



RESOLUTION NO. U-10930

1 A RESOLUTION related to the purchase of materials, supplies, equipment
2 and the furnishing of services; authorizing the City officials to enter into
3 contracts and, where specified, waive competitive bidding requirements,
4 authorize sale of surplus property, or increase or extend existing
agreements.

5 WHEREAS the City of Tacoma, Department of Public Utilities, requested
6 bids/proposals for the purchase of certain materials, supplies, equipment and/or
7 the furnishing of certain services, or proposes to purchase off an agreement
8 previously competitively bid and entered into by another governmental entity, or
9 for the sales of surplus, or desires to increase and/or extend an existing
10 agreement, all as explained by the attached Exhibit "A," which by this reference
11 is incorporated herein, and
12

13 WHEREAS in response thereto, bids/proposals (or prices from another
14 governmental agreement) were received, all as evidenced by Exhibit "A," and
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16 WHEREAS the Board of Contracts and Awards and/or the requesting
17 division have heretofore made their recommendations, which may include
18 waiver of the formal competitive bid process because it was not practicable to
19 follow said process, or because the purchase is from a single source, or there is
20 an emergency that requires such waiver, and/or waiver of minor deviations, and
21 in the case of sale of surplus, a declaration of surplus has been made certifying
22 that said items are no longer essential for continued effective utility service, as
23 explained in Exhibit "A," and
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WHEREAS the Director requests authorization, pursuant to

TMC 1.06.269 A, to amend contract amounts up to \$200,000 and to approve term extensions and renewals for all items contained in Exhibit "A;" Now, therefore,

BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

That the Public Utility Board of the City of Tacoma hereby concurs and approves the recommendations of the Board of Contracts and Awards and/or the requesting division, and approves, as appropriate: (1) the purchase and/or furnishing of those materials, supplies, equipment or services recommended for acceptance; (2) the sale of surplus materials, supplies or equipment recommended for acceptance; (3) the Interlocal agreement that authorizes purchase off another governmental entity's contract; (4) the increase and/or extension of an existing agreement, and said matters may include waiver of the formal competitive bid process and/or waiver of minor deviations, all as set forth on Exhibit "A," and authorizes the execution, delivery and implementation of appropriate notices, contracts and documents by the proper officers of the City for said transactions, and (5) the administrative authority of the Director, per TMC 1.06.269 A., to amend contract amounts up to \$200,000 and to approve term extensions and contract renewals for all items in Exhibit "A."

Approved as to form and legality:

William Foster

Chief Deputy City Attorney

Chair

Secretary

Clerk

Adopted _____



TACOMA PUBLIC UTILITIES
 3628 South 35th Street
 Tacoma, Washington 98409-3192

EXHIBIT "A"

RESOLUTION NO.: U-10930

ITEM NO.: #1

MEETING DATE: MAY 24, 2017

DATE: May 12, 2017
TO: Board of Contracts and Awards
SUBJECT: Purchase of Cab Chassis
 Budgeted from the Power, Water and Rail Divisions and Fleet Services Fund
 WA State Contract No. 01513

RECOMMENDATION: Tacoma Public Utilities (TPU) Fleet Services recommends a contract be awarded to RWC International, LTD, Tacoma, WA, for the purchase of various new International model cab chassis planned for replacement in 2017 through 2020. The contract amount reflects a total award of \$4,587,366.00, plus applicable sales tax.

EXPLANATION: The new cab chassis, detailed in the attached report, will be completed with truck bodies such as an aerial device, flatbed, crane, dump bed, fish tank, etc. The new trucks will be assigned across TPU divisions for workgroups to use in support of maintenance and construction projects throughout our service area to include outlying site locations such as Water's Green River Watershed and McMillin Reservoir; Power's Cowlitz, Nisqually, Wynoochee, and Cushman Projects.

The new chassis will replace existing units subject to Fleet replacement criteria, which addresses a combination of mileage, age, mechanical condition, and job suitability. The units being replaced will be sold at public auction using City surplus procedures.

COMPETITIVE SOLICITATION: This contract was awarded to RWC International, LTD, as a result of State of Washington Invitation for Bid 01513, which was solicited in 2013. Seven bids were received. The contract term is June 13, 2013 through June 3, 2018, and has options to extend with a final term end date of June 13, 2021, pending the State's approval.

Through an interlocal cooperative purchasing agreement, the City of Tacoma purchases will be at State contract prices and terms, and meet competitive bidding requirements. Utilizing this State contract is the most cost-effective means as price concessions received by the State exceed those TPU would receive as a single entity. This is due to the high quantity of purchases made by State agencies, as well as municipalities and other government agencies.

The City is saving between nine and twelve percent on this purchase by utilizing the State contract.


CONTRACT HISTORY: New contract.

FUNDING: Funds for this are available in the 2017-2018 budget of the Department of Public Utilities for the Power, Water and Rail Divisions and the Fleet Services Fund.

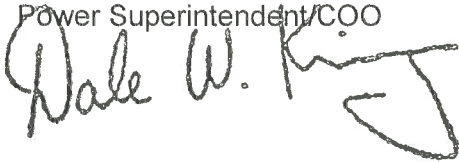
SBE/LEAP COMPLIANCE: Not applicable.



PROJECT ENGINEER/COORDINATOR: Don Ashmore, Utilities Fleet Manager, Transmission & Distribution Fleet Services, 253-502-8575.



Chris Robinson
Power Superintendent/COO



Dale King, Superintendent
Rail Superintendent



Heather Pennington
Acting Water Superintendent

APPROVED:



William A. Gaines
Director of Utilities/CEO

cc: Richelle Krienke, Senior Buyer, Finance/Purchasing
Dolores Stegeman, Transmission & Distribution Manager
Don Gesch, Transmission & Distribution Assistant Manager
SBE Coordinator
LEAP Coordinator

File: Report of Fleet Planned Chassis Purchases

TPU Fleet Services Planned Chassis Purchases 2017-2020

Equipment	Description	License	VIN	Functional Loc.	User Status	Repl Year	Equip Act Type	Anticipated INTL Model	Estimated Chassis Cost
7112308	99 INTL 4900 TRK ARL VRSALFT	27828D	1HTSDADR2XH608421	FM-U-FS-C-PWR -TD -563300DS	INS	1/1/2017	TRUCK AERIAL	IHC 7500	95,500.00
7112224	98 FRGHT FLD1205D TRK 10-12 DUMP BDY	61013D	1FV4FSEB3WP941615	FM-U-FS-C-WTR -SPLY -584400	INS	1/1/2017	TRUCK DUMP	IHC 7600	127,012.00
7112555	95 INTL 4700 TRK 5-7 DUMP BDY	30682D	1HTSCAAN95HG33782	FM-U-FS-C-WTR -DIST -582400	INS	1/1/2017	TRUCK DUMP	IHC 7400	80,800.00
7112222	99 FRGHT FL 70 TRK FB	27567D	1FV6HLB80XH953620	FM-U-FS-C-WTR -DIST -582400	INS	1/1/2017	TRUCK FLATBED	IHC 7500	89,500.00
7112515	02 INTL 2654 TRK FB	33946D	1HTGMADR62H528599	FM-U-FS-C-WTR -DIST -582400	INS	1/1/2017	TRUCK FLATBED	IHC 7500	89,500.00
7112545	02 INTL 2654 TRK FB	33945D	1HTGMADR42H528598	FM-U-FS-C-WTR -DIST -582400	INS	1/1/2017	TRUCK FLATBED	IHC 7500	89,500.00
7112566	03 INTL 2574 TRK FISH TNKR	35995D	1HTGEAHR73H559434	FM-U-FS-C-PWR -GEN -565700	INS	1/1/2017	TRUCK TANKER	IHC 7400	80,800.00
7112378	00 INTL 2674 TRK FB W/DGR DRCK	30155D	1HTGLAHT6VH246934	FM-U-FS-C-PWR -TD -563400	INS	1/1/2017	TRUCKFLATBD W/CRANE	IHC 7500	98,000.00
7112406	00 INTL 4900 TRK W/DGR DRCK	30133D	1HTSDADR3YH246939	FM-U-FS-C-PWR -TD -563400	INS	1/1/2017	TRUCKFLATBD W/CRANE	IHC 7500	98,000.00
7112413	00 INTL 4900 TRK W/DGR DRCK	30132D	1HTSDADR6YH248507	FM-U-FS-C-PWR -TD -563400	INS	1/1/2017	TRUCKFLATBD W/CRANE	IHC 7500	98,000.00
7112483	03 INTL 2674 TRK FB W/DGR DRCK	35967D	1HTGLAHT33H555415	FM-U-FS-C-PWR -TD -563400	INS	1/1/2017	TRUCKFLATBD W/CRANE	IHC 7500	95,000.00
7112167	99 INTL 2674 TRK w/PLR LINE (7111692)	27833D	1HTGLAHT3XH609804	FM-U-FS-C-PWR -TD -563400	INS	1/1/2018	TRUCK HEAVY DUTY	IHC 7500	95,000.00
7114921	04 INTL 7600 TRK w/FB & HYD TELSCP CRANE	38581D	1HTWAKAHT55J042551	FM-U-FS-C-WTR -DIST -582400	INS	1/1/2018	TRUCKFLATBD W/CRANE	IHC 7600	115,000.00
7117380	08 INTL 4300 HEV TRK ARL	49519D	1HTMMAAN49H081687	FM-U-FS-C-PWR -TD -565900	INS	1/1/2019	TRUCK AERIAL	IHC 4300	76,000.00
7117240	08 INTL 4400 TRK ARL	48839D	1HTMKAZR88694612	FM-U-FS-C-PWR -TD -565900	INS	1/1/2019	TRUCK AERIAL	IHC 4400	80,000.00
7117239	08 INTL 4400 TRK ARL	48838D	1HTMKAZR681694611	FM-U-FS-C-PWR -TD -565900	INS	1/1/2019	TRUCK AERIAL	IHC 4400	80,000.00
7112539	03 INTL 2674 TRK ARL TLCT	34614D	1HTGLAHT33H559433	FM-U-FS-C-PWR -TD -563400	INS	1/1/2019	TRUCK AERIAL	IHC 7500	95,000.00
7112538	03 INTL 2674 TRK ARL TLCT	34615D	1HTGLAHT13H559432	FM-U-FS-C-PWR -TD -563400	INS	1/1/2019	TRUCK AERIAL	IHC 7500	95,000.00
7112379	99 INTL 2674 TRK ARL REACH ALL	30139D	1HTGLAHT8YH246935	FM-U-FS-C-PWR -TD -563400	INS	1/1/2019	TRUCK AERIAL	IHC 7500	95,000.00
7112307	99 INTL 2674 TRK ARL TLCT	27829D	1HTGLAHT6XH600627	FM-U-FS-C-PWR -TD -563302	INS	1/1/2019	TRUCK AERIAL	IHC 7500	95,000.00
7112204	99 FRGHT FL70 TRK ARL TLCT	27597D	1FV6HLB84XH953619	FM-U-FS-C-PWR -TD -563302	INS	1/1/2019	TRUCK AERIAL	IHC 7500	95,000.00
7114941	04 INTL 5500 TRK 10-12 DUMP BDY	38558D	1HTXLAPT55J042552	FM-U-FS-C-WTR -DIST -582400	INS	1/1/2019	TRUCK DUMP	IHC 7600	127,012.00
7114733	03 INTL 5500 TRK 10-12 DUMP BDY	38486D	1HTXLAPT9J019967	FM-U-FS-C-WTR -DIST -582400	INS	1/1/2019	TRUCK DUMP	IHC 7600	127,012.00
7118110	09 INTL 7600 TRK DUMP BDY	50580D	1HTWYAH7AJ245338	FM-U-FS-C-PWR -TD -563400	INS	1/1/2019	TRUCK DUMP	IHC 7400	80,829.00
7114888	04 INTL 7400 TRK 5-7 DUMP BDY	37083D	1HTWDADR54J019966	FM-U-FS-C-PWR -TD -563400	INS	1/1/2019	TRUCK DUMP	IHC 7400	80,829.00
7112570	03 INTL 2674 TRK 10-12 DUMP BDY	35923D	1HTGLAET13H555417	FM-U-FS-C-PWR -TD -563400	INS	1/1/2019	TRUCK DUMP	IHC 7600	127,012.00
7112488	02 INTL 2674 TRK 10-12 DUMP BDY	35922D	1HTGLAET12H555416	FM-U-FS-C-PWR -TD -563400	INS	1/1/2019	TRUCK DUMP	IHC 7600	127,012.00
7114911	04 INTL 4300 TRK DUMP CHPR	38517D	1HTMMAAN95H694558	FM-U-FS-C-PWR -TD -563302	INS	1/1/2019	TRUCK DUMP	IHC 4300	76,000.00
7112313	99 INTL 2674 TRK 10-12 DUMP BDY	27822D	1HTGLAET8XH650398	FM-U-FS-C-PWR -GEN -566100	INS	1/1/2019	TRUCK DUMP	IHC 7600	127,012.00
7114868	04 INTL 7400 TRK DUMP BDY	37048D	1HTWDADR34J019965	FM-U-FS-C-PWR -TD -562700	INS	1/1/2019	TRUCK DUMP	IHC 7400	80,800.00
7112229	98 FRGHT FL 70 TRK DUMP BDY 5YD	26261D	1FV6HLB84XH926228	FM-U-FS-C-PWR -GEN -568800	INS	1/1/2019	TRUCK DUMP	IHC 7400	80,800.00
7112199	99 FRGHT FL 70 TRK HOOK HOIST	27584D	1FV6HLB82XH953618	FM-U-FS-C-PWR -GEN -566500	INS	1/1/2019	TRUCK DUMP	IHC 7400	80,800.00
7111337	96 FRGHT FL70 TRK HOOK HOIST	23026D	1FV6HFB8A87L26854	FM-U-FS-C-PWR -GEN -566500	INS	1/1/2019	TRUCK FLATBED	IHC 7400	80,800.00
7114734	03 INTL 7400 TRK w/FB	38401D	1HTWDADR04J019969	FM-U-FS-C-WTR -DIST -582400	INS	1/1/2019	TRUCK FLATBED	IHC 7400	80,800.00
7114898	04 INTL 7400 TRK w/FB	37098D	1HTWDADR94J019968	FM-U-FS-C-WTR -DIST -582400	INS	1/1/2019	TRUCK FLATBED	IHC 7400	80,800.00
7112114	97 FRGHT FLD1125D TRK FB TILT BED	25954D	1FV6M8B8VP820748	FM-U-FS-C-PWR -GEN -568800	INS	1/1/2019	TRUCK HEAVY DUTY	IHC 4300	80,800.00
7112487	03 INTL 4300 TRK SB DY	34616D	1HTMMAARS3H576779	FM-U-FS-C-PWR -TD -563400	INS	1/1/2019	TRUCK HEAVY DUTY	IHC 4300	76,000.00
7111745	90 INTL 4700 TRK OIL TNKR	07740D	1HTSCNER0LH281388	FM-U-FS-C-PWR -TD -563300DS	INS	1/1/2019	TRUCK TANKER	IHC 7400	85,000.00
7112436	00 INTL 2674 TRK TRCTR	30108D	1H5GLAET7YH281488	FM-U-FS-C-PWR -GEN -566500	INS	1/1/2019	TRUCK TRACTOR	IHC 7600	125,000.00
7112057	97 FRGHT FL80 TRK FB W/CRANE	24632D	1FV6LLB85VH838710	FM-U-FS-C-PWR -GEN -566500	INS	1/1/2019	TRUCK FLATBD W/CRANE	IHC 7400	80,800.00
7111814	92 INTL 4900 TRK FB W/8T CRANE	13454D	1HTSDPCR6NH45432	FM-U-FS-C-RAIL-F4500 -592302	INS	1/1/2019	TRUCKFLATBD W/CRANE	IHC 7400	80,800.00
7118289	10 INTL 4300 HEV TRK ARL	56307D	1HTMMAAR7BH374234	FM-U-FS-C-PWR -TD -563400	INS	1/1/2020	TRUCK AERIAL	IHC 4300	76,000.00
7112516	02 INTL 2674 TRK 10-12 DUMP BDY	33931D	1HTGLAET72H511999	FM-U-FS-C-PWR -TD -563400	INS	1/1/2020	TRUCK DUMP	IHC 7600	127,012.00
7117909	09 INTL 7000 TRK DUMP BDY 7 YD	50536D	1HTWCAZR19J1988921	FM-U-FS-C-PWR -GEN -566100	INS	1/1/2020	TRUCK DUMP	IHC 7500	80,829.00
7114922	04 INTL 5500 TRK 10-12 DUMP BDY	38559D	1HTXLAPT55J042549	FM-U-FS-C-PWR -GEN -566500	INS	1/1/2020	TRUCK DUMP	IHC 7600	127,012.00
7118081	10 INTL 4300 TRK FB	51709D	1HTMMAAN4AH243810	FM-U-FS-C-PWR -TD -563300NWN	INS	1/1/2020	TRUCK FLATBED	IHC 4300	76,000.00
7114909	04 INTL 7400 TRK w/FISH TNK	38575D	1HTWGDROSJ042550	FM-U-FS-C-PWR -GEN -567200	INS	1/1/2020	TRUCK TANKER	IHC 7400	80,800.00
7118052	09 INTL 7600 TRK FB PALFINGER CRANE	51710D	1HTWYAH7SAJ243647	FM-U-FS-C-PWR -TD -563300TTS	INS	1/1/2020	TRUCKFLATBD W/CRANE	IHC 7600	125,000.00

4,587,366.00



3628 South 35th Street
Tacoma, Washington 98409-3192

TACOMA PUBLIC UTILITIES

EXHIBIT "A"

RESOLUTION NO.:

ITEM NO.:

U-10930

2

May 24, 2017

DATE: May 9, 2017

TO: Board of Contracts and Awards

SUBJECT: Hydro Governor Replacement Project
Budgeted from 2017/2018 Tacoma Power Capital Budget
Request for Proposals PG14-0330F
Contract No. 4600010183

RECOMMENDATION: Tacoma Power requests approval to increase approved funding for SAP Contract No. 4600010183 to **L&S Electric, Schofield, WI**, by \$300,000.00, plus sales tax, for supply of thirteen (13) Digital Governor Control Systems (DGCS), including all labor, materials, and equipment required to design, manufacture, test, deliver, install, commission, and train staff at five (5) Tacoma Power hydropower plants. This increase will bring the approved funding for the contract to a cumulative total of \$1,856,747.00 plus sales tax.

EXPLANATION: The purpose of the project is to replace thirteen aging governors in order to reduce the likelihood of failures and lost generation revenue, and to increase our ability to meet regulatory reliability requirements. The requested increase is needed to cover the cost of additional site visits and scope changes identified during the four-year program implementation at the various hydropower plants. These changes include additional hydraulic component upgrades for four governors at LaGrande powerhouse, implementation of additional software features, and procurement of additional spare parts.

COMPETITIVE SOLICITATION: This contract was originally awarded to L&S Electric, as a result of Request for Proposals Specification No. PG14-0330F in October, 2014. The Contractor has agreed to extend the contract under the same terms and conditions as the original contract.

CONTRACT HISTORY: The contract was initially awarded to L&S Electric in the amount of \$1,415,223.98 per Utility Board Resolution No. U-10727, dated October 15, 2014. The awarded contract amount was \$141,523.02 less than the Board approved amount of \$1,556,747.00, plus sales tax.

The requested increase will bring the approved funding for the contract to a cumulative total of \$1,856,747.00 plus sales tax. The contract term of October 15, 2014 through December 31, 2019 will remain the same. This is the first amendment to the contract.

FUNDING: Funds for this increase are available in the 2017/2018 Capital Budget of Tacoma Power. Funding beyond the current biennium is subject to future availability of funds.

PROJECT ENGINEER/COORDINATOR: Ram Veeraraghavan, Generation, 253-441-4974.

APPROVED:



Chris Robinson
Power Superintendent/COO



William A. Gaines
Director of Utilities/CEO

RV:kh

cc: Kimberly Ward, Senior Buyer, Finance/Purchasing
SBE Coordinator
LEAP Coordinator



3628 South 35th Street
Tacoma, Washington 98409-3192

TACOMA PUBLIC UTILITIES

EXHIBIT "A"

RESOLUTION NO.: U-10930

ITEM NO.: #3

MEETING DATE: MAY 24, 2017

DATE: May 10, 2017
TO: Board of Contracts and Awards
SUBJECT: Control and Instrument Cable
Budgeted from Tacoma Power's Capital Outlay Budget
Request for Bids Specification No. PT17-0169F

RECOMMENDATION: Tacoma Power recommends a contract in the amount of \$416,810.00, plus sales tax, be awarded to the low bidder, **Anixter, Inc., Portland, OR**, for the purchase of control and instrument cable on an as needed basis. The recommendation is for an initial three-year contract term with the option for two one-year renewal periods. At this time no additional funding is requested for the optional renewal periods.

EXPLANATION: This contract will provide supply of control and instrument cable to be managed as an inventory material by the Power Warehouse. The cable is intended for installations within Tacoma Power's generating facilities and electrical substations to transfer signal to operating devices. The materials supplied are required to meet high standards for flame resistant abilities, low toxicity release and must be designed for installation in confined space environments.

COMPETITIVE SOLICITATION: Request for Bids Specification No. PT17-0169F was opened on May 2, 2017. Seven companies were invited to bid in addition to normal advertising of the project. Two responsive submittals were received. The table below reflects the amount of the initial contract term.

<u>Respondent</u>	<u>Location</u> <i>(city and state)</i>	<u>Submittal Amount</u>
Anixter, Inc.	Portland, OR	Plus sales tax \$ 416,810.00
General Pacific, Inc.	Fairview, OR	\$ 441,813.00

Pre-bid estimate \$ 430,000.00

The recommended award is 3 percent below the pre-bid estimate.

CONTRACT HISTORY: New contract.

FUNDING: Funds for this contract are available in the Tacoma Power capital outlay budget. Funding beyond the current biennium is subject to future availability of funds.

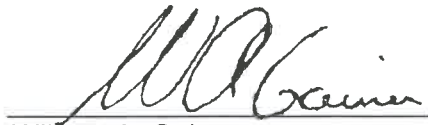
SBE/LEAP COMPLIANCE: Not applicable.

PROJECT ENGINEER/COORDINATOR: Roberta Cox, Transmission & Distribution, 253-396-3156; Mike Allen, P.E., Transmission & Distribution, 253-396-3126.



Chris Robinson
Power Superintendent/COO

Approved:



William A. Gaines
Director of Utilities/CEO

cc: Jessica Tonka, Senior Buyer



3628 South 35th Street
Tacoma, Washington 98409-3192

TACOMA PUBLIC UTILITIES

EXHIBIT "A"

RESOLUTION NO.: U-10930

ITEM NO.: #4

MEETING DATE: MAY 24, 2017

DATE: May 12, 2017
TO: Board of Contracts and Awards
SUBJECT: Utility Technology Project Management Temporary Staffing Services
Budgeted from Tacoma Power 2017-2018 Budget
Request for Proposals Specification No. PS17-0136F

RECOMMENDATION: Tacoma Power, Utility Technology Services (UTS) recommends a contract be awarded to **Morris and Willner Partners, Inc, Santa Ana, CA**, for temporary utility technology project management staffing services to assist with the implementation and replacement of technology solutions for mission-critical projects. The recommendation is for an initial three-year term, plus the option for two additional one-year renewal periods, for a cumulative total of \$1,900,000, plus applicable sales tax.

EXPLANATION: Professional project management services are important to help ensure UTS' projects are successfully completed within scope, on time, and on budget. These services help manage risks and resources, and ensure a quality work product that allows Tacoma Public Utilities (TPU) to put in place more innovative solutions that save money, enhance security, optimize efficiency, and ensure a high customer satisfaction. This contract provides a wide array of project staffing services to assist in the delivery to many of the 2017/2018 TPU portfolio projects, including:

- Energy Management System (EMS) upgrade
- Mobile Workforce Management upgrade
- Data Analytics implementation
- Outage Communications implementation
- ESRI GIS Data Replication
- Drawing Management Solution implementation
- Paybox replacement
- WAN Modernization
- Digital LAN Mobile Radio

This contract will provide TPU with additional options to address current and future contract staffing needs to support and implement technology based projects.

COMPETITIVE SOLICITATION: Request for Proposals Specification No. PS17-0136F was opened April 18, 2017. Four companies were invited to bid in addition to normal advertising of the project. Thirteen submittals were received. UTS evaluated, ranked, and selected three staffing agencies for award (Morris and Willner Partners, Inc., KRE Consulting and RadGov, Inc.). The RFP requested 11 unique staffing services with eight project roles. Responses were evaluated and scored, with scoring focused on vendor experience, candidate quality, and hourly rates. A contract will also be awarded to KRE Consulting from this solicitation.

<u>Respondent</u>	<u>Location (city and state)</u>	<u>Score</u>
Morris and Willner Partners, Inc.	Santa Ana, CA	76.3
KRE Consulting	Pasadena, CA	73.1
RADGov, Inc.	Fort Lauderdale, FL	68.6
3Core Systems, Inc.	Austin, TX	63.5
Avertra Corp	Herndon, VA	59.9
22nd Century Staffing, Inc.	Olympia, WA	55.3

Sage Group Consulting, Inc.	Hazlet, NJ	55.2
Informatics Applications Group, Inc.	Reston, VA	54.6
Abacus Service Corporation	Farmington, MI	54.4
InfoJini, Inc	Columbia, MD	53.5
Eident Consulting Group	Gig Harbor, WA	44.7
PartnerSolve, LLC	Ashland, MA	40.7
APEMS Solutions LLC	Maple Valley, WA	23.5

CONTRACT HISTORY: New contract.

FUNDING: Funds for this contract are available in the Tacoma Power 2017-2018 Budget. Funding beyond the current biennium is subject to future availability of funds.

SBE/LEAP COMPLIANCE: Not applicable.

PROJECT ENGINEER/COORDINATOR: Tony Landrith, Client Delivery Services Manager, UTS, 253-502-8725.



Chris Robinson
Power Superintendent/COO

Approved:



William A. Gaines
Director of Utilities/CEO

cc: Richelle Krienke, Senior Buyer, Finance/Purchasing
SBE Coordinator
LEAP Coordinator

Suggested Rating Guidelines - Excellent: 9-10 Score; Good: 7-8 Score; Fair: 5-6 Score; Poor: 3-4 Score; Very Poor: 1-2 Score

Name of Company	A. Qualifications/ Experience of Firm & Key Personnel		B. Appropriateness/ Methods Used to Provide Temporary Services		C. Hourly Rates		D. SBE / MBE		E. Submittal Quality, Organization, Completeness		Weighted Score				Average Rank - Evaluator
	Score (0-10)	Weighted Score (45%)	Score (0-10)	Weighted Score (20%)	Score (0-10)	Weighted Score (25%)	Score (0-10)	Weighted Score (5%)	Score (0-10)	Weighted Score (5%)	Average Score	101 Rank	102 Rank	103 Rank	
Sage Group Consulting, Inc	5.8	26.3	5.7	11.3	5.7	14.2	-	-	6.8	3.4	55.2	7.0	8.0	9.0	7
APEMS Solutions LLC	1.7	7.5	2.0	4.0	4.0	10.0	-	-	4.0	2.0	23.5	13.0	13.0	13.0	13
Avertra Corp.	7.0	31.5	6.3	12.7	5.0	12.5	-	-	6.5	3.3	59.9	8.0	4.0	7.0	5
MW Partners, Inc	9.0	40.5	8.5	17.0	5.8	14.6	-	-	8.3	4.2	76.3	1.0	1.0	1.0	1
RadGov, Inc	7.5	33.8	7.0	14.0	6.7	16.7	-	-	6.3	4.2	68.6	6.0	2.0	4.0	3
3Core Systems, Inc	6.5	29.3	7.3	14.7	6.3	15.8	1.7	0.8	7.5	3.8	63.5	4.0	5.0	3.0	4
KRE Consulting	9.0	40.5	7.7	15.3	5.3	13.3	-	-	7.6	3.9	73.1	2.0	3.0	2.0	2
The Informatics Applications Group, Inc	6.5	29.3	6.2	12.3	3.7	9.2	2.5	1.3	7.7	3.8	54.6	10.0	6.0	6.0	8
Eident Consulting	4.7	21.0	4.7	9.3	4.3	10.8	5.8	2.9	7.0	3.5	44.7	11.0	10.0	8.0	11
22nd Century Staffing	6.7	30.0	5.3	10.7	4.8	12.1	1.7	0.8	5.0	2.5	55.3	3.0	11.0	5.0	6
PartnerSolve LLC	4.7	21.0	5.0	10.0	3.3	8.3	-	-	2.7	1.3	40.7	12.0	9.0	12.0	12
Abacus Service Corp	5.7	25.5	6.7	13.3	4.8	12.1	-	-	7.0	3.5	54.4	9.0	7.0	9.0	9
Infolini, Inc	5.0	22.5	6.7	13.3	5.7	14.2	-	-	7.0	3.5	53.5	5.0	12.0	9.0	10

Category 6: Networking and Common Infrastructure

Name of Company	PC			PM			PL		
	Cost Score	Total Score	Rank	Cost Score	Total Score	Rank	Cost Score	Total Score	Rank
Sage Group Consulting, Inc	30.0	106.3	1	28.6	104.8	1	29.1	105.3	1
APEMS Solutions LLC	30.0	98.6	2	30.0	98.6	2	30.0	98.6	2
Avertra Corp.	30.0	93.5	3	30.0	93.5	3	30.0	93.5	3
MW Partners, Inc	25.6	80.2	6	22.0	76.6	7	18.3	72.9	8
RadGov, Inc	30.0	74.7	8	29.9	74.6	8	30.0	74.7	7
3Core Systems, Inc	30.0	85.3	4	30.0	85.3	4	29.2	84.4	4
KRE Consulting	30.0	84.4	5	30.0	84.4	5	30.0	84.4	5
The Informatics Applications Group, Inc	23.7	77.2	7	29.9	83.4	6	23.9	77.4	6



3628 South 35th Street
Tacoma, Washington 98409-3192

TACOMA PUBLIC UTILITIES

EXHIBIT "A"

RESOLUTION NO.: U-10930

ITEM NO.: 5

MEETING DATE: MAY 24, 2017

DATE: May 12, 2017
TO: Board of Contracts and Awards
SUBJECT: Utility Technology Project Management Temporary Staffing Services
Budgeted from Tacoma Power 2017-2018 Budget
Request for Proposals Specification No. PS14-0295F

RECOMMENDATION: Tacoma Power, Utility Technology Services (UTS) recommends a contract be awarded to **RADgov, Inc., Fort Lauderdale, FL**, for temporary utility technology project management staffing services to assist with the implementation and replacement of technology solutions for mission-critical projects. The recommendation is for an initial three-year term, plus the option for two additional one-year renewal periods, for a cumulative total of \$240,000, plus applicable sales tax.

EXPLANATION: Professional project management services are important to help ensure UTS' projects are successfully completed within scope, on time, and on budget. These services help manage risks and resources, and ensure a quality work product that allows Tacoma Public Utilities (TPU) to put in place more innovative solutions that save money, enhance security, optimize efficiency, and ensure a high customer satisfaction. Project management services are needed to manage and deliver several key 2017/2018 TPU portfolio projects, including:

- IVR system upgrades and enhancements
- Verint system upgrades
- Voice system upgrades

This contract will provide TPU with additional options to address current and future contract staffing needs to support and implement technology based projects.

COMPETITIVE SOLICITATION: Request for Proposals Specification No. PS14-0295F was opened June 17, 2014. Twenty-six companies were invited to bid in addition to normal advertising of the project. Twenty submittals were received. UTS evaluated, ranked, and selected the staffing agencies and formulated a qualified vendor list to assist UTS on an as-needed basis. As part of the competitive process, through March-April 2017, UTS Project Management Office engaged with nine staffing agencies to request temporary staffing candidate resumes in the Category 6: Networking and Communication Infrastructure. Over 40 resumes were received, which were then reviewed and narrowed down to the top candidates. Formal interviews were conducted and from this process, Ivan Solkey, represented by RadGov Inc., was selected. Mr. Solkey has over 20 years of project management experience that almost exclusively has been within the telephony and IVR technology domains, which will assist in accomplishing TPU's objectives. He has led successful projects at the City of Seattle, CISCO, T-Mobile, and Boeing. Mr. Solkey is also a certified Project Management professional.

<u>Respondent</u>	<u>Location (city and state)</u>	<u>Score</u>
Apex Systems	Bellevue, WA	90.3
RADgov, Inc.	Ft. Lauderdale, FL	85.3
ConsultUSA, Inc.	Pittsburgh, PA	84.7
R Systems, Inc.	El Dorado Hills, CA	82.7
22 nd Century Staffing Inc.	Olympia, WA	73.3
Spruce Technology, Inc.	Clifton, NJ	72.5

Global Quest Solutions, Inc.	Williamsville, NY	71.0
Pro Innovation, Inc.	Tumwater, WA	70.2
DC&M Partners, LLC	Chandler, AZ	69.4
Revolution Technologies	Melbourne, FL	69.3
Infojini, Inc.	Columbia, MD	64.7
Sure Power Consulting, LLC	Alpharetta, GA	62.1
Exclusive Network Enterprises	Greenville, TX	57.0
TripleNet Technologies, Inc.	Seattle, WA	55.8
SmartPath, LLC	Bellevue, WA	54.5
Crescens, Inc.	Piscataway, NJ	52.8
Margasoft Corp. DBA OneStepHire	Burbank, CA	52.7
CMC Americas, Inc.	Baton Rouge, LA	50.5
CNC Consulting, Inc.	Englewood, NJ	42.9
VNuIT, LLC	Concord, CA	41.4
Pivot Point Technologies	Bellevue, WA	N/A, Did not submit for this category
Sage Group Consulting, Inc.	Hazlet, NJ	N/A, Did not submit for this category
The Stergion Group, Inc.	Rancho Palos Verdes, CA	N/A, Did not submit for this category
System Soft Technologies, Inc.	Tampa, FL	N/A, Did not submit for this category
ACI Infotech, Inc.	Somerset, NJ	N/A, Did not submit for this category
Mobile Integration Workgroup	Bellevue, WA	N/A, Did not submit for this category

CONTRACT HISTORY: New contract.

FUNDING: Funds for this contract are available in the Tacoma Power 2017-2018 Budget. Funding beyond the current biennium is subject to future availability of funds.

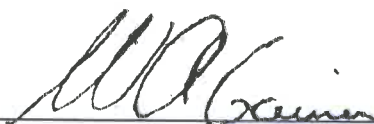
SBE/LEAP COMPLIANCE: Not applicable.

PROJECT ENGINEER/COORDINATOR: Tony Landrith, Client Delivery Services Manager, UTS, 253-502-8725.



Chris Robinson
Power Superintendent/COO

Approved:



William A. Gaines
Director of Utilities/CEO

cc: Richelle Krienke, Senior Buyer, Finance/Purchasing
SBE Coordinator
LEAP Coordinator

Suggested Rating Guidelines - *Excellent*: 9-10 Score; *Good*: 7-8 Score; *Fair*: 5-6

		Weighted Score Out of 100	
Name of Company	Category 6: Networking and Commun Infrastructure		
	Sr. PM		
	Cost Score	Total Score	Rank
<i>Apex Systems</i>	30.0	90.3	1
<i>RADgov Inc</i>	30.0	85.3	2
<i>ConsultUSA Inc/PM Centers</i>	30.0	84.7	3
<i>DC&M Partners LLC</i>	30.0	79.7	5
<i>22nd Century Staffing Inc</i>	24.8	73.3	9
<i>Global Quest Solutions Inc</i>	30.0	71.0	11
<i>Spruce Technology Inc</i>	30.0	72.5	10
<i>Revolution Technologies</i>	30.0	74.5	8
<i>Infojini Inc</i>	19.8	54.6	16
<i>Sure Power Consulting</i>	24.8	78.5	6
<i>Pro Innovation Inc</i>	29.8	70.0	12
<i>Exclusive Network Enterprises</i>	8.4	35.4	20
<i>TripleNet Technologies Inc</i>	30.0	55.8	14
<i>ACI Infotech Inc</i>	30.0	55.3	15
<i>Pivot Point Technologies</i>	30.0	77.3	7
<i>R Systems Inc</i>	30.0	82.7	4

Name of Company	Category 6: Networking and Commun Infrastructure		
	Sr. PM		
	Cost Score	Total Score	Rank
<i>OneStepHire</i>	30.0	52.7	18
<i>Crescens Inc</i>	30.0	52.8	17
<i>CNC Consulting Inc</i>			24
<i>VNUIT LLC/Paramjyoti Kakileti</i>	20.7	39.9	19
<i>Sage Group Consulting Inc</i>	22.3	61.3	13
<i>The Stergion Group Inc</i>			21
<i>SmartPath LLC</i>			23
<i>System Soft Technologies</i>			22
<i>CMC America Inc</i>			25
<i>Mobile Integration Workgroup</i>			26



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TACOMA PUBLIC UTILITIES

EXHIBIT "A"

RESOLUTION NO.: U--10930

ITEM NO.: #6

MEETING DATE: MAY 24, 2017

DATE: May 12, 2017

TO: Board of Contracts and Awards

SUBJECT: Utility Technology Project Management Temporary Staffing Services
Budgeted from Tacoma Power 2017-2018 Budget
Request for Proposals Specification No. PS17-0136F

RECOMMENDATION: Tacoma Power, Utility Technology Services (UTS) recommends a contract be awarded to **KRE Consulting, LLC, Pasadena, CA**, for temporary utility technology project management staffing services to assist with the implementation and replacement of technology solutions for mission-critical projects. The recommendation is for an initial three-year term, plus the option for two additional one-year renewal periods, for a cumulative total of \$1,100,000, plus applicable sales tax.

EXPLANATION: Professional project management services are important to help ensure UTS' projects are successfully completed within scope, on time, and on budget. These services help manage risks and resources, and ensure a quality work product that allows Tacoma Public Utilities (TPU) to put in place more innovative solutions that save money, enhance security, optimize efficiency, and ensure a high customer satisfaction. This contract provides a wide array of project staffing services to assist in the delivery to many of the 2017/2018-TPU portfolio projects, including:

- Energy Management System (EMS) upgrade
- Mobile Workforce Management upgrade
- Data Analytics implementation
- Outage Communications implementation
- ESRI GIS Data Replication
- Drawing Management Solution implementation
- Pay box replacement
- WAN Modernization
- Digital LAN Mobile Radio

This contract will provide TPU with additional options to address current and future contract staffing needs to support and implement technology based projects.

COMPETITIVE SOLICITATION: Request for Proposals Specification No. PS17-0136F was opened April 18, 2017. Four companies were invited to bid in addition to normal advertising of the project. Thirteen submittals were received. UTS evaluated, ranked, and selected three staffing agencies for award (Morris and Willner Partners, Inc., KRE Consulting and RadGov, Inc.). The RFP requested 11 unique staffing services with eight project roles. Responses were evaluated and scored, with scoring focused on vendor experience, candidate quality, and hourly rates. A contract will also be awarded to Morris and Willner Partners, Inc. from this solicitation.

<u>Respondent</u>	<u>Location (city and state)</u>	<u>Score</u>
Morris and Willner Partners, Inc.	Santa Ana, CA	76.3
KRE Consulting	Pasadena, CA	73.1
RADGov, Inc.	Fort Lauderdale, FL	68.6
3Core Systems, Inc.	Austin, TX	63.5
Avertra Corp	Herndon, VA	59.9
22nd Century Staffing, Inc.	Olympia, WA	55.3

Sage Group Consulting, Inc.	Hazlet, NJ	55.2
Informatics Applications Group, Inc.	Reston, VA	54.6
Abacus Service Corporation	Farmington, MI	54.4
InfoJini, Inc	Columbia, MD	53.5
Eident Consulting Group	Gig Harbor, WA	44.7
PartnerSolve, LLC	Ashland, MA	40.7
APEMS Solutions LLC	Maple Valley, WA	23.5

CONTRACT HISTORY: New contract.

FUNDING: Funds for this contract are available in the Tacoma Power 2017-2018 Budget. Funding beyond the current biennium is subject to future availability of funds.

SBE/LEAP COMPLIANCE: Not applicable.

PROJECT ENGINEER/COORDINATOR: Tony Landrith, Client Delivery Services Manager, UTS, 253-502-8725.



Chris Robinson
Power Superintendent/COO

Approved:



William A. Gaines
Director of Utilities/CEO

cc: Richelle Krienke, Senior Buyer, Finance/Purchasing
SBE Coordinator
LEAP Coordinator

Suggested Rating Guidelines - Excellent: 9-10 Score; Good: 7-8 Score; Fair: 5-6 Score; Poor: 3-4 Score; Very Poor: 1-2 Score

Name of Company	A. Qualifications/ Experience of Firm & Key Personnel		B. Appropriateness/ Methods Used to Provide Temporary Services		C. Hourly Rates		D. SRE / MDR		E. Submittal Quality, Organization, Completeness		Weighted Score					Average Rank - Evaluator
	Score (0-10)	Weighted Score (45%)	Score (0-10)	Weighted Score (20%)	Score (0-10)	Weighted Score (25%)	Score (0-10)	Weighted Score (5%)	Score (0-10)	Weighted Score (5%)	Average Score	101 Rank	102 Rank	103 Rank		
Sage Group Consulting, Inc	5.8	26.3	5.7	11.3	5.7	14.2	-	-	6.8	3.4	55.2	7.0	8.0	9.0	7	
APEMS Solutions LLC	1.7	7.5	2.0	4.0	4.0	10.0	-	-	4.0	2.0	23.5	13.0	13.0	13.0	13	
Avertra Corp.	7.0	31.5	6.3	12.7	5.0	12.5	-	-	6.5	3.3	59.9	8.0	4.0	7.0	5	
MW Partners, Inc	9.0	40.5	8.5	17.0	5.8	14.6	-	-	8.3	4.2	76.3	1.0	1.0	1.0	1	
RadGov, Inc	7.5	33.8	7.0	14.0	6.7	16.7	-	-	8.3	4.2	68.6	6.0	2.0	4.0	3	
3Core Systems, Inc	6.5	29.3	7.3	14.7	6.3	15.8	1.7	0.8	7.5	3.8	63.5	4.0	5.0	3.0	4	
KRE Consulting	9.0	40.5	7.7	15.3	5.3	13.3	-	-	7.8	3.9	73.1	2.0	3.0	2.0	2	
The Informatics Applications Group, Inc	6.5	29.3	6.2	12.3	3.7	9.2	2.5	1.3	7.7	3.8	54.6	10.0	6.0	6.0	8	
Eidert Consulting	4.7	21.0	4.7	9.3	4.3	10.8	5.8	2.9	7.0	3.5	44.7	11.0	10.0	8.0	11	
22nd Century Staffing	6.7	30.0	5.3	10.7	4.8	12.1	1.7	0.8	5.0	2.5	55.3	3.0	11.0	5.0	6	
PartnerSolve LLC	4.7	21.0	5.0	10.0	3.3	8.3	-	-	2.7	1.3	40.7	12.0	9.0	12.0	12	
Abacus Service Corp	5.7	25.5	6.7	13.3	4.8	12.1	-	-	7.0	3.5	54.4	9.0	7.0	9.0	9	
Infalini, Inc	5.0	22.5	6.7	13.3	5.7	14.2	-	-	7.0	3.5	53.5	5.0	12.0	9.0	10	

Category 6: Networking and Commun Infrastructure											
PC			PM			PL					
Cost Score	Total Score	Rank	Cost Score	Total Score	Rank	Cost Score	Total Score	Rank	Cost Score	Total Score	Rank
30.0	106.3	1	28.6	104.8	1	29.1	105.3	1			
30.0	98.6	2	30.0	98.6	2	30.0	98.6	2			
30.0	93.5	3	30.0	93.5	3	30.0	93.5	3			
25.6	80.2	6	22.0	76.6	7	18.3	72.9	8			
30.0	74.7	8	29.9	74.6	8	30.0	74.7	7			
30.0	85.3	4	30.0	85.3	4	29.2	84.4	4			
30.0	84.4	5	30.0	84.4	5	30.0	84.4	5			
23.7	77.2	7	25.9	83.4	6	23.9	77.4	6			



2601 SR 509 North Frontage Road
Tacoma, Washington 98421

TACOMA PUBLIC UTILITIES

EXHIBIT "A"

RESOLUTION NO.: U-10930

ITEM NO.: #7

MEETING DATE: MAY 24, 2017

DATE: May 8, 2017

TO: Board of Contracts and Awards

SUBJECT: Increase Contract for Proprietary Data Exchange Software Associated with Positive Train Control
Budgeted from Tacoma Rail Fund 4500
Waiver of Competitive Solicitation – Not Practicable to Bid
Contract No. 4600011292

RECOMMENDATION: Tacoma Rail requests approval to increase Contract 4600011292 to Meteorcomm, LLC, Renton, WA, by \$41,985, plus sales tax, for ongoing utilization of proprietary data exchange software necessary for Positive Train Control (PTC) operations. This increase will bring the contract to a cumulative total of \$236,985, plus sales tax.

