our outlying facilities.

Operations & maintenance

Due to dam safety issues at the Corps of Engineers' Howard Hanson Dam, Tacoma was only able to store about half as much water as would normally be stored for summer supply needs. This required additional use of the South Tacoma and other wellfields, in particular during the unusually hot weather that occurred during July and August. Even with the reduced storage at Hanson Dam and the higher than usual summer demands, Tacoma was able to satisfactorily provide its customers with the water they needed.

Supply staff actively participated in the initial development phase of the Division's asset management program. Staff also successfully responded to emergency conditions created by the January flood and maintained service to customers during this challenging event.

In addition to operating and maintaining Tacoma Water's transmission and supply system, the section also coordinates operation and maintenance of the transmission system supplying the Regional Water Supply System partnership. Success in these activities requires close interaction with a wide variety of stakeholders including regulators, resource agencies, tribes, project partners, interest groups and the general public.

Financial Management and Rates

Bonds to finance a portion of the capital projects in the 2007/2008 and 2009/2010 biennial budgets were sold in the fall of 2009. The bonds were sold through a negotiated sale process in order to take advantage of the federal government's Build American Bonds program, which provided a very low net cost of 3.78%. The review by bond rating agencies conducted as part of that bond sale confirmed Tacoma Water's Standard & Poor's rating of AA and the Moody's rating of Aa3. These are considered excellent bond ratings for a Washington utility.

Financial performance measures were identified as part of the financial dashboard development. These measures will be updated quarterly on a Water SharePoint site.

Standardized financial reporting was implemented for the water management team on a monthly basis. Quarterly financial updates were provided to the TPU management and the Public Utility Board.

A financial management effectiveness Quality Action Team was formed in early 2009. Recommendations to management upon completion of the first phase were the identification of top priority financial topics, with documentation and a training plan for each subject matter area.

In response to the 2008 Washington State Supreme Court ruling Tacoma Water removed public fire protection costs from its rate structure and billed nine various government agencies for these services. Six of the agencies have objected to the billing and have not paid for the services. In June 2009, a lawsuit was filed in Pierce County Superior Court to have Tacoma Water's legal rights determined.

Distribution Operations

Due to the economic downturn and subsequent dramatic slowdown in developer paid for work, 2009 was a year of changes for the Distribution Operations Section. As a result of the revenue shortfall from development, crews were reassigned to perform renewal and replacement work in the distribution system. Significant upgrades to hydrants, water services and mains of poor condition and inadequate

capacity were made. Additionally, expenses were controlled through not filling vacant positions, resulting in a reduction of 12.5 FTE's, including one construction crew and various other positions.

Fleet

Distribution Operations undertook a comprehensive vehicle review with the assistance of Fleet. Replacement funding was cancelled for 11 vehicles that were determined to be fully funded for a savings of \$45,000 in 2009 and more in 2010. Additionally, eight vehicles were determined to be excess and were decommissioned saving further administrative and maintenance costs.

The process for purchasing step vans for crews was reevaluated and changed to standardize the process and require less customization. The new step vans run on bio-diesel and have an upgraded load capacity. Previous step vans were overloaded for their engine size resulting in more wear and tear and a shorter life. The new step vans have back-up cameras for increased safety. Standardized configurations were created for the type of work being done. This eliminated costly customization after the vehicles were received.

The office pool Ford Expedition was replaced with a Ford Escape Hybrid.

Operations and Maintenance

The meter group kept pace with previous years periodic meter replacements and testing program. Meter staff aided the Automated Meter Reading pilot by trouble shooting non-reporting transmitters and optimizing signal strength. New meter technology was tested including a new turbine meter brand from Sensus, as well as a fire rated meter from Hersey.

The fire hydrant maintenance program has increased production from 3,700 hydrants checked and maintained in 2008, to over 4,800 in 2009. Notifications tracked through SAP are used to verify the performance of fire hydrants, as well as report unaccounted for water in the Distribution System. The increased maintenance activities are making a significant impact on the number of needed hydrant repairs in the water system. In 2009, the section completed 17 repairs, half as many performed the previous year. Water Distribution Operations is very committed to maintaining a high level of reliability for fire hydrants.