EXPLANATION: Positive Train Control (PTC) is a complex set of technologies, software, and equipment designed to prevent train-to-train collisions in addition to other potentially dangerous train handling errors. The federal PTC regulation arose out of the 2008 Rail Safety Improvement Act, and is found in the federal register under 49 CFR Part 236 subpart i, which requires in part that the PTC technologies deployed across various segments of the national railroad transportation network meet functional interoperability performance standards.

This proprietary data messaging software, developed by Meteorcomm, is the common platform by which data is continuously transferred between onboard locomotive train management computers, track side radio/cellular communication towers, and PTC back-office servers used to process and reconcile the data.

Tacoma Rail has an obligation to comply with the federal PTC regulation due to our ongoing operations over Sound Transit owned tracks that are utilized in regularly scheduled passenger service. Tacoma Rail will be required to maintain the Meteorcomm software end user license agreement so long as our freight operations occur on PTC equipped segments of railroad track.

COMPETITIVE SOLICITATION: This contract was originally awarded to Meteorcomm, LLC following authorization of a Not Practicable to Bid waiver of competitive solicitation request in December 2015.

CONTRACT HISTORY: The end user license agreement between Tacoma Rail and Meteorcomm, LLC, in the amount of \$195,000, was executed in December 2015. This increase will bring the contract to a cumulative total of \$236,985, plus sales tax, to cover the ongoing, associated data exchange software fees through 2022. The need for software service renewals beyond December 2022 will be determined by federal regulatory requirements. This is the first amendment to the contract.

FUNDING: Funds for this are available in the Tacoma Rail Fund 4500. Funding beyond the current biennium is subject to future availability of funds.

PROJECT ENGINEER/COORDINATOR: Alan Matheson, Tacoma Rail, (253) 502-8934.



Dale W. King
Rail Superintendent/COO

APPROVED:


William A. Gaines
Director of Utilities/CEO

cc: Richelle Krienke, Senior Buyer, Finance/Purchasing
SBE Coordinator
LEAP Coordinator



2601 SR 509 North Frontage Road
Tacoma, Washington 98421

TACOMA PUBLIC UTILITIES

EXHIBIT "A"

RESOLUTION NO.: U-10930

ITEM NO.: #8

MEETING DATE: MAY 24, 2017

DATE: May 8, 2017

TO: Board of Contracts and Awards

SUBJECT: Waiver of Competitive Solicitation Request – Not Practicable to Bid Herzog Technologies Inc., Hosted PTC Back Office Server Access Budgeted from Tacoma Rail Fund 4500

RECOMMENDATION: Tacoma Rail requests a waiver of competitive procurement procedures and recommends that a contract be awarded to **Herzog Technologies, Inc., St. Joseph, MO,** for **Hosted Access to the BNSF Railway Co. Positive Train Control Back Office Server system,** in the amount of \$997,500, plus sales tax.

BACKGROUND: Positive Train Control (PTC) is a complex set of technologies, software, and equipment designed to prevent train-to-train collisions in addition to other potentially dangerous train handling errors. The federal PTC regulation arose out of the 2008 Rail Safety Improvement Act, and is found in the federal register under 49 CFR Part 236 subpart i, which requires in part that the PTC technologies deployed across various segments of the national railroad transportation network meet functional interoperability performance standards.

Tacoma Rail has an obligation to comply with this regulation due to our ongoing operations over Sound Transit owned tracks that are utilized in regularly scheduled passenger service. As a component of the Joint Track Use Agreement with Tacoma Rail, Sound Transit agreed to install onboard PTC equipment to four Tacoma Rail owned locomotives that mirrors the onboard PTC equipment installed on their commuter rail locomotives.

Various services provided through the Herzog PTC Hosting Master Agreement include: 24/7 Interoperable Train Control Messaging (ITCM) data exchange with the BNSF dispatch center and the federated PTC network, train crew and consist initializations, onboard software updates, data 'security keys,' real time system monitoring, customer specific data logs, and staff support. Other corporate resources include an independent test lab for software updates and functionality validation prior to deployment, geographically diverse data centers for seamless fail-over redundancy, technical level interface with BNSF PTC systems staff, and longer term data management.

PTC is viewed as an evolutionary step in the railroad industry, and Tacoma Rail anticipates the need for a hosted BOS provider for the foreseeable future. The amount above is the estimated expense for a five-year period. Re-evaluation of this provided service is planned toward the expiration of the initial term.

JUSTIFICATION FOR WAIVER: Waiver of competitive bidding requested due to being not practicable to bid because of special market conditions. Given the limited number of vendors acceptable to BNSF that were able to demonstrate functionality and the fact that Tacoma Rail must rely on BNSF's approval that the services proposed by the vendors are compatible with the BNSF's PTC system, it is not practical to engage in the typical contractor selection process.

CONTRACT HISTORY: New contract.


FUNDING: Funds for this are available in the Tacoma Rail Fund 4500.

SBE/LEAP COMPLIANCE: Not applicable.

PROJECT ENGINEER/COORDINATOR: Alan Matheson, Tacoma Rail, (253) 502-8934.


Dale W. King, Superintendent/COO
Tacoma Rail

APPROVED:


William A. Gaines
Director of Utilities/CEO

cc: Richelle Krienke, Senior Buyer, Finance/Purchasing



2601 SR 509 North Frontage Road
Tacoma, Washington 98421

TACOMA PUBLIC UTILITIES

Date: May 8, 2017

To: Patsy Best, Procurement and Payables Division Manager

From: Alan Matheson, Assistant Superintendent *Alan Matheson*
Tacoma Rail

Subject: Waiver of Competitive Solicitation Request – Not Practicable to Bid
Hosted Access to the BNSF Railway Co. Positive Train Control (PTC) Back Office Servers

For your review and recommendation.

RECOMMENDATION: In accordance with TMC 1.06.257.B. (Not Practicable), Tacoma Rail requests a waiver of the competitive solicitation process and recommends award of a contract to **Herzog Technologies, Inc., St Joseph, MO**, in the amount of \$997,500, plus sales tax, for a Master Agreement covering server configuration, radio/modem configuration(s), and Hosted Access to the BNSF Railway Company's PTC Back Office Server (BOS) system to include initial training for train crews and ongoing technical support.

BACKGROUND: Positive Train Control (PTC) is a complex set of technologies, software, and equipment designed to prevent train-to-train collisions in addition to other potentially dangerous train handling errors. The federal PTC regulation arose out of the 2008 Rail Safety Improvement Act, and is found in the federal register under 49 CFR Part 236 subpart i, which requires in part that the PTC technologies deployed across various segments of the national railroad transportation network meet functional interoperability performance standards.

Tacoma Rail has an obligation to comply with this regulation due to our ongoing operations over Sound Transit owned tracks that are utilized in regularly scheduled passenger service. As a component of the Joint Track Use Agreement with Tacoma Rail, Sound Transit agreed to install onboard PTC equipment to four Tacoma Rail owned locomotives that mirrors the onboard PTC equipment installed on their commuter rail locomotives.

Various services provided through the Herzog PTC Hosting Master Agreement include: 24/7 Interoperable Train Control Messaging (ITCM) data exchange with the BNSF dispatch center and the federated PTC network, train crew and consist initializations, onboard software updates, data 'security keys', real time system monitoring, customer specific data logs, and staff support. Other corporate resources include an independent test lab for validation of software updates and functionality prior to deployment, geographically diverse data centers for seamless fail-over redundancy, technical level interface with BNSF PTC systems staff, and longer term data interpretation and management.

PTC is viewed as an evolutionary step in the railroad industry, and Tacoma Rail anticipates the need for a hosted PTC BOS access provider for the foreseeable future.

The amount above is the anticipated expense for a five-year period; an initial three year term with two 1-year extensions. A re-evaluation of available service providers is planned near the expiration of the initial three year term of this contract.

JUSTIFICATION FOR WAIVER: Through a series of conversations with BNSF and Sound Transit, Tacoma Rail identified three potential hosted PTC-BOS access providers currently found to be acceptable to the Class I railroads collaborating to develop and deploy PTC (BNSF, CSX, NS and Union Pacific). Every potential PTC vendor has required Tacoma Rail to enter into a Non-Disclosure Agreement prior to engaging in a dialog or providing any information about their ability to provide solutions to the various aspects required to operate within the federated PTC system.

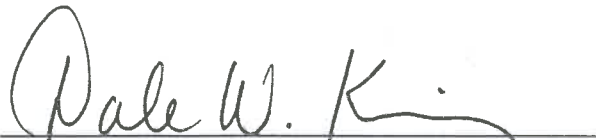
Tacoma Rail was present as an observer in October of 2016 when the American Shortline Railroad Association (ASLRRA) invited the three potential Hosted BOS Access service providers to demonstrate their ability to initialize and obtain authority to operate within the BNSF PTC system. During the demonstrations (one full day assigned to each vendor), only two of the three entities were able to demonstrate functionality with the PTC system. Of the two entities able to demonstrate functionality, the aggregate cost for Herzog was approximately 41 percent lower for the Hosted Access service.

Waiver of competitive bidding requested due to being not practicable to bid because of special market conditions. Given the limited number of vendors acceptable to BNSF that were able to demonstrate the required functionality with the PTC system, and the fact that Tacoma Rail must rely on BNSF's approval that the services proposed by the vendors are compatible with the BNSF's PTC system, it is not practical to engage in the typical contractor selection process.


FUNDING: Funds for this purchase are available in the Rail Fund 4500.

PROJECT COORDINATOR: Alan Matheson, Tacoma Rail, (253) 502-8934.

CONCUR AS TO IMPRACTICABLE TO BID:




Dale W. King, Superintendent/COO
Tacoma Rail



Date



William A. Gaines, Director of Utilities/CEO



Date

cc: Richelle Krienke, Senior Buyer, Finance/Purchasing



RESOLUTION NO. U-10931

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A RESOLUTION authorizing execution of a utility installation agreement between Tacoma Power and Prologis, L.P. ("Prologis").

WHEREAS Prologis is constructing three warehouse/commercial buildings as part of a development project named Prologis Park Tacoma, located within the Port of Tacoma's Parcel 14, south of SR 509 and east of Alexander Avenue E., within the City of Tacoma, Department of Public Utilities, Light Division (dba "Tacoma Power") service territory, which will require electrical power, the relocation of transmission and distribution poles and lines, conversion of select distribution lines to underground, and the installation of an underground distribution infrastructure, and

WHEREAS this project will be 100% customer-funded in advance with an estimated cost of \$786,093; Now, Therefore;

BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

That Tacoma Power's request to execute a utility installation agreement with Prologis to provide a new electrical service, as described in the backup materials on file with the Clerk of the Board, in the amount of \$786,093, funded by Prologis in advance of construction, is hereby approved, and that the proper officers of the City are authorized to execute said

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agreement substantially in the form as on file with the Clerk and as approved
by the City Attorney.

Approved as to form and legality:

William Fesler

Chief Deputy City Attorney

Chair

Secretary

Clerk

Adopted _____

of May 24, 2017

REQUEST FOR RESOLUTION

Date May 4, 2017

INSTRUCTIONS: File request in the Office of the Director of Utilities as soon as possible but not later than nine working days prior to the Board meeting at which it is to be introduced. Completion instructions are contained in Administrative Policy POL-104.

1. Summary title for Utility Board agenda: (not to exceed twenty-five words)

Tacoma Power requests approval to execute a Utility Installation Agreement between Tacoma Power and Prologis, L.P.

2. A resolution is requested to: (brief description of action to be taken, by whom, where, cost, etc.)

Authorize Tacoma Power to execute a Utility Installation Agreement between Tacoma Power and Prologis, L.P., for Tacoma Power to provide electrical service to three new buildings within the Port of Tacoma's Parcel 14, located south of SR 509 and east of Alexander Avenue E., for an estimated total amount of \$786,093.

3. Summarized reason for resolution:

Prologis, L.P. is constructing three warehouse/commercial buildings as part of a development project named Prologis Park Tacoma located within the Port of Tacoma's Parcel 14. Parcel 14 is located south of SR 509 and east of Alexander Avenue E., within the City of Tacoma.

Tacoma Power will relocate transmission and distribution poles and lines, convert selected distribution lines to underground and install underground distribution infrastructure to serve the three new buildings within the Port of Tacoma's Parcel 14. Prologis, L.P., will pay all actual costs incurred by Tacoma Power including prepayment of such costs in the estimated amount of \$786,093. The parties will reconcile all costs and payments at the end of the project in accordance with the agreement.

This project is 100% customer funded, with estimated costs paid in advance of construction.

4. Attachments:

- a. Memo from Chris Robinson to William A. Gaines dated May 4, 2017.
- b. Contract between Tacoma Power and Prologis L.P.

5. Funds available Proposed action has no budgetary impact

This project will have no financial impact to the City considering it is 100% customer funded.

6. Deviations requiring special waivers: None

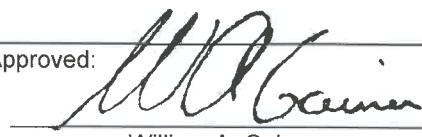
Originated by:


Dolores Stegeman
Transmission & Distribution Manager

Requested by:


Chris Robinson,
Power Superintendent/COO

Approved:


William A. Gaines
Director of Utilities/CEO



DATE: May 4, 2017
TO: William A. Gaines, Director of Utilities/CEO
FROM: Chris Robinson, Power Superintendent/COO *CR*
SUBJECT: Utility Installation Agreement between Tacoma Power and Prologis, L.P.

RECOMMENDATION: Tacoma Power recommends that the Public Utility Board approve a contract with Prologis, L.P. for an estimated total amount of \$786,093.

EXPLANATION: Prologis, L.P. is constructing three warehouse/commercial buildings as part of a development project named Prologis Park Tacoma located within the Port of Tacoma's Parcel 14. Parcel 14 is located south of SR 509 and east of Alexander Avenue E., within the City of Tacoma.

In order to develop the property, three specific areas of work are required:

- Extending 13.8kV underground distribution plant from existing overhead lines within Parcel 14 to serve three new buildings of the development project.
 - Building B has been leased to United Parcel Service with planned full utilization on September 1, 2017.
- Converting to underground 12.5kV lines along 12th Street E. as part of roadway improvements required by the City of Fife for access to the development.
 - A boundary adjustment between the City of Fife and City of Tacoma involving the Right-of-Way of 12th Street E. is being pursued by the City of Fife.
- Relocating 115kV, 13.8kV, and 12.5kV overhead poles and lines affected by the 8th Street E. and 54th Ave intersection improvements required by the City of Fife for access to the development.

New easements will be established as detailed within the agreement. Prologis, L.P. will prepay the full estimated cost with a true-up at the end of the project. All construction included within the quoted estimate of the agreement, refer to Exhibits B & C of the agreement, is anticipated to be completed by T&D personnel. Construction in support of T&D work detailed within Exhibit A of the agreement, such as the purchase and installation of approved conduit and pre-cast concrete vaults, is to be performed by Prologis, L.P. and/or its contractor at their cost per the agreement.

cc: Chad Edinger, Dolores Stegeman, Joe Wilson

Dolores,

The attached agreement is to address the work to be performed by Tacoma Power T&D on behalf of the development of the Port of Tacoma Parcel 14 Site, now to be known as Prologis Park Tacoma.



There are three distinct segments of work that will require Tacoma Power work:

1. Extension of 13.8kV – NE #1 - to serve 3 new buildings on the Prologis Park Tacoma site. Conduit and vaults will be installed to allow for a 13.8kV loop between NE #1 and NE #4 at a future date, pending Port of Tacoma Wetland Mitigation Project.

Building	Size – Sq Ft.	Status	Energization Date
A	223,400	In construction – Not Leased	Estimated July 1, 2017
B	766,400	In construction – Leased to UPS	June 1, 2017
D	366,220	Not in construction - Not Leased	TBD

2. 12th Street Conversion of the existing overhead lines to underground. The City of Fife is requiring the existing roadway to be improved/widened to accommodate the development. As part of the project the City of Fife required the conversion of the existing 12.5kV overhead lines.

3. 8th St and 54th Ave intersection improvements. The City of Fife required the widening of the intersection to accommodate truck traffic accessing the Prologis Park Tacoma site. This has required the relocation of poles supporting 12.5kV lines along 54th Ave, and 115 kV and 13.8 kV lines along 8th St. In addition a City of Fife pump station will be relocated and a new service for the station is included.

The Project team that has worked on this project to date have been:

Project Manager	Joe Rempe
Project Engineer	Dan Reed
Line Engineer	Margie Villanueva
City Attorney	Ward Groves
New Service Supervisor	Rachel Allen

Attached: Tacoma Power Project Drawings

UTILITY INSTALLATION AGREEMENT (Customer Funded)
~PROLOGIS PARK TACOMA Project~

This **UTILITY INSTALLATION AGREEMENT** ("Agreement") with an effective date as of May __1st __, 2017 ("Effective Date") is made by and between **PROLOGIS, L.P.**, a limited partnership organized under the laws of the State of Delaware and doing business in Washington State (hereinafter referred to as "CUSTOMER"), and the **CITY OF TACOMA, Department of Public Utilities, Light Division**, a municipal corporation of the State of Washington (hereinafter referred to as "Tacoma Power" "TPWR" and/or "City"). CUSTOMER and Tacoma Power each may be referred to as a "Party," or collectively as the "Parties".

RECITALS:

WHEREAS, CUSTOMER has a long term lease to develop real property owned by the Port of Tacoma located within the City of Tacoma at the Port of Tacoma (Parcel 14) on which CUSTOMER intends to construct a new business park, and other offsite improvements as required by governing agencies, known as the Prologis Park Tacoma Project (hereinafter referred to as the "CUSTOMER Project"). Said development is contingent upon, *inter alia*, CUSTOMER's ability to obtain sufficient electrical service to energize and operate the completed CUSTOMER Project;

WHEREAS, Tacoma Power is authorized under Washington law to engage in the production, acquisition, transmission, distribution, and sale of electric power and Tacoma Power intends to serve the CUSTOMER Project, subject to the installation of certain utility infrastructure improvements and modifications (i.e. utility installation work) as necessary to provide the additional power infrastructure capacity required for such new service;

WHEREAS, the scope of utility installation work necessitated by the CUSTOMER Project includes construction, relocation and/or conversion of electrical infrastructure facilities, components, devices and related equipment ("Electrical Infrastructure") and, depending on location, telecommunication network High Fiber Count (HFC) facilities, components, devices and related equipment ("HFC Infrastructure") owned and operated by Tacoma Power;

WHEREAS, all of the utility installation work required to be performed by Tacoma Power pursuant to this Agreement involving Electrical Infrastructure and/or HFC Infrastructure, together with related design engineering and inspection services to meet applicable safety and operating requirements, shall be deemed to be and is referred to herein as the "**Tacoma Power Work**" (as further defined in Section 1.3 h. below and in the Exhibits to this Agreement);

WHEREAS, CUSTOMER has requested Tacoma Power to perform the utility installation work and related services specified herein that is necessary to serve the CUSTOMER Project, and Tacoma Power is prepared to perform said work and services, provided all new and modified facilities required for such new electrical service are designed, constructed, and completed as set forth in this Agreement;

WHEREAS, certain utility installation work incidental and necessary to the Tacoma Power Work will be the sole responsibility of the CUSTOMER regardless of whether said installation work pertains to Electrical Infrastructure and/or HFC Infrastructure that is currently, or will be upon completion of the CUSTOMER Project, owned and operated by Tacoma Power. To arrange for the orderly and timely performance of all utility installation work for the CUSTOMER Project, CUSTOMER is required to fully perform certain underground utilities structure work pursuant to this Agreement that includes installation of electrical and HFC conduits and pre-cast concrete vaults compatible with the Tacoma Power Work. All said utility installation work shall be deemed to be and is referred to herein as the “**CUSTOMER Work**” (as further defined in Section 1.3 f. below and in the Exhibits to this Agreement);

WHEREAS, all CUSTOMER Work will be performed by and through CUSTOMER’s separately contracted construction and/or electrical contractor(s) (as further defined in Section 1.3 j. below) per Tacoma Power’s engineered design set forth in the “**Construction Documents**” attached hereto as **Exhibit A** and **Exhibit B** (and as further defined in Section 1.3 b. below). Notwithstanding any performance bond beneficiary status pursuant to Section 6.3 herein, Tacoma Power shall not be deemed a party to any contract(s) by and between CUSTOMER and its CUSTOMER Contractor and the CUSTOMER will be solely responsible for, and shall pay, all costs of CUSTOMER Contractor performed work required hereunder; and

WHEREAS, CUSTOMER will be solely responsible for, and pay, all developmental costs to complete the CUSTOMER Project including, but not limited to, all time and materials costs incurred by Tacoma Power to perform the Tacoma Power Work and further design and inspection services related to the CUSTOMER Work as specified in and pursuant to his Agreement. Such costs specifically include “**Direct Costs**” (as defined in Section 1.3 a. below) and may include further costs for Additional Work per Article 2.4 and/or Extra Work per Article 4. Notwithstanding the foregoing, it is understood and agreed that Tacoma Power will own and operate all resulting Electrical Infrastructure and HFC Infrastructure unless expressly noted otherwise herein

IN CONSIDERATION OF the mutual promises set forth herein and the mutual benefits to be derived hereunder, the sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

ARTICLE 1 - SCOPE

1.1 Purpose and Intent. The purpose of this Utility Installation Agreement is to set forth the terms and conditions pursuant to which the Parties will cooperatively undertake, at CUSTOMER’ sole expense, all Electrical Infrastructure and HFC

Infrastructure work and associated equipment and materials needed for the Project and as necessary to meet applicable safety and operating requirements.

It is intended that Tacoma Power will perform the Tacoma Power Work and provide equipment and materials, as specified herein and in the Construction Documents attached hereto, involving Electrical Infrastructure and HFC Infrastructure including the design, installation, relocation, conversion of overhead electrical conductors and equipment and HFC Fiber and equipment, and construction and inspection work related to the following CUSTOMER Project locations:

- (i) Within Parcel 14 - The CUSTOMER Project necessitates installation work involving Electrical Infrastructure and HFC Infrastructure that is, or will be, owned and operated by Tacoma Power including, but not limited to:
 - a. Construction of a new 13.8kV underground electrical distribution infrastructure with the necessary infrastructure to provide a new power supply infrastructure and capacity for the CUSTOMER Project.
 - b. Construction of Telecommunications components and devices to provide a complete overhead to underground conversion of existing Tacoma Power HFC Infrastructure located on Parcel 14.

- (ii) 12th Street East electrical conversion – The CUSTOMER Project necessitates installation work involving Electrical Infrastructure and HFC Infrastructure that is, or will be, owned and operated by Tacoma Power including, but not limited to:
 - a. Installation of electrical components and devices to provide a complete overhead to underground conversion of existing Tacoma Power Electrical Infrastructure along 12th Street E, beginning 500 feet west of 46th Ave East and finishing at Prologis Far East entrance along 12th Street East.
 - b. Installation of Telecommunications components and devices to provide a complete overhead to underground conversion of existing Tacoma Power HFC Infrastructure along 12th Street E, beginning 500 feet west of 46th Ave East and finishing at Prologis Far East entrance along 12th Street East.
 - c. All of the foregoing installation work will include the following partial sections of City of Fife Streets: 46th Ave. East; 47th Ave. East; Wilson Road East; and Wapato Road East within the CUSTOMER Project Area (as further defined in Section 1.3 k. below).

- (iii) 8th St East & 54th Ave. East intersection – The CUSTOMER Project includes certain street improvements required by the City of Fife, which necessitates the following Electrical Infrastructure and/or HFC

Infrastructure owned and operated by Tacoma Power including, but not limited to:

- a. The relocation of Tacoma Power's existing overhead electrical infrastructure of the following system voltages; 115kV, 12.5/7.2kV, 13.8kV; and HFC.
- b. Installation of new underground electrical service at 724 54th Avenue East to serve City of Fife Pump Station, Prologis signage, City of Fife Street lighting equipment

It is intended that CUSTOMER, by and through the CUSTOMER Contractor will perform the CUSTOMER Work and provide equipment and materials, as specified herein and per the attached **Construction Documents (Exhibit A)** including (i) the underground utility structure construction and related management activities necessary for the installation of underground vaults and conduits for Electrical Infrastructure and HFC Infrastructure for the CUSTOMER Project, and (ii) all other PROJECT work, equipment, materials, and any design or inspection coordination activities not specified to be performed or provided by Tacoma Power as part of the Tacoma Power Work.

Further elaboration of the Parties' intended roles and responsibilities under this Agreement is provided in the definitions of "Customer Work" and "Tacoma Power Work" found in Section 1.3 f. and h., respectively.

1.1.1 In further elaboration of the foregoing, this Agreement and the attached **Exhibits A and B** provide for all Tacoma Power Work and Customer Work to be performed and completed in accordance with:

- Construction Drawings from Tacoma Power to support the CUSTOMER Project
- Construction Standards

1.2 Incorporation of Recitals. The Parties acknowledge that the above stated Recitals are true and accurate and are incorporated as contractual provisions herein.

1.3 Definitions.

- a. "**Direct Costs**" shall mean and include all costs and expenses incurred by Tacoma Power directly related to the Prologis Business Park Project as provided under this Agreement and shall include, without limitation,
 - i. All costs and expenses of materials, equipment, supplies, utilities, consumables, goods and other items used or incorporated in connection with and in furtherance of this Agreement and any taxes, insurance, and interest expenses related thereto, including activity pricing for inspection, engineering, crews and equipment;

- ii. All labor costs and expenses incurred to date and pursuant to this Agreement for the design, inspection, and construction activities and/or tasks designated to be performed by Tacoma Power hereunder. Such costs are inclusive of payroll benefits and overhead for applicable labor classifications.
 - iii. All cost and expenses incurred to date and during performance of this Agreement for any work performed by City consultants or contractors that pertains to the Prologis Business Park Project and as necessary to undertake and complete the Tacoma Power Work under this Agreement.
- b. **“Construction Document(s)”** means the plans and specifications for the Project provided by Prologis consultants in coordination with CUSTOMER and/or the CUSTOMER Contractor pursuant to this Agreement, which include the (i) specifications, standards, and requirements applicable to the CUSTOMER Work attached hereto as **Exhibit A**, and (ii) specifications, plans, drawings, and sketches applicable to the Tacoma Power Work attached hereto as **Exhibit B**, which said **Exhibits A and B** are, by this reference, fully incorporated herein.
- c. **“Field Representative(s)”** means the person(s) identified by Tacoma Power as having inspection authority or whom direct Tacoma Powers field forces for construction activity.
- d. **“Inspection Work”** means all labor, equipment and material necessary for Tacoma Power to monitor the CUSTOMER Work to ensure conformance with the Construction Documents. Duties of this Inspection Work, which will be performed by Tacoma Power’s designated Construction Inspector, include:
- monitoring of electrical conduit duct and vault infrastructure construction,
 - approving or rejecting materials for conformance with Construction Documents through the Tacoma Power Engineer,
 - rejecting work not in conformance with the Construction Documents through the Tacoma Power Engineer,
 - confirming proofing tests for new electrical conduit duct and vault infrastructure,
 - verifying the CUSTOMER Work is conducted in accordance with the Tacoma Power T&D Construction Standards,
 - coordinating power outages with the customer’s representatives,
 - generating punch lists ahead of final acceptance, and
 - recording as-built information.

Direct Costs of all of the foregoing work performed by Tacoma Power shall be pre-paid and/or fully reimbursed by CUSTOMER hereunder.

- e. **“Project Manager”** mean the respective persons designated by the Parties in Section 5.3 herein to be the point of contact for design and contract changes and/or updates.

- f. **“CUSTOMER Work”** for purposes of this Agreement shall mean the underground utility structure installation work for which CUSTOMER is responsible hereunder. All such work shall be performed and satisfactorily completed in accordance with **Exhibit A**, including all Attachments thereto, and generally includes the following CUSTOMER Project activities: all permitting, traffic control, site preparation, surveying, excavation, inspection coordination, site restoration, and construction work necessary to fully and properly install electrical vaults and communication vaults and conduits per the Construction Documents, together with all costs and expenses required and/or incurred in connection therewith. Such work includes all construction and administrative activities related to and in any way connected with the electrical work performed by the CUSTOMER Contractor and otherwise necessary to successfully complete the CUSTOMER Project.

As further described in the Construction Documents, such work and activities specifically assigned as CUSTOMER Work, refer to **Exhibit A**, require and involve, but are not necessarily limited to:

- Protection of Tacoma Power electrical facilities and appurtenant equipment that currently exist on the development site, adjacent properties and/or within the public right-of-way.
- All necessary construction excavation & restoration on the development site, adjacent properties and/or within the public right-of-way related to the installation of an high-voltage electrical conduit, duct and vault infrastructures to be owned and operated by Tacoma Power to include:
 - Trenching,
 - Installation of conduit, pre-cast concrete vaults & handholes.
 - Attachment of conduit risers on Tacoma Power poles.
- All necessary construction excavation & restoration on the development site, adjacent properties and/or within the public right-of-way related to the installation of a HFC cable duct and vault infrastructures to be owned and operated by Tacoma Power to include:
 - Trenching,
 - Installation of conduit, pre-cast concrete vaults & handholes.
 - Attachment of conduit risers on Tacoma Power poles.
- Extension of electrical service conductors from the individual electrical service panels to the designated Point of Delivery.

All of the foregoing work and activities will be utilized in conjunction with the Tacoma Power Work and pertain to all Tacoma Power Electrical Infrastructure and HFC Infrastructure within the Project Area and/or impacted by the CUSTOMER Project whether located within the City of Tacoma, the City of Fife, or on private property all as described in the Construction Documents (**Exhibits A and B**). The CUSTOMER Work shall not include the

Tacoma Power Work that Tacoma Power is expressly required to perform hereunder.

- g. “**Resident Engineer**” means the representative designated by CUSTOMER after notice to proceed who will be the point of contact regarding all Project related construction under this Agreement.
- h. “**Tacoma Power Work**” means all labor, materials, equipment, services, supplies, overheads, applicable taxes and all other activities or items necessary to install, construct, relocate, reroute, modify and reconnect the Electrical Infrastructure and HFC Infrastructure to accommodate CUSTOMER Project. For purposes of this Agreement, the “Tacoma Power Work Sketches” mean all Tacoma Power prepared documents and drawings to be utilized by Tacoma Power to perform its work and are attached hereto in **Exhibit B**.

The Tacoma Power Work will include, as generally described by location, performance of the following:

- **Prologis Tacoma Park Project – Port of Tacoma Parcel 14**
 - Installation of permanent power service and equipment including:
 - Installation and terminating Tacoma Power’s 15kV cable utilizing the CUSTOMER installed conduit/duct & vault infrastructure
 - Installation of Tacoma Power’s pad-mounted transformers and switchgear utilizing the CUSTOMER installed vaults.
 - Connecting the Customer’s electrical service conductors to the designated Points of Delivery.
- **8th & 54th St Intersection**
 - Modification, relocation, installation, removal of Tacoma Power’s existing 115kV 12.5/7.2kV, 13.8kV Electrical & HFC Infrastructure. This will include:
 - Setting and removal of utility structures/poles
 - Transfer of Tacoma Power electrical and HFC conductors and equipment between overhead utility structures/poles.
 - Installation and termination of Tacoma Power’s 15kV cable & transformers for the new Fife Pump Station service, lighting and traffic signal systems utilizing the CUSTOMER installed conduit/duct & vault infrastructure.
 - Connecting the City of Fife’s electrical service conductors to the newly designated Point(s) of Delivery
- **12th Street Overhead to Underground utility conversion**
 - Modification, relocation, installation, removal of Tacoma Power’s existing 12.5/7.2kV Electrical & HFC Infrastructure. This will include:
 - Setting and removal of utility structures/poles
 - Transfer of Tacoma Power electrical and HFC conductors as noted in the attached Exhibit.

- Installation and termination of Tacoma Power's 15kV cable & transformers to maintain service to existing affected customers within the project boundaries
 - Installation and termination of Tacoma Power's HFC (aka: Click! Network) service conductors to maintain service to existing affected customers within the project boundaries
 - Transfer of electrical and HFC (aka: Click! Network) Services to new utility structures/poles.
- Traffic-control as may be necessary to facilitate such work per the City of Fife permitting requirements
- i. **"The City"** is used interchangeably with "Tacoma Power" in this Agreement.
- j. **"CUSTOMER Contractor"** means* the General Contractor and/or Electrical Contractors designated by CUSTOMER to prosecute the CUSTOMER Project and to perform the CUSTOMER Work hereunder for and on behalf of CUSTOMER

* NOTE: All references to the "CUSTOMER Contractor" herein shall expressly include and refer to any and all subcontractors acting by and through the CUSTOMER Contractor. Notwithstanding any separate contract executed by CUSTOMER with the CUSTOMER Contractor that may pertain to the CUSTOMER Project, CUSTOMER shall be and remain fully bound and responsible hereunder for the (i) full and proper performance of the CUSTOMER Work, (ii) full and proper completion of the CUSTOMER Project as a whole, other than performance of work and services expressly identified as "Tacoma Power Work" herein, and (iii) the payment of all costs and expense of the CUSTOMER Project as provided for hereunder. All of the foregoing shall be fulfilled in accordance with the terms and conditions of this Agreement.

- k. **"CUSTOMER Project Area"** means all lands, public and private whereupon utility work will be performed for the CUSTOMER Project pursuant to this Agreement and includes all areas identified, described or delineated in the Construction Documents (**Exhibits A and B**) and/or in the drawings attached thereto, all of which have been fully incorporated herein.
- l. **"Point of Delivery"** or "Points of Delivery" means the demarcation point/location where Tacoma Power's infrastructure/wiring terminates and is connected to the customer's premises infrastructure/wiring.
- m. **"Tacoma Power Project Engineer"** For purposes of this agreement this assigned individual will be responsible for producing the electrical and civil design for Tacoma Power infrastructure as a result of the project. This individual will also be responsible for reviewing any substantive changes to the electrical and/or civil design for infrastructure installed or altered as requested by the CUSTOMER. This includes alignment of the medium and

high voltage electrical system, conductor sizing & quantities, transformer sizing, conduit & concrete vault selection, and pole & guying locations & selection. Tacoma Power Project Manager may assign project related duties to this individual as necessary.

ARTICLE 2 – RESPECTIVE PROJECT OBLIGATIONS

2.1 City Obligations:

2.1.1 Design & Work: Tacoma Power will provide all Construction Documents, Inspection Work, and defined Tacoma Power Work noted in the Construction Documents. The preparation of Construction Documents, Inspection Work, and Tacoma Power Work shall be performed by Tacoma Power per the design requirements set forth in Tacoma Power's T&D Construction Standards. City Inspection Work will be provided as scheduled or required during CUSTOMER and/or the CUSTOMER Contractor's prosecution of the CUSTOMER Work. It is expressly understood that by performing the Inspection Work Tacoma Power shall not be deemed to have any direct control over the CUSTOMER Project and/or CUSTOMER Work or to have assumed any duties or liabilities for the full, proper, and lawful prosecution of the CUSTOMER Project and/or CUSTOMER Work; all of which is and shall remain at all times the sole responsibility of CUSTOMER. All Tacoma Power communications regarding inspection, acceptance, approval, rejection or modification of the CUSTOMER Work will be addressed to the CUSTOMER Resident Engineer, or Project Manager.

2.1.2 Inspection Work: Tacoma Power agrees to provide Inspection of CUSTOMER Contractor's work during the performance of the CUSTOMER Work including, but not limited to, installation of the vaults and ducts. Such Inspection Work shall be for the exclusive purpose of confirming said performance complies with the Construction Documents including, but not limited to, the agreed upon drawings and Tacoma Power standards therein. CUSTOMER's Resident Engineer is to schedule the Inspection Work in such manner as not to unreasonably delay or interfere with CUSTOMER Contractor performance of the CUSTOMER Work; Provided, that Tacoma Power shall not be responsible for any costs or claims based on delay attributable to CUSTOMER Contractor and/or their sub-contractor(s).

2.1.3 Additional Work: Except as specifically set forth in this Agreement and/or in the Exhibits attached hereto, any additional utility installation work necessary to accommodate the multitude of construction activities involved in the CUSTOMER Project shall be subject to additional design by the Tacoma Power Project Engineer, labor, equipment, services, materials and supplies costs. CUSTOMER Contractor (as defined in Section 1.3 j. above) shall be responsible for the timely request and coordination of all such additional work. Requests for additional work shall be submitted to Tacoma Power's Project Manager and processed as a change order. The cost of such additional work shall be in addition to the amounts set forth in the **Preliminary Cost Estimate**, (which is attached hereto as **Exhibit C** and fully incorporated herein by this reference) and CUSTOMER shall be solely responsible for, and shall pay, such cost to Tacoma Power.

2.2 CUSTOMER Obligations:

2.2.1 Work to be Performed: CUSTOMER shall be, at its sole cost and expense, responsible for the full and complete performance of the CUSTOMER Work as specified herein and in Exhibits. The CUSTOMER Work shall comply with all applicable laws and regulations whether or not set forth in Exhibits. In performing the CUSTOMER Work, CUSTOMER shall be responsible for all CUSTOMER Work construction contracting functions including, but not limited to, those related to the CUSTOMER Contractor.

2.2.2 Scheduling: Prior to commencement of any work on the Project including, but not limited to the CUSTOMER Work, CUSTOMER Contractor shall provide a construction schedule to Tacoma Power and shall thereafter timely notify Tacoma Power of scheduling changes related to the CUSTOMER Project that are expected to materially impact the CUSTOMER Work or Tacoma Power Work schedules. CUSTOMER contractor shall provide weekly progress reports to Tacoma Power and schedule work coordination meetings with Tacoma Power as necessary to allow Tacoma Power to coordinate and timely complete the Inspection Work and Tacoma Power Work. CUSTOMER' Resident Engineer shall coordinate with Tacoma Power's Field Representative, Tacoma Power Project Engineer, or Project Manager, as appropriate, to accomplish desired changes or corrections to Tacoma Power's Inspection Work and/or Tacoma Power Work in the field as necessary to avoid delays to CUSTOMER Work activities. The CUSTOMER Resident Engineer will handle all communications with the CUSTOMER Contractor.

2.2.3 Property Rights: CUSTOMER shall obtain and furnish, at no cost to Tacoma Power, any access, licenses, easements and/or rights of way upon, over, under and across lands comprising the CUSTOMER Project as necessary for Tacoma Power to perform and complete the Tacoma Power Work, and shall at all reasonable times provide Tacoma Power and/or its employees, representatives, agents and/or contractors free access to such lands.

- A. CUSTOMER shall further obtain for and/or assign to Tacoma Power all access and use rights, including but not limited to easements reasonably necessary to allow Tacoma Power to operate, maintain, repair, and reconstruct all CUSTOMER Project electrical facilities in the future. Tacoma Power shall at its sole discretion approve the adequacy of such access and/or property rights, and such approval shall not be unreasonably withheld.
- B. Tacoma Power may agree, in its sole discretion and shall not be obligated, to procure additional access, easements, licenses, and/or rights of way as reasonably necessary to performance of the Tacoma Power Work on property owned by persons or entities other than CUSTOMER; in which event, all costs incurred by Tacoma Power shall be deemed a Direct Cost hereunder and reimbursed by CUSTOMER. Tacoma Power will not be

obligated to commence Tacoma Power Work on any property unless or until approved access and/or property rights have been established.

- C. Per Section 2.2.6 below, CUSTOMER shall be responsible for all surveying and documentation preparation work required to secure and formally establish any and all of the foregoing property rights.

2.2.4 Performance of Work: As further specified herein and in **Exhibit A**, CUSTOMER will employ all CUSTOMER Contractor and other persons or entities necessary to perform the CUSTOMER Work. Without limiting the foregoing, CUSTOMER shall be responsible for environmental compliance, permitting, management, control, construction, and inspection necessary to fully and properly complete the CUSTOMER Work.

2.2.5 Work Area: CUSTOMER shall require the CUSTOMER Contractor to coordinate with Tacoma Power "Project Manager" to ensure Tacoma Power has accessible and adequate work areas so as to not unreasonably delay or interfere with the performance of the Tacoma Power Work within the CUSTOMER Project.

2.2.6 Surveying/Staking and Documentation: CUSTOMER Contractor shall provide all surveying, staking, and elevations identification as requested in writing by Tacoma Power as necessary to allow complete performance of the Tacoma Power Work within the CUSTOMER Project Area. Staking shall be completed within five (5) business days of receipt of such notice.

At the conclusion of the Prologis Business Park Project, CUSTOMER shall perform and complete surveying work, and prepare as-built documentation and drawings based thereon, for all Prologis Business Park Project electrical facilities and utility installations as necessary to (i) identify and establish easements and other property access rights granted to Tacoma Power hereunder, and (ii) enable Tacoma Power to obtain further formal easement or property access rights as set forth in Section 2.2.3 above. Such surveying, documentation, and drawings shall include, but not be limited to, all conduits, vaults, cabling, pad mounted equipment, and SSB equipment installations.

2.2.7 Clearing & Grubbing: CUSTOMER Contractor shall provide and perform all required clearing and grubbing requested in writing by Tacoma Power as necessary to allow complete performance of the Tacoma Power Work. Clearing and grubbing shall be done in a timely manner as to not unreasonably delay or interfere with the Tacoma Power Work.

2.2.8 Electrical Service Cancellations: If necessary and as required by applicable law, CUSTOMER Contractor shall timely submit to Tacoma Power service cancellation requests for all service property located within the CUSTOMER Project Area and/or impacted by the CUSTOMER Project so as not to unreasonably delay or interfere with the Tacoma Power Work. For service properties not owned or controlled by CUSTOMER, the CUSTOMER will contact service customers and coordinate service

cancellation requests by the customer as necessary to ensure that all required service cancellation requests are timely received by Tacoma Power to avoid delay of the Tacoma Power Work.

2.2.9 Coordination with other Utilities: CUSTOMER Contractor shall coordinate with other utilities to ensure the Tacoma Power Work is not unreasonably delayed or interfered with.

2.3 Schedule of Work

2.3.1 Schedule for the CUSTOMER Project, CUSTOMER Work and/or Tacoma Power's Work: Prior to commencement of any CUSTOMER Work or any work on the CUSTOMER Project that may impact the Tacoma Power Work, CUSTOMER shall provide to Tacoma Power the CUSTOMER Contractor's proposed schedule(s) for the completion of the CUSTOMER Work and other CUSTOMER Project work that may impact or be dependent upon the Tacoma Power Work.

- A. The Parties will, in good faith, develop and agree upon a schedule of work for the Tacoma Power Work including schedule stages and milestones, notice requirements or other schedule-related issues ("Schedule of Work"), which shall be attached and incorporated into this Agreement as **Exhibit D** by the Parties. The Schedule of Work shall consider and reflect the following:
- Tacoma Power estimates 20 weeks of work for its forces.
 - For scheduling purposes, this work is expected to be on a straight time basis. If additional work is required see Article 4
 - Weather conditions may impede this work plan.
 - Emergency operations will take precedence on Tacoma Power's work force commitments.
 - Tacoma Power's work schedule and priorities will be developed in coordination with the CUSTOMER Project Manager.
 - Permits must be obtained by the CUSTOMER Contractor before setting the Schedule of Work.
- B. CUSTOMER Contractor will administer its construction work and activities in accordance with the agreed upon Schedule of Work and timely notify Tacoma Power of any scheduling changes related to the CUSTOMER Project that are expected to materially impact the CUSTOMER Work and/or Tacoma Power's Work. CUSTOMER' Resident Engineer shall coordinate with Tacoma Power's Project Manager as necessary to avoid delays to CUSTOMER Contractor performance.
- C. Following commencement of the CUSTOMER Work, Tacoma Power shall timely notify CUSTOMER Project Manager in writing of any changes in the schedule of Tacoma Power Work that are expected to impact the CUSTOMER Work and CUSTOMER Contractor shall exercise good faith efforts to incorporate such

changes into its construction schedules to minimize any delay or adverse impacts.

2.3.2 The Schedule of Work shall incorporate the Construction Tasks to be performed by CUSTOMER Contractor for Tacoma Power, which will include work on existing and new underground facilities as described in Exhibits, in order to maintain continuous electrical service to Tacoma Power customers and/or avoid delay to Tacoma Power Work.

2.4 Changes to Construction Documents.

2.4.1 In the event Tacoma Power submits a written change in **Exhibits A and/or B** after commencement of the CUSTOMER Work, CUSTOMER shall have ten (10) business days following receipt to review and approve any such submittal; which approval shall not be unreasonably withheld. Should CUSTOMER not approve the change as submitted, CUSTOMER shall provide written comments to Tacoma Power specifying the reasons for non-approval.

2.4.2 In the event CUSTOMER requests a change in **Exhibit A and/or B** after commencement of the CUSTOMER Work, CUSTOMER shall provide Tacoma Power with written notice specifying the basis and scope of such proposed change. Within ten (10) business days following receipt of such notice, Tacoma Power shall review such request and either (i) approve such change and modify **Exhibits A and/or B** accordingly, which approval shall not be unreasonably withheld, or (ii) provide written comments to CUSTOMER.

2.4.3 All proposed or actual changes to **Exhibits A and B** requested by CUSTOMER, which result in a cost increase over the **Preliminary Cost Estimate (Exhibit C)**, shall be paid solely by CUSTOMER. All proposed or actual changes to **Exhibit A** requested by Tacoma Power that result in such cost increase shall be governed by **Article 4** below. The Parties agree to work cooperatively to timely resolve any disputes arising out of the review process for changes to **Exhibits A and B**, using the process set forth below in **Article 8**.

ARTICLE 3 – PAYMENT OBLIGATIONS OF CUSTOMER

3.1 Payment.

CUSTOMER agrees that it shall be responsible for, and shall fully pay, all of the City's actual Direct Costs (as defined in Section 1.3 a. above) related or attributable to the CUSTOMER Project. CUSTOMER's payment obligation for Tacoma Power's design, Inspection Work, and Tacoma Power Work to be performed hereunder is estimated at **\$786,093.00**, as more fully described in the **Preliminary Cost Estimate (Exhibit C)**. The Preliminary Cost Estimate set forth in **(Exhibit C)** may be modified based on (i) the procedures for changes to the Construction Documents and/or adjustment of costs as provided in Section 2.4, or (ii) Article 4 of this Agreement. Said payment obligation is based on a preliminary estimate of the cost for Tacoma Power design services,

Inspection Work, and Tacoma Power Work to be performed hereunder and reflects the Parties' best estimates of the Direct Costs that may be incurred by Tacoma Power under this Agreement. Actual payments required under this Agreement shall be based on actual work performed and materials provided under this Agreement. In the event it is determined that the scope of work for which Tacoma Power is responsible hereunder has been accomplished for a lesser amount than identified in this Agreement, CUSTOMER shall only pay for actual Direct Costs.

3.2 Invoices & deposits.

An **Initial Deposit of \$75,000.00** from the CUSTOMER was received by Tacoma Power on August 9, 2016. Upon mutual execution of this Agreement, Tacoma Power shall provide an invoice to CUSTOMER (c/o Accounts Payable) for the **remaining balance of the Preliminary Cost Estimate** in the amount of **\$711,093.00**. CUSTOMER shall immediately tender payment to Tacoma Power for said remaining balance as invoiced. It is understood and agreed that said remaining balance amount of \$711,093.00 together with the prior Initial Deposit of \$75,000 equals the total Preliminary Cost Estimate sum of **\$786,093.00**. Subject to the terms and conditions of this Agreement, CUSTOMER shall, within thirty (30) days of receipt of any further invoices, reimburse Tacoma Power for any Direct Costs incurred in excess of said Preliminary Cost Estimate. It is agreed that Tacoma Power will not begin actual construction activities associated with the Tacoma Power Work beyond temporary power and overhead and undergrounding power additions and modifications until the Initial Payment has been paid and Tacoma Power may cease performance hereunder if any invoiced amount is not paid within thirty (30) days following issuance.

3.3. Records. Tacoma Power shall, in accordance with its standard processes and procedures, keep records of the Direct Costs using a work order accounting system.

3.4 Invoices shall be mailed to:

CUSTOMER:

CUSTOMER-Accounts Payable
Prologis LP
Attention: Ken Sun
3353 Gateway Boulevard
Fremont California 94538
(510)-304-1852 Mobile (510)-661-4027 Office
ksun@prologis.com

3.5 Payment. Except for the Initial Payment, the remaining balance is due upon execution of this Agreement; CUSTOMER shall fully pay each invoice submitted by the City within 30 calendar days of receipt of the invoice. Checks shall be made payable to the Treasurer, City of Tacoma and shall be mailed to:

City of Tacoma
Department of Public Utilities, Power Division
Attn: Renata Knutson, Power Distribution Supervisor
T&D Business & Financial Management
3628 South 35th Street
Tacoma, WA 98409-3192
(253)-502-8040 Office
rknutson@cityoftacoma.org

In the event CUSTOMER fails to pay any monies to the City as and when due hereunder, CUSTOMER shall pay interests on such unpaid sum from thirty (30) calendar days after the date due at an annual rate equal to twelve percent (12%) per annum, or the maximum rate permitted by law, whichever is less. Tacoma Power reserves the right to suspend performance hereunder, including but not limited to construction activities, for non-payment.

Notwithstanding any contested invoice by CUSTOMER, per Section 3.6 below, CUSTOMER shall make full payment on all invoices issued by Tacoma Power.

3.6 Contested charges. CUSTOMER may contest a charge for any Tacoma Power Work detailed in an invoice within 30 days of receipt of such invoice by providing written notice to Tacoma Power specifying the charges and/or documentation in dispute. Upon receipt of such notice, Tacoma Power will investigate items contested and make appropriate amendments to the invoice, if necessary. If warranted, Tacoma Power will arrange a meeting between the Parties to discuss CUSTOMER concerns as specified in its written notice. The Parties shall attempt to resolve all disputes within 30 days of the date of notice of a contested invoice. At or before the end of said period, CUSTOMER shall submit any outstanding items to Dispute Resolution as provided in **Article 8**. It is further agreed that at the time of a final audit, all required adjustments will be made and reflected in a final payment. Interest shall not accrue on the contested part of any billing until mutually resolved. CUSTOMER will not unreasonably contest any bill.

3.7 Refund. Upon completion of the CUSTOMER Project, the Direct Costs actually incurred by Tacoma Power will be compared with the total amount(s) actually paid by CUSTOMER based upon the Initial Payment and all other payment(s) for any subsequently invoiced Direct Costs. If an overpayment to Tacoma Power exists then a refund will be made to CUSTOMER within 60 days. If an underpayment to Tacoma Power exists then CUSTOMER shall tender such amount within 60 days.

3.8 Audit. During the progress of the Parties work under this Agreement and for a period not less than three (3) years from the date of final payment to the City, the records and accounts pertaining to the Parties' work under this Agreement and accounting therefore are to be kept available for inspection and audit by either Party. Copies of all records, accounts documentation or other data pertaining to the Project will be made available for inspection, copying, or audit upon written request by either Party. If any litigation, claim, or audit is commenced, the records and accounts along with supporting documentation shall be retained until all litigation, claim or audit

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finding has been resolved even though such litigation, claim or audit continues past the three-year retention period.

In the event a written request to audit is received, the recipient Party agrees to cooperate fully with the auditor or independent auditor chosen, retained, and paid by the requesting Party. In the event the audit determines that CUSTOMER has paid Tacoma Power in excess of the amounts properly due hereunder, Tacoma Power will promptly refund the excess amount to CUSTOMER. In the event the audit determines that Tacoma Power has incurred costs for its design, Inspection Work, and/or the Tacoma Power Work that exceeds payment made by CUSTOMER, CUSTOMER shall promptly pay Tacoma Power the amount owed. In the event the Parties cannot agree on the results of the audit, or upon a method of refund or payment, the disagreement shall be dealt with in accordance with the Dispute Resolution provisions of **Article 8** below.

ARTICLE 4 - EXTRA WORK

In the event either Party identifies additional work, other than additional work due to unforeseen conditions, that require an increase over the Preliminary Cost Estimate for the Tacoma Power Work as set forth in **Exhibits A and B**, the Party asserting such additional work will provide written notice thereof to the other Party. The Parties agree to negotiate in good faith to modify this Agreement to authorize any increased payment resulting from such additional work. For additional costs due to unforeseen conditions, CUSTOMER shall be responsible for and pay such costs.

Actual or proposed cost increases of less than \$10,000.00 over the amount set forth in **Exhibit C** will not require formal approval by CUSTOMER to be chargeable by, and paid to, the City. Any necessary authorization(s) for payment shall be processed in a timely manner to avoid delaying work by Tacoma Power and/or the CUSTOMER Contractor.

Actual or proposed cost increases of \$10,000.00 or more over the amount set forth in **Exhibit C**, including payment for increased work and/or a substantial change in the scope of the Tacoma Power Work, shall be limited to Direct Costs allowed by written modification, change order, or extra work orders which are to be pre-approved by the Parties and pre-paid by CUSTOMER.

ARTICLE 5 – PROJECT ADMINISTRATION AND REPRESENTATIVES

5.1 It is acknowledged that CUSTOMER, by and through the CUSTOMER Contractor, shall be responsible for all administrative activities required for the Project except as expressly agreed otherwise hereunder. It is further acknowledged that such administrative activities shall ensure all CUSTOMER Work is completed to Tacoma Power standards and that in no event shall performance of Inspection Work by Tacoma Power personnel result in delegation to, or assumption by, Tacoma Power of any duty to complete and pay for such work or of any other obligation or responsibility of CUSTOMER hereunder.

5.2 Permits. Except as otherwise specifically provided herein, CUSTOMER shall be responsible, at its sole expense, for acquiring all necessary permits, including but not limited to construction easements, or other governmental approvals necessary to perform and complete the CUSTOMER Project. Tacoma Power shall not be responsible for securing any permits or easements for the prosecution of the CUSTOMER Work. The Parties agree that CUSTOMER may assign responsibility to the CUSTOMER Contractor for obtaining any permits necessary for performance of the CUSTOMER Work.

5.3 Administration. The following designated Project Managers shall be responsible for administrating the joint and cooperative undertaking of the Project as described herein:

5.3.1 Tacoma Power's Project Manager shall be **Joseph Rempe, P.E.** All Project related work, including correspondence with Tacoma Power, review and approval of changes to Construction Documents, scheduling, participation, and other activities related to the CUSTOMER Work and the Tacoma Power Work shall be coordinated through said Project Manager.

Joseph Rempe, P.E. - Project Manager
Tacoma Power
3628 South 35th Street, ABS-MS
Tacoma WA, 98409-3192
(253) 502-8290 Office & (253) 307-2749 Mobile
Email: jrempe@cityoftacoma.org

5.3.2 CUSTOMER Project Manager shall be **Phil Pennino.** All Project related work including, but not limited to, CUSTOMER Work and Tacoma Power Work correspondence with CUSTOMER regarding the administration of this Agreement shall be coordinated through said Project Manager. The issuance of approved changes to the Construction Documents will be handled by the CUSTOMER Project Manager before Notice to Proceed is issued.

Phil Pennino, Project Manager
PENNINO MANAGEMENT GROUP
1420 S. Mills Suite E
Lodi CA 95242
Cell Phone: (209) 327-3787 Office: (209) 370-1908
Email: ppennino@penninogroup.com

5.3.3 The foregoing designation of Project Managers shall not modify or supersede the dispute escalation process or designated Party representatives set forth in **Article 8.**

5.4 Field Representatives

5.4.1 Tacoma Power's Designated Field Representative. Upon receipt of this CUSTOMER's signed Agreement and authorization of Tacoma Public Utility Board, Tacoma Power shall designate a Field Representative in writing to CUSTOMER. The Field Representative will be present to assure that Tacoma Power standards are followed, to coordinate any work with Tacoma Powers dispatch office, to assure proper as built documentation is recorded, and to communicate with Tacoma Power's Project Manager.

5.4.2 CUSTOMER Resident Engineer. CUSTOMER designates as its Resident Engineer the following: To Be Determined Later

5.4.3 Tacoma Power Project Engineer. Tacoma Power designates as its Project Engineer the following:

Daniel Reed- Senior Engineer
Tacoma Power
3628 South 35th Street, ABS-2W
Tacoma WA, 98409-3192
(253) 502-8292 Office & (253) 732-9906 Mobile
Email: dreed@cityoftacoma.org

Upon execution of CUSTOMER's signed Agreement and authorization of Tacoma Public Utility Board, CUSTOMER shall designate its Resident Engineer as its field representative. The Resident Engineer will be in control of the construction site and handle all scheduling, inspection, approval, change orders and other construction activities relating to the work under this Agreement. All communications between Tacoma Power and the CUSTOMER Contractor shall be made through the Resident Engineer.

5.5 Notices. Except for routine day to day communications, which may be provided by email or facsimile, all notices which may be or are requested to be given pursuant to this Agreement shall be in writing and be deemed given when personally delivered, or when deposited in the United States mail, postage prepaid, and marked registered or certified mail, return receipt requested, and addressed to the parties at the following addresses unless otherwise provided for herein:

To Tacoma Power:

Joseph Rempe, P.E. - Project Manager
Tacoma Power
3628 South 35th Street, ABS-MS
Tacoma WA, 98409-3192
(253) 502-8290 Office & (253) 307-2749 Mobile
Email: jrempe@cityoftacoma.org

With a copy to:

City of Tacoma
Department of Public Utilities, Power Division
Attn: Renata Knutson, Power Distribution Supervisor
T&D Business & Financial Management
3628 South 35th Street, ABS-GE
Tacoma, WA 98409-3192
(253)-502-8040 Office
Email: rknutson@cityoftacoma.org

To CUSTOMER:

Phil Pennino, Project Manager
PENNINO MANAGEMENT GROUP
1420 S. Mills Suite E
Lodi CA 95242
Cell Phone: (209) 327-3787 Office: (209) 370-1908
Email: ppennino@penninogroup.com

With a copy to:

Ken Sun, Vice President/Development Manager
Prologis, L.P.
3353 Gateway Boulevard
Fremont California 94538
510)-304-1852 Mobile (510)-661-4027 Office
Email: ksun@prologis.com

Either Party may change the address to which notices shall be sent by providing written notice of such change to the other Party.

ARTICLE 6 - INSPECTION AND ACCEPTANCE OF PROJECT WORK

6.1 Timely Inspection/Approvals. In coordination with the CUSTOMER Resident Engineer and as the work progresses, Tacoma Power shall be invited to conduct reasonable and timely inspection of each stage of the CUSTOMER Work. CUSTOMER Contractor shall give at least two (2) business days' prior notice to Tacoma Power of when work items are scheduled to be performed and are ready for Inspection Work. As stages are completed, Tacoma Power will provide approvals or rejections pursuant to the process in Section 6.2.

6.2 Sequencing of Inspections/Approvals/Acceptance. The CUSTOMER Work will be conducted in stages that require inspections and approvals from Tacoma Power before the CUSTOMER Contractor proceeds with the next stage of the CUSTOMER Work and/or before Tacoma Power proceeds with certain Tacoma Power Work. The sequence of inspections, approvals and final acceptance is as follows:

- (a) Inspections. Tacoma Power will provide regular inspection activities as coordinated with CUSTOMER Resident Engineer via regular communications. If Tacoma Power discovers that the particular elements of the CUSTOMER Work were not performed, or installed per **Exhibit A**, then Tacoma Power shall give prompt notice to the Resident Engineer of said defect(s) and what work remains to be done. Tacoma Power shall endeavor to complete its inspections and notice of approval or rejection in less than two (2) business days. CUSTOMER and/or the CUSTOMER Contractor will direct all applicable sub-contractors to, promptly re-perform or make repairs to the CUSTOMER Work as necessary to fully comply with Exhibit A. Following its inspection and approval, Tacoma Power shall be allowed to use and operate the completed stage of the CUSTOMER Work as part of its utility infrastructure.
- (b) Final Inspection. At the completion of all the CUSTOMER Work, the Resident Engineer will schedule a final inspection with Tacoma Power's Project Manager and Tacoma Powers Construction Inspector, and Tacoma Power shall have five (5) working days after receipt of written notice from CUSTOMER Contractor to accept or reject the completed CUSTOMER Work ("Final Inspection"). If Tacoma Power discovers that the particular stage or element of the CUSTOMER Work was not performed or installed per **Exhibit A**, then Tacoma Power shall give prompt written notice to the Resident Engineer of said defect(s) and what work remains to be done. Upon receipt of such notice, the CUSTOMER Contractor will, directly or through its sub-contractor(s), promptly re-perform or make repairs to the CUSTOMER Work as necessary to fully comply with **Exhibit A**, unless it is reasonably demonstrated that the specified defects are the direct result of actions or omissions by Tacoma Power.
- (c) Final Acceptance. After Tacoma Power has connected the CUSTOMER Work to its utility infrastructure, Tacoma Power will be asked to provide its Final Acceptance of the CUSTOMER Work. Tacoma Power's final acceptance of CUSTOMER Work shall occur only when Tacoma Power is satisfied that (i) all such work is completed in accordance with **Exhibit A**, and (ii) all items indicated on Tacoma Power Inspector's punch list have been completed. Upon such Final Acceptance, Tacoma Power's Project Manager shall provide written notice thereof to CUSTOMER Project Manager and, as requested, to the surety for CUSTOMER's performance bond. Said Final Acceptance signifies full and complete satisfaction of CUSTOMER's contractual obligations hereunder and shall, upon expiration of warranty coverage per Section 6.3 (a) below, serve to release said performance bond.

Except as otherwise expressly stated, nothing in Tacoma Power's inspection, approval, or acceptance of the CUSTOMER Work shall reduce or waive CUSTOMER Contractor's responsibility for performance and full and proper completion of CUSTOMER Work.

6.3 Warranties and Performance Bond.

- (a) Warranties. CUSTOMER fully warrants the CUSTOMER Work, which shall include all contractor and manufacturer's warranties it obtains and/or may assert in connection with said CUSTOMER WORK. The warranty shall be for a minimum period of one (1) year. For any contractor and/or manufacturer warranties extending beyond one (1) year, CUSTOMER will cooperate in good faith with Tacoma Power to fully enforce such warranties on the City's behalf, but CUSTOMER shall not be independently liable for any additional warranty period beyond one (1) year. CUSTOMER, or the CUSTOMER Contractor as applicable, will assign all rights under said warranties to Tacoma Power with respect to all electrical facilities of the CUSTOMER Work that support or are included in the meter –switch room.
- (b) Bonds. To ensure full and complete satisfaction of its obligations hereunder, CUSTOMER or the CUSTOMER Contractor shall obtain and furnish to Tacoma Power a Performance Bond for the cost of the CUSTOMER Work directly related to electrical facilities, together with the estimated additional Direct Costs Tacoma Power may reasonably incur in the event of a significant default hereunder. Such bond shall be:
- (1) In the amount of not less than **\$1,000,000.00**;
 - (2) Name the City of Tacoma, Department of Public Utilities, Light Division, as the sole obligee thereunder;
 - (3) In a form acceptable to the Tacoma Power's legal counsel; and
 - (4) Be delivered to Tacoma Power prior to commencement of any Tacoma Power Work, or within five (5) business days following the Effective Date of this Agreement, which ever shall first occur.

6.4 Ownership/Use. Tacoma Power shall own all power supply and distribution facilities installed, modified, or otherwise improved pursuant to this Agreement up to the Point of Delivery identified in the Construction Documents. Said facilities shall specifically include, but not limited to, the conduits and vaults installed as the result of the CUSTOMER Work. CUSTOMER shall own and be solely responsible for all CUSTOMER Project electrical, data and communications facilities on the customer side of said Point of Delivery; provided that Tacoma Power will be given exclusive access to any such facilities while under construction. Upon receiving notice of final acceptance and approval from Tacoma Power Construction Inspector, CUSTOMER shall transfer control of the completed CUSTOMER Work to Tacoma Power for its use, occupancy, operation and maintenance. Tacoma Power shall thereafter install equipment, cabling, and other miscellaneous fixtures and devices.

Tacoma Power will be responsible for the operation and maintenance of said Utility meters and components, switchgear, conduits, vaults, pad mounted equipment and primary power cables.

ARTICLE 7 - LEGAL RELATIONS

7.1 Indemnification by City. To the extent permitted by law, the City shall protect, defend, indemnify, and save harmless CUSTOMER, and its officers, employees, and agents, while acting within the scope of their employment, from any and all third party claims, demands, judgments, damages, or liability of any kind including injuries to persons or damages to property, including reasonable attorney's fees and costs incurred in connection therewith, which arise out of, or in any way result from, or are connected to, or are due to the negligent acts or omissions of the City, its employees, agents and/or contractors in performing the Inspection Work and/or Tacoma Power Work under this Agreement. The foregoing defense, indemnification and hold harmless provisions shall not apply to the extent the claim, suit, or action for injuries, death, or damages is caused by the negligence or misconduct of CUSTOMER and/or the CUSTOMER Contractor, or their respective officers, employees, agents or contractors. Where such claims, suits, or actions result from concurrent negligence of the Parties, the indemnity provisions provided herein shall be valid and enforceable only to the extent of the indemnifying Party's own negligence. The City agrees that its obligations under this indemnification section extend to any claim, demand, and/or cause of action brought by, or on behalf of, any of its employees or agents.

7.2 Indemnification by CUSTOMER. To the extent permitted by law, CUSTOMER shall protect, defend, indemnify, and save harmless the City, and its officers, officials, employees, and agents, while acting within the scope of their employment, from any and all third party claims, demands, judgments, damages, or liability of any kind including injuries to persons or damages to property, including reasonable attorney's fees and costs incurred in connection therewith, which arise out of, or in any way result from, or are connected to, or are due to the negligent acts or omissions of CUSTOMER, the CUSTOMER Contractor, and/or their respective officers, employees, agents or contractors in performing the CUSTOMER Work under this Agreement. The foregoing defense, indemnification and hold harmless provisions shall not apply to the extent the claim, suit, or action for injuries, death, or damages is caused by the negligence or misconduct of the City, its employees, agents and/or contractors. Where such claims, suits, or actions result from concurrent negligence of the Parties, the indemnity provisions provided herein shall be valid and enforceable only to the extent of the indemnifying Party's own negligence. CUSTOMER agrees that its obligations under this indemnification section extend to any claim, demand, and/or cause of action brought by, or on behalf of, any of its employees or agents and/or by the CUSTOMER Contractor or their employees, agents or sub-contractors.

7.3 For purposes of the indemnification provisions set forth in this Article 7, each Party hereby waives, with respect to the other only, any immunity that would otherwise be available against such claims under the industrial insurance provisions of Title 51 RCW. EACH PARTY EXPRESSLY RECOGNIZES THAT THIS WAIVER WAS THE SUBJECT OF MUTUAL NEGOTIATION. Such waiver shall not, however, be construed as establishing any independent right or cause of action by employees of CUSTOMER against it or by employees of Tacoma Power against it. In the event of any claims, demands, actions and lawsuits, the indemnifying Party upon prompt notice from the

indemnified Party shall assume all costs of defense thereof, including legal fees incurred by the indemnified Party, and of all resulting judgments that may be obtained against the indemnified Party. In the event that a Party incurs attorney fees, costs or other legal expenses to enforce the provisions of this section, all such fees, costs and expenses shall be recoverable by the prevailing Party. This indemnification shall survive the termination of this Agreement.

7.4 Insurance.

7.4.1 CUSTOMER Coverages. CUSTOMER or the CUSTOMER Contractor that will perform the CUSTOMER Work shall not commence work under this Agreement until all required insurance has been obtained and such insurance has been approved by the City. It is CUSTOMER responsibility to ascertain that all contractors including, but not limited to, the CUSTOMER Contractor (and each of its affiliated sub-contractors that participate in performance of CUSTOMER Work), shall have the insurance as required by this Agreement at all times during performance of the CUSTOMER Work. The insurance coverages required herein shall be maintained and effective at all times any such work is being performed.

- (a) **Workers Compensation Insurance.** CUSTOMER shall, at all times during the life of this Agreement, fully comply with all of the terms and conditions of the laws of the State of Washington pertaining to Workers' Compensation together with any and all amendments and supplements thereto and any and all regulations promulgated there-under. In the event any of the CUSTOMER Work herein is sublet, CUSTOMER shall require the CUSTOMER Contractor, and all other contractors and sub-contractors performing work on the CUSTOMER Project, other than Tacoma Power, to fully comply with all of the terms and conditions of the laws of the State of Washington pertaining to Workers' Compensation. For persons engaged in employment who are not within the mandatory coverage of the state Workers' Compensation laws, CUSTOMER shall provide and shall cause the CUSTOMER Contractor and each and every other said contractor and subcontractor to provide workers' compensation insurance (including self-insurance if it otherwise meets all requirements of state Workers' Compensation laws), satisfactory to the City, at least equivalent to the benefits provided for covered employment under state Workers' Compensation laws.
- (b) **Public Liability and Property Damage Insurance.** CUSTOMER shall procure and/or maintain during the life of this Agreement a policy of commercial general liability insurance, with an insurance carrier authorized to do business in the State of Washington. The policy shall be subject to the approval, as to form and content, by the Tacoma City Attorney based on evidence thereof in accordance with subsection 7.4.1 (d) below. The policy shall protect the City from liability imposed by law for damages suffered by any persons arising out of or resulting from acts or omissions in the performance of this Agreement: (1) for bodily injury or death resulting therefrom caused by accidents or occurrences resulting from any act or omission by CUSTOMER, the CUSTOMER Contractor, and their respective employees, agents, and other contractors in the performance of the

Agreement, and (2) for injury to, or destruction of, any property, including property of the City, and including loss of use. The policy or policies shall include coverage for claims for damages because of bodily injury or death or property damage arising out of the ownership, maintenance or use of any motor vehicle, including hired or non-owned vehicles. The City of Tacoma, Department of Public Utilities, Power Division shall be designated in said policy as an additional insured and shall be given 30 days written notice of cancellation, nonrenewal, or material change in the coverage provided. Said insurance shall be on a Commercial General Liability form with coverages to include Blanket Contractor, Broad Form Property Damage, Personal Injury, Protective Liability and Employers Liability. Limits shall be at \$1,000,000 per occurrence, \$2,000,000 aggregate and for contracts in excess of \$500,000 the minimum coverage limits include Umbrella Excess Liability of \$5,000,000. CUSTOMER shall further furnish CGL policy coverage provisions (e.g. by endorsements) specifying that the City's insurance is excess to any other collectible insurance. CUSTOMER shall furnish evidence of the amount of any deductible or self-insured retention under the CGL policy or policies, which amount shall be subject to approval by the City Attorney's Office for the City of Tacoma if the amount of the deductible or self-insured retention exceeds \$20,000. The City may require CUSTOMER to furnish evidence of its ability to pay the amount of any deductible or self-insured retention. If the policy provides for a deductible or self-insured retention, CUSTOMER shall be solely responsible for paying the amount of the deductible or self-insured retention toward the cost of any claim under the policy. If CUSTOMER fails to maintain such insurance, the City, at its discretion, may obtain equivalent substitute insurance coverage and be entitled to full reimbursement and payment of its costs thereof. Nothing herein contained shall be in any manner construed as limiting the extent to which CUSTOMER or its contractor(s) may be held liable or responsible for payment of damages resulting from their operations.

- (c) Builder's Risk. CUSTOMER and the CUSTOMER Contractor shall be expected to protect and insure from loss for any tools and equipment owned or rented by CUSTOMER and/or the CUSTOMER Contractor, and each of their respective sub-contractors, employees or agents. Until the CUSTOMER Work is completed and finally accepted by the City, all construction is at the sole risk of CUSTOMER and no acceptance of payment by the City shall constitute acceptance of the CUSTOMER Work or relieve CUSTOMER of responsibility to deliver to the City the completed CUSTOMER Work as required by this Agreement.
- (d) Proof of Insurance Coverage. CUSTOMER shall furnish and file with the City, within ten business days of the Effective Date of this Agreement, Acord certificate(s) of insurance coverage evidencing the above insurance requirement types and limits and shall further, upon request provide a signed and authorized letter from its insurance broker (currently Willis Group) stating that the coverages referenced in said Acord Certificates are current and valid. Additionally, CUSTOMER shall upon request in the event of any claim under its insurance provide a copy of its insurance policy or policies verifying the required insurance

coverage types and limits, subject to Tacoma Power's execution of a confidentiality and non-disclosure agreement in connection therewith. It is expressly recognized and understood, however, that Tacoma Power is a public agency subject to the Washington State Public Records Act (Chapter 42.56, R.C.W.) and that disclosure of such confidential Information may be compelled by said Act. In the event Tacoma Power determines, in its reasonable legal judgment, that its disclosure of such information is required by Washington's Public Records Act, Tacoma Power agrees to provide CUSTOMER at least ten (10) days prior written notice of impending release and to reasonably cooperate with any legal action that may be initiated by CUSTOMER to enjoin or otherwise prevent such release; provided, that all expense of any such action or litigation shall be borne solely by CUSTOMER including any damages, attorneys' fees or costs or other judgment amounts awarded by reason of having opposed disclosure. Tacoma Power shall not be liable for any release of information where such notice was provided and CUSTOMER took no action to oppose said release.

An up-to-date certificate of insurance must be on file with the City throughout the term of this Agreement.

ARTICLE 8 - DISPUTE RESOLUTION

8.1 Preventing Conflicts. The Parties agree to use their best efforts to prevent and resolve potential sources of conflict before they escalate into dispute, claims or legal actions.

8.2 Resolving Disputes Through Negotiation. The Parties agree to use their best efforts to resolve disputes arising out of or related to this Agreement using good faith negotiations by engaging in the following dispute escalation process should any such disputes arise:

8.2.1 Level One – The respective Project Managers of the Parties shall meet to discuss and attempt to resolve the dispute in a timely manner. If they cannot resolve the dispute within ten (10) business days after the referral of that dispute to Level One, either party may refer the dispute to Level Two.

8.2.2 Level Two – An executive officer of CUSTOMER or designee and the Superintendent of Tacoma Power or his designee shall meet to discuss and attempt to resolve the dispute in a timely manner.

8.3 Failure to Resolve Dispute Through Best Efforts. Except as otherwise specified in this Agreement, in the event the dispute is not resolved at Level Two within ten (10) business days after referral of that dispute to Level Two, the dispute may be referred to mediation as mutually agreed to by the Parties, or the Parties may exercise whatever other rights they may have at law or in equity. At all times prior to resolution of the dispute, the Parties shall continue to perform their respective duties under this Agreement in the same manner and under the terms as existed prior to the dispute.

8.4 Venue. Venue for any alternative dispute proceedings and/or legal action shall be in Pierce County, Washington.

ARTICLE 9 – MISCELLANEOUS PROVISIONS

9.1 Termination. If this Agreement is terminated by CUSTOMER and/or if CUSTOMER defaults under this Agreement prior to completing all CUSTOMER Work, and said termination or default results in a state of reduced operation and reliability to City-owned utilities, then the City shall restore its utility infrastructures to a reliable and operable condition and CUSTOMER shall be responsible for and shall promptly pay Tacoma Power all costs associated with such restoration.

9.2 Agency or Employee Relationship. No joint venture or partnership is formed as a result of this Agreement. No employees, agents or subcontractors of one Party shall be deemed, or represent themselves to be, employees of any other Party. In performing work and services pursuant to this Agreement, CUSTOMER, its employees, consultants, agents, and representatives shall be acting as agents of CUSTOMER and shall not be deemed or construed to be employees or agents of the City in any manner whatsoever. CUSTOMER shall not hold itself out as, nor claim to be, an officer or employee of the City and will not make any claim, demand, or application to or for any right or privilege applicable to an officer or employee of the City. CUSTOMER shall be solely responsible for any claims for wages or compensation by the respective employees, contractors, sub-contractors, agents, and representatives of CUSTOMER and the CUSTOMER Contractor, and shall defend, indemnify and hold the City harmless, from these claims. In performing work and services pursuant to this Agreement, the City, its, employees, consultants, agents, and representatives shall be acting as agents of the City and shall not be deemed or construed to be employees or agents of CUSTOMER in any manner whatsoever.

9.3 Entire Agreement. This Agreement and the Exhibits attached hereto constitute the entire agreement and understanding between CUSTOMER and the City relating to the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants or undertakings, oral or otherwise, except those expressly set forth or referenced herein.

9.4 Severability. In the event that any term, covenant, condition, or provision of this Agreement, or the application of the Agreement to any person or circumstance, is found to be invalid or unenforceable in any respect, the remainder of this Agreement, and the application of such term or provision to other persons or circumstances nevertheless shall be binding with the same effect as if the invalid or unenforceable provision were originally deleted. The Parties agree to bargain in good faith to reform this Agreement or replace any invalid or unenforceable provision with a valid and enforceable provision that comes as close as possible to the intention of the invalid or unenforceable provision.

9.5 Amendments. No waiver, modification, addition, or amendment to this Agreement shall be of any force or effect unless reduced to writing and signed by the authorized employees of each Party hereto.

9.6 Rights and Remedies. The duties and obligations imposed by this Agreement and the rights and remedies available hereunder shall be in addition to and not a limitation of or waiver regarding any duties, obligations, rights, and remedies otherwise available by law. No waiver by either Party hereto of any default shall affect or impair any right arising from any subsequent default. The failure of either Party hereto to insist at any time upon the strict observance or performance of any of the provisions of this Agreement or to exercise any right or remedy provided for in this Agreement shall not impair any such right or remedy nor be construed as a waiver or relinquishment of such right.

9.7 Force Majeure. Neither Party hereto shall be liable to the other Party for any failure to perform an obligation set forth herein to the extent such failure is caused by war, act of terrorism or an act of nature, provided that such Party has made and is making all reasonable efforts to perform such obligation and minimize any and all resulting loss or damage. Tacoma Power has a responsibility to restore service after storms before returning to scheduled work. Storm related schedule delays shall not constitute liability.

9.8 Transfer/Assignment. Neither Party shall assign any interest, obligation, or benefit in this Agreement or transfer any interest in the same, whether by assignment or novation, without prior written consent by the other Party. This Agreement is binding upon, and inures to the benefit of, the Parties and their respective permitted successors and assigns.

9.9 Benefits. This Agreement is intended for the sole benefit of the Parties to this Agreement. Nothing in this Agreement is intended to give any person or entity, other than the Parties hereto, any legal or equitable right, remedy, or claim under this Agreement.

9.10 Authorization To Execute Agreement. The undersigned, by their respective signatures below, represent and warrant that they are each duly authorized to execute this legally binding Agreement for and on behalf of the Party for whom they have signed. CUSTOMER through its undersigned representative expressly acknowledges and agrees that the formal approval of this Agreement by the City of Tacoma's Public Utility Board is a required pre-condition to the effectiveness and enforceability of this Agreement. Tacoma Power shall have no legal or equitable liability hereunder and/or in connection with the CUSTOMER Project unless or until such approval is obtained. Upon such approval, this Utility Installation Agreement shall become effective as of the Effective Date first above written.

PROLOGIS, L.P.
By: Prologis, Inc., its general partner

By 
Printed Name: Ken Sun
Title: VP, Development Manager

CITY OF TACOMA
DEPARTMENT OF PUBLIC UTILITIES

By _____
William A. Gaines,
Utilities Director/CEO

Approved:

By _____
Chis Robinson
Power Superintendent/COO

Approved:

Finance Director

Approved as to Form:



Deputy City Attorney

Exhibit A CUSTOMER WORK

(Full Set of Hard Copy Documents for Exhibit A to Be Attached to Execution Draft)

Construction Documents attached:

- Customer generated drawings for in the installation conduit & vaults
- Tacoma Power Construction Standards
- Vault Tables
- Conduit/Duct Table & Trench detail

Exhibit B

TACOMA POWER WORK

(Full Set of Hard Copy Documents for Exhibit B to Be Attached to Execution Draft)

Construction Documents attached:

- HFC drawings
- Tacoma Power drawings

Exhibit C Project Cost Estimate

CUSTOMER shall be solely responsible for funding and paying (including reimbursement to Tacoma Power if and as invoiced) all Direct Costs for the Tacoma Power Work, which includes all cost and expense of labor and services performed by Tacoma Power, together with all materials, equipment and other items it provides associated with the CUSTOMER Project pursuant to the Utility Installation Agreement to which this Exhibit C is attached.

The Preliminary Cost Estimate for the Tacoma Power work is:

	12.5KV CONVERSION ON 12TH STREET	13.8KV UNDERGROUND DISTRIBUTION SYSTEM	115KV TRANSMISSION & 12.5KV & 13.8KV RELOCATION ON 8TH & 54TH	HFC FIBER CONDUCTOR RELOCATION TO UNDERGROUND	NEW SERVICE TO PUMP STATION 4 ON 8TH & 54TH
	1-102327	1-102329	1-103479	1-105979	1-103674
MATERIAL	\$ 106,275.00	\$ 85,200.00	\$ 22,240.00	\$ 39,000.00	\$ 3,950.00
PROJECT MGT	\$ 2,000.00	\$ 2,000.00	\$ 2,000.00	\$ 2,000.00	\$ 1,000.00
METERING	\$ 100.00	\$ 1,516.00			\$ 640.00
EQUIPMENT	\$ 6,165.00	\$ 6,000.00	\$ 9,080.00	\$ 2,000.00	\$ 640.00
LABOR					\$ 9,334.00
CREW	\$ 106,338.00	\$ 40,946.00	\$ 57,000.00	\$ 33,000.00	\$ 1,804.00
ENGINEERING	\$ 15,000.00	\$ 20,000.00	\$ 7,350.00	\$ 6,500.00	\$ 1,702.00
FLAGGING	\$ 7,680.00	\$	\$ 3,000.00	\$	\$ 500.00
A&G	\$ 79,334.00	\$ 39,293.00	\$ 36,700.00	\$ 22,515.00	\$ 6,291.00
TOTAL	\$ 322,892.00	\$ 194,955.00	\$ 137,370.00	\$ 105,015.00	\$ 25,861.00

Exhibit D

Schedule of Work

The schedule is to be determined and added when developed in coordination with the Project Team.