Systematic flushing, a program of opening hydrants under controlled, high velocity flows, is an essential maintenance program that provides improved water quality throughout the system. This marks the third consecutive year of increased productivity since adding a second crew. In addition to flushing, these crews provided support for water main shutdowns and projects. A considerable improvement in reliability of valve function has occurred due to the flushing crews exercising valves and identifying operational issues they find.

Water Quality

The Water Quality section moved forward on several fronts in 2009 to enhance the protection of public health, and further support Tacoma Water's mission. These are briefly discussed in the following sections.

Our major decision

A significant effort in 2009 was the development of technical material and community outreach to enable a decision on how best to further treat the Green River supply to meet new drinking water regulations. Working together with TPU Community & Media Services, and an external consultant team, this project involved scoping alternatives, developing costs and rate impacts, and communicating the important risks and tradeoffs inherent in the decision. Key stakeholder groups were involved, and a diverse range of public feedback was gathered. This work has positioned the Public Utility Board to make a challenging decision in 2010 – one that has generational implications.

Our other major water resource

Planning for groundwater treatment continued in 2009, with predesign work for the in-town groundwater facilities at the Hood St. Reservoir and at the South Tacoma Pump Station completed. Methods of improving fluoridation, corrosion control at both sites, and additionally chlorination at Hood St. have been identified. Conceptual layouts of solutions have been provided, along with cost estimates. Decisions on proceeding with implementation will be made in 2010.

Aligning the Section

Section organization changed significantly with the movement of the Environmental Stewardship group into the Water Quality Section, allowing improved coordination with Watershed Management. The Water Quality Section now has five defined groups along functional lines: Engineering & In-town Operations and Maintenance, Regulatory Compliance, Watershed Management, Environmental Stewardship and Green River Headworks Treatment. These groups support each other, and ensure we meet our multiple objectives.

Meeting expectations

Our staff is ever-aware that the confidence of our customers in their water supply is hard-won, and easily lost, and that professionalism and timeliness of response when they have a concern is critical. In 2009 we implemented a new way of measuring our success – ensuring that our customers who call with a concern about their water quality get a very rapid response. We exceeded our established goal of responding to at least 98% of all Water Quality calls on the same day.

We continued our strong record of active system surveillance through water quality testing, and uninterrupted regulatory compliance. Treatment plant maintenance continued and improved, utilizing SAP based maintenance work orders for the first time, helping us along the path of better documenting the historically excellent care we have invested in our operating infrastructure.

Preserving Our Natural Environment

Environmental Stewardship staff implemented or completed a number of projects to protect and improve fish and wildlife habitat, and protect water quality in the Green River watershed. The group completed the replacement of key fish blockage culverts through the construction of new bridges. The group focused on meeting the Water Division's aggressive environmental obligations embodied in our Habitat Conservation Plan (HCP). Through direct efforts or cooperative agreements, research on the fate of large woody debris in the middle Green River was completed – this represents important habitat enhancement in the Green River system. A study documenting the impacts of the Tacoma Water Headworks Dam reconstruction on downstream juvenile fish passage was completed, and successfully demonstrated that key design parameters used for the dam are safe for fish. Monitoring and maintenance continued for wetlands established as part of the Second Supply project, and a milestone Five Year report for the HCP was completed for review.

Distribution Engineering

Infrastructure

The Capital Engineering group worked on many large replacement projects in 2009 including completion of the Broadway LID, the final phase of Salishan, and Phase 2 of our Galvanized Main Replacement project. Distribution Engineering's capital replacement projects, a combination of main replacement and public road projects, included 5.2 miles of new pipe in 2009. Several municipal projects containing distribution main were delayed resulting in a reduction of main constructed in 2009 compared to 12 miles in 2008. We anticipate a significant amount of main construction in 2010. In addition to replacement activities, construction was completed on 21 private contracts in 2009, resulting in 2.7 miles of new main added to Tacoma Water's distribution system paid for by private development. A direct reflection of the recession is the reduction in private contracts which is 42 percent below our five year average of 36 and 73 percent below the 11.45 miles of new main constructed in 2008.