BIENNIAL BUDGET

BUDGET PERFORMANCE REPORT

4TH QTR. – 2016

POWER

WATER

RAIL



**TACOMA PUBLIC UTILITIES
2015/2016 BIENNIAL BUDGET PERFORMANCE REPORTS*
4th QUARTER 2016**

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** Unaudited reports focusing on operating transactions in the operating fund, excluding some non budgetary entries made for accounting purposes.*



TACOMA POWER
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
DECEMBER 31, 2016

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
REVENUE LESS EXPENDITURES	\$ (3,503,060)	\$ (10,142,702)	\$ (6,639,641)	\$ 0	\$ (80,347,077)	\$ (80,347,077)		
<u>SALES OF ELECTRICAL ENERGY</u>								
RETAIL SALES								
RESIDENTIAL	\$ 39,263,862	\$ 36,519,572	\$ (2,744,290)	\$ 316,291,934	\$ 300,766,720	\$ (15,525,214)	(4.9%)	\$ 316,291,934
PRIVATE OFF-STREET LIGHTING	205,985	307,903	101,918	2,012,618	2,519,642	507,024	25.2%	2,012,618
SMALL GENERAL SERVICE	6,624,495	6,584,219	(40,276)	55,667,447	54,659,459	(1,007,988)	(1.8%)	55,667,447
GENERAL POWER	24,992,529	24,148,704	(843,825)	203,662,031	195,787,187	(7,874,844)	(3.9%)	203,662,031
HIGH VOLTAGE GENERAL POWER	6,356,378	4,330,301	(2,026,077)	44,392,952	36,520,281	(7,872,671)	(17.7%)	44,392,952
CONTRACT INDUSTRIAL POWER - FIRM	5,795,683	5,431,972	(363,711)	45,462,757	42,819,622	(2,643,135)	(5.8%)	45,462,757
STREET LIGHTING & TRAFFIC SIGNALS	268,701	327,804	59,103	2,885,713	2,716,137	(169,576)	(5.9%)	2,885,713
ACCRUED UNBILLED REVENUE	-	(840,477)	(840,477)	-	(163,386)	(163,386)	-	-
TOTAL RETAIL SALES	83,507,633	76,810,000	(6,697,633)	670,375,452	635,625,662	(34,749,790)	(5.2%)	670,375,452
BULK POWER SALES	11,225,538	17,466,772	6,241,234	110,516,035	104,886,683	(5,629,352)	(5.1%)	110,516,035
TOTAL SALES OF ELECTRICAL ENERGY	94,733,171	94,276,772	(456,399)	780,891,487	740,512,345	(40,379,142)	(5.2%)	780,891,487
<u>TELECOMMUNICATIONS REVENUES</u>	7,918,264	6,755,952	(1,162,312)	59,477,322	53,993,196	(5,484,126)	(9.2%)	59,477,322
<u>OTHER OPERATING REVENUE</u>								
RENTAL OF ELECTRIC PROPERTY	349,458	85,108	(264,350)	2,769,599	2,687,255	(82,344)	(3.0%)	2,769,599
SERVICE FEES	619,883	531,732	(88,151)	4,916,511	4,599,376	(317,135)	(6.5%)	4,916,511
WHEELING REVENUE	2,185,794	2,524,263	338,469	17,486,352	19,795,779	2,309,427	13.2%	17,486,352
CAMPGROUND FEES	313,584	270,455	(43,129)	2,474,150	2,710,891	236,741	9.6%	2,474,150
MISCELLANEOUS REVENUES	618,632	601,704	(16,928)	4,915,958	5,002,333	86,375	1.8%	4,915,958
TOTAL OTHER OPERATING REVENUES	4,087,351	4,013,262	(74,089)	32,562,570	34,795,634	2,233,064	6.9%	32,562,570
TOTAL OPERATING REVENUES	106,738,786	105,045,986	(1,692,800)	872,931,379	829,301,174	(43,630,205)	(5.0%)	872,931,379
<u>NON-OPERATING REVENUES</u>								
INTEREST	442,085	572,234	130,149	4,147,775	4,412,669	264,894	6.4%	4,147,775
FEDERAL INTEREST SUBSIDY FOR BABS & CREBS	942,193	852,225	(89,968)	7,537,542	7,359,582	(177,960)	(2.4%)	7,537,542
OTHER	246,836	515,357	268,521	1,977,260	4,499,329	2,522,069	127.6%	1,977,260
TOTAL NON-OPERATING REVENUES	1,631,114	1,939,815	308,701	13,662,577	16,271,579	2,609,002	19.1%	13,662,577
TOTAL REVENUES	108,369,900	106,985,801	(1,384,098)	886,593,956	845,572,754	(41,021,202)	(4.6%)	886,593,956
<u>OTHER AVAILABLE FUNDS</u>								
CAPITAL RESERVE FUND - TRANSFER IN	-	-	-	-	12,000,000	12,000,000	-	-
APPROPRIATION FROM FUND BALANCE	2,888,636	-	(2,888,636)	138,390,970	-	(138,390,970)	(100.0%)	138,390,970
TOTAL REVENUES AND AVAILABLE FUNDS	\$ 111,258,536	\$ 106,985,801	\$ (4,272,735)	\$ 1,024,984,926	\$ 857,572,754	\$ (167,412,172)	(16.3%)	\$ 1,024,984,926



TACOMA POWER
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
DECEMBER 31, 2016

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
<u>OPERATING EXPENDITURES</u>								
<u>ADMINISTRATION</u>								
SUPERINTENDENT'S OFFICE	\$ 2,535,839	\$ 2,788,777	\$ (252,937)	\$ 20,276,337	\$ 22,215,647	\$ (1,939,310)	(9.6%)	\$ 20,276,337
ASSESSMENTS	6,384,919	7,916,847	(1,531,928)	51,253,292	49,365,558	1,887,734	3.7%	51,253,292
GROSS EARNINGS TAX	5,867,914	7,457,851	(1,589,937)	48,251,792	51,890,274	(3,638,482)	(7.5%)	48,251,792
ADMINISTRATION TOTAL	14,788,672	18,163,474	(3,374,802)	119,781,421	123,471,480	(3,690,059)	(3.1%)	119,781,421
<u>RATES, FINANCIAL PLANNING & ANALYSIS</u>								
RPA MANAGEMENT	162,107	114,533	47,574	1,259,683	1,096,493	163,191	13.0%	1,259,683
FINANCIAL & BUSINESS PLANNING	303,788	317,048	(13,259)	2,441,955	2,331,488	110,467	4.5%	2,441,955
ENERGY RISK MANAGEMENT	242,018	192,952	49,065	1,892,995	1,358,227	534,768	28.2%	1,892,995
RATES & FORECASTING	190,775	185,633	5,142	1,475,900	1,152,662	323,238	21.9%	1,475,900
RATES, FINANCIAL PLANNING & ANALYSIS TOTAL	898,687	810,166	88,521	7,070,534	5,938,870	1,131,664	16.0%	7,070,534
<u>POWER MANAGEMENT</u>								
POWER MANAGEMENT ADMINISTRATION	114,623	164,786	(50,162)	903,863	877,786	26,077	2.9%	903,863
POWER CONTRACTS, COMPLIANCE & TRANSMISSION	209,217	204,219	4,998	1,637,262	1,428,446	208,816	12.8%	1,637,262
REAL-TIME ENERGY TRADING	424,184	340,440	83,744	3,276,168	2,898,828	377,340	11.5%	3,276,168
NEAR TERM ENERGY TRADING & OPERATIONS	41,941,658	35,899,431	6,042,227	328,137,113	289,572,795	38,564,318	11.8%	328,137,113
EMS/IT MANAGEMENT	199,210	196,942	2,268	1,553,048	1,123,252	429,796	27.7%	1,553,048
SUPPLY PLANNING & ANALYSIS	252,691	234,990	17,700	2,020,498	2,028,901	(8,403)	(0.4%)	2,020,498
CONSERVATION PLANNING & ANALYSIS	231,803	260,675	(28,872)	1,482,840	1,304,862	177,978	12.0%	1,482,840
ENERGY CONSERVATION ADMINISTRATION	117,777	174,969	(57,193)	1,030,651	1,157,676	(127,025)	(12.3%)	1,030,651
COMMERCIAL ENERGY CONSERVATION	512,845	817,676	(304,830)	4,061,643	3,784,122	277,521	6.8%	4,061,643
RESIDENTIAL ENERGY SERVICES	440,357	587,284	(146,928)	3,518,156	3,132,415	385,741	11.0%	3,518,156
CONSERVATION INFORMATION CENTER	368,437	347,303	21,133	2,933,603	2,142,403	791,200	27.0%	2,933,603
POWER MANAGEMENT TOTAL	44,812,801	39,228,715	5,584,086	350,554,846	309,451,486	41,103,360	11.7%	350,554,846



TACOMA POWER
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
DECEMBER 31, 2016

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
TRANSMISSION & DISTRIBUTION (T & D)								
TD ADMINISTRATION	\$ 464,784	\$ 183,407	\$ 281,377	\$ 3,652,126	\$ 3,506,850	\$ 145,276	4.0%	\$ 3,652,126
TD SAFETY	70,063	64,674	5,388	563,222	706,484	(143,262)	(25.4%)	563,222
TD STANDARDS & MATERIALS	109,251	105,869	3,381	864,725	844,249	20,476	2.4%	864,725
TD LINE CLEARANCE TREE TRIMMING	949,936	843,853	106,083	7,567,969	7,686,406	(118,437)	(1.6%)	7,567,969
TD C & M LINE OPERATIONS	2,784,653	2,059,521	725,132	21,994,617	16,987,590	5,007,027	22.8%	21,994,617
TD TROUBLE CREWS	385,112	438,296	(53,183)	3,054,131	3,343,986	(289,855)	(9.5%)	3,054,131
TD SYSTEM MAINTENANCE & SUBSTATIONS	2,107,018	2,056,842	50,176	16,668,843	15,484,772	1,184,071	7.1%	16,668,843
TD LINE MAINTENANCE PLANNING	182,009	59,711	122,298	1,441,454	1,679,013	(237,559)	(16.5%)	1,441,454
TD ASSET MANAGEMENT	101,271	68,054	33,217	797,852	519,092	278,760	34.9%	797,852
* TD HFC NETWORK CONSTRUCTION (49%)	101,557	128,433	(26,876)	814,073	796,156	17,916	2.2%	814,073
* TD HFC NETWORK ENGINEERING (49%)	28,683	26,431	2,253	219,159	175,301	43,858	20.0%	219,159
TD UTILITY STAFF SUPPORT	419,359	408,280	11,079	3,319,723	3,170,847	148,876	4.5%	3,319,723
TD ELECTRICAL INSPECTION	467,569	357,381	110,188	3,761,869	3,325,024	436,845	11.6%	3,761,869
TD METER, RELAY & LINE SERVICES	830,343	728,331	102,012	6,620,671	5,815,885	804,786	12.2%	6,620,671
TD NEW SERVICES ENGINEERING	201,475	230,573	(29,098)	1,785,940	1,522,976	262,964	14.7%	1,785,940
TD ENGINEERING PRODUCTS & SERVICES	326,671	332,811	(6,140)	2,543,599	2,289,790	253,809	10.0%	2,543,599
TD PROTECTION & CONTROL ENGINEERING	218,590	170,459	48,131	1,757,322	1,324,017	433,305	24.7%	1,757,322
TD PROJECTS & SERVICES	79,886	165,351	(85,465)	621,821	718,443	(96,622)	(15.5%)	621,821
TD SUBSTATION ENGINEERING	90,859	104,290	(13,432)	712,324	632,328	79,996	11.2%	712,324
TD ENGINEERING TECHNICAL SERVICES	135,167	128,590	6,578	1,101,280	1,000,045	101,235	9.2%	1,101,280
TD CENTRAL BUSINESS DISTRICT ENGR	35,476	46,489	(11,013)	272,205	330,121	(57,916)	(21.3%)	272,205
TD LINE ENGINEERING	62,121	106,314	(44,193)	477,918	603,999	(126,081)	(26.4%)	477,918
TD SYSTEM OPERATIONS	1,296,287	1,141,139	155,148	10,391,706	9,411,004	980,702	9.4%	10,391,706
TD SYSTEM PLANNING & ANALYSIS	198,959	244,428	(45,469)	1,594,219	1,477,829	116,389	7.3%	1,594,219
TD TRAINING & DEVELOPMENT	157,054	135,650	21,404	1,210,016	1,236,334	(26,318)	(2.2%)	1,210,016
TD TOOL & EQUIPMENT ROOMS	27,753	29,647	(1,893)	219,808	220,624	(816)	(0.4%)	219,808
TD BUSINESS & FINANCIAL MGMT	199,594	254,188	(54,594)	1,568,055	1,469,766	98,289	6.3%	1,568,055
TD WAREHOUSE	346,130	95,559	250,571	2,734,425	1,525,783	1,208,642	44.2%	2,734,425
DISTRIBUTED WAREHOUSE COSTS	(346,130)	(149,759)	(196,371)	(2,734,425)	(1,579,983)	(1,154,442)	(42.2%)	(2,734,425)
TRANSMISSION & DISTRIBUTION TOTAL	12,031,500	10,564,810	1,466,690	95,596,648	86,224,731	9,371,917	9.8%	95,596,648



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	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
GENERATION								
GENERATION ADMINISTRATION	\$ 960,794	\$ 892,831	\$ 67,963	\$ 7,575,083	\$ 6,713,410	\$ 861,673	11.4%	\$ 7,575,083
GENERATION EXTRAORDINARY MAINTENANCE	601,176	1,147,826	(546,650)	4,435,000	6,169,625	(1,734,625)	(39.1%)	4,435,000
PRODUCTION ENGINEERING	575,368	632,624	(57,255)	4,588,806	3,767,519	821,286	17.9%	4,588,806
PLANT ENGINEERING & CONSTRUCTION SERVICES	773,431	752,840	20,591	6,144,696	5,575,196	569,500	9.3%	6,144,696
CONTRACT SERVICES	106,064	114,355	(8,291)	833,320	834,486	(1,166)	(0.1%)	833,320
CRAFT SHOPS	206,523	204,524	2,000	1,634,524	1,345,114	289,410	17.7%	1,634,524
FACILITIES	285,359	243,115	42,244	2,258,724	1,711,710	547,014	24.2%	2,258,724
MECHANICAL MAINTENANCE	205,870	208,149	(2,279)	1,631,644	1,606,203	25,442	1.6%	1,631,644
BUILDING MAINTENANCE	752,348	747,455	4,893	5,966,218	6,054,811	(88,593)	(1.5%)	5,966,218
GROUNDS MAINTENANCE	372,814	396,634	(23,821)	2,936,728	2,766,424	170,304	5.8%	2,936,728
NATURAL RESOURCES/ENVIRONMENTAL COMPL	4,208,978	5,788,624	(1,579,646)	33,131,503	26,379,312	6,752,191	20.4%	33,131,503
NISQUALLY PROJECT	596,404	569,045	27,358	4,660,970	4,045,811	615,159	13.2%	4,660,970
ALDER PARK	138,348	132,463	5,885	1,086,228	1,081,837	4,391	0.4%	1,086,228
CUSHMAN PROJECT	765,841	817,791	(51,950)	6,059,788	5,619,369	440,419	7.3%	6,059,788
COWLITZ PROJECT	1,068,906	973,621	95,285	8,427,196	8,861,076	(433,880)	(5.1%)	8,427,195
TAIDNAPAM PARK	118,944	108,979	9,966	936,893	964,044	(27,151)	(2.9%)	936,893
MOSSYROCK PARK	124,750	102,018	22,732	979,302	1,066,850	(87,548)	(8.9%)	979,302
MAYFIELD LAKE PARK	72,857	65,685	7,172	573,227	688,428	(115,201)	(20.1%)	573,227
WYNOOCHEE PROJECT	224,759	248,402	(23,643)	1,779,009	1,821,070	(42,062)	(2.4%)	1,779,009
GENERATION TOTAL	12,159,535	14,146,980	(1,987,445)	95,638,857	87,072,294	8,566,563	9.0%	95,638,856
UTILITY TECHNOLOGY SERVICES (UTS)								
UTS ADMINISTRATION	211,373	238,343	(26,970)	1,694,104	1,813,179	(119,074)	(7.0%)	1,694,104
RELIABILITY & COMPLIANCE	569,411	936,809	(367,399)	4,481,212	4,308,011	173,201	3.9%	4,481,212
UTS DESKTOP SUPPORT	149,809	235,912	(86,103)	1,414,747	1,362,400	52,347	3.7%	1,414,747
UTS BUSINESS PROCESSES & SOLUTIONS	196,405	184,729	11,675	1,534,164	1,678,986	(144,822)	(9.4%)	1,534,164
UTS OPERATIONAL APPLICATION USER SUPPORT	361,950	520,346	(158,396)	2,820,581	2,651,863	168,718	6.0%	2,820,581
UTS OPERATIONAL INFORMATION SYSTEMS	551,197	594,117	(42,920)	4,364,480	2,757,944	1,606,536	36.8%	4,364,480
UTS ENERGY MANAGEMENT SYSTEMS	309,163	392,401	(83,237)	2,453,688	2,323,006	130,682	5.3%	2,453,688
UTS NETWORKING, TELECOM & TRANSPORT SVCS	452,559	542,332	(89,773)	3,610,889	3,672,485	(61,595)	(1.7%)	3,610,889
UTS NETWORK & COMM SYSTEM ENGINEERING	233,794	332,332	(98,538)	1,836,348	1,968,614	(132,266)	(7.2%)	1,836,348
UTILITY TECHNOLOGY SERVICES TOTAL	3,035,661	3,977,322	(941,661)	24,210,213	22,536,486	1,673,727	6.9%	24,210,213

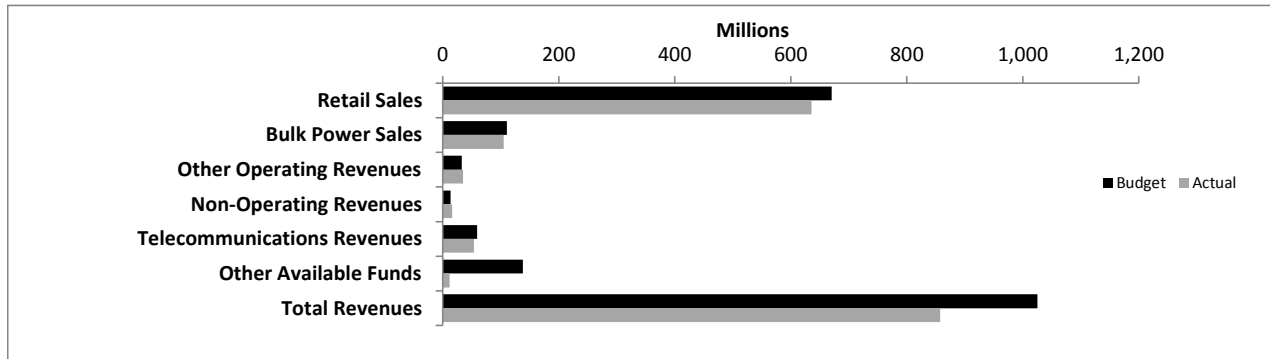


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	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
CLICK! COMMERCIAL NETWORK								
ADMINISTRATION (94%)	\$ 369,524	\$ 484,739	\$ (115,215)	\$ 3,005,768	\$ 2,997,493	\$ 8,275	0.3%	\$ 3,005,768
GROSS EARNINGS TAX	575,002	525,919	49,083	4,395,393	4,051,647	343,746	7.8%	4,395,393
MARKETING & BUSINESS OPERATIONS ADMIN	54,335	46,460	7,875	413,484	411,943	1,541	0.4%	413,484
MARKETING ADMIN	303,212	268,025	35,187	2,393,718	2,128,776	264,942	11.1%	2,393,718
MARKETING SERVICES	4,101,744	3,907,338	194,406	32,875,994	30,296,792	2,579,203	7.8%	32,875,994
ISP ADVANTAGE	72,400	47,697	24,703	553,700	623,548	(69,848)	(12.6%)	553,700
CUSTOMER SALES AND SERVICE	356,373	274,149	82,224	2,802,132	2,489,322	312,810	11.2%	2,802,132
BUSINESS SYSTEMS	209,944	194,536	15,408	1,661,255	1,579,732	81,523	4.9%	1,661,256
TECHNICAL OPERATIONS ADMIN (80%)	69,929	72,276	(2,347)	548,222	533,656	14,567	2.7%	548,222
SERVICE INSTALLATION (98%)	647,670	617,005	30,664	5,104,453	5,041,078	63,375	1.2%	5,104,453
DISPATCH CENTER (93%)	114,550	89,537	25,013	904,226	809,158	95,068	10.5%	904,226
CONVERTER INVENTORY CONTROL	110,677	120,322	(9,645)	878,405	819,793	58,612	6.7%	878,405
NETWORK OPERATIONS (51%)	208,282	162,714	45,569	1,650,948	1,390,902	260,045	15.8%	1,650,947
BROADBAND SERVICES (99%)	293,397	321,672	(28,275)	2,330,334	2,341,692	(11,358)	(0.5%)	2,330,334
NETWORK ENGINEERING (95%)	162,503	92,294	70,208	1,291,262	1,095,489	195,774	15.2%	1,291,262
NETWORK SERVICE ASSURANCE (51%)	119,941	110,096	9,845	947,039	903,795	43,245	4.6%	947,039
CLICK! COMMERCIAL NETWORK TOTAL	7,769,484	7,334,781	434,703	61,756,334	57,514,814	4,241,520	6.9%	61,756,333
TD HFC NETWORK CONSTRUCTION (51%)	105,703	133,675	(27,973)	847,300	828,652	18,648	2.2%	847,300
TD HFC NETWORK ENGINEERING (51%)	29,854	27,509	2,345	228,104	182,456	45,648	20.0%	228,105
CLICK! COMMERCIAL PLUS T&D HFC COSTS TOTAL	7,905,041	7,495,966	409,075	62,831,739	58,525,923	4,305,816	6.9%	62,831,738
CLICK! POWER APPLICATIONS								
ADMINISTRATION (6%)	23,587	(53,237)	76,824	191,858	59,798	132,060	68.8%	191,858
TECHNICAL OPERATIONS ADMIN (20%)	17,482	18,069	(587)	137,056	133,414	3,642	2.7%	137,056
SERVICE INSTALLATION (2%)	13,218	12,592	626	104,173	102,879	1,293	1.2%	104,172
DISPATCH CENTER (7%)	8,622	6,739	1,883	68,060	60,904	7,156	10.5%	68,060
NETWORK OPERATIONS (49%)	200,115	156,333	43,782	1,586,205	1,336,357	249,847	15.8%	1,586,205
BROADBAND SERVICES (1%)	2,964	3,249	(286)	23,539	23,653	(115)	(0.5%)	23,539
NETWORK ENGINEERING (5%)	8,553	4,858	3,695	67,961	57,657	10,304	15.2%	67,961
NETWORK SERVICE ASSURANCE (49%)	115,238	105,778	9,459	909,901	868,352	41,549	4.6%	909,901
CLICK! POWER APPLICATIONS TOTAL	389,777	254,381	135,396	3,088,751	2,643,015	445,736	14.4%	3,088,752
OPERATION & MAINTENANCE TOTAL	\$ 96,021,675	\$ 94,641,815	\$ 1,379,860	\$ 758,773,008	\$ 695,864,285	\$ 62,908,723	8.3%	\$ 758,773,008
DEBT SERVICE	9,304,232	8,180,164	1,124,068	76,747,478	69,744,311	7,003,167	9.1%	76,747,478
CALL OF 2005B BONDS	-	-	-	122,135,000	122,135,000	-	-	122,135,000
CAPITAL OUTLAY - OPERATING FUND	9,435,689	14,306,524	(4,870,835)	67,329,440	50,176,235	17,153,205	25.5%	67,329,440
TOTAL CURRENT FUND EXPENDITURES	\$ 114,761,596	\$ 117,128,503	\$ (2,366,906)	\$ 1,024,984,926	\$ 937,919,831	\$ 87,065,095	8.5%	\$ 1,024,984,926

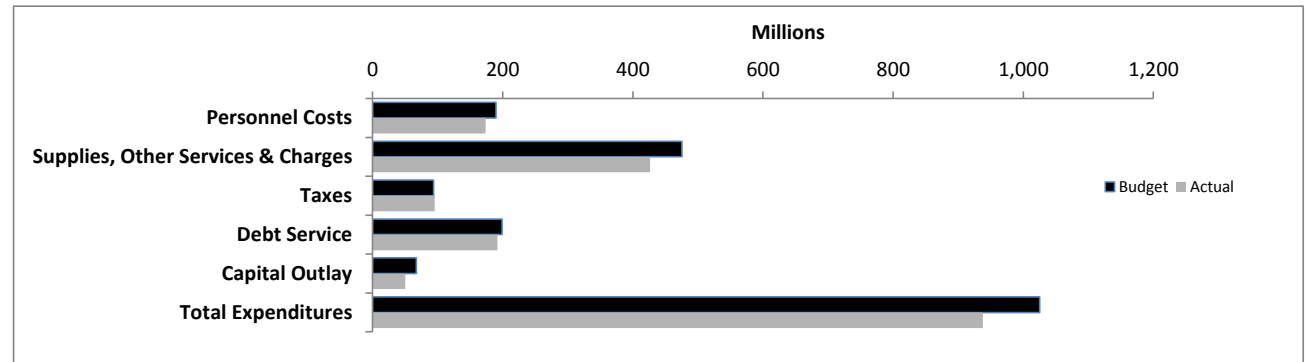
* 51% of these T & D cost centers are included in Click!'s Commercial Network section.

Tacoma Power Revenues



	1/15 - 12/16 Budget	1/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Retail Sales	\$670,375,452	\$635,625,662	95%	\$670,375,452	95%
Bulk Power Sales	110,516,035	104,886,683	95%	110,516,035	95%
Other Operating Revenues	32,562,570	34,795,634	107%	32,562,570	107%
Non-Operating Revenues	13,662,577	16,271,579	119%	13,662,577	119%
Telecommunications Revenues	59,477,322	53,993,196	91%	59,477,322	91%
Other Available Funds	138,390,970	12,000,000	9%	138,390,970	9%
Total Revenues	\$1,024,984,926	\$857,572,754	84%	\$1,024,984,926	84%

Tacoma Power Expenditures



	1/15 - 12/16 Budget	1/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$189,746,992	\$173,794,905	92%	\$189,746,992	92%
Supplies, Other Services & Charges	475,402,812	426,406,313	90%	475,402,812	90%
Taxes	93,623,204	95,663,067	102%	93,623,204	102%
Debt Service	198,882,478	191,879,311	96%	198,882,478	96%
Capital Outlay	67,329,440	50,176,235	75%	67,329,440	75%
Total Expenditures	\$1,024,984,926	\$937,919,831	92%	\$1,024,984,926	92%

100.0% of Biennial Budget Completed



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	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
REVENUE LESS EXPENDITURES	\$ 590,596	\$ (603,954)	\$ (1,194,550)	\$ 0	\$ 11,207,554	\$ 11,207,554		
<u>OPERATING REVENUES - WATER SALES</u>								
RESIDENTIAL & DOMESTIC	\$ 11,987,244	\$ 12,582,202	\$ 594,958	\$ 90,934,393	\$ 98,887,838	\$ 7,953,445	8.7%	\$ 90,934,393
WESTROCK	1,458,546	1,481,710	23,164	11,768,380	11,797,065	28,685	0.2%	11,768,380
WHOLESALE	863,159	848,481	(14,678)	7,807,285	9,163,986	1,356,701	17.4%	7,807,285
OTHER WATER SALES	4,111,204	4,450,580	339,376	32,143,769	34,909,950	2,766,181	8.6%	32,143,769
ACCRUED UNBILLED REVENUE	-	(137,857)	(137,857)	-	181,088	181,088	100.0%	-
TOTAL WATER SALES	18,420,153	19,225,116	804,963	142,653,827	154,939,927	12,286,100	8.6%	142,653,827
<u>OTHER OPERATING REVENUES</u>								
CASCADE WATER ALLIANCE	680,367	680,369	2	5,493,628	5,493,628	0	0.0%	5,493,628
PUBLIC FIRE PROTECTION	788,700	763,779	(24,921)	5,966,473	5,717,536	(248,937)	(4.2%)	5,966,473
OTHER OPERATING REVENUE	572,016	270,745	(301,271)	2,271,053	2,483,012	211,959	9.3%	2,271,053
OTHER SURCHARGE	23,750	27,877	4,127	190,000	218,890	28,890	15.2%	190,000
TOTAL OTHER OPERATING REVENUES	2,064,833	1,742,770	(322,063)	13,921,154	13,913,066	(8,088)	(0.1%)	13,921,154
TOTAL OPERATING REVENUES	20,484,986	20,967,886	482,900	156,574,981	168,852,993	12,278,012	7.8%	156,574,981
<u>NON-OPERATING REVENUES</u>								
INTEREST	65,707	205,347	139,640	526,807	1,373,688	846,881	160.8%	526,807
BABS INTEREST FEDERAL SUDSIDY	689,607	691,834	2,227	5,516,848	5,514,618	(2,230)	(0.0%)	5,516,848
OTHER NON-OPERATING REVENUE	15,000	23,864	8,864	120,000	603,904	483,904	403.3%	120,000
TOTAL NON-OPERATING REVENUES	770,314	921,046	150,732	6,163,655	7,492,209	1,328,554	21.6%	6,163,655
TOTAL REVENUES	21,255,300	21,888,932	633,632	162,738,636	176,345,202	13,606,566	8.4%	162,738,636
<u>OTHER AVAILABLE FUNDS</u>								
CAPITAL RESERVE FUND - TRANSFER	777,824	735,628	(42,196)	6,222,588	2,299,390	(3,923,198)	(63.0%)	6,222,588
APPROPRIATION FROM FUND BALANCE	602,697	-	(602,697)	4,821,591	-	(4,821,591)	(100.0%)	4,821,591
TOTAL REVENUES & AVAILABLE FUNDS	\$ 22,635,821	\$ 22,624,560	\$ (11,261)	\$ 173,782,815	\$ 178,644,592	\$ 4,861,777	2.8%	\$ 173,782,815



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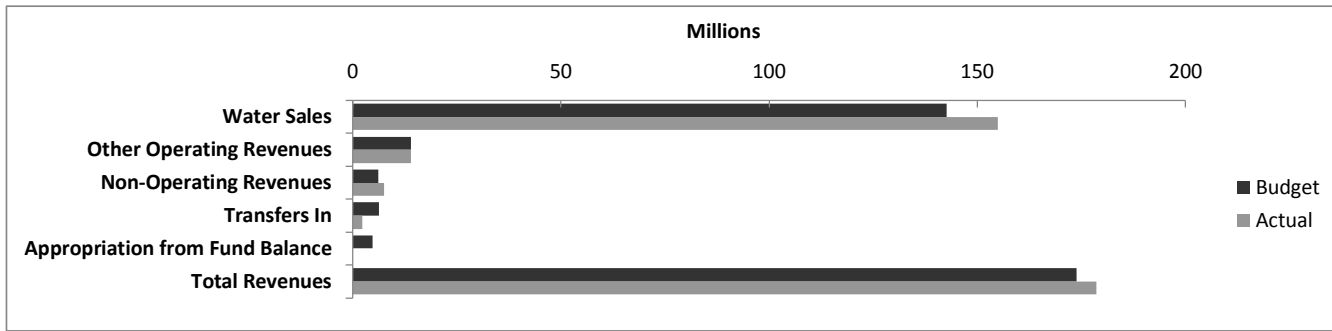
	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
<u>OPERATING EXPENDITURES</u>								
<u>ADMINISTRATION</u>								
PERSONNEL COSTS	\$ 107,074	\$ 137,744	\$ (30,670)	\$ 835,481	\$ 971,046	\$ (135,565)	(16.2%)	\$ 835,481
SUPPLIES, OTHER SERVICES & CHARGES	1,418,800	1,623,775	(204,974)	11,532,425	11,824,610	(292,185)	(2.5%)	11,532,425
ASSESSMENTS	2,438,106	2,963,155	(525,049)	19,514,655	18,792,336	722,319	3.7%	19,514,655
GROSS EARNINGS TAX	1,605,571	1,745,634	(140,063)	12,501,579	13,531,202	(1,029,623)	(8.2%)	12,501,579
OTHER TAXES	1,077,815	1,147,887	(70,072)	8,329,898	9,320,145	(990,247)	(11.9%)	8,329,898
ADMINISTRATION TOTAL	6,647,367	7,618,195	(970,829)	52,714,038	54,439,339	(1,725,301)	(3.3%)	52,714,038
<u>DISTRIBUTION ENGINEERING</u>								
PERSONNEL COSTS	601,597	516,995	84,602	4,576,461	4,192,233	384,228	8.4%	4,576,461
SUPPLIES, OTHER SERVICES & CHARGES	132,294	337,628	(205,334)	1,058,349	661,388	396,961	37.5%	1,058,349
DISTRIBUTION ENGINEERING TOTAL	733,891	854,623	(120,732)	5,634,810	4,853,622	781,189	13.9%	5,634,810
<u>DISTRIBUTION OPERATIONS</u>								
PERSONNEL COSTS	2,307,000	2,138,962	168,039	17,776,087	15,849,786	1,926,302	10.8%	17,776,087
SUPPLIES, OTHER SERVICES & CHARGES	432,332	435,068	(2,736)	3,500,414	2,725,856	774,559	22.1%	3,500,414
WATER WAREHOUSE	105,125	117,371	(12,246)	824,871	728,174	96,697	11.7%	824,871
DISTRIBUTED WAREHOUSE COSTS	(103,975)	(117,371)	13,396	(824,871)	(728,174)	(96,697)	(11.7%)	(824,871)
DISTRIBUTION OPERATIONS TOTAL	2,740,482	2,574,030	166,453	21,276,501	18,575,641	2,700,860	12.7%	21,276,501
<u>WATER QUALITY</u>								
PERSONNEL COSTS	1,022,456	980,844	41,612	7,937,843	7,445,041	492,802	6.2%	7,937,843
SUPPLIES, OTHER SERVICES & CHARGES	746,055	767,267	(21,212)	6,145,314	4,175,195	1,970,119	32.1%	6,145,314
WATER QUALITY TOTAL	1,768,511	1,748,111	20,400	14,083,157	11,620,236	2,462,921	17.5%	14,083,157
<u>WATER SUPPLY</u>								
PERSONNEL COSTS	1,634,423	1,612,115	22,309	12,693,622	12,605,385	88,237	0.7%	12,693,622
SUPPLIES, OTHER SERVICES & CHARGES	819,755	415,304	404,451	6,361,790	5,720,364	641,426	10.1%	6,361,790
WATER SUPPLY TOTAL	2,454,178	2,027,418	426,760	19,055,412	18,325,749	729,663	3.8%	19,055,412



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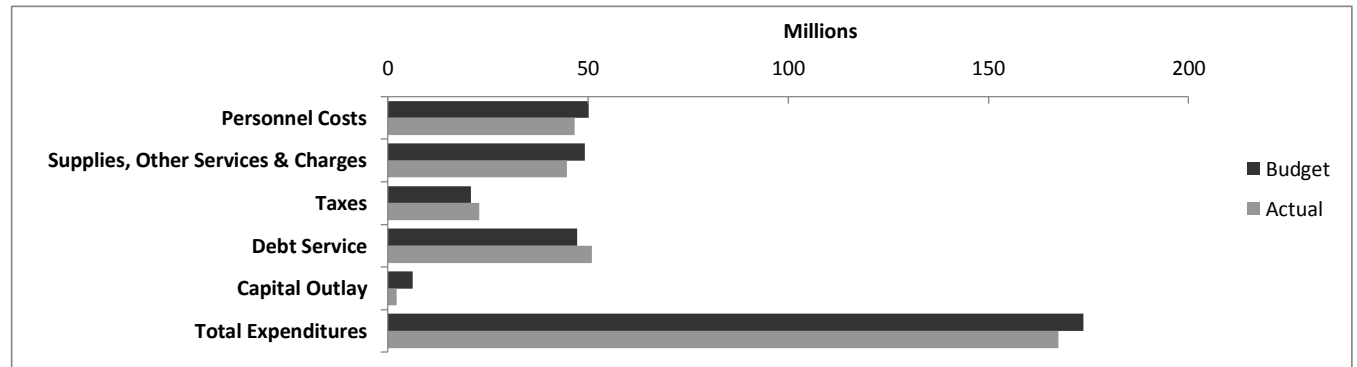
	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
<u>ASSET & INFORMATION MANAGEMENT</u>								
PERSONNEL COSTS	\$ 639,012	\$ 569,454	\$ 69,558	\$ 4,823,298	\$ 4,174,226	\$ 649,072	13.5%	\$ 4,823,298
SUPPLIES, OTHER SERVICES & CHARGES	72,380	99,592	(27,212)	816,065	587,548	228,517	28.0%	816,065
ASSET & INFORMATION MANAGEMENT	711,392	669,046	42,346	5,639,363	4,761,775	877,589	15.6%	5,639,363
<u>RATES & FINANCIAL PLANNING</u>								
PERSONNEL COSTS	205,119	199,755	5,365	1,584,018	1,397,282	186,736	11.8%	1,584,018
SUPPLIES, OTHER SERVICES & CHARGES	37,011	117,588	(80,577)	267,610	262,956	4,654	1.7%	267,610
RATES & FINANCIAL PLANNING TOTAL	242,130	317,343	(75,213)	1,851,628	1,660,238	191,390	10.3%	1,851,628
OPERATION & MAINTENANCE TOTAL	\$ 15,297,952	\$ 15,808,766	\$ (510,815)	\$ 120,254,909	\$ 114,236,600	\$ 6,018,310	5.0%	\$ 120,254,909
DEBT SERVICE	5,969,450	6,684,120	(714,670)	47,305,318	50,901,049	(3,595,731)	(7.6%)	47,305,318
CAPITAL OUTLAY - CAPITAL RESERVE FUND	777,824	735,628	42,196	6,222,588	2,299,390	3,923,198	63.0%	6,222,588
TOTAL OPERATING FUND EXPENDITURES	\$ 22,045,225	\$ 23,228,514	\$ (1,183,289)	\$ 173,782,815	\$ 167,437,038	\$ 6,345,777	3.7%	\$ 173,782,815

Tacoma Water Revenues



	01/15 - 12/16 Budget	01/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Water Sales	\$142,653,827	\$154,939,927	109%	\$142,653,827	109%
Other Operating Revenues	13,921,154	13,913,066	100%	13,921,154	100%
Non-Operating Revenues	6,163,655	7,492,209	122%	6,163,655	122%
Transfers In	6,222,588	2,299,390	37%	6,222,588	37%
Appropriation from Fund Balance	4,821,591	-	0%	4,821,591	0%
Total Revenues	\$173,782,815	\$178,644,592	103%	\$173,782,815	103%

Tacoma Water Expenditures



	01/15 - 12/16 Budget	01/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$50,226,810	\$46,634,999	93%	\$50,226,810	93%
Supplies, Other Services & Charges	49,196,622	44,750,254	91%	49,196,622	91%
Taxes	20,831,477	22,851,347	110%	20,831,477	110%
Debt Service	47,305,318	50,901,049	108%	47,305,318	108%
Capital Outlay	6,222,588	2,299,390	37%	6,222,588	37%
Total Expenditures	\$173,782,815	\$167,437,038	96%	\$173,782,815	96%

100.0% of Biennial Budget Completed



TACOMA RAIL
 2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
 DECEMBER 31, 2016

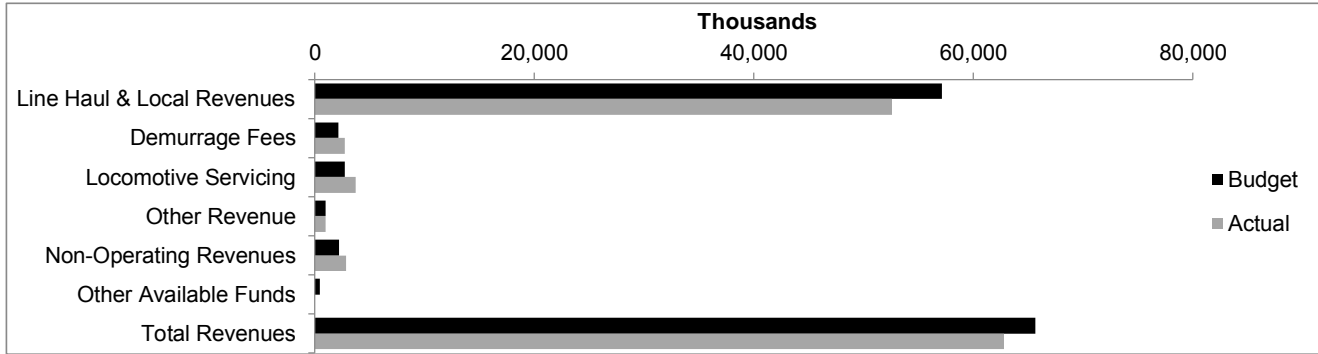
	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
REVENUES LESS EXPENDITURES	\$ (102,588)	\$ (1,639,817)	\$ (1,537,229)	\$ (0)	\$ (1,253,268)	\$ (1,253,268)		
<u>OPERATING REVENUES</u>								
SWITCHING REVENUES								
LINE HAULS AND LOCAL	\$ 7,223,494	\$ 6,704,235	\$ (519,259)	\$ 57,170,343	\$ 52,596,235	\$ (4,574,108)	(8.0%)	\$ 57,170,343
DEMURRAGE FEES	268,500	242,080	(26,420)	2,148,000	2,712,290	564,290	26.3%	2,148,000
TOTAL SWITCHING REVENUES	7,491,994	6,946,315	(545,679)	59,318,343	55,308,525	(4,009,818)	(6.8%)	59,318,343
LOCOMOTIVE SERVICING	343,638	539,226	195,588	2,723,229	3,723,902	1,000,673	36.7%	2,723,229
OTHER REVENUES	125,475	145,301	19,826	958,800	959,814	1,014	0.1%	958,800
TOTAL MISCELLANEOUS REVENUES	469,113	684,528	215,415	3,682,029	4,683,715	1,001,686	27.2%	3,682,029
TOTAL OPERATING REVENUES	7,961,107	7,630,843	(330,264)	63,000,372	59,992,240	(3,008,132)	(4.8%)	63,000,372
<u>NON-OPERATING REVENUES</u>								
RENT AND MISCELLANEOUS INCOME	250,845	365,629	114,784	2,006,760	2,663,812	657,052	32.7%	2,006,760
INTEREST	23,400	22,397	(1,003)	187,200	167,591	(19,609)	(10.5%)	187,200
TOTAL NON-OPERATING REVENUES	274,245	388,026	113,781	2,193,960	2,831,402	637,442	29.1%	2,193,960
<u>OTHER AVAILABLE FUNDS</u>								
APPROPRIATION FROM FUND BALANCE	-	-	-	448,925	-	(448,925)	(100.0%)	448,925
TOTAL REVENUES	\$ 8,235,352	\$ 8,018,869	\$ (216,483)	\$ 65,643,257	\$ 62,823,643	\$ (2,819,614)	(4.3%)	\$ 65,643,257



TACOMA RAIL
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
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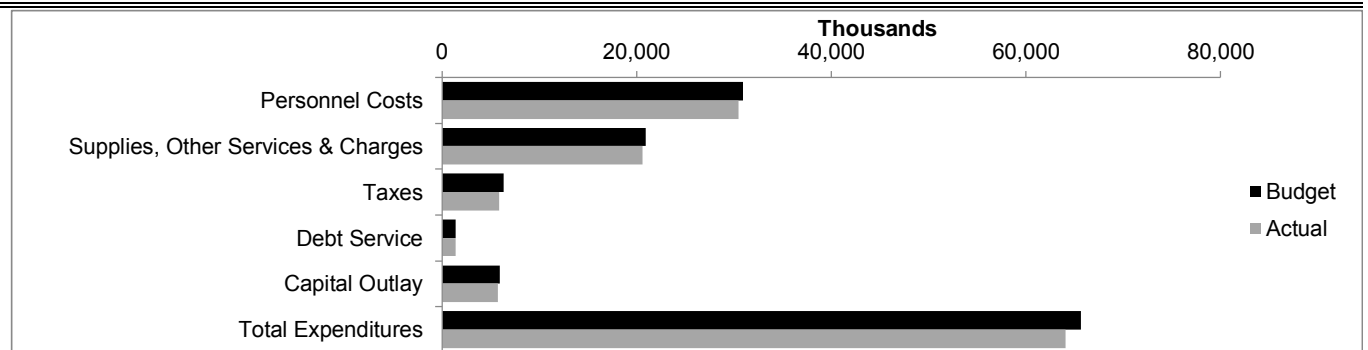
	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
<u>OPERATING EXPENDITURES</u>								
<u>ADMINISTRATION</u>								
PERSONNEL COSTS	\$ 571,707	\$ 547,597	\$ 24,110	\$ 4,488,551	\$ 4,543,947	\$ (55,396)	(1.2%)	\$ 4,488,551
SUPPLIES, OTHER SERVICES & CHARGES	213,757	209,385	4,372	1,686,103	1,669,755	16,348	1.0%	1,686,103
ASSESSMENTS	400,663	455,797	(55,134)	3,210,303	2,959,911	250,391	7.8%	3,210,303
VOLUME INCENTIVE	583,334	624,999	(41,665)	4,333,336	4,333,333	3	0.0%	4,333,336
GROSS EARNINGS TAX	661,456	652,168	9,288	5,227,000	5,001,352	225,648	4.3%	5,227,000
STATE TAX	143,302	109,019	34,283	1,134,000	856,453	277,547	24.5%	1,134,000
ADMINISTRATION TOTAL	2,574,218	2,598,965	(24,747)	20,079,293	19,364,751	714,541	3.6%	20,079,293
<u>OPERATIONS</u>								
PERSONNEL COSTS	2,618,297	2,616,254	2,044	20,612,245	19,838,763	773,482	3.8%	20,612,245
SUPPLIES, OTHER SERVICES & CHARGES	351,857	414,197	(62,340)	2,795,878	2,891,137	(95,259)	(3.4%)	2,795,878
OPERATIONS TOTAL	2,970,154	3,030,451	(60,296)	23,408,123	22,729,900	678,223	2.9%	23,408,123
<u>MECHANICAL</u>								
PERSONNEL COSTS	480,641	507,730	(27,089)	3,686,510	4,017,975	(331,465)	(9.0%)	3,686,510
SUPPLIES, OTHER SERVICES & CHARGES	341,038	350,281	(9,243)	2,724,715	2,774,923	(50,208)	(1.8%)	2,724,715
FUEL	433,125	309,481	123,644	3,397,500	2,560,582	836,918	24.6%	3,397,500
MECHANICAL TOTAL	1,254,804	1,167,492	87,312	9,808,725	9,353,480	455,245	4.6%	9,808,725
<u>CONSTRUCTION</u>								
PERSONNEL COSTS	274,053	190,734	83,319	2,143,783	2,051,568	92,215	4.3%	2,143,783
SUPPLIES, OTHER SERVICES & CHARGES	354,604	727,724	(373,120)	2,804,597	3,419,594	(614,997)	(21.9%)	2,804,597
CONSTRUCTION TOTAL	628,657	918,458	(289,801)	4,948,380	5,471,162	(522,782)	(10.6%)	4,948,380
OPERATION & MAINTENANCE TOTAL	\$ 7,427,833	\$ 7,715,366	\$ (287,532)	\$ 58,244,521	\$ 56,919,293	\$ 1,325,228	2.3%	\$ 58,244,521
LONG-TERM DEBT	65,107	65,104	3	1,431,736	1,431,736	(0)	(0.0%)	1,431,736
CAPITAL OUTLAY - OPERATING FUND	845,000	1,878,217	(1,033,217)	5,967,000	5,725,882	241,118	4.0%	5,967,000
TOTAL OPERATING FUND EXPENDITURES	\$ 8,337,940	\$ 9,658,687	\$ (1,320,746)	\$ 65,643,257	\$ 64,076,911	\$ 1,566,346	2.4%	\$ 65,643,257