Private Development Support

In 2009 the Customer Support group completed design on 19 private contracts, down from 36 in 2008. Pierce County water availability requests for service fell to 227, 22 percent below the previous year and 48 percent below the five year average. Plan checks, including tenant improvements and new commercial and industrial development, dropped to 66. This is 56 percent below the previous year and 72 percent below the 5 year average.

Total Quality

Distribution Engineering sponsored and participated in two Total Quality teams in 2009. The first team reviewed our drafting standards to look for ways to improve efficiency consistency, reducing revisions and omissions. The second team was a continuation of the review of combination fire services in light of changing requirements and liability.

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

City of Tacoma, Washington

Re: City of Tacoma, Washington,
\$3,595,000 Regional Water Supply System Revenue Bonds, 2010A and
\$44,245,000 Regional Water Supply System Revenue Bonds, 2010B (Taxable Build America
Bonds – Direct Payment)

We have served as bond counsel to the City of Tacoma, Washington (the “City”), in connection with the issuance of the above-referenced Regional Water Supply System Revenue Bonds, 2010A (the “2010A Bonds”) and Regional Water Supply System Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment) (the “2010B Bonds,” and together with the 2010A 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. 27903 and Substitute Resolution No. 38087 (together, the “Bond Ordinance”) to provide the funds to (a) finance a portion of the costs of constructing a filtration treatment system for the Second Supply Project; (b) fund the Reserve Account; and (c) pay the costs of issuance of the Bonds, all as set forth in the Bond Ordinance.

For as long as any of the Bonds are outstanding, the City irrevocably has pledged to set aside from the Revenues of the Regional System and to pay into the “Regional Water Supply System Bond Fund” (the “Bond Fund”) the various amounts required by the Bond Ordinance to be paid into and maintained in such Bond Fund within the times provided by the Bond Ordinance. Revenues of the Regional System include Gross Revenues of the City’s Water System and Participants’ Payments under the Project Agreement for the Second Supply Project, subject to the prior payment of Operating Expenses, and all money and investments held in the Bond Fund and Construction Account. The Bonds are special limited obligations of the City and are not obligations of the State of Washington or any political subdivision thereof other than the City, and neither the full faith and credit nor the taxing power of the City or the State of Washington is pledged to the payment of the Bonds.

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 2010A Bonds in order to maintain the exclusion of the interest on the 2010A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2010A Bond proceeds and the facilities financed or refinanced with 2010A Bond proceeds, limitations on investing gross proceeds of the 2010A Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2010A 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 2010A Bonds could become taxable retroactive to the date of issuance of the 2010A 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 first-class 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 City has irrevocably bound itself to set aside and pay into the Bond Fund and the Reserve Account therein out of Revenue of the Regional System, amounts necessary to pay the principal of and interest on the Bonds as the same become due.

4. The City has pledged that the payments to be made into the Bond Fund and the Reserve Account out of Revenue of the Regional System shall be a lien and charge thereon equal in rank to the lien and charge upon such Revenue of the amounts required to pay and secure the payment of the Outstanding Parity Bonds and any regional water supply system revenue bonds of the City hereafter issued on a parity with the Bonds, and superior to all other liens and charges except the Operating Expenses of the Regional System. The City has reserved the right to issue Future Parity Bonds on the terms set forth in the Bond Ordinance.

5. Assuming compliance by the City after the date of issuance of the 2010A Bonds with applicable requirements of the Code, the interest on the 2010A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the 2010A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2010A Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the 2010A Bonds received by certain S corporations may be subject to tax, and interest on the 2010A 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 2010A Bonds.

6. Interest on the 2010B Bonds is not excludable from gross income for federal tax purposes.

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

We 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,

FOSTER PEPPER PLLC

APPENDIX G

GENERAL AND ECONOMIC INFORMATION

Participants

City of Tacoma. Tacoma, the county seat of Pierce County (the “County”), is located in the west central part of Washington State near the southern tip of Puget Sound. It is the third largest city in the State with a 2010 estimated population of 204,200. The City is located 32 miles south of Seattle and 28 miles northeast of Olympia, the State capital.

City of Kent. Kent is located in southern King County, in the Green River Valley, approximately 18 miles south of Seattle and 18 miles northeast of Tacoma. State Highways Nos. 167, 181 and 516 pass through Kent, and Interstate 5 passes through the City’s west side. The City of Kent encompasses an area of approximately 29 square miles and has an estimated 2010 population of 88,760.

Covington Water District. Covington Water District is located in southeast King County, approximately 35 miles southeast of Seattle between the cities of Kent (ten miles west) and Auburn (three miles southwest). Covington Water District includes 100% of the City of Covington (which was incorporated in 1998), approximately 60% of the City of Maple Valley and one-third of the City of Black Diamond. Covington Water District encompasses an area of approximately 55 square miles and has an estimated 2009 population of approximately 72,000.

Lakehaven Utility District. Lakehaven Utility District is one of the largest public water/sewer districts in the State and is located in southern King County and a small portion of the County. Lakehaven Utility District serves approximately 112,000 customers, 70 percent within the City of Federal Way and 30 percent in parts of the cities of Auburn, Milton, Edgewood, Pacific and a part of unincorporated King County.

Population

The following tables show the historical population for the County, the City, King County and the cities of Kent, Covington and Federal Way.

POPULATION CITY OF TACOMA AND PIERCE COUNTY

<u>Year</u>	<u>Tacoma</u>	<u>Pierce County</u>
2010	204,200	814,600
2009	203,400	813,600
2008	202,700	805,400
2007	201,700	790,500
2006	199,600	773,500
2005	198,100	755,900
2004	196,800	744,000
2003	196,300	733,700
2002	194,900	724,998
2001	194,500	713,398
2000	193,556	700,818

Source: Washington State Office of Financial Management estimates; U.S. Census for 2000 figure.

POPULATION
CITIES OF KENT, COVINGTON AND FEDERAL WAY AND KING COUNTY

Year	Kent	Covington	Federal Way	King County
2010	88,760	17,640	88,760	1,933,400
2009	88,380	17,530	88,580	1,909,300
2008	86,980	17,360	88,040	1,884,200
2007	86,660	17,190	87,390	1,861,300
2006	85,650	17,240	86,530	1,835,300
2005	84,920	16,610	85,800	1,808,300
2004	84,560	15,190	83,590	1,788,300
2003	84,210	14,850	83,500	1,779,300
2002	84,275	14,395	83,850	1,774,312
2001	81,990	13,840	83,890	1,758,312
2000	79,524	13,783	83,259	1,737,046

Source: Washington State Office of Financial Management estimates; U.S. Census for 2000 figure.

Employment

Employment within Pierce and King Counties are described in the following tables:

TACOMA METROPOLITAN AREA (PIERCE COUNTY) RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT AND AVERAGE CIVILIAN NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