Tacoma Rail Revenues



	01/15 - 12/16 Budget	01/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Line Haul & Local Revenues	\$57,170,343	\$52,596,235	92%	\$57,170,343	92%
Demurrage Fees	2,148,000	2,712,290	126%	2,148,000	126%
Locomotive Servicing	2,723,229	3,723,902	137%	2,723,229	137%
Other Revenue	958,800	959,814	100%	958,800	100%
Non-Operating Revenues	2,193,960	2,831,402	129%	2,193,960	129%
Other Available Funds	448,925	-	0%	448,925	0%
Total Revenues	\$65,643,257	\$62,823,643	96%	\$65,643,257	96%

Tacoma Rail Expenditures



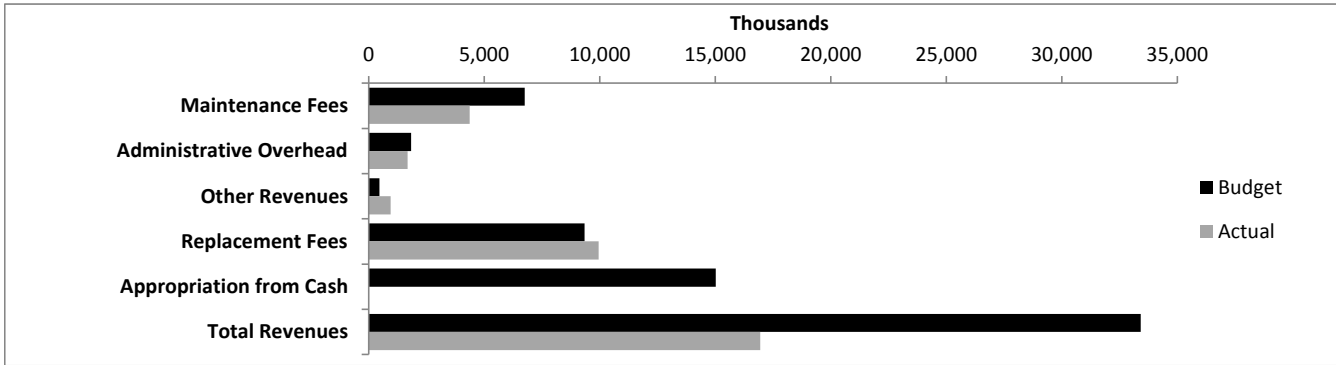
	01/15 - 12/16 Budget	01/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$30,931,089	\$30,452,253	98%	\$30,931,089	98%
Supplies, Other Services & Charges	20,952,432	20,609,234	98%	20,952,432	98%
Taxes	6,361,000	5,857,805	92%	6,361,000	92%
Debt Service	1,431,736	1,431,736	100%	1,431,736	100%
Capital Outlay	5,967,000	5,725,882	96%	5,967,000	96%
Total Expenditures	\$65,643,257	\$64,076,911	98%	\$65,643,257	98%

100.0% of Biennial Budget Completed

TPU FLEET SERVICES FUND
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
DECEMBER 31, 2016

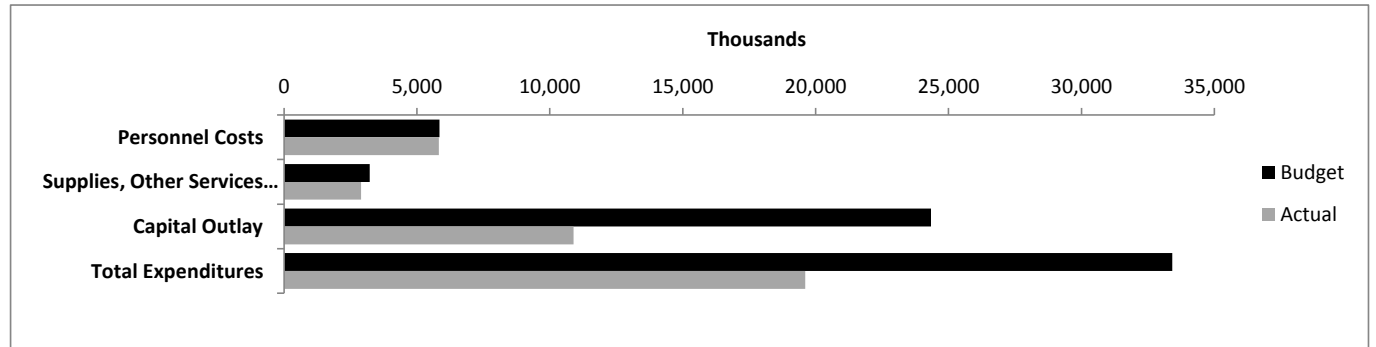
	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
REVENUES LESS EXPENDITURES	\$ 11,481	\$ (947,876)	\$ (959,357)	\$ 0	\$ (2,656,343)	\$ (2,656,343)		
OPERATING REVENUES								
MAINTENANCE REVENUE	\$ 860,757	\$ 525,518	\$ (335,239)	\$ 6,751,036	\$ 4,373,279	\$ (2,377,757)	(35.2%)	\$ 6,751,036
ADMINISTRATIVE OVERHEAD	228,310	207,146	(21,164)	1,831,173	1,681,250	(149,923)	(8.2%)	1,831,173
FUEL AND FUEL LOADING	22,950	12,635	(10,315)	180,000	107,495	(72,505)	(40.3%)	180,000
POOL CAR RENTAL	20,400	34,144	13,744	160,000	260,063	100,063	62.5%	160,000
TOTAL OPERATING REVENUES	1,132,418	779,443	(352,974)	8,922,209	6,422,087	(2,500,122)	(28.0%)	8,922,209
OTHER REVENUES								
INTEREST INCOME	15,625	(62,943)	(78,568)	125,000	24,676	(100,324)	(80.3%)	125,000
OTHER REVENUE	-	188,833.810	188,833.810	-	553,070	553,070	-	-
TOTAL REVENUES	1,148,043	905,334	(242,708)	9,047,209	6,999,832	(2,047,377)	(22.6%)	9,047,209
OTHER AVAILABLE FUNDS								
CAPITAL REPLACEMENT FEES	1,165,643	1,668,957	503,314	9,344,312	9,949,015	604,703	6.5%	9,344,312
APPROPRIATION FROM CASH	1,882,380	-	(1,882,380)	15,025,463	-	(15,025,463)	(100.0%)	15,025,463
TOTAL REVENUES AND AVAILABLE FUNDS	\$ 4,196,066	\$ 2,574,291	\$ (1,621,775)	\$ 33,416,984	\$ 16,948,847	\$ (16,468,137)	(49.3%)	\$ 33,416,984
OPERATING EXPENDITURES								
REPAIRS AND SERVICING								
PERSONNEL COSTS	\$ 518,391	\$ 527,558	\$ (9,168)	\$ 4,096,691	\$ 4,357,656	\$ (260,966)	(6.4%)	\$ 4,096,691
GENERAL SUPPLIES & EXPENSE	105,492	138,045	(32,554)	841,196	895,284	(54,088)	(6.4%)	841,196
REPAIRS AND SERVICING TOTAL	623,882	665,604	(41,721)	4,937,887	5,252,941	(315,054)	(6.4%)	4,937,887
STORES OPERATION								
PERSONNEL COSTS	74,418	75,654	(1,236)	590,496	579,382	11,114	1.9%	590,496
GENERAL SUPPLIES & EXPENSE	14,929	7,273	7,656	119,126	53,683	65,443	54.9%	119,126
STORES OPERATION TOTAL	89,346	82,927	6,420	709,622	633,065	76,557	10.8%	709,622
ADMINISTRATION								
PERSONNEL COSTS	146,525	110,994	35,531	1,159,847	882,154	277,693	23.9%	1,159,847
GENERAL SUPPLIES & EXPENSE	226,119	242,614	(16,495)	1,819,936	1,555,134	264,802	14.6%	1,819,936
MOTOR POOL								
GENERAL SUPPLIES & EXPENSE	55,961	39,727	16,234	447,692	392,630	55,062	12.3%	447,692
ADMINISTRATION TOTAL	428,606	393,336	35,270	3,427,475	2,829,919	597,557	17.4%	3,427,475
OPERATION & MAINTENANCE TOTAL	\$ 1,141,835	\$ 1,141,866	\$ (31)	\$ 9,074,984	\$ 8,715,924	\$ 359,060	4.0%	\$ 9,074,984
CAPITAL OUTLAY	3,042,750	2,380,301	662,449	24,342,000	10,889,266	13,452,734	55.3%	24,342,000
TOTAL CURRENT FUND EXPENDITURES	\$ 4,184,585	\$ 3,522,167	\$ 662,418	\$ 33,416,984	\$ 19,605,190	\$ 13,811,794	41.3%	\$ 33,416,984

TPU Fleet Services Fund Revenues



	01/15 - 12/16 Budget	01/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Maintenance Fees	\$6,751,036	\$4,373,279	65%	\$6,751,036	65%
Administrative Overhead	1,831,173	1,681,250	92%	1,831,173	92%
Other Revenues	465,000	945,304	203%	465,000	203%
Replacement Fees	9,344,312	9,949,015	106%	9,344,312	106%
Appropriation from Cash	15,025,463	-	0%	15,025,463	0%
Total Revenues	\$33,416,984	\$16,948,847	51%	\$33,416,984	51%

TPU Fleet Services Fund Expenditures



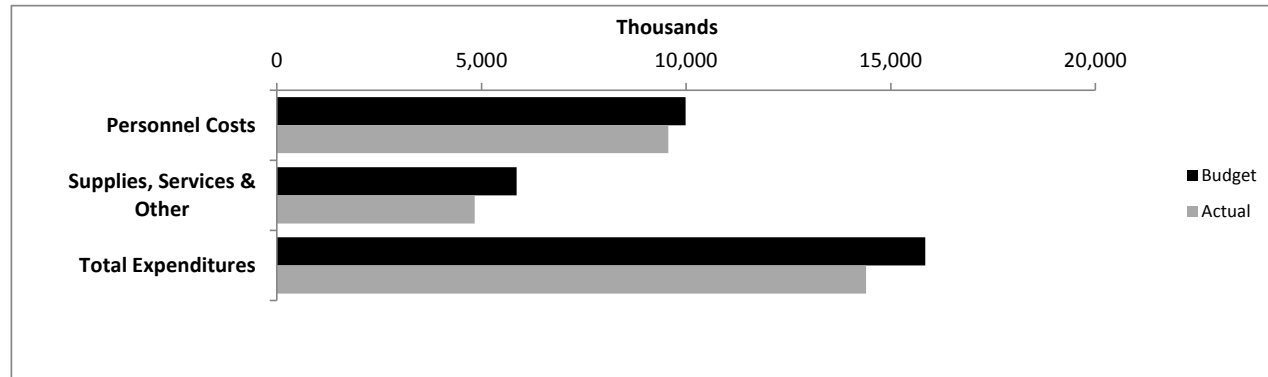
	01/15 - 12/16 Budget	01/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$5,847,034	\$5,819,193	100%	\$5,847,034	100%
Supplies, Other Services & Charges	3,227,950	2,896,731	90%	3,227,950	90%
Capital Outlay	24,342,000	10,889,266	45%	24,342,000	45%
Total Expenditures	\$33,416,984	\$19,605,190	59%	\$33,416,984	59%

100.0% of Biennial Budget Completed

TPU ADMINISTRATIVE OFFICES
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
DECEMBER 31, 2016

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
DIRECTOR'S OFFICE	\$ 328,557	\$ 279,126	\$ 49,430	\$ 2,584,759	\$ 2,157,000	\$ 427,759	16.5%	\$ 2,584,759
MANAGEMENT SERVICES	359,933	389,743	(29,809)	2,846,738	2,819,307	27,431	1.0%	2,846,738
PUBLIC AFFAIRS OFFICE	1,213,405	1,253,150	(39,745)	9,589,168	8,526,634	1,062,534	11.1%	9,589,168
COPIER SERVICES	103,083	142,962	(39,879)	823,688	897,977	(74,288)	(9.0%)	823,688
TOTAL ADMIN OFFICES	\$ 2,004,978	\$ 2,064,981	\$ (60,003)	\$ 15,844,353	\$ 14,400,918	\$ 1,443,436	9.1%	\$ 15,844,353

**TPU
Administrative
Offices
Expenditures**



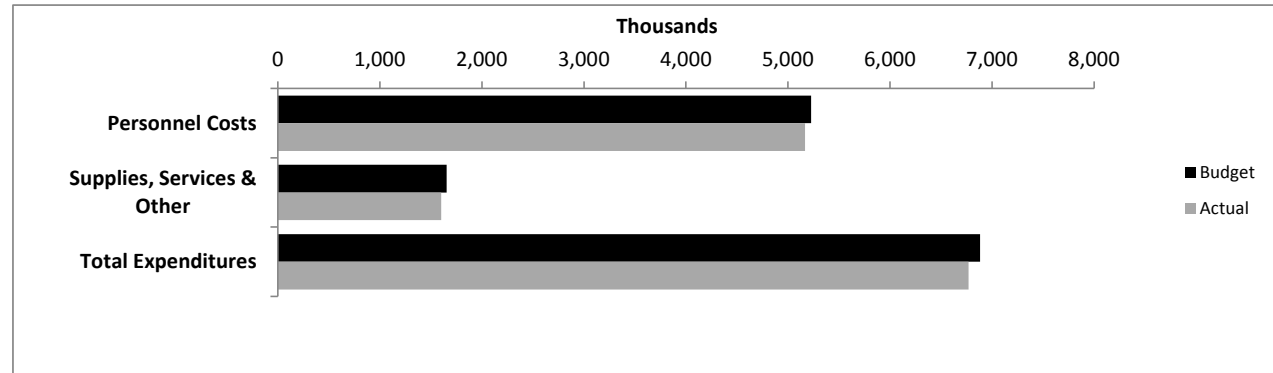
	1/15 - 12/16 Budget	1/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	9,987,303	9,568,067	96%	9,987,303	96%
Supplies, Services & Other	5,857,050	4,832,851	83%	5,857,050	83%
Total Expenditures	\$15,844,353	\$14,400,918	91%	\$15,844,353	91%

100.0% of Biennial Budget Completed

TPU SUPPORT SERVICES
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
DECEMBER 31, 2016

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
TPU REAL PROPERTY SERVICES	\$ 247,406	\$ 256,053	\$ (8,647)	\$ 1,938,620	\$ 1,890,379	\$ 48,242	2.5%	\$ 1,938,620
TPU IT DEDICATED RESOURCES	320,909	304,530	16,379	2,543,629	2,493,429	50,200	2.0%	2,543,629
TPU UTS SOFTWARE & DESKTOP SUPPORT	299,619	529,205	(229,586)	2,398,309	2,384,377	13,932	0.6%	2,398,309
TOTAL TPU SUPPORT SERVICES	\$ 867,934	\$ 1,089,788	\$ (221,855)	\$ 6,880,558	\$ 6,768,185	\$ 112,373	1.6%	\$ 6,880,558

TPU Support Services Expenditures



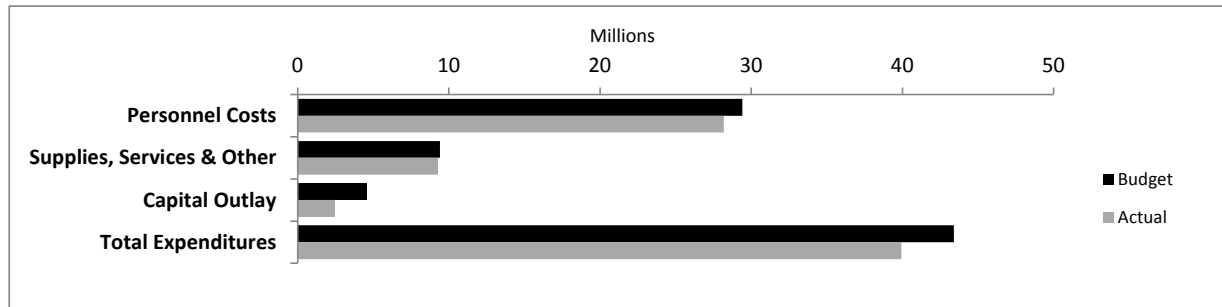
	1/15 - 12/16 Budget	1/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$5,226,321	\$5,166,197	99%	\$5,226,321	99%
Supplies, Services & Other	1,654,236	1,601,988	97%	1,654,237	97%
Total Expenditures	\$6,880,558	\$6,768,185	98%	\$6,880,558	98%

100.0% of Biennial Budget Completed

TPU CUSTOMER SERVICES
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
DECEMBER 31, 2016

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
CUSTOMER SERVICES								
SUPPORT SERVICES	\$ 136,466	\$ 171,793	\$ (35,327)	\$ 1,076,995	\$ 1,111,735	\$ (34,740)	(3.2%)	\$ 1,076,995
SWITCHBOARD	22,394	22,540	(146)	174,965	151,095	23,870	13.6%	174,965
ADMINISTRATION	657,490	1,105,726	(448,236)	5,307,797	5,855,060	(547,263)	(10.3%)	5,307,797
OPERATIONS ADMINISTRATION	130,376	209,132	(78,755)	1,056,779	1,085,567	(28,788)	(2.7%)	1,056,779
MAIL SERVICES	495,680	434,800	60,879	3,945,394	3,507,443	437,951	11.1%	3,945,394
FIELD INVESTIGATION	519,918	503,879	16,039	4,118,501	4,107,027	11,474	0.3%	4,118,501
METER READING	492,423	430,284	62,138	3,882,638	3,731,524	151,114	3.9%	3,882,638
PAYGO	56,909	75,090	(18,181)	450,718	524,111	(73,393)	(16.3%)	450,718
RESIDENTIAL RESOURCES	126,148	87,245	38,903	998,368	834,526	163,843	16.4%	998,368
CUSTOMER SERVICE TRAINING	73,671	82,653	(8,983)	578,839	529,488	49,352	8.5%	578,839
PHONE SERVICES	893,318	828,742	64,576	7,033,310	6,550,817	482,493	6.9%	7,033,310
LOBBY SERVICES	271,466	292,777	(21,310)	2,150,471	1,997,549	152,921	7.1%	2,150,471
BACK OFFICE/PROCESSING SERVICES	453,450	427,394	26,056	3,588,418	3,302,018	286,400	8.0%	3,588,418
BACK OFFICE/COMMERCIAL	172,111	179,179	(7,068)	1,362,184	1,309,111	53,073	3.9%	1,362,184
BUSINESS OFFICE ADMINISTRATION	391,088	377,323	13,765	3,096,357	2,872,124	224,233	7.2%	3,096,357
CAPITAL OUTLAY	572,500	869,158	(296,658)	4,580,000	2,465,548	2,114,452	46.2%	4,580,000
CUSTOMER SERVICES TOTAL	\$ 5,465,407	\$ 6,097,715	\$ (632,308)	\$ 43,401,734	\$ 39,934,744	\$ 3,466,991	8.0%	\$ 43,401,734

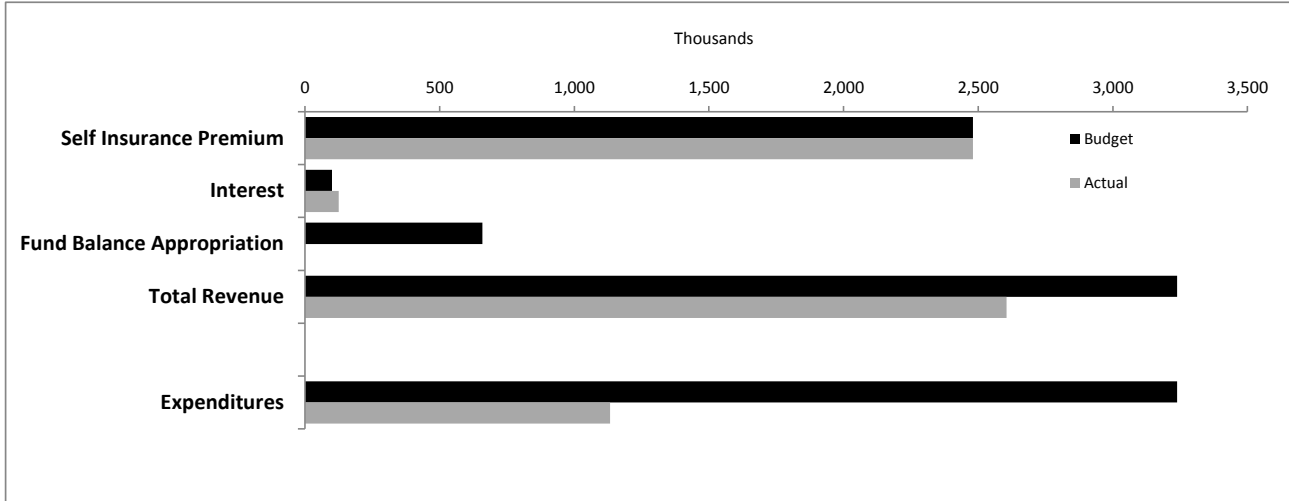
TPU Customer Services Expenditures



	1/15 - 12/16 Budget	1/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Bien. Budget
Personnel Costs	\$29,411,039	\$28,189,210	96%	\$29,411,039	96%
Supplies, Services & Other	9,410,695	9,279,985	99%	9,410,695	99%
Capital Outlay	4,580,000	2,465,548	54%	4,580,000	54%
Total Expenditures	\$43,401,734	\$39,934,744	92%	\$43,401,734	92%

100.0% of Biennial Budget Completed

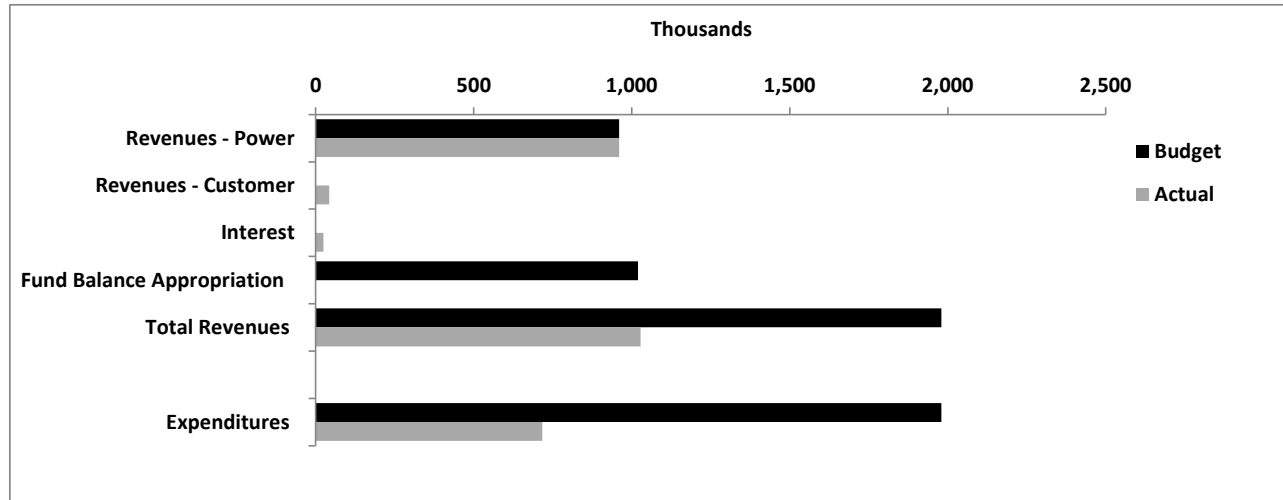
TPU SELF INSURANCE FUND
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
DECEMBER 31, 2016



	1/15 - 12/16 Budget	1/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Self Insurance Premium	\$2,480,000	\$2,480,000	100%	\$2,480,000	100%
Interest	100,000	125,073	125%	100,000	125%
Fund Balance Appropriation	658,211	-	0%	658,211	0%
Total Revenue	\$3,238,211	\$2,605,073	80%	\$3,238,211	80%
Expenditures	\$3,238,211	\$1,132,439	35%	\$3,238,211	35%

100.0% of Biennial Budget Completed

TPU FAMILY NEED FUND
2015/2016 BIENNIUM BUDGET PERFORMANCE REPORT
DECEMBER 31, 2016



	1/15 - 12/16 Budget	1/15 - 12/16 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Revenues - Power	\$960,000	\$960,000	100%	\$960,000	100%
Revenues - Customer	-	43,110	N/A	N/A	N/A
Interest	-	24,641	N/A	N/A	N/A
Fund Balance Appropriation	1,020,000	-	N/A	1,020,000	N/A
Total Revenues	\$1,980,000	\$1,027,751	52%	\$1,980,000	52%
Expenditures	\$1,980,000	\$717,335	36%	\$1,980,000	36%

100.0% of Biennial Budget Completed

BIENNIAL BUDGET

BUDGET PERFORMANCE REPORT

1ST QTR.—2017

POWER

WATER

RAIL



**TACOMA PUBLIC UTILITIES
2017/2018 BIENNIAL BUDGET PERFORMANCE REPORTS*
1st QUARTER 2017**

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** Unaudited reports focusing on operating transactions in the operating fund, excluding some non budgetary entries made for accounting purposes.*



TACOMA POWER
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
REVENUE LESS EXPENDITURES	\$ 14,234,290	\$ 30,169,319	\$ 15,935,030	\$ 14,234,290	\$ 30,169,319	\$ 15,935,030		
<u>SALES OF ELECTRICAL ENERGY</u>								
RETAIL SALES								
RESIDENTIAL	\$ 53,035,934	\$ 55,856,261	\$ 2,820,327	\$ 53,035,934	\$ 55,856,261	\$ 2,820,327	5.3%	\$ 334,787,388
PRIVATE OFF-STREET LIGHTING	316,613	314,937	(1,676)	316,613	314,937	(1,676)	(0.5%)	2,722,021
SMALL GENERAL SERVICE	7,922,622	8,474,392	551,770	7,922,622	8,474,392	551,770	7.0%	58,017,173
GENERAL POWER	25,811,694	25,456,108	(355,586)	25,811,694	25,456,108	(355,586)	(1.4%)	209,418,448
HIGH VOLTAGE GENERAL POWER	4,864,940	4,905,847	40,907	4,864,940	4,905,847	40,907	0.8%	38,989,284
CONTRACT INDUSTRIAL POWER - FIRM	5,272,644	4,930,101	(342,543)	5,272,644	4,930,101	(342,543)	(6.5%)	45,617,397
STREET LIGHTING & TRAFFIC SIGNALS	281,632	265,638	(15,994)	281,632	265,638	(15,994)	(5.7%)	2,565,272
TOTAL RETAIL SALES	97,506,079	100,203,284	2,697,205	97,506,079	100,203,284	2,697,205	2.8%	692,116,983
BULK POWER SALES	13,786,259	15,137,208	1,350,949	13,786,259	15,137,208	1,350,949	9.8%	83,390,186
TOTAL SALES OF ELECTRICAL ENERGY	111,292,338	115,340,492	4,048,154	111,292,338	115,340,492	4,048,154	3.6%	775,507,169
<u>TELECOMMUNICATIONS REVENUES</u>	6,689,474	6,512,744	(176,730)	6,689,474	6,512,744	(176,730)	(2.6%)	61,299,566
<u>OTHER OPERATING REVENUE</u>								
RENTAL OF ELECTRIC PROPERTY	349,574	605,853	256,279	349,574	605,853	256,279	73.3%	2,824,560
SERVICE FEES	590,142	597,066	6,924	590,142	597,066	6,924	1.2%	4,823,327
WHEELING REVENUE	2,482,110	2,620,226	138,116	2,482,110	2,620,226	138,116	5.6%	19,856,880
CAMPGROUND FEES	343,517	238,814	(104,702)	343,517	238,814	(104,702)	(30.5%)	2,809,965
MISCELLANEOUS REVENUES	641,278	823,947	182,669	641,278	823,947	182,669	28.5%	5,180,015
TOTAL OTHER OPERATING REVENUES	4,406,621	4,885,906	479,285	4,406,621	4,885,906	479,285	10.9%	35,494,747
TOTAL OPERATING REVENUES	122,388,433	126,739,142	4,350,709	122,388,433	126,739,142	4,350,709	3.6%	872,301,482
<u>NON-OPERATING REVENUES</u>								
INTEREST	485,182	530,746	45,564	485,182	530,746	45,564	9.4%	3,750,235
FEDERAL INTEREST SUBSIDY FOR BABS & CREBS	917,500	988,660	71,160	917,500	988,660	71,160	7.8%	7,340,000
OTHER	227,396	632,770	405,374	227,396	632,770	405,374	178.3%	1,832,238
TOTAL NON-OPERATING REVENUES	1,630,078	2,152,175	522,097	1,630,078	2,152,175	522,097	32.0%	12,922,473
TOTAL REVENUES	124,018,511	128,891,318	4,872,806	124,018,511	128,891,318	4,872,806	3.9%	885,223,955
<u>OTHER AVAILABLE FUNDS</u>								
APPROPRIATION FROM FUND BALANCE	6,508,071	-	(6,508,071)	6,508,071	-	(6,508,071)	(100.0%)	38,158,158
TOTAL REVENUES AND AVAILABLE FUNDS	\$ 130,526,582	\$ 128,891,318	\$ (1,635,265)	\$ 130,526,582	\$ 128,891,318	\$ (1,635,265)	(1.3%)	\$ 923,382,113



TACOMA POWER
 2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
 MARCH 31, 2017

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
OPERATING EXPENDITURES								
ADMINISTRATION								
SUPERINTENDENT'S OFFICE	\$ 2,865,017	\$ 3,575,620	\$ (710,603)	\$ 2,865,017	\$ 3,575,620	\$ (710,603)	(24.8%)	\$ 19,554,362
ASSESSMENTS	7,082,564	6,644,904	437,660	7,082,564	6,644,904	437,660	6.2%	56,162,396
GROSS EARNINGS TAX	8,640,811	8,963,489	(322,678)	8,640,811	8,963,489	(322,678)	(3.7%)	60,614,034
ADMINISTRATION TOTAL	18,588,392	19,184,013	(595,621)	18,588,392	19,184,013	(595,621)	(3.2%)	136,330,792
RATES, FINANCIAL PLANNING & ANALYSIS								
RPA MANAGEMENT	114,305	114,182	123	114,305	114,182	123	0.1%	945,727
FINANCIAL & BUSINESS PLANNING	499,905	326,310	173,594	499,905	326,310	173,594	34.7%	4,089,364
ENERGY RISK MANAGEMENT	216,742	188,955	27,787	216,742	188,955	27,787	12.8%	1,772,984
RATES & FORECASTING	165,817	141,259	24,558	165,817	141,259	24,558	14.8%	1,349,904
RATES, FINANCIAL PLANNING & ANALYSIS TOTAL	996,769	770,706	226,063	996,769	770,706	226,063	22.7%	8,157,979
POWER MANAGEMENT								
POWER MANAGEMENT ADMINISTRATION	243,550	248,833	(5,283)	243,550	248,833	(5,283)	(2.2%)	1,980,235
POWER CONTRACTS, COMPLIANCE & TRANSMISSION	135,798	180,042	(44,245)	135,798	180,042	(44,245)	(32.6%)	1,106,645
REAL-TIME ENERGY TRADING	374,835	361,677	13,159	374,835	361,677	13,159	3.5%	3,053,406
NEAR TERM ENERGY TRADING & OPERATIONS	40,150,240	40,089,608	60,632	40,150,240	40,089,608	60,632	0.2%	313,206,935
EMS/IT MANAGEMENT	151,445	152,788	(1,343)	151,445	152,788	(1,343)	(0.9%)	1,248,692
SUPPLY PLANNING & ANALYSIS	262,915	303,521	(40,606)	262,915	303,521	(40,606)	(15.4%)	2,208,688
CONSERVATION PLANNING & ANALYSIS	173,894	136,546	37,348	173,894	136,546	37,348	21.5%	1,401,274
ENERGY CONSERVATION ADMINISTRATION	108,917	105,536	3,381	108,917	105,536	3,381	3.1%	892,181
COMMERCIAL ENERGY CONSERVATION	456,321	360,626	95,695	456,321	360,626	95,695	21.0%	3,706,163
RESIDENTIAL ENERGY SERVICES	422,316	329,864	92,452	422,316	329,864	92,452	21.9%	3,429,199
CONSERVATION INFORMATION CENTER	367,616	344,524	23,091	367,616	344,524	23,091	6.3%	2,992,080
COMMUNITY PROGRAMS	33,433	36,357	(2,924)	33,433	36,357	(2,924)	(8.7%)	266,460
POWER MANAGEMENT TOTAL	42,881,278	42,649,921	231,357	42,881,278	42,649,921	231,357	0.5%	335,491,958



TACOMA POWER
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
TRANSMISSION & DISTRIBUTION (T & D)								
TD ADMINISTRATION	\$ 124,294	\$ 110,196	\$ 14,098	\$ 124,294	\$ 110,196	\$ 14,098	11.3%	\$ 1,025,582
TD SAFETY	87,352	70,898	16,454	87,352	70,898	16,454	18.8%	703,837
TD STANDARDS & MATERIALS	106,038	106,151	(114)	106,038	106,151	(114)	(0.1%)	860,122
TD LINE CLEARANCE TREE TRIMMING	871,786	693,813	177,973	871,786	693,813	177,973	20.4%	7,015,363
TD C & M LINE OPERATIONS	2,672,450	2,270,086	402,364	2,672,450	2,270,086	402,364	15.1%	21,896,809
TD TROUBLE CREWS	399,192	369,724	29,468	399,192	369,724	29,468	7.4%	3,232,896
TD SYSTEM MAINTENANCE & SUBSTATIONS	2,256,821	2,046,237	210,584	2,256,821	2,046,237	210,584	9.3%	18,637,605
TD LINE MAINTENANCE PLANNING	151,822	100,438	51,385	151,822	100,438	51,385	33.8%	1,212,545
TD ASSET MANAGEMENT	69,597	46,031	23,567	69,597	46,031	23,567	33.9%	590,502
* TD HFC NETWORK CONSTRUCTION (49%)	110,079	93,594	16,486	110,079	93,594	16,486	15.0%	896,322
* TD HFC NETWORK ENGINEERING (49%)	50,640	33,853	16,787	50,640	33,853	16,787	33.1%	397,558
TD UTILITY STAFF SUPPORT	398,947	428,237	(29,290)	398,947	428,237	(29,290)	(7.3%)	3,232,363
TD ELECTRICAL INSPECTION	439,265	372,105	67,160	439,265	372,105	67,160	15.3%	3,556,894
TD METER, RELAY & LINE SERVICES	746,527	500,115	246,412	746,527	500,115	246,412	33.0%	6,050,729
TD NEW SERVICES ENGINEERING	315,109	327,523	(12,414)	315,109	327,523	(12,414)	(3.9%)	2,515,569
TD ENGINEERING PRODUCTS & SERVICES	462,494	472,514	(10,020)	462,494	472,514	(10,020)	(2.2%)	3,754,769
TD PROTECTION & CONTROL ENGINEERING	213,764	232,753	(18,989)	213,764	232,753	(18,989)	(8.9%)	1,855,095
TD PROJECTS & SERVICES	211,389	166,860	44,528	211,389	166,860	44,528	21.1%	1,779,808
TD SUBSTATION ENGINEERING	121,845	111,517	10,329	121,845	111,517	10,329	8.5%	1,013,610
TD CENTRAL BUSINESS DISTRICT ENGR	84,563	47,312	37,251	84,563	47,312	37,251	44.1%	687,693
TD LINE ENGINEERING	61,324	109,408	(48,083)	61,324	109,408	(48,083)	(78.4%)	534,397
TD SYSTEM OPERATIONS	1,248,137	1,184,408	63,729	1,248,137	1,184,408	63,729	5.1%	10,162,182
TD SYSTEM PLANNING & ANALYSIS	267,586	227,506	40,080	267,586	227,506	40,080	15.0%	2,190,989
TD TRAINING & DEVELOPMENT	241,381	131,906	109,475	241,381	131,906	109,475	45.4%	1,943,882
TD TOOL & EQUIPMENT ROOMS	28,414	27,389	1,025	28,414	27,389	1,025	3.6%	229,171
TD BUSINESS & FINANCIAL MGMT	265,735	251,754	13,981	265,735	251,754	13,981	5.3%	2,160,244
TD WAREHOUSE	313,659	291,481	22,178	313,659	291,481	22,178	7.1%	2,548,773
DISTRIBUTED WAREHOUSE COSTS	(313,659)	(291,481)	(22,178)	(313,659)	(291,481)	(22,178)	(7.1%)	(2,548,773)
TRANSMISSION & DISTRIBUTION TOTAL	12,006,552	10,532,328	1,474,224	12,006,552	10,532,328	1,474,224	12.3%	98,136,532



TACOMA POWER
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
GENERATION								
GENERATION ADMINISTRATION	\$ 1,095,967	\$ 940,045	\$ 155,922	\$ 1,095,967	\$ 940,045	\$ 155,922	14.2%	\$ 8,812,808
GENERATION EXTRAORDINARY MAINTENANCE	410,313	192,194	218,119	410,313	192,194	218,119	53.2%	3,282,500
PRODUCTION ENGINEERING	595,602	325,799	269,803	595,602	325,799	269,803	45.3%	4,940,275
PLANT ENGINEERING & CONSTRUCTION SERVICES	678,914	816,727	(137,813)	678,914	816,727	(137,813)	(20.3%)	5,573,013
CONTRACT SERVICES	87,712	98,148	(10,437)	87,712	98,148	(10,437)	(11.9%)	715,038
CRAFT SHOPS	283,545	154,236	129,310	283,545	154,236	129,310	45.6%	2,294,452
FACILITIES	437,725	207,813	229,912	437,725	207,813	229,912	52.5%	3,540,410
MECHANICAL MAINTENANCE	221,926	183,365	38,562	221,926	183,365	38,562	17.4%	1,795,618
BUILDING MAINTENANCE	590,247	673,474	(83,227)	590,247	673,474	(83,227)	(14.1%)	4,769,113
GROUNDS MAINTENANCE	472,884	379,394	93,489	472,884	379,394	93,489	19.8%	3,847,860
NATURAL RESOURCES/ENVIRONMENTAL COMPL	3,822,470	2,417,179	1,405,291	3,822,470	2,417,179	1,405,291	36.8%	30,767,760
NISQUALLY PROJECT	582,405	476,947	105,458	582,405	476,947	105,458	18.1%	4,795,629
ALDER PARK	152,804	82,104	70,700	152,804	82,104	70,700	46.3%	1,288,504
CUSHMAN PROJECT	760,619	753,755	6,864	760,619	753,755	6,864	0.9%	6,265,383
COWLITZ PROJECT	1,293,643	953,440	340,203	1,293,643	953,440	340,203	26.3%	10,633,268
TAIDNAPAM PARK	138,224	79,976	58,248	138,224	79,976	58,248	42.1%	969,478
MOSSYROCK PARK	144,831	78,998	65,833	144,831	78,998	65,833	45.5%	1,167,186
MAYFIELD LAKE PARK	74,445	48,196	26,249	74,445	48,196	26,249	35.3%	601,316
WYNOOCHEE PROJECT	231,017	169,915	61,101	231,017	169,915	61,101	26.4%	1,869,979
GENERATION TOTAL	12,075,292	9,031,707	3,043,585	12,075,292	9,031,707	3,043,585	25.2%	97,929,593
UTILITY TECHNOLOGY SERVICES (UTS)								
UTS ADMINISTRATION	293,487	192,059	101,428	293,487	192,059	101,428	34.6%	2,493,785
RELIABILITY & COMPLIANCE	568,576	374,876	193,700	568,576	374,876	193,700	34.1%	4,626,060
UTS DESKTOP SUPPORT	187,050	122,428	64,622	187,050	122,428	64,622	34.5%	1,560,381
UTS OPERATIONAL APPLICATION USER SUPPORT	390,879	397,479	(6,600)	390,879	397,479	(6,600)	(1.7%)	3,210,510
UTS OPERATIONAL INFORMATION SYSTEMS	292,074	244,946	47,128	292,074	244,946	47,128	16.1%	2,437,236
UTS CYBERSECURITY SYSTEMS	203,895	185,518	18,378	203,895	185,518	18,378	9.0%	1,688,659
UTS ENERGY MANAGEMENT SYSTEMS	275,833	110,963	164,870	275,833	110,963	164,870	59.8%	2,186,413
UTS NETWORKING, TELECOM & TRANSPORT SVCS	557,902	498,504	59,397	557,902	498,504	59,397	10.6%	4,571,448
UTS NETWORK & COMM SYSTEM ENGINEERING	318,427	237,493	80,934	318,427	237,493	80,934	25.4%	2,609,581
UTS BUSINESS PROCESSES & SOLUTIONS	196,275	182,374	13,901	196,275	182,374	13,901	7.1%	1,621,490
UTS SERVICE DESK	48,193	45,781	2,412	48,193	45,781	2,412	5.0%	408,170
UTILITY TECHNOLOGY SERVICES TOTAL	3,332,593	2,592,421	740,172	3,332,593	2,592,421	740,172	22.2%	27,413,734

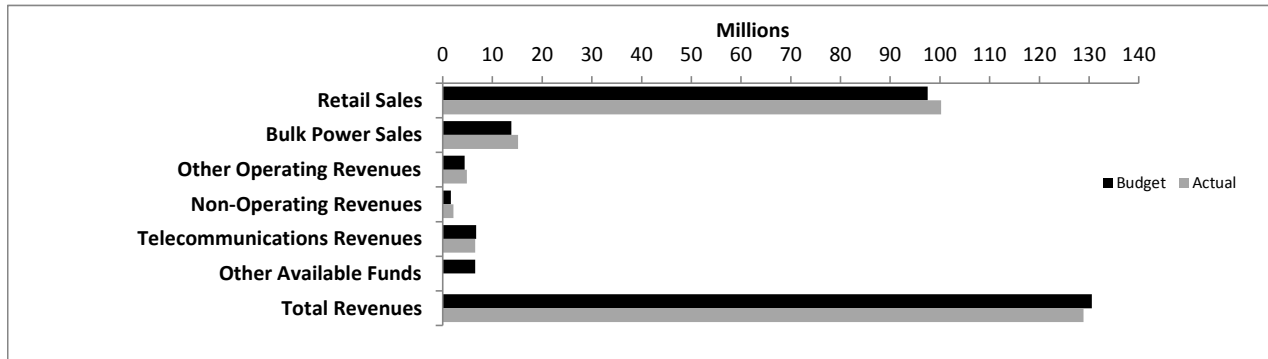


TACOMA POWER
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
CLICK! COMMERCIAL NETWORK								
ADMINISTRATION (94%)	\$ 481,464	\$ 428,930	\$ 52,534	\$ 481,464	\$ 428,930	\$ 52,534	10.9%	\$ 3,723,472
GROSS EARNINGS TAX	519,743	506,347	13,396	519,743	506,347	13,396	2.6%	4,406,363
MARKETING & BUSINESS OPERATIONS ADMIN	23,052	(63,733)	86,785	23,052	(63,733)	86,785	376.5%	201,401
MARKETING ADMIN	371,052	265,040	106,012	371,052	265,040	106,012	28.6%	3,004,874
MARKETING SERVICES	4,076,137	3,656,733	419,403	4,076,137	3,656,733	419,403	10.3%	34,987,246
ISP ADVANTAGE	181,883	83,981	97,903	181,883	83,981	97,903	53.8%	1,791,050
CUSTOMER SALES AND SERVICE	340,313	272,870	67,443	340,313	272,870	67,443	19.8%	2,772,259
BUSINESS SYSTEMS	228,420	207,410	21,010	228,420	207,410	21,010	9.2%	1,836,430
TECHNICAL OPERATIONS ADMIN (80%)	78,225	68,284	9,941	78,225	68,284	9,941	12.7%	633,573
SERVICE INSTALLATION (98%)	692,458	564,123	128,335	692,458	564,123	128,335	18.5%	5,606,590
DISPATCH CENTER (93%)	89,844	87,654	2,191	89,844	87,654	2,191	2.4%	732,577
CONVERTER INVENTORY CONTROL	116,782	109,435	7,346	116,782	109,435	7,346	6.3%	939,660
NETWORK OPERATIONS (51%)	204,098	172,954	31,145	204,098	172,954	31,145	15.3%	1,650,073
BROADBAND SERVICES (99%)	311,885	265,328	46,557	311,885	265,328	46,557	14.9%	2,525,368
NETWORK ENGINEERING (95%)	103,845	144,220	(40,375)	103,845	144,220	(40,375)	(38.9%)	854,355
NETWORK SERVICE ASSURANCE (51%)	116,901	104,464	12,438	116,901	104,464	12,438	10.6%	950,058
CLICK! COMMERCIAL NETWORK TOTAL	7,936,101	6,874,040	1,062,062	7,936,101	6,874,040	1,062,062	13.4%	66,615,349
TD HFC NETWORK CONSTRUCTION (51%)	114,572	97,414	17,158	114,572	97,414	17,158	15.0%	932,906
TD HFC NETWORK ENGINEERING (51%)	52,706	35,235	17,472	52,706	35,235	17,472	33.1%	413,784
CLICK! COMMERCIAL PLUS T&D HFC COSTS TOTAL	8,103,380	7,006,688	1,096,692	8,103,380	7,006,688	1,096,692	13.5%	67,962,039
CLICK! POWER APPLICATIONS								
ADMINISTRATION (6%)	30,732	27,379	3,353	30,732	27,379	3,353	10.9%	237,668
TECHNICAL OPERATIONS ADMIN (20%)	19,556	17,071	2,485	19,556	17,071	2,485	12.7%	158,393
SERVICE INSTALLATION (2%)	14,132	11,513	2,619	14,132	11,513	2,619	18.5%	114,420
DISPATCH CENTER (7%)	6,762	6,598	165	6,762	6,598	165	2.4%	55,140
NETWORK OPERATIONS (49%)	196,094	166,171	29,923	196,094	166,171	29,923	15.3%	1,585,364
BROADBAND SERVICES (1%)	3,150	2,680	470	3,150	2,680	470	14.9%	25,509
NETWORK ENGINEERING (5%)	5,466	7,591	(2,125)	5,466	7,591	(2,125)	(38.9%)	44,966
NETWORK SERVICE ASSURANCE (49%)	112,317	100,367	11,950	112,317	100,367	11,950	10.6%	912,801
CLICK! POWER APPLICATIONS TOTAL	388,209	339,368	48,841	388,209	339,368	48,841	12.6%	3,134,262
OPERATION & MAINTENANCE TOTAL	\$ 98,372,466	\$ 92,107,152	\$ 6,265,314	\$ 98,372,466	\$ 92,107,152	\$ 6,265,314	6.4%	\$ 774,556,890
DEBT SERVICE	7,691,077	7,616,842	74,235	7,691,077	7,616,842	74,235	1.0%	66,995,223
CAPITAL OUTLAY - OPERATING FUND	10,228,750	(1,001,996)	11,230,746	10,228,750	(1,001,996)	11,230,746	109.8%	81,830,000
TOTAL CURRENT FUND EXPENDITURES	\$ 116,292,293	\$ 98,721,999	\$ 17,570,294	\$ 116,292,293	\$ 98,721,999	\$ 17,570,294	15.1%	\$ 923,382,113

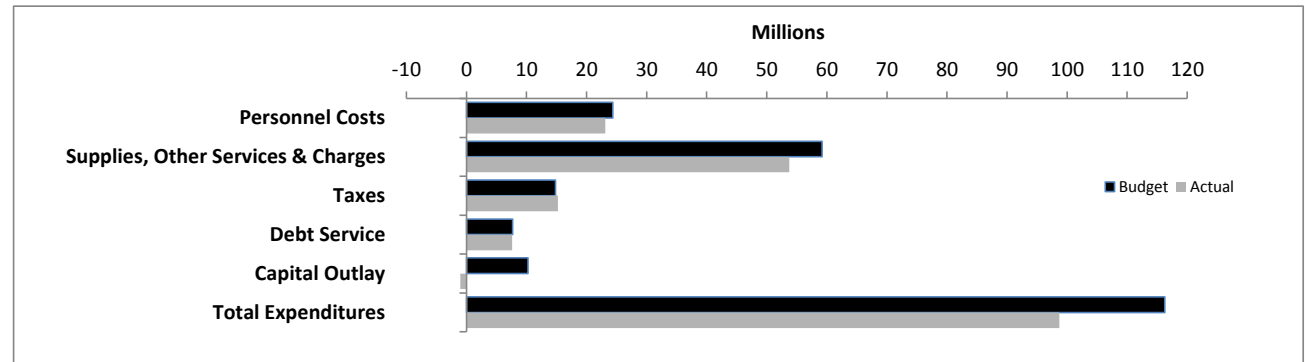
* 51% of these T & D cost centers are included in Click!'s Commercial Network section.