NAICS Industry Title	Annual Average				
	2010(1)	2009	2008	2007	2006
<u>Resident Labor Force</u>					
Employment	356,200	359,530	372,500	366,870	352,940
Unemployment	39,910	36,590	21,860	17,870	18,890
Total	396,150	396,120	394,360	384,740	371,830
Percent Of Labor Force	10.1%	9.2%	5.5%	4.6%	5.1%
 Total Nonfarm	 264,900	 269,000	 280,600	 281,300	 272,800
Total Private	206,200	211,200	223,700	226,300	218,100
Goods Producing	34,100	36,400	43,700	46,500	44,100
Mining and Logging	300	300	400	500	400
Construction	18,000	19,200	23,500	25,500	23,500
Specialty Trade Contractors	11,300	12,100	15,000	16,000	14,500
Manufacturing	15,800	16,900	19,800	20,500	20,200
Services Providing	230,700	232,700	236,900	234,800	228,700
Trade, Transportation And Utilities	51,600	53,100	55,600	56,400	54,200
Wholesale Trade	10,000	10,900	11,400	11,400	10,700
Retail Trade	30,700	31,200	32,900	33,400	32,000
Food And Beverage Stores	5,500	5,400	5,500	5,400	5,300
General Merchandise Stores	7,500	7,800	7,900	7,900	7,200
Transportation, Warehousing And Utilities	10,900	10,900	11,400	11,600	11,500
Information	3,100	3,100	3,700	3,700	3,600
Financial Activities	12,300	12,900	13,300	13,700	14,000
Professional And Business Services	23,000	23,700	24,900	25,500	24,300
Admin, Support, Waste Mgmt & Remed.	13,000	13,300	14,300	15,200	14,500
Administrative And Support Services	11,600	11,900	12,900	13,800	13,300
Education And Health Services	44,700	43,300	41,600	40,400	39,200
Ambulatory Health Care Services	14,400	14,000	13,600	13,300	12,900
Hospitals	10,600	10,100	9,600	9,100	8,800
Leisure And Hospitality	24,700	26,100	27,800	27,500	26,400
Food Services And Drinking Places	19,200	20,700	22,100	22,200	21,200
Other Services	12,700	12,800	13,000	12,700	12,500
Government	58,700	57,800	56,900	54,900	54,600
Federal Government	12,500	11,700	10,800	10,300	10,500
State Government	11,600	11,700	11,900	11,400	11,200
State Government Educational Services	4,000	3,700	3,800	3,600	3,700
Local Government	34,700	34,400	34,300	33,300	32,900
Local Government Educational Services	18,900	18,400	18,200	18,000	18,000

(1) Average through June 2010.

Source: Washington State Employment Security Department.

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT AND AVERAGE CIVILIAN
NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT(1)

NAICS Industry Title (1)	Annual Average				
	2010(1)	2009	2008	2007	2006
Resident Labor Force					
Employment	1,019,480	1,020,470	1,040,550	1,025,380	1,004,980
Unemployment	92,380	90,380	50,070	40,970	42,920
Total	1,111,860	1,110,860	1,090,620	1,066,350	1,047,910
Percent Of Labor Force	8.3%	8.1%	4.6%	3.8%	4.1%
 Total Nonfarm	 1,124,100	 1,152,300	 1,216,700	 1,199,800	 1,175,200
Total Private	957,300	985,600	1,050,300	1,036,500	1,013,000
Goods Producing	145,800	160,500	186,500	188,400	182,500
Natural Resources and Mining	500	500	600	700	700
Construction	46,400	57,000	73,900	74,500	69,400
Construction of Buildings	12,900	15,600	20,600	21,200	19,600
Heavy & Civil Engineering Construction	5,300	5,500	6,700	7,400	7,300
Specialty Trade Contractors	28,200	35,900	46,500	45,900	42,500
Manufacturing	99,000	103,000	112,000	113,100	112,400
Durable Goods	75,200	78,800	86,300	86,500	85,100
Nondurable Goods	23,800	24,200	25,800	26,600	27,300
Services Providing	978,300	991,800	1,030,200	1,011,500	992,700
Trade, Transportation And Utilities	208,400	210,800	224,800	224,400	222,900
Wholesale Trade	57,700	59,900	64,000	63,200	63,500
Retail Trade	108,200	106,900	113,800	113,800	112,700
Transportation, Warehousing And	42,500	44,100	47,000	47,500	46,700
Information	78,700	79,900	79,800	75,600	72,500
Software Publishers	49,300	50,000	49,100	45,700	43,000
Telecommunications	14,400	14,900	15,100	14,700	14,300
Financial Activities	68,400	70,000	75,900	77,300	77,900
Finance and Insurance	45,100	45,500	49,700	51,200	52,200
Real Estate & Rental & Leasing	23,300	24,400	26,300	26,100	25,700
Professional And Business Services	173,400	177,100	194,200	189,900	182,700
Professional, Scientific & Tech Services	91,500	93,200	98,800	93,300	86,900
Mgmt of Companies & Enterprises	22,100	22,400	24,600	24,800	24,300
Admin, Support, Waste Mgmt & Remed.	59,800	61,400	70,800	71,900	71,500
Education And Health Services	139,700	137,600	133,300	127,700	124,500
Educational Services	23,800	22,700	22,300	21,300	20,300
Ambulatory Health Care Services	46,300	46,000	44,600	43,200	42,400
Hospitals	26,700	26,600	25,300	24,200	23,800
Nursing & Residential Care Facilities	19,100	18,700	17,900	17,200	17,100
Social Assistance	23,800	23,700	23,200	21,800	21,000
Leisure And Hospitality	101,600	107,400	113,400	111,800	108,700
Arts, Entertainment & Recreation	19,000	21,000	22,300	21,600	21,000
Accommodation	12,400	12,800	13,600	13,500	13,000
Food Services And Drinking Places	70,300	73,600	77,400	76,600	74,700
Other Services	41,200	42,200	42,500	41,400	41,300
Government	166,900	166,700	166,400	163,400	162,200
Federal Government	22,000	22,100	21,600	21,300	21,400
State Government	56,700	55,600	55,600	54,800	54,700
Local Government	88,200	89,100	89,200	87,300	86,100