Tacoma Power Revenues



	1/17- 3/17 Budget	1/17- 3/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Retail Sales	\$97,506,079	\$100,203,284	103%	\$692,116,983	14%
Bulk Power Sales	13,786,259	15,137,208	110%	83,390,186	18%
Other Operating Revenues	4,406,621	4,885,906	111%	35,494,747	14%
Non-Operating Revenues	1,630,078	2,152,175	132%	12,922,473	17%
Telecommunications Revenues	6,689,474	6,512,744	97%	61,299,566	11%
Other Available Funds	6,508,071	-	0%	38,158,158	0%
Total Revenues	\$130,526,582	\$128,891,318	99%	\$923,382,113	14%

Tacoma Power Expenditures



	1/17- 3/17 Budget	1/17- 3/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$24,372,900	\$23,090,858	95%	\$200,456,764	12%
Supplies, Other Services & Charges	59,190,241	53,766,417	91%	466,917,187	12%
Taxes	14,809,325	15,249,878	103%	107,182,939	14%
Debt Service	7,691,077	7,616,842	99%	66,995,223	11%
Capital Outlay	10,228,750	(1,001,996)	(10%)	81,830,000	-1%
Total Expenditures	\$116,292,293	\$98,721,999	85%	\$923,382,113	11%

12.5% of Biennial Budget Completed



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	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
REVENUE LESS EXPENDITURES	\$ (3,176,569)	\$ (1,690,213)	\$ 1,486,356	\$ (3,176,569)	\$ (1,690,213)	\$ 1,486,356		
<u>OPERATING REVENUES - WATER SALES</u>								
(1) RESIDENTIAL	\$ 9,991,209	\$ 10,413,264	\$ 422,055	\$ 9,991,209	\$ 10,413,264	\$ 422,055	4.2%	\$ 98,999,300
COMMERCIAL	2,191,151	2,253,119	61,968	2,191,151	2,253,119	61,968	2.8%	21,518,675
LARGE VOLUME	341,471	347,942	6,471	341,471	347,942	6,471	1.9%	3,551,653
PULP MILL	1,595,230	1,372,229	(223,001)	1,595,230	1,372,229	(223,001)	(14.0%)	13,263,201
PRIVATE FIRE	662,291	762,120	99,829	662,291	762,120	99,829	15.1%	5,409,489
PARKS & IRRIGATION	82,882	209,679	126,797	82,882	209,679	126,797	153.0%	6,345,014
WHOLESALE	404,248	554,782	150,534	404,248	554,782	150,534	37.2%	4,225,910
TOTAL WATER SALES	15,268,482	15,913,137	644,655	15,268,482	15,913,137	644,655	4.2%	153,313,242
<u>OTHER OPERATING REVENUES</u>								
CASCADE WATER ALLIANCE	666,915	666,915	(0)	666,915	666,915	(0)	(0.0%)	5,278,268
PUBLIC FIRE PROTECTION	761,878	716,407	(45,471)	761,878	716,407	(45,471)	(6.0%)	6,442,965
OTHER OPERATING REVENUE	573,753	535,908	(37,845)	573,753	535,908	(37,845)	(6.6%)	2,304,583
OTHER SURCHARGE	15,000	31,777	16,777	15,000	31,777	16,777	111.8%	120,000
TOTAL OTHER OPERATING REVENUES	2,017,546	1,951,007	(66,540)	2,017,546	1,951,007	(66,540)	(3.3%)	14,145,816
TOTAL OPERATING REVENUES	17,286,029	17,864,143	578,115	17,286,029	17,864,143	578,115	3.3%	167,459,058
<u>NON-OPERATING REVENUES</u>								
INTEREST	68,750	189,918	121,168	68,750	189,918	121,168	176.2%	600,000
BABS INTEREST FEDERAL SUDSIDY	692,578	691,836	(742)	692,578	691,836	(742)	(0.1%)	5,540,624
OTHER NON-OPERATING REVENUE	11,250	11,821	571	11,250	11,821	571	5.1%	90,000
TOTAL NON-OPERATING REVENUES	772,578	893,575	120,997	772,578	893,575	120,997	15.7%	6,230,624
TOTAL REVENUES	18,058,607	18,757,719	699,112	18,058,607	18,757,719	699,112	3.9%	173,689,682
<u>OTHER AVAILABLE FUNDS</u>								
CAPITAL RESERVE FUND - TRANSFER	1,001,372	1,983	(999,389)	1,001,372	1,983	(999,389)	(99.8%)	8,010,973
APPROPRIATION FROM FUND BALANCE	1,232,889	-	(1,232,889)	1,232,889	-	(1,232,889)	(100.0%)	9,863,115
TOTAL REVENUES & AVAILABLE FUNDS	\$ 20,292,868	\$ 18,759,701	\$ (1,533,166)	\$ 20,292,868	\$ 18,759,701	\$ (1,533,166)	(7.6%)	\$ 191,563,770

(1) The budget for residential revenues has been shaped to reflect seasonal variations.



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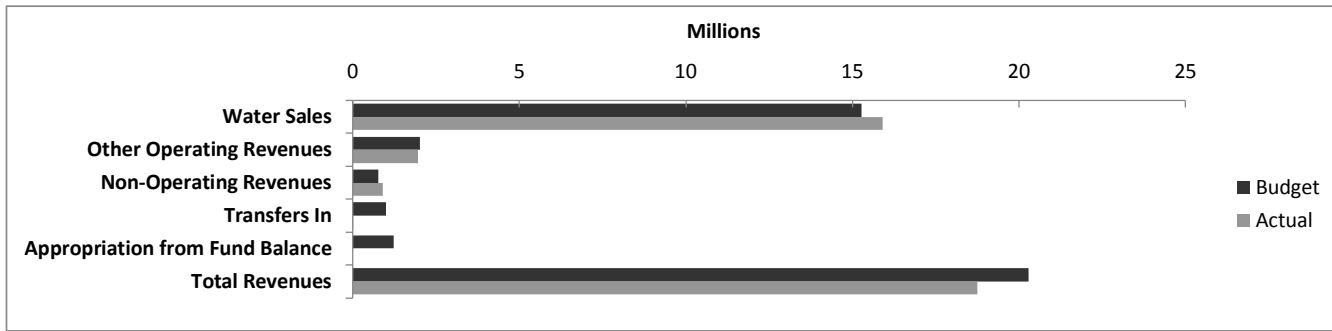
	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
<u>OPERATING EXPENDITURES</u>								
<u>ADMINISTRATION</u>								
PERSONNEL COSTS	\$ 120,900	\$ 111,307	\$ 9,593	\$ 120,900	\$ 111,307	\$ 9,593	7.9%	\$ 931,382
VACANCY FACTOR	(283,166)	-	(283,166)	(283,166)	-	(283,166)	(100.0%)	(2,265,331)
SUPPLIES, OTHER SERVICES & CHARGES	154,030	519,572	(365,542)	154,030	519,572	(365,542)	(237.3%)	1,446,805
RWSS CRO EXPENSES	1,291,995	1,213,058	78,936	1,291,995	1,213,058	78,936	6.1%	10,341,874
ASSESSMENTS	2,685,394	2,564,283	121,111	2,685,394	2,564,283	121,111	4.5%	20,942,765
GROSS EARNINGS TAX	1,259,342	1,501,552	(242,210)	1,259,342	1,501,552	(242,210)	(19.2%)	13,434,380
OTHER TAXES	909,827	992,169	(82,342)	909,827	992,169	(82,342)	(9.1%)	9,308,406
ADMINISTRATION TOTAL	6,138,320	6,901,941	(763,621)	6,138,320	6,901,941	(763,621)	(12.4%)	54,140,281
<u>DISTRIBUTION ENGINEERING</u>								
PERSONNEL COSTS	726,584	513,181	213,404	726,584	513,181	213,404	29.4%	5,993,541
SUPPLIES, OTHER SERVICES & CHARGES	159,491	23,574	135,917	159,491	23,574	135,917	85.2%	1,170,930
DISTRIBUTION ENGINEERING TOTAL	886,076	536,755	349,321	886,076	536,755	349,321	39.4%	7,164,471
<u>DISTRIBUTION OPERATIONS</u>								
PERSONNEL COSTS	2,302,838	2,237,612	65,226	2,302,838	2,237,612	65,226	2.8%	18,532,487
SUPPLIES, OTHER SERVICES & CHARGES	509,696	203,293	306,404	509,696	203,293	306,404	60.1%	3,958,671
WATER WAREHOUSE	107,922	103,175	4,747	107,922	103,175	4,747	4.4%	876,778
DISTRIBUTED WAREHOUSE COSTS	(107,923)	(103,175)	(4,747)	(107,923)	(103,175)	(4,747)	(4.4%)	(876,778)
DISTRIBUTION OPERATIONS TOTAL	2,812,534	2,440,905	371,630	2,812,534	2,440,905	371,630	13.2%	22,491,158
<u>WATER QUALITY</u>								
PERSONNEL COSTS	1,162,015	980,234	181,781	1,162,015	980,234	181,781	15.6%	9,321,038
SUPPLIES, OTHER SERVICES & CHARGES	668,141	243,414	424,727	668,141	243,414	424,727	63.6%	5,333,620
WATER QUALITY TOTAL	1,830,156	1,223,649	606,508	1,830,156	1,223,649	606,508	33.1%	14,654,658
<u>WATER SUPPLY</u>								
PERSONNEL COSTS	1,759,319	1,468,075	291,243	1,759,319	1,468,075	291,243	16.6%	14,171,102
SUPPLIES, OTHER SERVICES & CHARGES	975,825	404,533	571,292	975,825	404,533	571,292	58.5%	7,183,594
WATER SUPPLY TOTAL	2,735,143	1,872,609	862,535	2,735,143	1,872,609	862,535	31.5%	21,354,696



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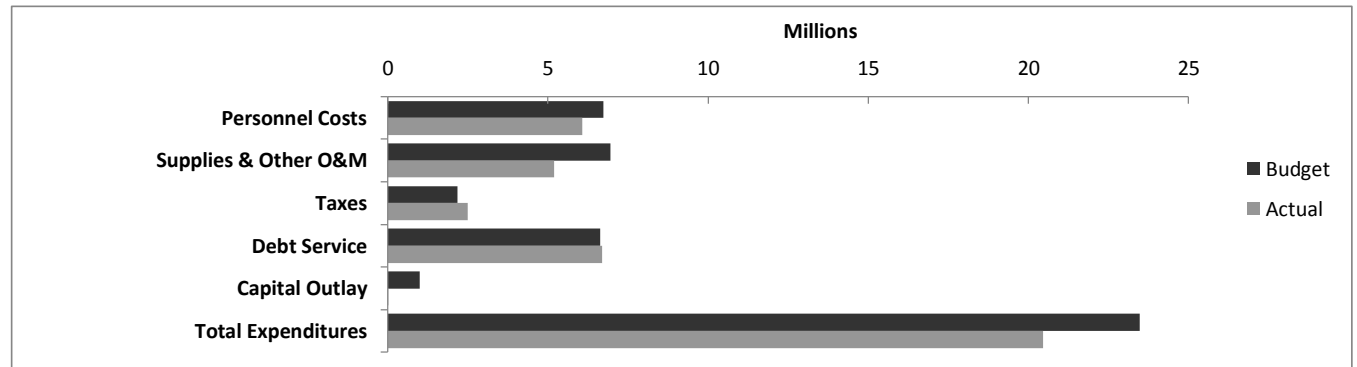
	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
<u>ASSET & INFORMATION MANAGEMENT</u>								
PERSONNEL COSTS	\$ 698,258	\$ 554,090	\$ 144,168	\$ 698,258	\$ 554,090	\$ 144,168	20.6%	\$ 5,802,799
SUPPLIES, OTHER SERVICES & CHARGES	430,807	18,364	412,444	430,807	18,364	412,444	95.7%	2,355,959
ASSET & INFORMATION MANAGEMENT	1,129,065	572,453	556,612	1,129,065	572,453	556,612	49.3%	8,158,758
<u>RATES & FINANCIAL PLANNING</u>								
PERSONNEL COSTS	237,352	202,234	35,117	237,352	202,234	35,117	14.8%	2,035,045
SUPPLIES, OTHER SERVICES & CHARGES	67,619	11,298	56,321	67,619	11,298	56,321	83.3%	540,752
RATES & FINANCIAL PLANNING TOTAL	304,971	213,532	91,438	304,971	213,532	91,438	30.0%	2,575,797
OPERATION & MAINTENANCE TOTAL	\$ 15,836,267	\$ 13,761,843	\$ 2,074,423	\$ 15,836,267	\$ 13,761,843	\$ 2,074,423	13.1%	\$ 130,539,819
DEBT SERVICE	6,631,798	6,686,088	(54,290)	6,631,798	6,686,088	(54,290)	(0.8%)	53,012,978
CAPITAL OUTLAY - CAPITAL RESERVE FUND	1,001,372	1,983	999,389	1,001,372	1,983	999,389	99.8%	8,010,973
TOTAL OPERATING FUND EXPENDITURES	\$ 23,469,436	\$ 20,449,914	\$ 3,019,522	\$ 23,469,436	\$ 20,449,914	\$ 3,019,522	12.9%	\$ 191,563,770

Tacoma Water Revenues



	01/17 - 03/17 Budget	01/17 - 03/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Water Sales	\$15,268,482	\$15,913,137	104%	\$153,313,242	10%
Other Operating Revenues	2,017,546	1,951,007	97%	14,145,816	14%
Non-Operating Revenues	772,578	893,575	116%	6,230,624	14%
Transfers In	1,001,372	1,983	0%	8,010,973	0%
Appropriation from Fund Balance	1,232,889	0	0%	9,863,115	0%
Total Revenues	\$20,292,868	\$18,759,701	92%	\$191,563,770	10%

Tacoma Water Expenditures



	01/17 - 03/17 Budget	01/17 - 03/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$6,724,100	\$6,066,734	90%	\$54,522,063	11%
Supplies & Other O&M	6,942,998	5,201,389	75%	53,274,970	10%
Taxes	2,169,169	2,493,721	115%	22,742,786	11%
Debt Service	6,631,798	6,686,088	101%	53,012,978	13%
Capital Outlay	1,001,372	1,983	0%	8,010,973	0%
Total Expenditures	\$23,469,436	\$20,449,914	87%	\$191,563,770	11%

12.5% of Biennial Budget Completed



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	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
REVENUES LESS EXPENDITURES	\$ (119,390)	\$ 1,449,928	\$ 1,569,318	\$ (119,390)	\$ 1,449,928	\$ 1,569,319		
OPERATING REVENUES								
SWITCHING REVENUES								
LINE HAULS AND LOCAL	\$ 6,970,725	\$ 7,477,850	\$ 507,126	\$ 6,970,725	\$ 7,477,850	\$ 507,126	7.3%	\$ 57,727,884
DEMURRAGE FEES	287,500	335,059	47,559	287,500	335,059	47,559	16.5%	2,300,000
TOTAL SWITCHING REVENUES	7,258,225	7,812,909	554,684	7,258,225	7,812,909	554,684	7.6%	60,027,884
LOCOMOTIVE SERVICING	466,164	649,198	183,034	466,164	649,198	183,034	39.3%	3,729,312
OTHER REVENUES	65,250	99,745	34,495	65,250	99,745	34,495	52.9%	522,000
TOTAL MISCELLANEOUS REVENUES	531,414	748,943	217,529	531,414	748,943	217,529	40.9%	4,251,312
TOTAL OPERATING REVENUES	7,789,639	8,561,852	772,213	7,789,639	8,561,852	772,213	9.9%	64,279,196
NON-OPERATING REVENUES								
RENT AND MISCELLANEOUS INCOME	270,000	227,391	(42,609)	270,000	227,391	(42,609)	(15.8%)	2,160,000
INTEREST	25,500	19,297	(6,203)	25,500	19,297	(6,203)	(24.3%)	204,000
TOTAL NON-OPERATING REVENUES	295,500	246,688	(48,812)	295,500	246,688	(48,812)	(16.5%)	2,364,000
TOTAL REVENUES	\$ 8,085,139	\$ 8,808,540	\$ 723,401	\$ 8,085,139	\$ 8,808,540	\$ 723,401	8.9%	\$ 66,643,196

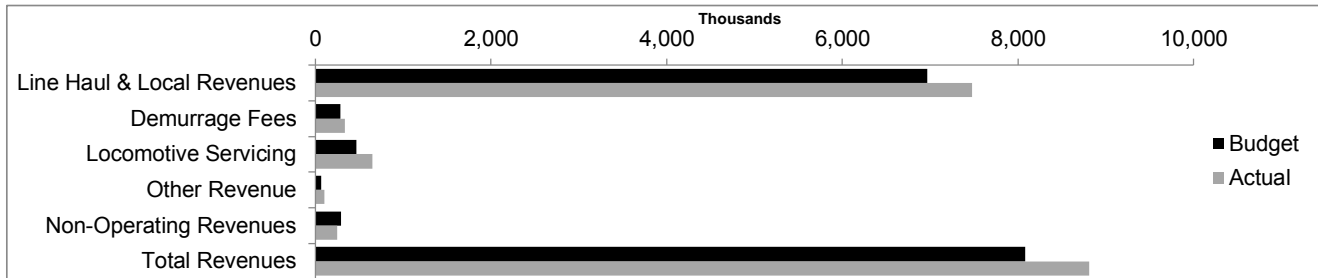


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	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
OPERATING EXPENDITURES								
ADMINISTRATION								
PERSONNEL COSTS	\$ 627,277	\$ 620,449	\$ 6,829	\$ 627,277	\$ 620,449	\$ 6,829	1.1%	\$ 4,951,170
SUPPLIES, OTHER SERVICES & CHARGES	266,513	227,741	38,772	266,513	227,741	38,772	14.5%	2,037,958
ASSESSMENTS	436,334	406,931	29,403	436,334	406,931	29,403	6.7%	3,378,206
VOLUME INCENTIVE	625,000	875,001	(250,001)	625,000	875,001	(250,001)	(40.0%)	5,000,000
GROSS EARNINGS TAX	643,543	706,085	(62,542)	643,543	706,085	(62,542)	(9.7%)	5,331,455
STATE TAX	116,368	121,312	(4,944)	116,368	121,312	(4,944)	(4.2%)	964,188
ADMINISTRATION TOTAL	2,715,035	2,957,520	(242,485)	2,715,036	2,957,520	(242,485)	(8.9%)	21,662,977
OPERATIONS								
PERSONNEL COSTS	2,503,373	2,596,592	(93,219)	2,503,373	2,596,592	(93,219)	(3.7%)	20,282,828
SUPPLIES, OTHER SERVICES & CHARGES	348,897	345,091	3,805	348,897	345,091	3,805	1.1%	2,808,830
OPERATIONS TOTAL	2,852,270	2,941,683	(89,413)	2,852,270	2,941,683	(89,413)	(3.1%)	23,091,658
MECHANICAL								
PERSONNEL COSTS	512,612	493,464	19,149	512,612	493,464	19,149	3.7%	4,160,240
SUPPLIES, OTHER SERVICES & CHARGES	409,821	362,931	46,890	409,821	362,931	46,890	11.4%	3,289,195
FUEL	350,000	439,247	(89,247)	350,000	439,247	(89,247)	(25.5%)	2,900,000
MECHANICAL TOTAL	1,272,433	1,295,642	(23,209)	1,272,433	1,295,642	(23,209)	(1.8%)	10,349,435
CONSTRUCTION								
PERSONNEL COSTS	267,113	273,911	(6,798)	267,113	273,911	(6,798)	(2.5%)	2,149,577
SUPPLIES, OTHER SERVICES & CHARGES	417,631	212,624	205,007	417,631	212,624	205,007	49.1%	3,291,121
CONSTRUCTION TOTAL	684,743	486,535	198,209	684,743	486,535	198,209	28.9%	5,440,698
OPERATION & MAINTENANCE TOTAL	\$ 7,524,482	\$ 7,681,380	\$ (156,898)	\$ 7,524,482	\$ 7,681,380	\$ (156,898)	(2.1%)	\$ 60,544,768
LONG-TERM DEBT	142,729	67,686	75,043	142,729	67,686	75,043	52.6%	1,799,885
(1) CAPITAL OUTLAY - OPERATING FUND	537,318	(390,455)	927,773	537,318	(390,455)	927,773	172.7%	4,298,543
TOTAL OPERATING FUND EXPENDITURES	\$ 8,204,528	\$ 7,358,611	\$ 845,917	\$ 8,204,529	\$ 7,358,611	\$ 845,918	10.3%	\$ 66,643,196

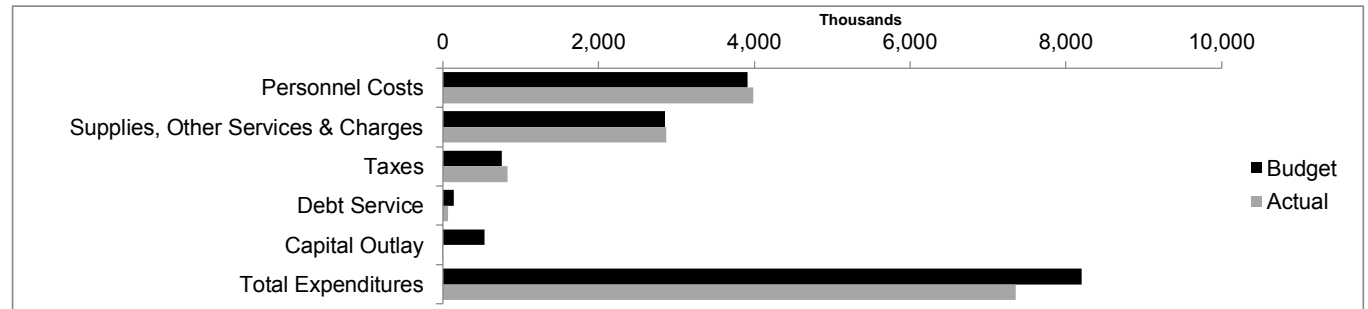
(1) Reflects a timing difference between capital outlay expenditures and reimbursements.

Tacoma Rail Revenues



	01/17 - 03/17 Budget	01/17 - 03/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Line Haul & Local Revenues	\$6,970,725	\$7,477,850	107%	\$57,727,884	13%
Demurrage Fees	287,500	335,059	117%	2,300,000	15%
Locomotive Servicing	466,164	649,198	139%	3,729,312	17%
Other Revenue	65,250	99,745	153%	522,000	19%
Non-Operating Revenues	295,500	246,688	83%	2,364,000	10%
Total Revenues	\$8,085,139	\$8,808,540	109%	\$66,643,196	13%

Tacoma Rail Expenditures



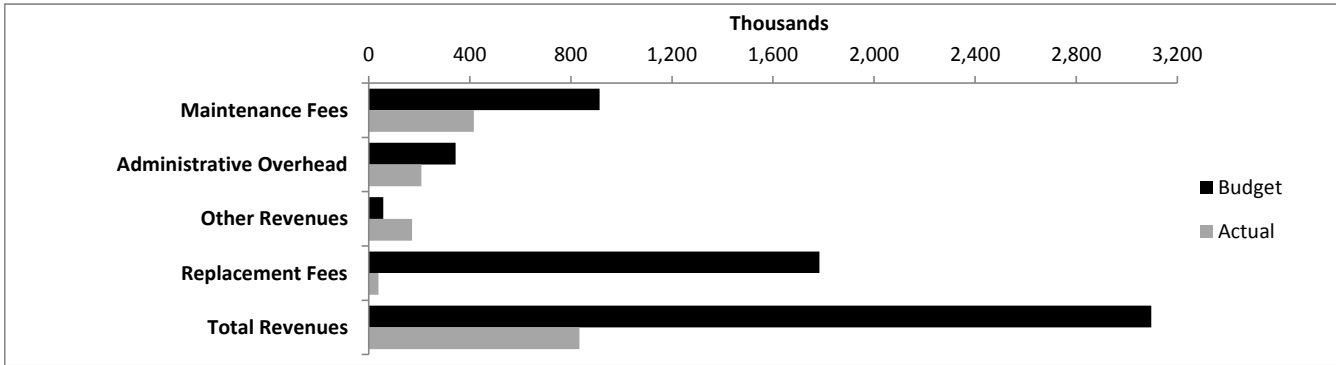
	01/17 - 03/17 Budget	01/17 - 03/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$3,910,375	\$3,984,415	102%	\$31,543,815	13%
Supplies, Other Services & Charges	2,854,195	2,869,567	101%	22,705,310	13%
Taxes	759,911	827,398	109%	6,295,643	13%
Debt Service	142,729	67,686	47%	1,799,885	4%
Capital Outlay	537,318	(390,455)	-73%	4,298,543	-9%
Total Expenditures	\$8,204,528	\$7,358,611	90%	\$66,643,196	11%

12.5% of Biennial Budget Completed

TPU FLEET SERVICES FUND
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017

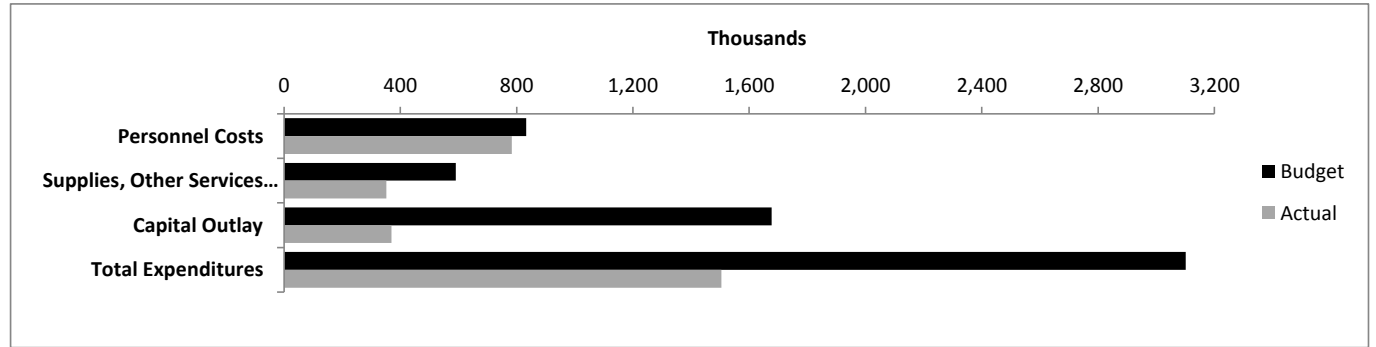
	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
REVENUES LESS EXPENDITURES	\$ (3,756)	\$ (670,357)	\$ (666,600)	\$ (3,756)	\$ (670,357)	\$ (666,600)		
OPERATING REVENUES								
MAINTENANCE REVENUE	\$ 913,206	\$ 415,739	\$ (497,466)	\$ 913,206	\$ 415,739	\$ (497,466)	(54.5%)	\$ 7,288,786
ADMINISTRATIVE OVERHEAD	343,174	208,572	(134,602)	343,174	208,572	(134,602)	(39.2%)	2,745,393
FUEL AND FUEL LOADING	13,750	14,431	681	13,750	14,431	681	5.0%	110,000
POOL CAR RENTAL	28,125	28,213	88	28,125	28,213	88	0.3%	225,000
TOTAL OPERATING REVENUES	1,298,255	666,956	(631,299)	1,298,255	666,956	(631,299)	(48.6%)	10,369,179
OTHER REVENUES								
INTEREST INCOME	15,625	8,530	(7,095)	15,625	8,530	(7,095)	(45.4%)	125,000
OTHER REVENUE	-	120,203	120,203	-	120,203	120,203	-	-
TOTAL REVENUES	1,313,880	795,689	(518,191)	1,313,880	795,689	(518,191)	(39.4%)	10,494,179
OTHER AVAILABLE FUNDS								
CAPITAL REPLACEMENT FEES	1,783,237	38,516	(1,744,721)	1,783,237	38,516	(1,744,721)	(97.8%)	14,265,897
TOTAL REVENUES AND AVAILABLE FUNDS	\$ 3,097,117	\$ 834,205	\$ (2,262,911)	\$ 3,097,117	\$ 834,205	\$ (2,262,911)	(73.1%)	\$ 24,760,076
OPERATING EXPENDITURES								
REPAIRS AND SERVICING								
PERSONNEL COSTS	\$ 629,486	\$ 584,073	\$ 45,414	\$ 629,486	\$ 584,073	\$ 45,414	7.2%	\$ 4,985,001
GENERAL SUPPLIES & EXPENSE	98,885	104,250	(5,365)	98,885	104,250	(5,365)	(5.4%)	795,036
REPAIRS AND SERVICING TOTAL	728,372	688,323	40,049	728,372	688,323	40,049	5.5%	5,780,037
STORES OPERATION								
PERSONNEL COSTS	74,843	73,839	1,004	74,843	73,839	1,004	1.3%	608,092
GENERAL SUPPLIES & EXPENSE	10,625	(5,450)	16,075	10,625	(5,450)	16,075	151.3%	85,442
STORES OPERATION TOTAL	85,468	68,390	17,079	85,468	68,390	17,079	20.0%	693,534
ADMINISTRATION								
PERSONNEL COSTS	128,525	125,127	3,398	128,525	125,127	3,398	2.6%	1,050,360
GENERAL SUPPLIES & EXPENSE	436,763	218,986	217,776	436,763	218,986	217,776	49.9%	3,462,185
MOTOR POOL								
GENERAL SUPPLIES & EXPENSE	44,495	34,243	10,253	44,495	34,243	10,253	23.0%	355,961
ADMINISTRATION TOTAL	609,783	378,356	231,427	609,783	378,356	231,427	38.0%	4,868,506
OPERATION & MAINTENANCE TOTAL	\$ 1,423,623	\$ 1,135,069	\$ 288,554	\$ 1,423,623	\$ 1,135,069	\$ 288,554	20.3%	\$ 11,342,076
CAPITAL OUTLAY	1,677,250	369,493	1,307,757	1,677,250	369,493	1,307,757	78.0%	13,418,000
TOTAL CURRENT FUND EXPENDITURES	\$ 3,100,873	\$ 1,504,562	\$ 1,596,311	\$ 3,100,873	\$ 1,504,562	\$ 1,596,311	51.5%	\$ 24,760,076

TPU Fleet Services Fund Revenues



	01/17 - 03/17 Budget	01/17 - 03/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Maintenance Fees	\$913,206	\$415,739	46%	\$7,288,786	6%
Administrative Overhead	343,174	208,572	61%	2,745,393	8%
Other Revenues	57,500	171,378	298%	460,000	37%
Replacement Fees	1,783,237	38,516	2%	14,265,897	0%
Total Revenues	\$3,097,117	\$834,205	27%	\$24,760,076	3%

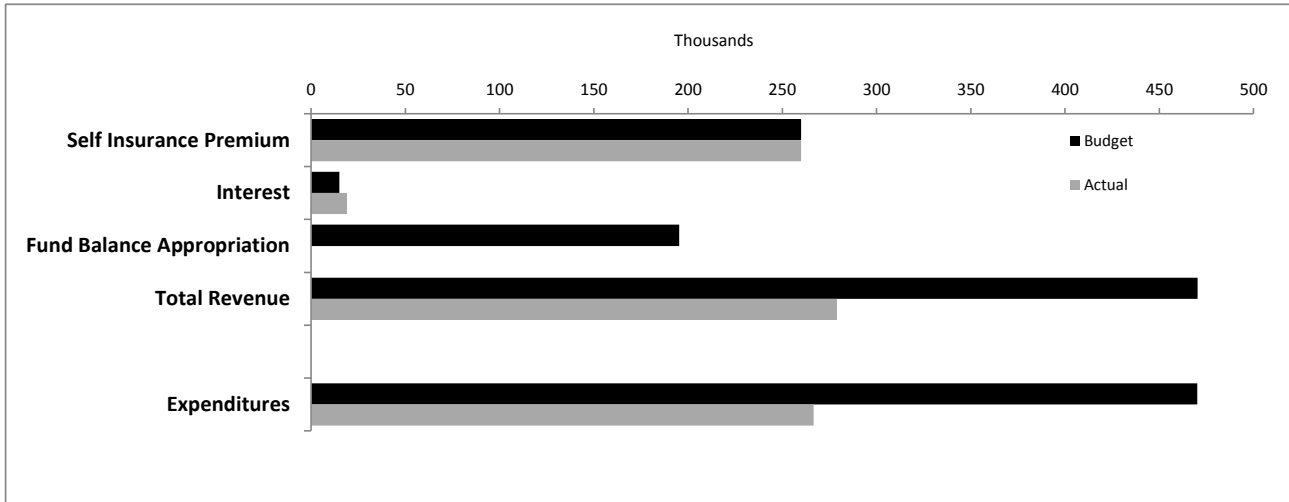
TPU Fleet Services Fund Expenditures



	01/17 - 03/17 Budget	01/17 - 03/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$832,854	\$783,007	94%	\$6,643,452	12%
Supplies, Other Services & Charges	590,768	352,062	60%	4,698,624	7%
Capital Outlay	1,677,250	369,493	22%	13,418,000	3%
Total Expenditures	\$3,100,873	\$1,504,562	49%	\$24,760,076	6%

12.5% of Biennial Budget Completed

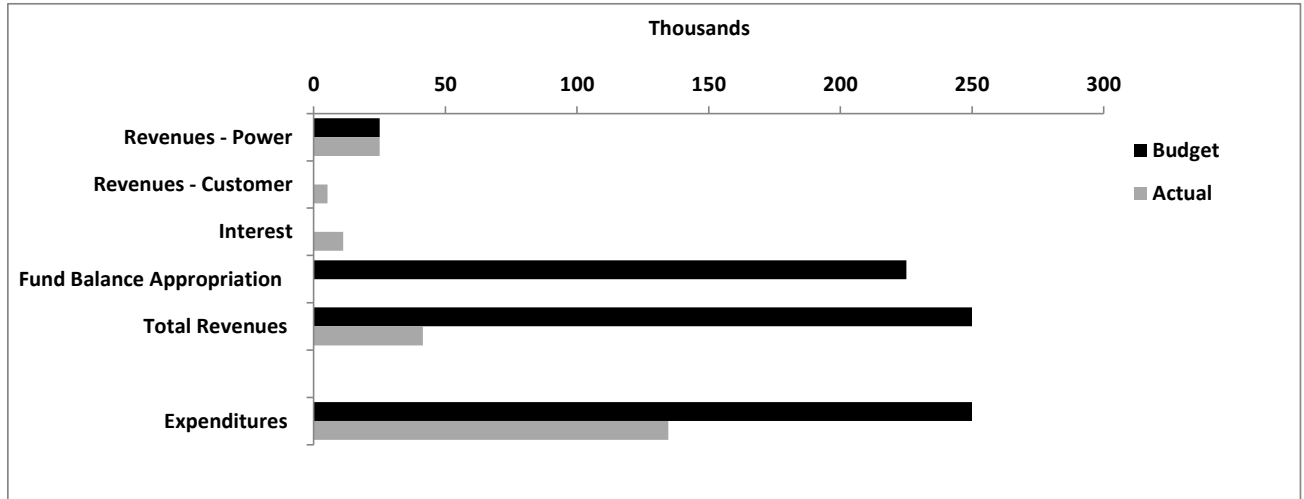
TPU SELF INSURANCE FUND
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017



	1/17 - 3/17 Budget	1/17 - 3/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Self Insurance Premium	\$260,000	\$260,000	100%	\$2,080,000	13%
Interest	15,000	19,025	127%	120,000	16%
Fund Balance Appropriation	195,282	-	0%	1,562,254	0%
Total Revenue	\$470,282	\$279,025	59%	\$3,762,254	7%
Expenditures	\$470,140	\$266,535	57%	\$3,762,254	7%

12.5% of Biennial Budget Completed

TPU FAMILY NEED FUND
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017



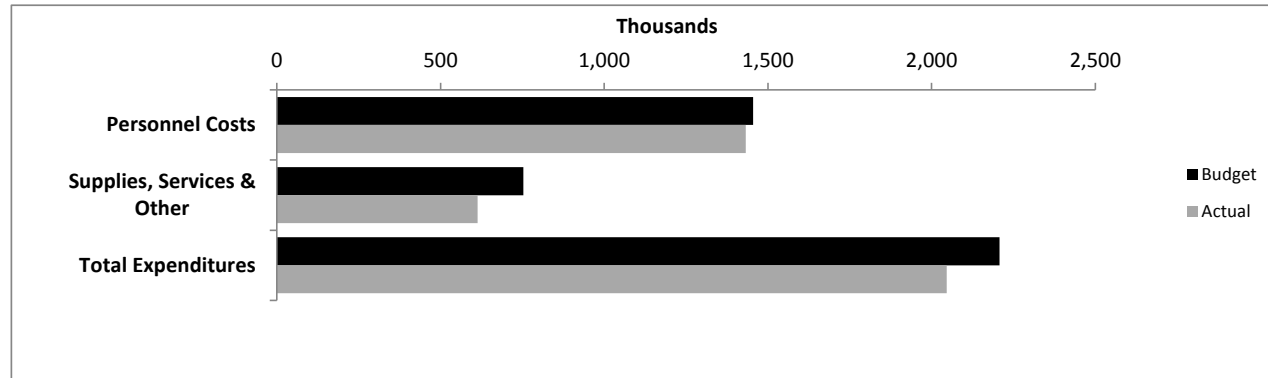
	1/17 - 3/17 Budget	1/17 - 3/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Revenues - Power	\$25,000	\$25,000	100%	\$200,000	13%
Revenues - Customer	-	5,258	N/A	N/A	N/A
Interest	-	11,234	N/A	N/A	N/A
Fund Balance Appropriation	225,000	-	N/A	1,800,000	N/A
Total Revenues	\$250,000	\$41,492	17%	\$2,000,000	2%
Expenditures	\$250,000	\$134,661	54%	\$2,000,000	7%