(1) Average through April 2010.

Source: Washington State Employment Security Department.

PIERCE COUNTY MAJOR EMPLOYERS

Employer	Type of Business	Number of Employees
Joint Base Lewis McChord	Military	49,674
Local Public School Districts (K-12)	Education	13,381
Washington State Employees	Public Sector	7,448
Multicare Health System	Health Services	6,410
US Army Madigan Hospital	Military Health Care	5,554
Franciscan Health System	Health Services	5,028
Pierce County Government	Government/Public Offices	3,059
Washington State Higher Education	Education	2,604
Washington State National Guard	Military	2,476
City of Tacoma (excluding Tacoma Public Utilities)	Government/Public Offices	2,383
Emerald Queen Casino	Casino Gambling	2,105
The Boeing Company (Frederickson Site)	Aerospace	1,440
Wal-Mart	Retail	1,406
Fred Meyer Stores (includes part time employees)	Retail Store	1,301
Tacoma Public Utilities	Public Utility	1,253
US Postal Service	Government/Public Offices	1,192
Costco	Wholesale	1,151
Safeway Stores, Inc.	Grocery	1,123
State Farm Insurance Companies	Insurance	1,117
Pierce Transit	Investment Management	971

Source: Economic Development Board of Tacoma-Pierce County, 2010.

PUGET SOUND AREA(1) MAJOR EMPLOYERS

Firm/Organization	Product or Service	Number of Employees (1)
The Boeing Company	Aerospace	72,200 (2)
U.S. Army Fort Lewis	Military	42,400
Microsoft	Technology	41,500
University of Washington	Education	24,600
Navy Region Northwest	Military	24,000
Providence Health & Services	Healthcare	18,700
Wal-Mart Stores, Inc.	Retail	17,900
King County Government	Government/Public Offices	14,000
Fred Meyer Stores	Retail	12,500
City of Seattle	Government/Public Offices	10,300
Group Health Cooperative	Healthcare	8,900
MultiCare Health System	Healthcare	8,700
Costco	Wholesale	8,000
Weyerhaeuser	Lumber	7,000
Alaska Air Group, Inc.	Airline	6,100

(1) Does not include part-time or seasonal employment figures.

(2) From Boeing, as of January 28, 2010.

Source: Puget Sound Book of Lists, 2010 (rounded).

Personal and Per Capital Income

Historic personal income and per capital income levels for Pierce County, King County and the State of Washington are shown below:

PIERCE COUNTY, KING COUNTY AND STATE OF WASHINGTON TOTAL PERSONAL AND PER CAPITA INCOME

Year	Pierce County		King County		State of Washington	
	Total Personal Income (\$000)	Per Capita Income	Total Personal Income (\$000)	Per Capita Income	Total Personal Income (\$000)	Per Capita Income
2008(1)	\$ 31,046,350	\$ 39,444	\$109,551,329	\$ 58,141	\$280,677,561	\$ 42,747
2007	29,863,847	38,581	106,637,605	57,109	271,007,842	41,919
2006	27,915,671	36,527	99,608,475	54,370	252,022,976	39,550
2005	25,580,131	34,131	89,431,448	49,582	230,001,881	36,734
2004	23,906,049	32,248	89,382,311	50,132	222,378,678	35,959
2003	22,790,634	30,955	80,127,397	45,276	206,946,797	33,852
2002	21,934,934	30,107	78,430,868	44,470	200,482,327	33,104
2001	21,206,910	29,608	77,982,196	44,384	197,278,896	32,947
2000	19,823,801	28,159	79,030,597	45,439	191,561,542	32,407

(1) Last available data.

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

Taxable Retail Sales

Taxable retail sales reflect only those sales subject to retail sales tax. Historic taxable retail sales for the City of Tacoma and Pierce County and the Cities of Kent and Federal Way and King County are shown below:

PIERCE COUNTY AND CITY OF TACOMA TAXABLE RETAIL SALES (\$000)

Year	Pierce County	City of Tacoma
2010 (1)	\$ 2,398,473	\$ 861,123
2009	10,359,977	3,803,604
2008	11,621,810	4,288,739
2007	12,449,284	4,665,527
2006	12,068,965	4,536,401
2005	11,177,879	4,218,012
2004	10,055,822	3,832,668
2003	9,448,120	3,708,718
2002	8,802,690	3,475,274
2001	8,510,487	3,527,642
2000	8,222,293	3,440,507

(1) Through the first quarter of 2010. The taxable retail sales for Pierce County for the first quarter of 2009 was \$2,487,751,934 and \$938,675,952 for the City of Tacoma.

Source: Washington State Department of Revenue.

KING COUNTY AND CITIES OF KENT AND FEDERAL WAY⁽¹⁾
TAXABLE RETAIL SALES
(\$000)

Year	King County	Kent	Federal Way
2010 (1)	\$ 8,960,821	\$ 355,613	\$ 276,222
2009	39,594,904	1,556,361	1,208,587
2008	45,711,920	2,165,011	1,354,503
2007	47,766,339	2,626,702	1,474,686
2006	43,993,479	2,589,371	1,401,412
2005	40,463,997	2,321,255	1,290,165
2004	37,253,104	2,263,708	1,190,030
2003	35,370,831	2,005,341	1,179,841
2002	35,153,210	2,099,572	1,198,942
2001	36,113,326	2,195,417	1,178,900
2000	37,771,529	2,239,262	1,168,614

(1) Through the first quarter of 2010. The taxable retail sales for the first quarter of 2009 for King County was \$9,396,561,816, \$366,352,427 for the City of Kent and \$286,084,055 for the City of Federal Way.

Source: Washington State Department of Revenue.

Building Permits

The total number and value of new building permits in the City of Tacoma and King County are listed below:

CITY OF TACOMA BUILDING PERMIT ACTIVITY

Year	City of Tacoma	
	Total Number	Value
2010*	793	\$157,654,473
2009	1,796	214,530,401
2008	2,146	343,884,905
2007	2,628	519,576,251
2006	2,746	482,193,083
2005	2,586	345,444,070
2004	2,441	323,424,589
2003	2,339	376,871,561
2002	2,556	297,617,993
2001	2,399	284,359,070
2000	2,614	287,741,638

* Data through June 2010. Between January and June 2009, the City issued 785 permits for a total value of \$97,861,346.

Source: City of Tacoma Public Works Department, Building Division.

KING COUNTY BUILDING PERMIT ACTIVITY (1)

Year	New Single Family Units		New Multi Family Units	
	Number	Value	Number	Value
2010 (2)	861	\$ 228,770,704	799	\$ 62,208,544
2009	1,975	529,224,279	1,156	\$134,440,538
2008	3,026	865,838,017	7,414	1,008,233,396
2007	5,198	1,504,067,269	10,207	1,246,161,883
2006	5,767	1,620,644,028	8,300	1,023,393,178
2005	6,330	1,740,291,588	5,703	556,297,096
2004	6,947	1,684,139,845	4,998	451,908,793
2003	6,354	1,543,557,962	3,503	309,101,770
2002	5,662	1,310,055,643	4,765	428,862,646
2001	4,352	939,203,505	5,615	426,811,259
2000	4,482	874,360,483	7,243	503,636,591

(1) Privately-owned.

(2) Through April 2010.

Source: U.S. Census Bureau.