12.5% of Biennial Budget Completed

TPU ADMINISTRATIVE OFFICES
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
DIRECTOR'S OFFICE	\$ 351,417	\$ 413,225	\$ (61,808)	\$ 351,417	\$ 413,225	\$ (61,808)	(17.6%)	\$ 2,742,805
MANAGEMENT SERVICES	429,027	399,113	29,914	429,027	399,113	29,914	7.0%	3,476,552
PUBLIC AFFAIRS OFFICE	1,426,945	1,233,358	193,587	1,426,945	1,233,358	193,587	13.6%	11,446,879
TOTAL ADMIN OFFICES	\$ 2,207,389	\$ 2,045,696	\$ 161,694	\$ 2,207,389	\$ 2,045,696	\$ 161,694	7.3%	\$ 17,666,236

**TPU
Administrative
Offices
Expenditures**



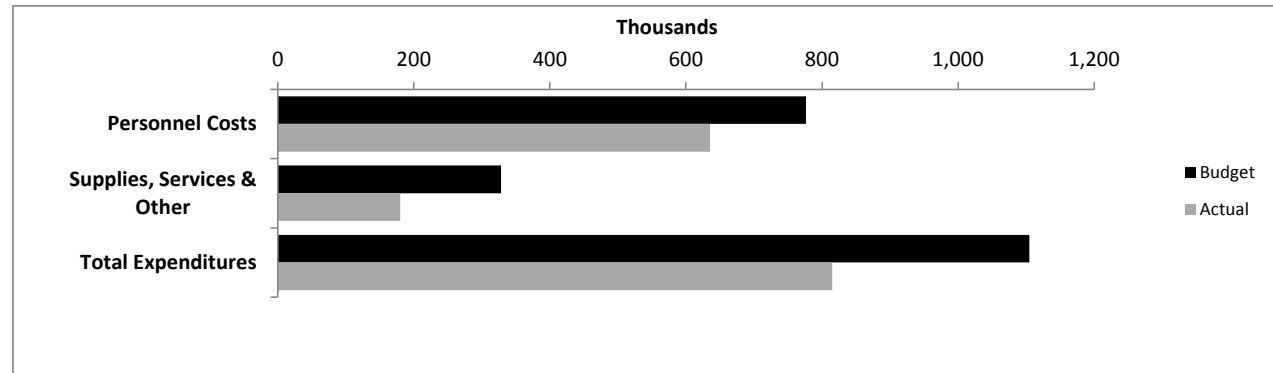
	1/17 - 3/17 Budget	1/17 - 3/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	1,454,623	1,432,122	98%	11,790,018	12%
Supplies, Services & Other	752,766	613,574	82%	5,876,218	10%
Total Expenditures	\$2,207,389	\$2,045,696	93%	\$17,666,236	12%

12.5% of Biennial Budget Completed

TPU SUPPORT SERVICES
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
TPU REAL PROPERTY SERVICES	\$ 256,609	\$ 260,042	\$ (3,433)	\$ 256,609	\$ 260,042	\$ (3,433)	(1.3%)	\$ 2,075,994
TPU IT DEDICATED RESOURCES	385,822	308,704	77,118	385,822	308,704	77,118	20.0%	3,125,597
TPU UTS CS SOFTWARE SUPPORT	350,412	202,958	147,454	350,412	202,958	147,454	42.1%	2,833,970
TPU COPIER SERVICES	111,721	43,425	68,297	111,721	43,425	68,297	61.1%	893,770
TOTAL TPU SUPPORT SERVICES	\$ 1,104,564	\$ 815,128	\$ 289,436	\$ 1,104,564	\$ 815,128	\$ 289,436	26.2%	\$ 8,929,331

TPU Support Services Expenditures



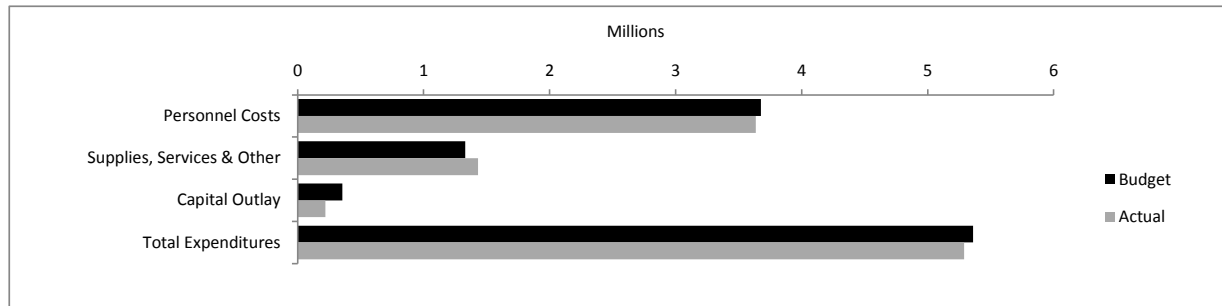
	1/17 - 3/17 Budget	1/17 - 3/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Biennial Budget
Personnel Costs	\$776,559	\$635,347	82%	\$6,306,576	10%
Supplies, Services & Other	328,005	179,781	55%	2,622,755	7%
Total Expenditures	\$1,104,564	\$815,128	74%	\$8,929,331	9%

12.5% of Biennial Budget Completed

TPU CUSTOMER SERVICES
2017/2018 BIENNIUM BUDGET PERFORMANCE REPORT
MARCH 31, 2017

	CURRENT QUARTER			BIENNIUM TO DATE				BIENNIUM
	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	BUDGET	ACTUAL	FAVORABLE / (UNFAVORABLE)	% Fav/(Unfav)	BUDGET
CUSTOMER SERVICES								
SUPPORT SERVICES	\$ 137,963	\$ 191,642	\$ (53,679)	\$ 137,963	\$ 191,642	\$ (53,679)	(38.9%)	\$ 1,116,626
SWITCHBOARD	23,286	23,336	(50)	23,286	23,336	(50)	(0.2%)	187,764
ADMINISTRATION	602,644	599,026	3,618	602,644	599,026	3,618	0.6%	4,680,372
PERFORMANCE SOLUTIONS	240,434	241,826	(1,391)	240,434	241,826	(1,391)	(0.6%)	1,963,214
CUSTOMER SERVICE TRAINING	117,759	172,363	(54,604)	117,759	172,363	(54,604)	(46.4%)	952,603
OPERATIONS ADMINISTRATION	165,210	160,675	4,536	165,210	160,675	4,536	2.7%	1,405,904
MAIL SERVICES	491,276	417,487	73,789	491,276	417,487	73,789	15.0%	3,939,100
FIELD INVESTIGATION	526,654	498,067	28,587	526,654	498,067	28,587	5.4%	4,259,012
METER READING	441,156	434,234	6,923	441,156	434,234	6,923	1.6%	3,570,666
PAYGO	67,959	63,306	4,652	67,959	63,306	4,652	6.8%	549,455
CUSTOMER SOLUTIONS	116,388	138,900	(22,512)	116,388	138,900	(22,512)	(19.3%)	937,266
PHONE SERVICES	850,283	837,410	12,872	850,283	837,410	12,872	1.5%	6,926,795
LOBBY SERVICES	245,305	254,906	(9,601)	245,305	254,906	(9,601)	(3.9%)	1,988,804
BACK OFFICE	461,775	556,387	(94,611)	461,775	556,387	(94,611)	(20.5%)	3,741,341
BUSINESS SOLUTIONS	146,118	117,827	28,291	146,118	117,827	28,291	19.4%	1,181,935
BUSINESS OFFICE ADMINISTRATION	373,100	360,975	12,125	373,100	360,975	12,125	3.2%	3,025,911
CAPITAL OUTLAY	354,375	219,756	134,619	354,375	219,756	134,619	38.0%	2,835,000
CUSTOMER SERVICES TOTAL	\$ 5,361,685	\$ 5,288,122	\$ 73,563	\$ 5,361,685	\$ 5,288,122	\$ 73,563	1.4%	\$ 43,261,768

TPU Customer Services Expenditures



	1/17 - 3/17 Budget	1/17 - 3/17 Actual	Actual vs Budget To Date	Biennial Budget	Actual vs Bien. Budget
Personnel Costs	\$3,677,772	\$3,635,545	99%	\$29,936,256	12%
Supplies, Services & Other	1,329,538	1,432,821	108%	10,490,512	14%
Capital Outlay	354,375	219,756	62%	2,835,000	8%
Total Expenditures	\$5,361,685	\$5,288,122	99%	\$43,261,768	12%

12.5% of Biennial Budget Completed

ANNUAL

TACOMA POWER

2016

**FINANCIAL
REPORT**



Public Utility Board

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Chair

MONIQUE TRUDNOWSKI
Vice-Chair

WOODROW JONES
Secretary

KAREN LARKIN
Member

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Member

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Director of Utilities/CEO

CHRIS ROBINSON
Power Superintendent/COO

ANDREW CHERULLO
Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA POWER

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FINANCIAL DATA

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Power Division (the Division), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 5 through 13, schedule of proportionate share of net pension liability, and schedule of the city of Tacoma's contributions employer contributions on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data presented on pages 47 through 64, and the superintendent's report presented on pages 65 through 82 are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.



Tacoma, Washington
April 19, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Power's financial performance provides an overview of the financial activities for the years ended December 31, 2016 and 2015. 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 generally accepted accounting principles (GAAP) in the United States of America applied on a consistent basis and include amounts that are based on management's best estimates and judgment.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2016 and 2015, include the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. The Statements of Net Position present information on all of the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position 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, non-capital financing, capital and related financing, and investing activities.

The Notes to 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.

The Division adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. The statement provides guidance for determining fair value to certain investments and disclosures related to all fair value measurements, and requires accounting for investments at fair value (See note 3).

Financial Highlights

- Tacoma Power reported a decrease in total net position of \$3.9 million (150.6%) in 2016, compared to a decrease of \$1.6 million (106.6%) in 2015.
- Operating revenues increased \$8.0 million (1.9%) in 2016. Operating revenues in 2015 decreased \$30.6 million (6.9%).

- Utility Plant in Service increased \$143.1 million (7.7%) in 2016 and \$43.2 million (2.4%) in 2015.
- Construction work in progress decreased \$61.5 million (70.0%) in 2016 and increased \$33.2 million (60.5%) in 2015.

Overview of Financial Statements

Tacoma Power reported net operating income of \$30.4, \$34.1 and \$68.1 million in 2016, 2015 and 2014 respectively. Operating revenues increased \$8.0 million during 2016 and operating expenses increased \$11.6 million. For 2015, operating revenues decreased \$30.6 million and operating expenses increased \$3.4 million compared to 2014. Tacoma Power reported a decrease in net position of \$3.9 million in 2016 compared to a decrease of \$1.6 million in 2015 and an increase of \$23.7 million in 2014.

The following tables highlight Tacoma Power's past three years' operating results and megawatt-hours billed.

OPERATING RESULTS

(in thousands)

<u>Category</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>16/15 Increase (Decrease)</u>	<u>15/14 Increase (Decrease)</u>
Operating Revenues	\$ 418,614	\$ 410,626	\$ 441,246	\$ 7,988	\$ (30,620)
Operating Expenses	388,220	376,576	373,173	11,644	3,403
Net Operating Income	30,394	34,050	68,073	(3,656)	(34,023)
Net Non-Operating Expenses	(12,716)	(20,036)	(25,138)	7,320	5,102
Capital Contributions	5,162	5,708	4,120	(546)	1,588
BABs and CREBs subsidies	3,684	3,676	3,668	8	8
Transfers Out	(30,462)	(24,969)	(26,999)	(5,493)	2,030
Change in Net Position (Net Income)	\$ (3,938)	\$ (1,571)	\$ 23,724	\$ (2,367)	\$ (25,295)

MEGAWATT-HOURS BILLED

(in thousands)

<u>Type of Customer</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>16/15 Increase (Decrease)</u>	<u>15/14 Increase (Decrease)</u>
Residential	1,856	1,801	1,891	55	(90)
Commercial/General/Industrial	2,715	2,791	2,869	(76)	(78)
Wholesale	2,731	1,918	2,843	813	(925)
Total	7,302	6,510	7,603	792	(1093)

Net Position

Net position may serve over time as a useful indicator of an entity's financial position. The following analysis highlights net position for the last three years.

Statements of Net Position (in thousands)

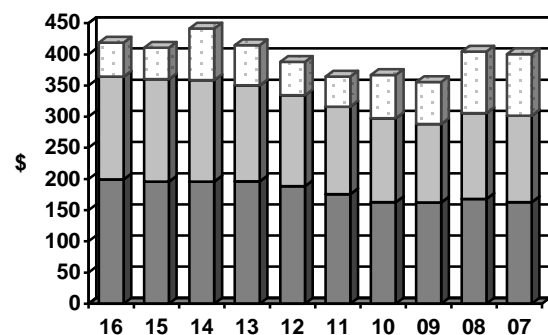
<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>16/15 Increase (Decrease)</u>	<u>15/14 Increase (Decrease)</u>
Net Utility and Non-Utility Plant	\$ 1,033,591	\$ 1,002,993	\$ 979,067	\$ 30,598	\$ 23,926
Current Assets, Other Assets and Special Funds	384,884	392,482	525,770	(7,598)	(133,288)
Total Assets	1,418,475	1,395,475	1,504,837	23,000	(109,362)
Deferred Outflows	39,469	10,977	8,026	28,492	2,951
Total Assets and Deferred Outflows	\$ 1,457,944	\$ 1,406,452	\$ 1,512,863	\$ 51,492	\$ (106,411)
Net Position:					
Net Investment in Capital					
Assets	\$ 581,629	\$ 594,626	\$ 499,659	\$ (12,997)	\$ 94,967
Restricted	15,225	21,028	34,666	(5,803)	(13,638)
Unrestricted	225,142	210,279	288,478	14,863	(78,199)
Total Net Position	821,996	825,933	822,803	(3,937)	3,130
Long-Term Debt	457,602	441,928	530,581	15,674	(88,653)
Other Liabilities	128,058	86,555	111,479	41,503	(24,924)
Total Liabilities	585,660	528,483	642,060	57,177	(113,577)
Deferred Inflows	50,288	52,036	48,000	(1,748)	4,036
Total Net Position, Liabilities and Deferred Inflows	\$ 1,457,944	\$ 1,406,452	\$ 1,512,863	\$ 51,492	\$ (106,411)

Revenues

2016 Compared to 2015

Operating revenues totaled \$418.6 million in 2016 compared to \$410.6 million in 2015, an increase of \$8.0 million (1.9%). Revenues from residential customers increased \$4.9 million (3.3%). Wholesale revenues increased \$4.1 million (8.2%) as compared to 2015. The majority of the increase was due to higher volume. Streamflows were up 116% over 2015, and were 113% of average for 2016. Generation was up 27%, while purchases were down, which left more to sell.

OPERATING REVENUES
(in millions)



■ Residential and Other ■ Comm/Gen/Ind ■ Wholesale

In 2016 residential sales accounted for 41.4% of electric revenues, commercial, general and industrial revenues accounted for 44.0% and wholesale power revenues accounted for 14.6%.

2015 Compared to 2014

Operating revenues totaled \$410.6 million in 2015 compared to \$441.2 million in 2014, a decrease of \$30.6 million (6.9%). Revenues from general customers increased \$1.3 million (1.2%). There was a rate increase of 3.8% effective 2015, which was partially offset by a decrease of 62,000 MWh billed. Wholesale revenues in 2015 decreased \$32.4 million as compared to 2014. Streamflows in 2015 were 79% of 2014 streamflows, resulting in lower generation and therefore lower sales.

In 2015 residential sales accounted for 41.4% of electric revenues, commercial, general, and industrial revenues accounted for 44.8% and wholesale power revenues accounted for 13.8%.

Expenses

2016 Compared to 2015

Total operating expenses increased \$11.6 million or 3.1% compared to 2015.

GASB 68, *Accounting and Financial Reporting for Pensions*, resulted in an increase in expense of \$10.0 million in 2016. This expense was allocated across the Power sections as follows: Admin & General \$2.9 million, Distribution \$2.9 million, Maintenance \$1.4 million, Generation \$1.0 million, Telecommunications \$0.8 million, Other \$0.7 million, and Transmission \$0.4 million.

Purchased power increased \$0.5 million (0.4%). The increase was primarily due to increased contract costs and renewable energy credits purchased offset by increased credits and decreased purchased power.

Transmission expense increased \$6.1 million (28.0%) and distribution expense increased \$10.3 million (101.5%). In 2015 Tacoma Power conducted a review of expenses and determined that a large amount of costs that were assigned to administration and general expense should be reclassified to non-administrative groups. The increases in transmission and distribution expenses are primarily due to reclassifying these expenses effective January 1, 2016.

Generation expense increased \$5.1 million (35.7%), maintenance expense increased \$4.6 million (16.7%) and other production expenses increased \$3.7 million (24.3%) primarily due to the reclassification of expenses previously mentioned.

Administration and general expenses decreased \$17.5 million (29.9%) primarily due to the reclassification of expenses previously mentioned.

2015 Compared to 2014

Total operating expenses increased \$3.4 million or 0.9% compared to 2014.

Purchased power increased \$4.9 million (4.1%). Bonneville Power Administration (BPA) purchases increased \$8.1 million. The Slice and Block portions of the BPA contract increased \$3.1 million and credits for the Energy Conservation Agreement (ECA) decreased \$5.0 million. Purchases from Priest Rapids increased \$1.6 million. Part of the contract includes a credit for a portion of the proceeds of sale of the output from the project. Credits were less in 2015 than in 2014. Purchases from Grand Coulee Project Hydroelectric Authority increased \$0.3 million due increased operating costs that were passed on to Tacoma Power. Other portfolio purchases decreased \$5.5 million primarily due to lower volume. Temperatures for most of the year were higher than normal and streamflows were lower.

Telecommunications expense increased \$5.7 million primarily due to an updated cost allocation between Power and Click! Previously, allocated costs were approximately 75% Click! and 25% Power. The cost allocation has been updated to reflect shared costs of approximately 94% to Click! and 6% to Power. This change was effective January 1, 2015.

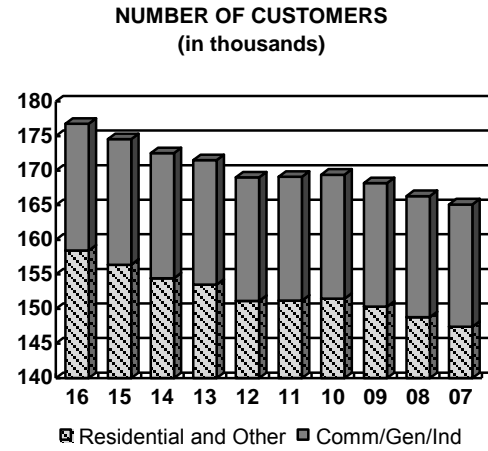
Maintenance expense decreased \$5.6 million (16.8%). Generation maintenance increased \$0.5 million primarily due to a mechanical overhaul at Wynoochee. Distribution maintenance decreased \$2.6 million and Transmission maintenance expense decreased \$3.5 million. This is mostly due to the updated cost allocation between Power and Click.

Distribution operations expense decreased \$3.6 million (26.4%) primarily due to the updated cost allocation between Power and Click! and the implementation of GASB 68, resulting in a \$1.3 million decrease in pension expense.

Generation operations expense increased \$1.9 million (15.7%). Natural Resources costs increased \$1.3 million due to testing and operations of new fish related facilities and to hiring new personnel. Contributions to the Fleet Replacement Fund increased \$0.7 million.

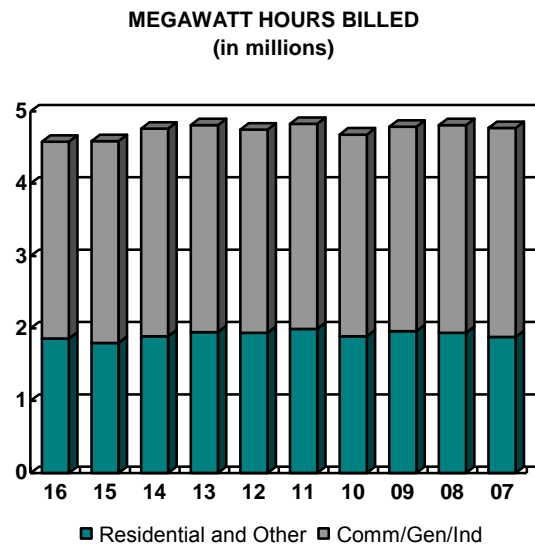
Customer Counts

Tacoma Power's overall customer growth during the past 10 years has been relatively steady averaging between less than 1% and 3% per year. The customer count for 2016 is 176,784 compared to 174,562 in 2015 and 172,531 in 2014.



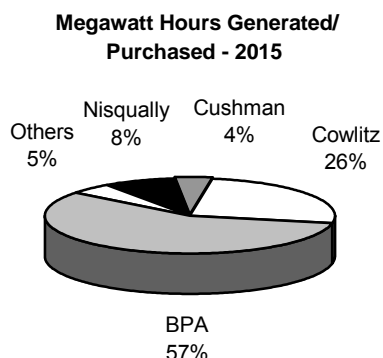
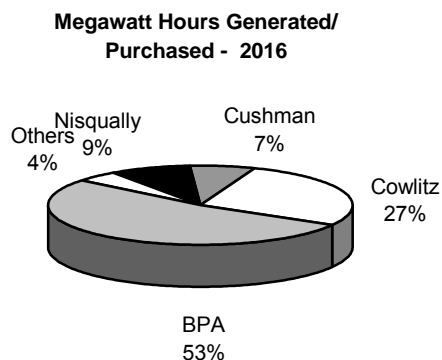
Megawatt-hours Billed

Megawatt-hours billed to residential and other customers increased 3.3% in 2016, while commercial / general / industrial billings decreased 2.5%. Wholesale power billed in 2016 was 2,731,076 megawatt-hours compared to 1,917,685 in 2015, an increase of 813,391 megawatt-hours or 42.4%. During 2016 hydro generation increased 735,503 megawatt-hours compared to the previous year. Streamflows into Tacoma Power's system were 113% of average in 2016 compared to 97% of average in 2015.



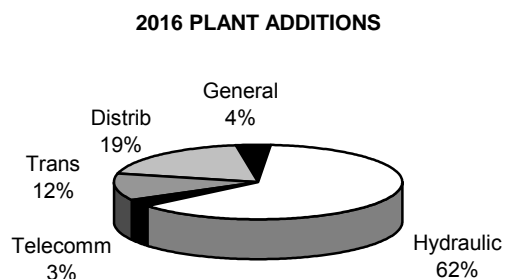
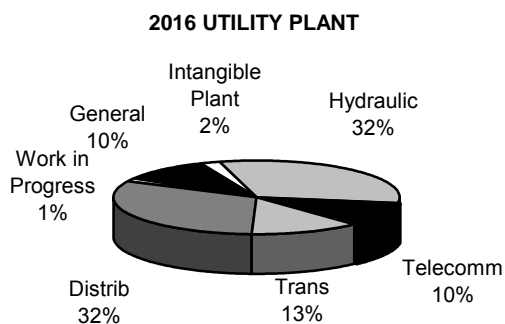
Sources of Power

Tacoma Power's total resources for power supply to serve its retail and wholesale customers for the last two years are shown in the following graphs.

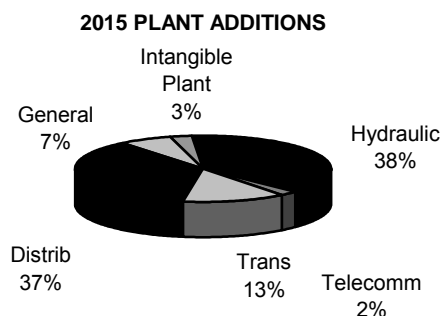
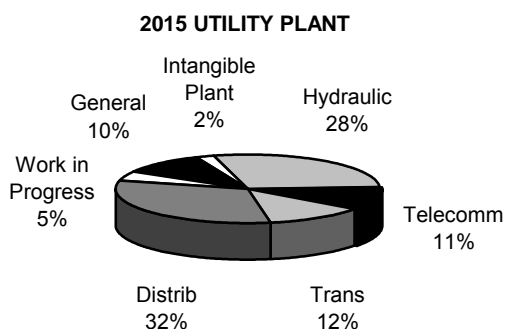


Utility Plant and Plant Additions

Tacoma Power has \$2.0 billion invested in its utility plant assets on a cost basis. The largest portion is for the generation (hydroelectric) business unit followed by the combined distribution and transmission business unit. The following graphs show the allocation of plant additions and total investment in plant.



Additions to Hydraulic plant in 2016 were \$89.2 million, which included the Cowlitz Falls Downstream Fish Passage and the Cushman License Implementation. Distribution plant additions were \$27.2 million, which included addition and replacement programs for new services, pole replacements, and road related additions and replacements. Transmission plant additions were \$16.5 million, which included system reliability improvements and substation additions and replacements.



Additions to Hydraulic plant in 2015 were \$18.2 million, which included the Cushman fish hatcheries, Wynoochee modernization, and a hydro exciter replacement program. Distribution plant additions were \$17.3 million, which included addition and replacement programs for new services, pole replacements, and road related additions and replacements. Transmission plant additions were \$6.1 million, which included system reliability improvements and substation additions and replacements.

The following table summarizes Tacoma Power's capital assets, net of accumulated depreciation, for the years ended December 31, 2016 through 2014.

Capital Assets, Net of Accumulated Depreciation
(in thousands)

<u>Net Utility Plant</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>16/15 Increase (Decrease)</u>	<u>15/14 Increase (Decrease)</u>
Intangible Plant	\$ 32,030	\$ 29,404	\$ 29,510	\$ 2,626	\$ (106)
Hydraulic Plant	441,163	359,992	349,472	81,171	10,520
Transmission Facilities	125,357	118,765	122,213	6,592	(3,448)
Distribution Facilities	290,766	284,826	288,242	5,940	(3,416)
General Plant	77,081	78,190	81,443	(1,109)	(3,253)
Telecommunications Plant	40,600	43,682	53,216	(3,082)	(9,534)
Construction Work in Progress	26,412	87,952	54,789	(61,540)	33,163
Total Net Utility Plant	<u>\$ 1,033,409</u>	<u>\$ 1,002,811</u>	<u>\$ 978,885</u>	<u>\$ 30,598</u>	<u>\$ 23,926</u>

Additional information on Tacoma Power's capital assets can be found in Note 4 of the financial statements and also in the supplementary Statistical Data.

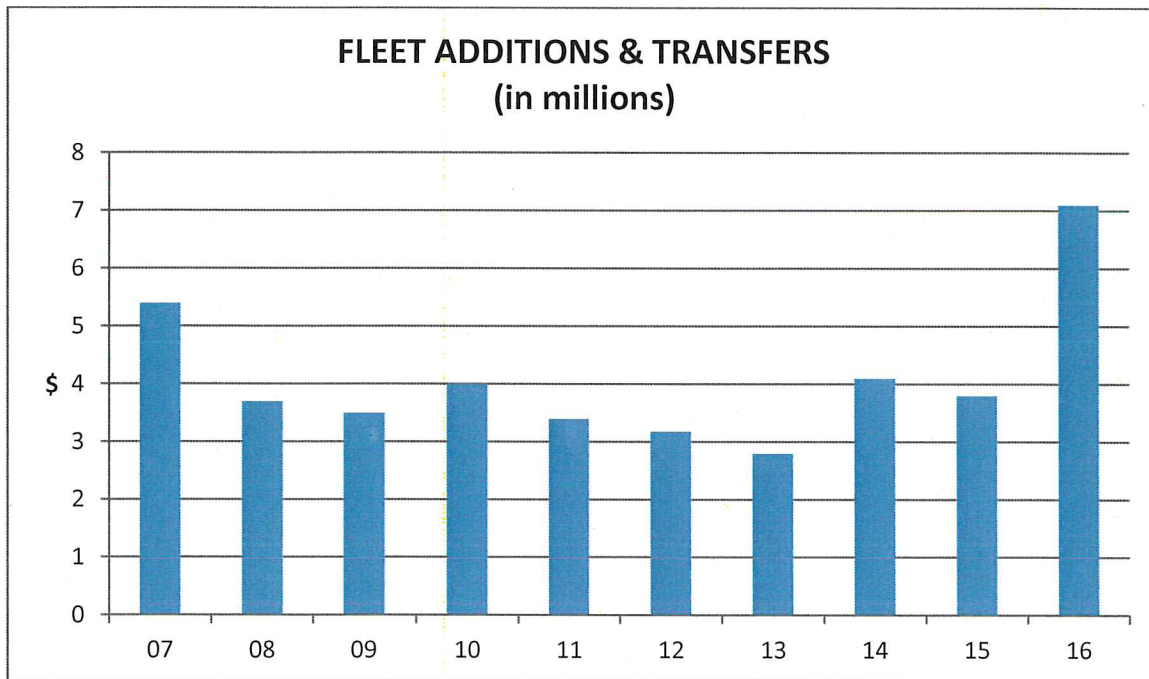
Debt Administration

At December 31, 2016 Tacoma Power had outstanding revenue bonds of \$371.1 million, a decrease of \$14.7 million compared to 2015. No new revenue bonds were issued in 2016. On March 10, 2016 and August 16, 2016 Tacoma Power took draws of \$15 million respectively on the line of credit agreement with Wells Fargo bringing the total drawn to \$80.3 million. No draws have been taken on the 3-year line of credit agreement with Key Bank.

At December 31, 2015 Tacoma Power had outstanding revenue bonds of \$385.8 million, a decrease of \$154.3 million compared to 2014. In July 2015, Tacoma Power called \$122.1 million of Series 2005 B Electric System Revenue Bonds. No new revenue bonds were issued in 2015. On May 15, 2015 Tacoma Power entered into a 3-year line of credit agreement with Wells Fargo in the amount of \$100 million, of which draws were taken in the amount of \$50.3 million.

Fixed Asset Additions

Purchases of fleet vehicles and equipment in 2016 were \$7.1 million with sixty-three vehicles and pieces of equipment placed into service compared with \$3.8 million in 2015 with forty-seven vehicles and pieces of equipment placed into service. Purchases of fleet vehicles and equipment in 2014 were \$4.1 million with sixty-one vehicles and pieces of equipment placed into service.



Summary

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Fleet Services fund's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Division Manager of Utilities Accounting, 3628 South 35th Street, Tacoma, Washington, 98409.


William A. Gaines
Director of Utilities/CEO


Andrew Cherullo
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS	DECEMBER 31,	
	2016	2015
UTILITY PLANT		
In Service, at Original Cost	\$2,004,204,782	\$1,861,142,589
Less - Accumulated Depreciation	(997,207,625)	(946,283,353)
Total	1,006,997,157	914,859,236
Construction Work in Progress	26,411,907	87,951,638
Net Utility Plant	1,033,409,064	1,002,810,874
NON-UTILITY PROPERTY	182,051	182,051
SPECIAL FUNDS		
Construction Funds	13,387,867	41,412,285
Debt Service Funds	22,180,111	24,549,803
Special Bond Reserve Funds	4,981,885	4,984,302
Wynoochee Reserve Funds	2,557,943	2,534,915
Total Special Funds	43,107,806	73,481,305
CURRENT ASSETS		
Operating Funds Cash and Equity in		
Pooled Investments	214,474,287	193,804,373
Accounts Receivable	30,021,427	30,667,987
(Net of Allowance for Doubtful Accounts of \$2,174,162 in 2016 and \$1,080,447 in 2015)		
Accrued Unbilled Revenue	28,587,295	29,427,771
Materials and Supplies	7,468,481	6,318,431
Interfund Receivables	2,226,220	1,484,313
Prepayments and Other	6,384,609	5,757,216
Total Current Assets	289,162,319	267,460,091
OTHER ASSETS		
Regulatory Asset - Conservation		
(Net of Amortization of \$25,121,809 in 2016 and \$18,629,468 in 2015)	50,071,005	46,293,923
Net Pension Asset	-	3,823,476
Conservation Loans Receivable	2,542,470	1,423,037
Total Other Assets	52,613,475	51,540,436
Total Assets	1,418,474,715	1,395,474,757
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow for Pensions.....	39,469,454	9,077,586
Unamortized Loss on Refunding Bonds	-	1,899,931
Total Deferred Outflows	39,469,454	10,977,517
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$1,457,944,169	\$1,406,452,274

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

NET POSITION, LIABILITIES AND DEFERRED INFLOWS	DECEMBER 31,	
	2016	2015
NET POSITION		
Net Investment in Capital Assets	\$581,629,142	\$594,626,313
Restricted for:		
Wynoochee Reserve Funds	2,557,943	2,534,915
Debt Service Funds	12,667,207	14,669,173
Net Pension Asset	-	3,823,476
Unrestricted	225,141,401	210,279,420
Total Net Position	<u>821,995,693</u>	<u>825,933,297</u>
LONG-TERM DEBT		
Revenue Bonds	377,351,726	391,678,130
Revolving Line of Credit	80,250,000	50,250,000
Total Long-Term Debt	<u>457,601,726</u>	<u>441,928,130</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	12,730,000	14,735,000
Taxes and Other Payables	27,457,682	20,356,768
Purchased Power Payable	12,639,142	12,013,478
Salaries, Wages and Compensated Absences Payable ..	2,912,713	2,487,419
Interest Payable	9,512,905	9,880,630
Customers' Deposits	2,772,395	3,108,808
Interfund Payables	2,140,909	1,324,441
Total Current Liabilities	<u>70,165,746</u>	<u>63,906,544</u>
LONG-TERM LIABILITIES		
Long Term Accrued Compensated Absences	9,681,941	9,522,650
Net Pension Liability	34,177,293	-
Other Long Term Liabilities	14,033,787	13,125,264
Total Long Term Liabilities	<u>57,893,021</u>	<u>22,647,914</u>
Total Liabilities	<u>585,660,493</u>	<u>528,482,588</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow for Pensions	2,287,983	4,036,389
Rate Stabilization	48,000,000	48,000,000
Total Deferred Inflows	<u>50,287,983</u>	<u>52,036,389</u>
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS..	<u><u>\$1,457,944,169</u></u>	<u><u>\$1,406,452,274</u></u>

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2016	2015
OPERATING REVENUES		
Sales of Electric Energy	\$374,249,290	\$366,263,055
Other Operating Revenue	17,690,192	17,106,442
Click! Network Operating Revenue	26,674,906	27,256,718
Total Operating Revenue	418,614,388	410,626,215
OPERATING EXPENSES		
Operations		
Purchased and Interchanged Power	126,835,928	126,315,151
Generation	19,270,201	14,197,116
Transmission	28,075,318	21,928,763
Distribution	20,477,257	10,163,887
Other	18,677,827	15,025,954
Maintenance	32,342,896	27,705,373
Telecommunications Expense	26,059,166	25,304,001
Administrative and General	41,051,795	58,560,459
Depreciation	55,702,297	57,381,578
Taxes	19,727,313	19,993,833
Total Operating Expenses	388,219,998	376,576,115
Net Operating Income	30,394,390	34,050,100
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	2,405,144	1,796,071
Contribution to Family Need	(480,000)	(480,000)
Other	1,555,659	(1,923,329)
Interest on Long-Term Debt (Net of AFUDC).....	(15,893,207)	(19,225,735)
Loss on Defeasance or Refunding of Debt and Amortization of Debt Premium	(303,527)	(202,938)
Total Non-Operating Expenses.....	(12,715,931)	(20,035,931)
Net Income Before Capital Contributions and Transfers	17,678,459	14,014,169
Capital Contributions		
Cash	4,741,136	5,183,295
Donated Fixed Assets	421,334	524,713
BABs and CREBs Interest Subsidies	3,683,746	3,675,836
Transfers		
City of Tacoma Gross Earnings Tax	(30,460,098)	(25,481,823)
Transfers to/(from) Other Funds	(2,181)	512,401
CHANGE IN NET POSITION	(3,937,604)	(1,571,409)
TOTAL NET POSITION - BEGINNING OF YEAR	825,933,297	822,803,061
ACCUMULATED ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE	-	4,701,645
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED	825,933,297	827,504,706
TOTAL NET POSITION - END OF YEAR	\$821,995,693	\$825,933,297

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$ 420,101,423	\$ 414,491,290
Cash Paid to Suppliers	(193,431,153)	(206,195,837)
Cash Paid to Employees	(111,575,956)	(106,153,040)
Taxes Paid	(19,155,309)	(19,876,260)
Conservation Loans	(1,119,433)	454,432
Net Cash from Operating Activities	94,819,572	82,720,585
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer Out for Gross Earnings Tax	(30,460,098)	(25,481,823)
Transfer to/from Other Funds	(2,181)	512,401
Transfer to Family Need Fund	(480,000)	(480,000)
Net Cash from Non-Capital Financing Activities..	(30,942,279)	(25,449,422)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures	(82,126,418)	(77,374,831)
Proceeds from Issuance of Long-Term Debt	30,000,000	50,250,000
Debt Issuance Costs	-	(114,250)
Principal Payments on Long-Term Debt	(14,735,000)	(32,115,000)
Payments for Early Extinguishment of Debt	-	(122,135,000)
Interest Paid	(20,013,668)	(26,065,944)
BABs and CREBs Interest Subsidies	3,683,746	3,675,836
Contributions in Aid of Construction	4,741,136	5,183,295
Other Long-Term Liabilities	908,523	763,091
Net Cash from Capital and Related Financing Activities	(77,541,681)	(197,932,803)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	2,405,144	1,796,071
Other Non-Op Revenues and Deductions	1,555,659	2,081,901
Net Cash from Investing Activities	3,960,803	3,877,972
Net Change in Cash and Equity in Pooled Investments	(9,703,585)	(136,783,668)
Cash and Equity in Pooled Investments at January 1..	267,285,678	404,069,346
Cash and Equity in Pooled Investments at December 31	\$257,582,093	\$267,285,678

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

	December 31, 2016	December 31, 2015
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income	\$30,394,390	\$34,050,100
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	55,702,297	57,381,578
Amortization of Regulatory Assets	6,492,341	5,566,247
Pension (Credits) Expenses	5,860,495	(4,163,028)
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable and Accrued Unbilled Revenue..	1,487,036	3,865,072
Conservation Loans Receivable	(1,119,433)	454,432
Interfund Receivables	(741,907)	1,025,123
Materials and Supplies, and Other	(1,777,443)	(1,322,513)
Taxes and Other Payables	7,100,914	(871,453)
Purchased Power Payable	625,664	453,294
Salaries, Wages and Compensated Absences Payable..	425,294	(3,120,542)
Long Term Accrued Compensated Absences	159,291	97,628
Customers' Deposits	(336,413)	211,540
Regulatory Asset - Conservation	(10,269,422)	(9,260,924)
Interfund Payables	816,468	(1,645,969)
Total Adjustments	64,425,182	48,670,485
Net Cash from Operating Activities	\$94,819,572	\$82,720,585
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$43,107,806	\$73,481,305
Cash and Equity in Pooled Investments in Operating Funds	214,474,287	193,804,373
Cash and Equity in Pooled Investments at December 31	\$257,582,093	\$267,285,678

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**CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER**

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA POWER - The Light Division, doing business as Tacoma Power (Tacoma Power or the Division), is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department) and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. 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 setting of utility rates and charges, are initiated and executed by the Board, but also require formal City Council approval. Tacoma Power owns and operates the City's electrical generation and distribution facilities and telecommunication infrastructure. Tacoma Power serves approximately of 176,784 retail customers and has 838 employees. Tacoma Power is organized into six business units: Generation, Power Management, Transmission and Distribution, Rates, Planning and Analysis, Click! Network, and Utility Technology Services.

GENERATION operates four hydroelectric generating projects (Cowlitz, Cushman, Nisqually and Wynoochee) and the associated recreational facilities, fish hatcheries and other project lands.

POWER MANAGEMENT manages the power supply portfolio, markets bulk and ancillary power supply services, schedules and dispatches division-owned generation and contract power supplies and performs power trading and risk management activities. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors including the availability of water for hydroelectric generation, marginal fuel prices and the demand for power in other areas of the country.

TRANSMISSION AND DISTRIBUTION plans, constructs, operates and maintains the transmission and distribution systems including substations, the underground network system, supervisory control and data acquisition (SCADA) systems, revenue metering facilities and all overhead transmission and distribution systems. Electricity use by retail customers varies from year to year primarily because of weather conditions, customer growth, the economy in Tacoma Power's service area, conservation efforts, appliance efficiency and other technology.

RATES, PLANNING AND ANALYSIS plans for and manages the retail rate process, financial planning, analysis and modeling, budget strategies, the capital program and risk management.

CLICK! NETWORK plans, constructs, operates and maintains a hybrid fiber coaxial (HFC) telecommunications network that supports the operation of Tacoma Power's electrical transmission and distribution system, provides retail cable TV and wholesale high-speed Internet services to residential and business customers, and data transport services to retail customers.

UTILITY TECHNOLOGY SERVICES (UTS) maintains communication networks, operational and informational technology systems, and related equipment and infrastructure to optimize utility operations and improve reliability and service quality. This includes a Project Management Office that establishes and leads Tacoma Public Utilities Information Systems project governance process and implements project portfolio management tools. UTS is responsible for all matters related to Tacoma Power's compliance with North American Electric Reliability Corporation (NERC) Reliability Standards, maintains overall responsibility for the NERC Reliability Standards and manages Tacoma Power's Internal Reliability and Compliance Project.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and are maintained on the accrual basis of accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

The Division 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.

The Division accounts are maintained substantially in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission and the Division of Audits of the State Auditor's Office.

CASH, SPECIAL FUNDS AND EQUITY IN POOLED INVESTMENTS - The Division's fund cash balances are a "deposit" with the City Treasurer's Tacoma Investment Pool (TIP) for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the TIP are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Position. Interest earned on such pooled investments is allocated daily to the participating funds based on each fund's daily equity in the TIP.

The TIP operates like a demand deposit account in that all City departments, including the Division, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and in certificates of deposit with East West Bank and Opus Bank.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2016 and 2015 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. The City of Tacoma investment policy allows for authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the FDIC insurance up to \$250,000.

All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

SPECIAL FUNDS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. Generally, restricted assets include bond construction, reserve and debt service funds and customer deposits.

RECEIVABLES AND UNBILLED REVENUES - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed as of December 31st.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally accounts receivable are considered past due after 30 days.

INTERFUND TRANSACTIONS - Unsettled transactions between funds at year end are recorded as due to or due from other funds.

MATERIALS AND SUPPLIES - Materials and supplies consist primarily of items for maintenance and construction of Division assets and are valued at the lower of average cost or fair market value.

BOND PREMIUM AND LOSS ON REFUNDING - Bond premiums are amortized over the life of the bonds using a straight-line basis. Losses on refunding are amortized on a straight-line basis over the applicable bond period.

REGULATORY ASSET CONSERVATION - The Division has deferred conservation costs to be charged to future periods matching the time when the revenues and expenses are included in rates. Conservation assets represent installation of savings measures at the properties of its customers. The deferred balance is reduced as costs are recovered and are amortized as other operating expense on the statements of revenues, expenses and changes in net position.

UTILITY PLANT AND DEPRECIATION - Utility plant is stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using a straight-line composite method based on FERC recommended economic asset lives from 2 to 62 years for related operating assets placed in service at the beginning of the year. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The economic lives for plant in service are as follows:

Intangible Plant	2-37 years
Hydraulic Production Plant	62 years
Transmission Plant	29 years
Distribution Plant	27 years
Regional Transmission	5-27 years
General Plant	19 years
Telecommunications Plant	5-19 years

CONSTRUCTION WORK IN PROGRESS – Capitalizable costs incurred on projects which are not in service or ready for use are held in construction in progress. When the asset is ready for service, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

ASSET VALUATION - The Division 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 flows.

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.

INTANGIBLE ASSETS - In accordance with GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", land use rights such as easements and right-of-ways are recorded as intangible assets.

CAPITAL CONTRIBUTIONS - In accordance with GASB No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", capital grants and capital contributions are recorded as capital contributions.

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 accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees 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. Sick leave pay is recorded as a liability and an expense in the year earned.

The accrued liability is computed at 100% vacation and PTO while sick leave is accrued at 10%, which is considered the amount vested or 25% if the employee meets retirement criteria. Based on historical information, 10% of compensated absences are considered short term.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

RATE STABILIZATION ACCOUNT - The Division has established a rate stabilization account to reduce significant year-to-year variations in rates. Amounts deposited into the account are excluded from the statement of revenues, expenses and changes in net position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions.

OPERATING REVENUE - 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 electricity. Utility revenue from power sales and power transmission is recognized when power is delivered to and received by the customer.

NON-OPERATING REVENUES AND EXPENSES – These are items that do not qualify as operating defined above.

TAXES – The City charges the Division a Gross Earnings Tax at the rate of 7.5% on electrical revenues and broadband revenues and 8.0% on cable television revenues. On Tacoma cable television revenues only, the City also charges the Division a franchise fee of 5.0% and a Public, Educational and Government access television (P.E.G.) fee of 1.0%. In addition, the Division pays a 3.8734% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Division also pays business and occupation tax to the State at the rate of 1.5% on certain other non-utility revenues including cable television revenues, as well as 0.484% for Wholesaling and Broadcasting and 0.471% for Retailing. The Division is exempt from payment of federal income tax.

NET POSITION – The Statement of Net Position reports all financial and capital resources. The difference between assets and liabilities is net position. There are three components of net position: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the outstanding balances of any bonds, loans or other borrowings, less outstanding construction funds, that are attributable to the acquisition, construction, or improvements of those assets.

Net position components are restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position components are those that are not “net investment in capital assets” or “restricted”.

ARBITRAGE REBATE REQUIREMENT – The Division is subject to the Internal Revenue Code (“IRC”), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Division would record such a rebate as a liability. The Division had no liability in the current or prior year.

SHARED SERVICES – The Division receives certain services from other departments and agencies of the City, including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies.

USE OF ESTIMATES - The preparation of the financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post Employment Benefits (OPEB), pension, self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

FAMILY NEED - The Family Need program is Tacoma Power's low income bill assistance program. Contributions are received from customers, employees and Tacoma Power. The Family Need program is administered by the Metropolitan Development Council and Pierce County Community Services which identify and certify the eligibility of Tacoma Power customers for the program.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance.

These risks include, but are not limited to, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles.

The Hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 - Level 1 inputs are quoted (adjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement data. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.
- Level 2 - Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- Level 3 - Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations are provided by Interactive Data. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, Interactive Data's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, Interactive Data uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and development payment scenarios. Their models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

Source: Interactive Data "Summary of Inputs by Asset Class Fixed Income Evaluations, Fair Value Information Service and Valuations of Certain Other Instruments" dated January 2016.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Cash and cash equivalents include highly liquid investments including short-term investment funds. Cash and cash equivalents are valued at cost and, therefore, excluded from the fair value schedule.

Data regarding the City's investments, valued and categorized according to the above outlined levels, is below:

Debt Securities	As of			
	12/31/2016	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 146,824,628	\$ -	\$ 146,824,628	\$ -
U.S. Agency Securities	544,579,831	-	544,579,831	-
Municipal Bonds	61,450,051	-	61,450,051	-
Total	\$ 752,854,510	\$ -	\$ 752,854,510	\$ -

Debt Securities	As of			
	12/31/2015	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 108,647,159	\$ -	\$ 108,647,159	\$ -
U.S. Agency Securities	541,730,184	-	541,730,184	-
Municipal Bonds	119,200,942	-	119,200,942	-
Total	\$ 769,578,285	\$ -	\$ 769,578,285	\$ -

Tacoma Power's share of the City investments shown in the table above is 33.84% and 33.19% for 2016 and 2015.

NOTE 4 UTILITY PLANT - A summary of the balances and changes in utility plant for 2016 and 2015 follows:

	Balance December 31, 2015	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2016
Intangible Plant	\$ 41,682,352	\$ 3,797,958	\$ (48,212)	\$ -	\$ 45,432,098
Hydraulic Production					
Plant	554,637,653	89,259,998	-	-	643,897,651
Transmission Plant	219,918,041	9,721,911	(259,570)	-	229,380,382
Distribution Plant	618,397,975	27,229,473	(3,189,896)	-	642,437,552
Regional Transmission	18,147,561	6,776,297	-	-	24,923,858
General Plant	200,160,423	5,391,442	-	-	205,551,865
Telecommunications					
Plant	208,198,584	4,382,792	-	-	212,581,376
Total Utility Plant in Service	1,861,142,589	146,559,871	(3,497,678)	-	2,004,204,782
Less Accumulated Depreciation	946,283,353	55,702,297	(3,449,466)	(1,328,559)	997,207,625
	914,859,236	90,857,574	(48,212)	1,328,559	1,006,997,157
Construction Work In Progress	87,951,638	85,011,567	-	(146,551,298)	26,411,907
Net Utility Plant	\$ 1,002,810,874	\$ 175,869,141	\$ (48,212)	\$ (145,222,739)	\$ 1,033,409,064

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2014	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2015
Intangible Plant	\$ 40,584,864	\$ 1,287,650	\$ (190,162)	\$ -	\$ 41,682,352
Hydraulic Production Plant	536,424,903	18,212,750	-	-	554,637,653
Transmission Plant	215,039,287	5,495,463	(616,709)	-	219,918,041
Distribution Plant	604,029,355	17,270,360	(2,901,740)	-	618,397,975
Regional Transmission	17,537,662	609,899	-	-	18,147,561
General Plant	197,036,437	3,204,314	-	(80,328)	200,160,423
Telecommunications Plant	207,244,967	953,617	-	-	208,198,584
Total Utility Plant in Service	1,817,897,475	47,034,053	(3,708,611)	(80,328)	1,861,142,589
Less Accumulated Depreciation	893,801,525	57,381,578	(3,518,449)	(1,381,301)	946,283,353
	924,095,950	(10,347,525)	(190,162)	1,300,973	914,859,236
Construction Work In Progress	54,789,325	80,107,465	-	(46,945,152)	87,951,638
Net Utility Plant	<u>\$ 978,885,275</u>	<u>\$ 69,759,940</u>	<u>\$ (190,162)</u>	<u>\$ (45,644,179)</u>	<u>\$ 1,002,810,874</u>

Total Utility Plant in Service includes non-depreciable assets of \$75,780,466 for 2016 and \$75,310,858 for 2015.

The total amount of interest cost incurred and capitalized is \$3,752,735 for 2016 and \$3,407,633 for 2015.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 LONG-TERM DEBT – Tacoma Power’s long-term debt is primarily for capital improvements. Long-term liability activity for the years ended December 31, 2016 and December 31, 2015 was as follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Revenue Bonds	\$ 385,800,000	\$ -	\$ (14,735,000)	\$ 371,065,000	\$ 12,730,000
Plus: Unamortized					
Premium	20,613,130	-	(1,596,404)	19,016,726	-
Net Revenue Bonds	406,413,130	-	(16,331,404)	390,081,726	12,730,000
Line of Credit	50,250,000	30,000,000	-	80,250,000	-
Total Long-Term					
Debt	<u>\$ 456,663,130</u>	<u>\$ 30,000,000</u>	<u>\$ (16,331,404)</u>	<u>\$ 470,331,726</u>	<u>\$ 12,730,000</u>

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Revenue Bonds	\$ 540,050,000	\$ -	\$ (154,250,000)	\$ 385,800,000	\$ 14,735,000
Plus: Unamortized					
Premium	22,645,510	-	(2,032,380)	20,613,130	-
Net Revenue Bonds	562,695,510	-	(156,282,380)	406,413,130	14,735,000
Line of Credit	-	50,250,000	-	50,250,000	-
Total Long-Term					
Debt	<u>\$ 562,695,510</u>	<u>\$ 50,250,000</u>	<u>\$ (156,282,380)</u>	<u>\$ 456,663,130</u>	<u>\$ 14,735,000</u>

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

	<u>2016</u>	<u>2015</u>
2005A Revenue Bonds, with interest rates ranging from 3.5% to 4.3%, due in yearly installments of \$115,000 to \$13,275,000 paid in full in 2016. Original Issue: \$93,480,000	\$ -	\$ 130,000
2010B Revenue Bonds, with interest rates ranging from 5.791% to 5.966%, with a Build America Bond (BAB) rebate ranging from 32.45% to 32.62% of interest, due in yearly installments of \$27,310,000 to \$31,630,000 from 2031 to 2035. Original Issue: \$147,070,000 Current Portion: \$0	147,070,000	147,070,000
2010C Revenue Bonds, with an interest rate of 5.641%, with Clean Renewal Energy Bond rebate at 67% of interest, due in one payment of \$24,185,000 in 2027. Original Issue: \$24,185,000 Current Portion: \$0	24,185,000	24,185,000
2013A Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$10,095,000 to \$29,165,000 through 2042. Original Issue: \$181,610,000 Current Portion: \$12,730,000	164,190,000	178,795,000
2013B Refunding Bonds, with interest rates ranging from 3.05% to 5.0%, due in yearly installments of \$3,795,000 to \$5,155,000 from 2022 through 2030. Original Issue: \$35,620,000 Current Portion: \$0	35,620,000	35,620,000
	371,065,000	385,800,000
Unamortized premium	19,016,726	20,613,130
Current Portion	(12,730,000)	(14,735,000)
Long-term Portion of Revenue Bond Debt	377,351,726	391,678,130
Revolving Line of Credit	80,250,000	50,250,000
Total Long Term Debt	\$ 457,601,726	\$ 441,928,130

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

In 2015, Tacoma Power entered into a \$100 million line-of-credit agreement with Wells Fargo for working capital. The line matures in May 2018, and each advance will bear interest at the London Interbank Offered Rate (LIBOR) of 1.64344% at December 31, 2016. Each advance is secured by Revenues as set forth in the Note Ordinance. The balance outstanding is \$80.3 million as of December 31, 2016.

Scheduled principal maturities on the bonds and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 12,730,000	\$ 18,707,560
2018	11,575,000	18,157,810
2019	10,095,000	17,698,935
2020	29,165,000	16,792,435
2021	11,970,000	15,839,060
2022-2026	20,885,000	75,475,070
2027-2031	66,230,000	66,152,269
2032-2036	130,750,000	37,344,302
2037-2041	63,355,000	9,659,100
2042	14,310,000	286,200
	<u>\$ 371,065,000</u>	<u>\$ 276,112,740</u>

Tacoma Power's revenue bonds are secured by the net revenue of Tacoma Power and all cash and investments held in the bond and construction funds. The bonds are also subject to certain financial and non-financial covenants. The Division was in compliance with all loan covenants at December 31, 2016.

As of December 31, 2016, the following outstanding bonds were considered defeased:

<u>Issue</u>	<u>Amount</u>
1964 Light & Power Bonds	\$ 1,235,000
1965 Light & Power Bonds	3,360,000
1967 Light & Power Bonds - Series A & B	2,825,000
1969 Light & Power Bonds	2,260,000
1979 Light & Power Bonds	5,475,000
2005 Electric System Revenue Bonds - Series A	230,000
2005 Electric System Revenue Bonds - Series B	27,460,000
2007 Electric System Revenue Refunding Bonds	14,540,000
	<u>\$ 57,385,000</u>

These refunded bonds constitute a contingent liability of Tacoma Power only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements, and are therefore excluded from the financial statements because the likelihood of additional funding requirements is considered remote.

NOTE 6 PURCHASED POWER – Tacoma Power purchased electric power and energy from BPA under a long-term contract that expires on September 30, 2028. The contract consists of a base rate per kWh and certain cost-recovery adjustment clauses can be invoked under particular circumstances.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

On December 1, 2008, the Board authorized the execution of a twenty-year Slice/Block Power Sales and Creditworthiness Agreement with BPA. The agreement allows Tacoma Power to purchase a Slice/Block power product from BPA which began October 1, 2011 and continues through September 30, 2028. In broad terms, the agreement requires Tacoma Power to purchase a firm amount (Block) and proportionate share (Slice) of power based on a number of criteria and calculations. This is a take or pay arrangement which allows Tacoma Power to remarket excess capacity. The related Creditworthiness Agreement provides for BPA to conduct a credit review of Tacoma Power. To determine if a letter of credit or cash deposit would be required, BPA completed this review and determined that as long as Tacoma Power's credit rating remains above BBB-, no Letter of Credit or cash deposit will be required.

The power received under this contract averaged approximately 433,427 and 419,422 kilowatts per hour for 2016 and 2015, respectively. Charges for the BPA purchased power were approximately \$114 million and \$112 million for 2016 and 2015, respectively, and are based on the total amount of energy delivered and the monthly peak power demand.

Tacoma Power entered into an Energy Conservation Agreement (ECA) with BPA in 2009. Under this agreement, funds are collected in wholesale power rates to support regional energy efficiency programs. As utilities implement conservation programs and activities, BPA reimburses these funds per program specifications. For the years 2016 and 2015, Tacoma Power recovered \$7,076,890 and \$763,356 respectively through the ECA.

Under fixed contracts with other power suppliers, Tacoma Power has agreed to purchase portions of the output of certain generating facilities. Although Tacoma Power has no investment in such facilities, these contracts require Tacoma Power to pay minimum amounts (which are based at least in part on the debt service requirements of the supplier) whether or not the facility is operating. The cost of power obtained under the contracts, including payments made when a facility is not operating, is included in operations expense in the Statements of Revenues, Expenses and Changes in Net Position.

Information for the year ended December 31, 2016 pertaining to these contracts is summarized as follows:

Tacoma Power's Current Share of	Grand Coulee Project Hydro Authority	Grant County PUD - Priest Rapids Project
Energy Output	253,625 mWh	26,975 mWh
Megawatt Capacity	-	5 mW
Operating Costs	\$ 2,227,828	\$80,802
Incentive Payments	\$ 3,538,658	-
R & R Repayment	\$ 399,836	-
Contract Expiration Date	5/9/2024	4/1/2052

On April 17, 2008, the FERC issued a new license to the Public Utility District No. 2 of Grant County (Grant PUD) for the continued operation of the Priest Rapids Hydroelectric Project which consists of the Priest Rapids Development and the Wanapum Development. The original license for the Priest Rapids Project was issued on November 4, 1955 and expired on October 31, 2005. Since then, the Project had operated under annual licenses. The renewed license issued by FERC allows Grant PUD a 44-year license for the continued operation of the Project. The term of Tacoma Power's contract with Grant PUD is for the term of the FERC license. Tacoma Power's purchase quantity and costs are tied to the actual costs of the Project.

Total expenses under the above contracts for the years 2016 and 2015 were \$6,412,705 and \$6,395,201, respectively, for Grand Coulee Project Hydro Authority, however, proceeds under the contract exceeded expenses in 2016 and 2015 for Grant County PUD - Priest Rapids resulting in a gain of \$80,802 and \$659,731, respectively.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

In addition, Tacoma Power is required to pay its proportionate share of the variable operating expenses of these projects.

Other Power Transactions - Other power transactions include purchases under short-term agreements and interchanges of secondary power between utilities in response to seasonal resource and demand variations. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from Tacoma Power's hydroelectric facilities. Accordingly, the net interchange of secondary power in and out may vary significantly from year to year. Tacoma Power's trading activities are limited to purchasing power to meet native loads, optimizing the value of Tacoma Power's power supply portfolio and selling energy during times of surplus.

Tacoma Power records applicable energy contracts using accrual accounting and recognizes the revenue or expense at the time of contract performance, settlement or termination. As of December 31, 2016 Tacoma Power had forward sales contracts totaling \$28.7 million dollars extending out to September 2018 with a fair market value of \$28.7 million. These contracts meet the normal purchase normal sales scope exception for derivative reporting under GASB 53.

Tacoma Power's net power purchases or sales and interchanged activities are reflected in the Statements of Revenues, Expenses and Changes in Net Position.

A breakdown of the net interchange in kilowatt-hours is as follows:

<u>Interchange Summary</u>	<u>2016</u> (in kWh)	<u>2015</u> (in kWh)
Secondary Sales	(2,731,083,000)	(1,917,685,000)
Portfolio Purchases	263,105,000	293,059,000
Miscellaneous Exchanges	(1,533,000)	(1,441,000)
Other	<u>26,228,000</u>	<u>54,924,000</u>
Net Interchange	<u>(2,443,283,000)</u>	<u>(1,571,144,000)</u>

NOTE 7 FLEET SERVICES FUND - The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of Department vehicles and related equipment.

Tacoma Power pays the Fleet Services Fund for its use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Power in 2016 and 2015 were \$6,733,591 and \$7,212,082, 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. The solvency of the Replacement Fund allowed Fleet Services to return a portion of interest earned on fund investments for the year to their customers. In 2016 and 2015, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was \$106,192 and \$107,916 for 2016 and 2015, 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 Power and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Power 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 POWER NOTES TO FINANCIAL STATEMENTS (continued)

Tacoma Power is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Power and administrative expenses of the Fund. Tacoma Power's premium payments totaled \$900,000 in both 2016 and 2015 respectively. Assets in the Self-Insurance Fund total \$7.6 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 Power's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchased a \$15 million Fiduciary Liability Policy with a \$100,000 deductible that provides for wrongful acts arising out of the administration of the City's employee benefit programs and a Crime policy with a \$1 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities and property.

Other 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 covering the buildings and fleet vehicles have deductibles or self-insured retentions of \$250,000 for buildings and property within buildings and \$10,000 per vehicle. There is a self-insured retention of \$1.5 million for general liability. The public official liability policy has a \$200,000 deductible. The Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate.

The general government general liability and public official liability policies provide \$20 million of excess coverage with a \$3 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit and a self-insured retention of \$1 million per occurrence and an additional \$250,000 for each 12 month policy period.

NOTE 9 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS)

The Tacoma Employees' Retirement System (TERS or System), a pension trust fund of the City of Tacoma, issues a publicly available CAFR that includes financial statements and required supplementary information may be obtained by writing to:

Tacoma Employee's Retirement System
3628 South 35th Street
Tacoma, WA 98409

Or the TERS CAFR may be downloaded from the TERS website at www.cityoftacoma.org/retirement.

Administration of The System - The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and Law Enforcement Support Agency who established membership in the System when these agencies were still City of Tacoma departments, are also members. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

At the direction of the City Council, the System is administered by the Board of Administration (the Board) consisting of nine regular members and one alternate member. The members of the Board are: the Mayor, who serves as Chair; the Director of Finance; the City Manager (or designee); the Public Utilities Director (or designee); three elected employee representatives; one elected retired representative; and one City resident (not employed by the City) elected by the other eight members. The nine Board members appoint a TERS member, either active or retired, as an alternate Board member. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of the System. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of the System.

The breakdown of membership as of December 31, 2015 is as follows:

Retirees and beneficiaries currently receiving benefits	2,234
Terminated vested and other terminated participants	644
Active members:	
City of Tacoma	2,654
South Sound 911	4
Pierce Transit	7
Tacoma-Pierce County Health Department	<u>262</u>
Total active members	<u>2,927</u>
Total membership	<u><u>5,805</u></u>

Membership - Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighter, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments.

Benefits - There are two formulas to calculate the retirement benefits. The benefit paid will be issued on the formula which provides the higher benefit. The most commonly applied formula, "service retirement", is a product of the member's average monthly salary for the highest, consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is based on the member's age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred retirement. Additionally, the System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the Consumer Price Index (Seattle Area – all items) over the preceding calendar year.

Any active member who has not retired, and has five or more years of service as a member may purchase up to five additional years of service at the time of retirement. Total service including service purchased cannot exceed 30 years.

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 4154 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Contributions - The participating employers are responsible for funding the System at a level sufficient to pay obligations and ensure the actuarial and financial soundness of the System. Contribution rates for the employer and the employee are recommended by the Board of Administration and final approval rests with the Tacoma City Council.

Currently, the required contribution rate for employees is 9.20% of their regular gross pay; the employer contributes 10.80%, for a combined total of 20.00% which is sufficient to amortize the Unfunded Actuarial Accrued Liability (UAAL) of the System if future experience follows all actuarial assumptions. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

Significant Assumptions - The following actuarial methods were used in the funding valuation.

Measurement Date	December 31, 2015
Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal Funding is based on statutory contributions rate.
Amortization Method	This amount is compared to a 30-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows: <ul style="list-style-type: none">• Level percent• Open periods• 30 year amortization period at 01/01/2016• 4% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	3%
Salary Increases	4% general wage increase assumption
Investment Rate of Return	7.25%
Cost of Living Adjustment	2.13%
Retirement Age	Varies by age, gender, eligibility
Turnover	Varies by age, gender, eligibility
Mortality	RP-2000 mortality for healthy and disabled annuitants, with age adjustments

Benefit and Assumption Changes - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. Between January 1, 2015 and January 1, 2016 no assumptions were changed.

Target Allocations - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2015. The target asset allocation is based on TERS Investment Policy Statement dated February 2014.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Asset Class	Target Allocation	Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	2.00%
US Inflation-Indexed Bonds	5.0%	1.41%
High Yield Bonds	9.0%	4.22%
Emerging Market Debt	5.0%	5.06%
Global Equity	41.5%	5.72%
Public Real Estate	2.0%	6.07%
Private Real Estate	2.5%	3.60%
Private Equity	10.0%	9.29%
Master Limited Partnerships	4.0%	3.98%
Timber	2.0%	3.73%
Infrastructure	2.0%	5.14%
Agriculture	2.0%	4.30%
Assumed Inflation - Mean		3.00%
Assumed Inflation - Standard Deviation		1.89%
Portfolio Arithmetic Real Mean Return		4.94%
Portfolio Median Nominal Geometric Return		7.06%
Portfolio Standard Deviation		11.84%
Long-Term Expected Rate of Return, net of investment expenses		7.25%

Sensitivity Analysis - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 7.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net pension liability (asset)	\$ 105,989,573	\$ 34,177,293	\$ (26,296,701)

As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ (2,287,552)	\$ -
Net Difference Between Projected and Actual Earnings	-	30,122,690
Changes in Employer Proportion	(431)	24,760
Contributions Made Subsequent to the Measurement Date	-	9,322,004
Total	\$ (2,287,983)	\$ 39,469,454

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The net amount of deferred inflows and outflows, other than contributions made subsequent to the measurement date, will be recognized as pension expense in each of the next four years.

Amounts will be recognized in pension expense as follows:

2016	\$	6,736,673
2017		6,736,673
2018		6,736,672
2019		7,739,529
2020		(90,080)
	\$	<u>27,859,467</u>

The proportionate share of the Power Division is 39.47% of total System's pension liability. The proportionate share was based on the actual contributions for the year.

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. GAAP requires 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 (3.75%).

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 is required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the UAAL on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2016 is 21 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 non-current liability (Net OPEB Obligation) on the statements of net position. The City has a Net OPEB Obligation as of December 31, 2016 as the City has not set aside funds for OPEB.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Excise Tax For High Cost or “Cadillac” Health Plans in 2018 and Beyond– An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The 2018 annual thresholds are \$10,200 for single coverage and \$27,500 for a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB Statement No. 45 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current “substantive” plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, the City believes that the current provisions of PPACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

Summary of Changes – As of the January 1, 2015 valuation the total AAL was \$208,814,312, for the City, 20% lower than expected primarily due to clarification in spouse benefits, medical costs, demographic experience and a change to the assumption for future medical trends.

The following table is a summary of valuation results with a comparison to the results from the last valuation.

	<u>January 1, 2013</u>	<u>January 1, 2015</u>
Active employees	3,335	3,404
Terminated vested employees	394	442
Retired employees & dependents	<u>846</u>	<u>744</u>
Total	<u><u>4,575</u></u>	<u><u>4,590</u></u>
Annual Benefit Payments	\$ 9,887,335	\$ 8,963,089
Discount rate	3.75%	3.75%
Present Value of Benefits (PVB)	\$ 326,742,538	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 251,839,846	\$ 208,814,312
Assets	<u>\$ -</u>	<u>\$ -</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 251,839,846</u></u>	<u><u>\$ 208,814,312</u></u>
Normal Cost	\$ 5,484,587	\$ 3,832,131
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 16,966,964

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2015.

Value of Subsidy at 3.75% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits (PVB)	\$ 420,832,932	\$ 158,648,737	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 291,228,295	\$ 82,413,983	\$ 208,814,312
Normal Cost	\$ 9,501,758	\$ 5,669,627	\$ 3,832,131
Annual Benefit Payments	\$ 12,325,369	\$ 3,362,280	\$ 8,963,089

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for Tacoma Power as of December 31, 2016.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 3,803,090	\$ 858,656
Amortization of UALL	15,665,117	398,368
Annual Required Contribution (ARC)	\$ 19,468,207	\$ 1,257,024
Determination of NET OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 19,468,207	\$ 1,257,024
Interest on prior year Net OPEB Obligation	2,666,468	377,568
Adjustments to ARC	(3,983,647)	(468,000)
Annual OPEB Cost	18,151,028	1,166,592
Actual benefits paid	(8,539,402)	(344,092)
Increase in Net OPEB Obligation	9,611,626	822,500
Net OPEB Obligation - beginning of year	73,129,502	10,068,490
Net OPEB Obligation - end of year	\$ 82,741,128	\$ 10,890,990

The Division has included the liability in the other long term liabilities on the Statement of Net Position.

Funded Status and Funding Progress -

The following table shows the annual OPEB costs and net OPEB obligation for three years. This table is based upon a 3.75% interest rate.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
12/31/2014	\$ 19,319,944	\$ 2,084,511	\$ 9,292,539	\$ 692,894	\$ 66,138,206	\$ 9,198,300
12/31/2015	\$ 15,954,387	\$ 1,194,337	\$ 8,963,089	\$ 324,146	\$ 73,129,502	\$ 10,068,491
12/31/2016	\$ 18,151,028	\$ 1,166,592	\$ 8,539,402	\$ 344,092	\$ 82,741,128	\$ 10,890,990

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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 UAAL. In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and is now 21 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date:	January 1, 2015
Census Date:	January 1, 2015
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	21 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:	3.75% for pay-as-you-go funding	
Medical Cost Trend:	2015	6.9%
	2016	6.6%
	2017	5.9%
	2020	5.5%
	2030	5.9%
	2040	5.7%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2071 and beyond. The first year trend reflects assumed increases based on ACA fees. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect the increases in costs due to the excise tax.

Economic Assumptions – Discount Rate (Liabilities):	3.75%
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Demographic Assumptions:.....	Eligibility: Disability - Five years of service are required for non-service connected disability.
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Retirement - 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
- Age 40 with 20 years of service

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 11 COMMITMENTS AND CONTINGENCIES

Capital Improvements - The financial requirement for Tacoma Power's 2015/2016 biennial Capital Improvement Program is approximately \$182.7 million. At December 31, 2016, the remaining financial requirement was approximately \$12 million. The remaining financial requirement for Capital Improvement Programs relating to prior biennium is approximately \$932,445.

General Legal Matters - Tacoma Power Division has received several other miscellaneous claims that either do not allege significant amounts or that the Legal Department has determined do not pose a risk to liability to the utilities.

REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Net Pension Liability Last 10 Years*

	Fiscal Year Ended December 31st,	
	2016	2015
Employer's proportion of the net pension liability (asset) as a percentage	39.47%	39.80%
Employer's proportion share of net pension liability (asset)	\$34,177,293	(\$3,823,476)
Employer's covered payroll	\$20,220,795	\$93,063,240
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	169.02%	-4.11%
Plan fiduciary net position as a percentage the total pension liability	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years

	Fiscal Year Ended December 31st,	
	2016	2015
Contractually required employer contribution	\$9,322,005	\$9,053,341
Contributions in relation to the contractually required employer contribution	(9,322,005)	(9,053,341)
Employer contribution deficiency (excess)	-	-
Employer's covered employee payroll	\$91,704,363	\$93,063,240
Employer contribution as a percentage of covered-employee payroll	10.17%	9.73%

*Fiscal year 2015 was the first year of implementation; therefore, only two years are shown.

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2016	2015	2014	2013
ASSETS				
Utility Plant - Net	\$1,033,409,064	\$1,002,810,874	\$978,885,275	\$959,885,269
Special and Other Assets	95,903,332	125,203,792	160,778,160	213,192,582
Current Assets	289,162,319	267,460,091	365,173,352	328,974,357
Deferred Charges	-	-	-	-
Total Assets	<u>1,418,474,715</u>	<u>1,395,474,757</u>	<u>1,504,836,787</u>	<u>1,502,052,208</u>
Deferred Outflows	39,469,454	10,977,517	8,026,229	15,941,231
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>1,457,944,169</u>	<u>1,406,452,274</u>	<u>1,512,863,016</u>	<u>1,517,993,439</u>
NET POSITION	821,995,693	825,933,297	822,803,061	799,078,660
LIABILITIES				
Long-Term Debt	457,601,726	441,928,130	530,580,510	564,960,765
Current Liabilities	70,165,746	63,906,544	86,776,174	82,905,132
Long-Term Liabilities	57,893,021	22,647,914	24,703,271	23,048,882
Total Liabilities	<u>585,660,493</u>	<u>528,482,588</u>	<u>642,059,955</u>	<u>670,914,779</u>
Deferred Inflows	50,287,983	52,036,389	48,000,000	48,000,000
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	<u>\$1,457,944,169</u>	<u>\$1,406,452,274</u>	<u>\$1,512,863,016</u>	<u>\$1,517,993,439</u>
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential	\$154,091,270	\$149,195,092	\$150,972,050	\$149,662,791
Commercial	27,703,400	26,956,059	26,594,512	25,110,481
General	115,600,650	116,053,999	114,718,365	109,046,936
Contract Industrial	21,462,712	21,356,911	21,150,771	19,804,613
Bulk Power	54,506,535	50,380,147	82,796,740	64,210,259
Unbilled	(840,477)	677,091	(666,187)	1,651,808
Other	1,725,200	1,643,756	1,609,143	1,562,082
Total Electric Revenues	<u>374,249,290</u>	<u>366,263,055</u>	<u>397,175,394</u>	<u>371,048,970</u>
Other Operating Revenue	44,365,098	44,363,160	44,070,713	43,413,115
Total Operating Revenues	<u>418,614,388</u>	<u>410,626,215</u>	<u>441,246,107</u>	<u>414,462,085</u>
OPERATING EXPENSES				
Operation and Maintenance	312,790,388	299,200,704	294,741,044	276,558,723
Taxes	19,727,313	19,993,833	19,276,216	19,562,858
Depreciation	55,702,297	57,381,578	59,156,228	56,397,306
Loss on Asset Impairment	-	-	-	-
Total Operating Expenses	<u>388,219,998</u>	<u>376,576,115</u>	<u>373,173,488</u>	<u>352,518,887</u>
NET OPERATING INCOME	30,394,390	34,050,100	68,072,619	61,943,198
NON-OPERATING REVENUES (EXPENSES)				
Other Income and Expense (Net)	1,555,659	(1,923,329)	(728,908)	(252,363)
Interest Earned on Investments	2,405,144	1,796,071	3,780,834	1,899,829
Interest Charges (Net)	(16,196,734)	(19,428,673)	(27,290,021)	(25,688,219)
Contributions to Family Need ..	(480,000)	(480,000)	(900,000)	(900,000)
Gain on Sale of Utility Plant ..	-	-	-	-
Net Income Before Contributions, Transfers & Extraordinary Items	17,678,459	14,014,169	42,934,524	37,002,445
Total Capital Contributions	8,846,216	9,383,844	7,788,292	8,839,960
Transfers Out	(30,462,279)	(24,969,422)	(26,998,415)	(25,970,230)
CHANGE IN NET POSITION	<u>(\$3,937,604)</u>	<u>(\$1,571,409)</u>	<u>\$23,724,401</u>	<u>\$19,872,175</u>

In accordance with Governmental Accounting Standards Board Statement No.65 both 2012 and 2011 were restated for comparative purposes. Years prior to 2011 are shown as originally reported.

2012	2011	2010	2009	2008	2007
\$954,141,423	\$944,969,878	\$933,796,881	\$900,879,652	\$855,373,200	\$794,683,393
154,745,677	196,860,001	223,057,734	104,606,844	122,629,299	157,462,325
333,694,736	313,457,995	279,967,672	288,083,393	312,006,708	272,409,296
-	-	17,651,421	7,304,736	1,990,596	2,356,842
<u>1,442,581,836</u>	<u>1,455,287,874</u>	<u>1,454,473,708</u>	<u>1,300,874,625</u>	<u>1,291,999,803</u>	<u>1,226,911,856</u>
7,848,910	8,213,239	-	-	-	-
<u>1,450,430,746</u>	<u>1,463,501,113</u>	<u>1,454,473,708</u>	<u>1,300,874,625</u>	<u>1,291,999,803</u>	<u>1,226,911,856</u>
779,206,485	762,944,507	744,735,781	735,593,799	695,305,259	621,817,950
518,251,959	563,718,608	582,930,840	459,202,498	490,528,958	517,834,315
84,070,814	82,861,816	95,884,868	83,385,715	100,219,839	81,446,692
20,901,488	17,976,182	30,922,219	22,692,613	5,945,747	5,812,899
<u>623,224,261</u>	<u>664,556,606</u>	<u>709,737,927</u>	<u>565,280,826</u>	<u>596,694,544</u>	<u>605,093,906</u>
48,000,000	36,000,000	-	-	-	-
<u>\$1,450,430,746</u>	<u>\$1,463,501,113</u>	<u>\$1,454,473,708</u>	<u>\$1,300,874,625</u>	<u>\$1,291,999,803</u>	<u>\$1,226,911,856</u>
\$141,236,063	\$136,944,688	\$127,908,143	\$125,807,518	\$131,188,854	\$127,539,844
23,499,735	22,324,063	21,147,156	21,005,151	22,138,244	22,486,943
103,586,233	99,958,156	96,579,940	90,782,730	100,142,959	101,628,965
18,870,807	18,341,067	16,898,845	14,101,372	15,430,080	15,078,247
53,532,081	48,118,090	69,518,730	67,338,457	98,545,139	98,276,853
4,615,802	369,424	(3,564,337)	(411,080)	1,576,914	49,376
<u>1,558,268</u>	<u>1,373,168</u>	<u>1,472,125</u>	<u>1,190,013</u>	<u>1,387,629</u>	<u>1,359,098</u>
346,898,989	327,428,656	329,960,602	319,814,161	370,409,819	366,419,326
<u>40,983,752</u>	<u>36,895,939</u>	<u>36,892,658</u>	<u>35,691,490</u>	<u>33,998,632</u>	<u>33,739,569</u>
387,882,741	364,324,595	366,853,260	355,505,651	404,408,451	400,158,895
267,457,626	247,409,057	259,366,287	220,849,709	246,856,188	237,383,019
17,494,729	16,970,015	15,553,041	15,187,859	16,075,356	15,558,011
57,842,109	56,555,538	55,717,463	53,049,558	48,377,708	43,705,705
-	-	-	-	-	-
<u>342,794,464</u>	<u>320,934,610</u>	<u>330,636,791</u>	<u>289,087,126</u>	<u>311,309,252</u>	<u>296,646,735</u>
45,088,277	43,389,985	36,216,469	66,418,525	93,099,199	103,512,160
3,055,848	1,226,132	2,202,089	1,322,007	3,255,797	1,754,339
5,835,775	8,444,683	7,786,710	8,721,608	12,539,619	14,127,012
(22,859,967)	(21,917,623)	(22,773,604)	(22,804,261)	(22,420,879)	(22,680,647)
(450,000)	(450,000)	(900,000)	(1,229,676)	(450,000)	(450,000)
-	-	-	-	2,923,465	1,467,378
30,669,933	30,693,177	22,531,664	52,428,203	88,947,201	97,730,242
9,480,111	14,222,934	10,224,518	9,844,736	10,219,425	12,046,164
(23,888,066)	(23,913,077)	(23,614,200)	(21,984,399)	(25,679,317)	(25,258,949)
<u>\$16,261,978</u>	<u>\$21,003,034</u>	<u>\$9,141,982</u>	<u>\$40,288,540</u>	<u>\$73,487,309</u>	<u>\$84,517,457</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR POWER SUMMARY

	2016	2015	2014	2013
MWh Available				
Generated				
Nisqually	630,483	511,592	635,121	572,932
Cushman	507,618	272,457	358,509	239,528
Cowlitz	1,989,438	1,630,130	2,111,686	1,792,975
Wynoochee	37,209	12,680	14,272	24,404
Hood Street	2,942	1,889	2,281	3,503
Grant Net Actual	-	-	(2,018)	(3,279)
Tacoma's Share of Priest Rapids	26,975	25,360	22,733	34,846
Tacoma's Share of GCPHA	253,625	258,679	272,846	254,570
Total Generated	3,448,290	2,712,787	3,415,430	2,919,479
Purchased	3,807,370	3,674,140	3,845,666	3,756,763
Interchange - Net	(2,438,369)	(1,569,981)	(2,339,277)	(1,665,811)
Losses - Net	(8,870)	10,340	14,057	7,398
Total System Load	4,808,421	4,827,286	4,935,876	5,017,829
MWh Billed				
Residential and Other.....	1,855,597	1,801,184	1,890,970	1,950,829
Commercial/General/Industrial....	2,715,562	2,791,421	2,868,966	2,855,932
Total Firm MWh Billed	4,571,159	4,592,605	4,759,936	4,806,761
MWh Available Over MWh Billed				
(Causes: Timing differences, internal use, and losses other than those reflected above.)	237,262	234,681	175,940	211,068
Percent of Power Generated	71.71%	56.20%	69.20%	58.18%
Average Load Factor	60.02%	62.71%	55.31%	54.18%
Average Number of Billings	176,784	174,562	172,531	171,506
Maximum Hourly Energy Load				
MWh	913	877	1,016	980
Date	12/17/16	12/31/15	2/6/14	12/9/13
Time	0900 hr	0900 hr	800 hr	800 hr
Maximum Daily Energy Load				
MWh	19,641	18,675	21,686	21,172
Date	12/17/16	12/31/15	2/6/14	12/09/13
Minimum Hourly Energy Load				
MWh	351	354	348	349
Date	7/5/16	6/21/15	7/6/14	9/8/13
Time	0400 hr	0600 hr	0600 hr	0500 hr
Minimum Daily Energy Load				
MWh	10,110	10,262	10,221	10,379
Date	9/4/16	5/24/15	7/5/14	7/4/13
Average Hourly Energy Load	548	550	562	572

2012	2011	2010	2009	2008	2007
699,104	663,345	586,433	553,062	530,839	515,585
261,735	410,723	393,563	246,898	208,604	381,193
2,322,875	2,157,106	1,725,424	1,677,554	1,736,328	1,590,719
38,149	35,692	36,320	25,298	25,368	35,518
4,029	3,313	4,133	3,243	4,217	3,914
(3,285)	-	-	-	-	-
37,355	34,417	30,705	-	-	-
255,564	237,794	240,845	-	-	-
3,615,526	3,542,390	3,017,423	2,506,055	2,505,356	2,526,929
4,167,263	3,799,037	4,132,049	4,235,019	4,252,681	4,401,097
(2,814,479)	(2,266,720)	(1,993,911)	(1,729,701)	(1,677,704)	(1,918,581)
20,718	(8,112)	10,599	4,210	10,132	12,433
4,989,028	5,066,595	5,166,160	5,015,583	5,090,465	5,021,878
1,935,518	1,997,714	1,925,549	1,994,692	1,979,698	1,922,289
2,812,769	2,838,424	2,794,406	2,829,425	2,867,128	2,889,520
4,748,287	4,836,138	4,719,955	4,824,117	4,846,826	4,811,809
240,741	230,457	446,205	191,466	243,639	210,069
72.47%	69.92%	58.41%	49.97%	49.22%	50.32%
61.47%	58.86%	52.82%	51.69%	56.68%	59.27%
169,012	169,123	169,413	168,207	166,307	165,122
924	931	992	1,062	1,018	960
1/16/12	1/3/11	11/23/10	12/10/09	12/15/08	1/12/07
1800 hr	0800 hr	1800 hr	800 hr	1900 hr	900 hr
19,100	18,788	20,591	21,103	21,237	20,312
1/16/12	1/11/11	11/23/10	12/9/09	12/15/08	1/12/07
340	310	303	295	349	355
9/19/12	7/5/11	9/3/10	7/5/09	7/6/08	9/16/07
0400 hr	0400 hr	0300 hr	0700 hr	0700 hr	0500 hr
10,160	9,171	9,041	9,036	10,235	10,348
9/2/12	7/3/11	9/5/10	8/15/09	8/31/08	9/2/07
566	548	524	549	577	569

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

GROSS GENERATION REPORT - December 31, 2016 AND December 31, 2015

	YEAR ENDED		2016 OVER (UNDER) 2015	PERCENT CHANGE
	Dec 31 2016	Dec 31 2015		
KWH GENERATED, PURCHASED AND INTERCHANGED - Gross				
Generated - LaGrande	378,898,000	319,979,000	58,919,000	18.4%
Generated - Alder	251,585,000	191,613,000	59,972,000	31.3%
TOTAL NISQUALLY	<u>630,483,000</u>	<u>511,592,000</u>	<u>118,891,000</u>	23.2%
Generated - Cushman No. 1	185,318,000	107,411,000	77,907,000	72.5%
Generated - Cushman No. 2	322,300,000	165,046,000	157,254,000	95.3%
TOTAL CUSHMAN	<u>507,618,000</u>	<u>272,457,000</u>	<u>235,161,000</u>	86.3%
Generated - Mossyrock	1,203,631,000	1,007,917,000	195,714,000	19.4%
Generated - Mayfield	785,807,000	622,213,000	163,594,000	26.3%
TOTAL COWLITZ	<u>1,989,438,000</u>	<u>1,630,130,000</u>	<u>359,308,000</u>	22.0%
Generated - Wynoochee	37,209,000	12,680,000	24,529,000	193.4%
Generated - Hood Street	2,942,400	1,889,500	1,052,900	55.7%
Tacoma's Share of Priest Rapids	26,975,000	25,360,000	1,615,000	6.4%
Tacoma's Share of GCPHA	253,625,000	258,679,000	(5,054,000)	-2.0%
TOTAL KWH GENERATED - TACOMA SYSTEM	3,448,290,400	2,712,787,500	735,502,900	27.1%
Purchased Power				
BPA Slice Contract	2,265,823,000	2,080,213,000	185,610,000	8.9%
BPA Block Contract	1,541,547,000	1,593,927,000	(52,380,000)	-3.3%
Interchange Net	(2,438,369,000)	(1,569,981,000)	(868,388,000)	55.3%
TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED ..	<u>4,817,291,400</u>	<u>4,816,946,500</u>	<u>344,900</u>	0.0%
Losses	41,976,966	32,070,742	9,906,224	30.9%
Baldi Replacement	1,864,094	2,645,869	(781,775)	-29.5%
Ketron	262,023	269,163	(7,140)	-2.7%
NT PC Mutuals Schedules.....	(28,498,000)	(28,075,000)	(423,000)	1.5%
PC Mutual Inadvertent	(24,475,004)	3,429,073	(27,904,077)	-813.7%
TACOMA SYSTEM FIRM LOAD	<u>4,808,421,479</u>	<u>4,827,286,347</u>	<u>(18,864,868)</u>	-0.4%
PIERCE COUNTY MUTUAL LOAD	1,435,535,000	1,422,462,000	13,073,000	0.9%
KWH BILLED				
Residential Sales	1,817,931,138	1,764,596,526	53,334,612	3.0%
Commercial Sales	317,085,742	309,653,453	7,432,289	2.4%
General	1,949,871,348	1,974,566,657	(24,695,309)	-1.3%
Contract Industrial	448,604,789	507,200,696	(58,595,907)	-11.6%
Public Street and Highway Lighting	31,555,483	30,545,258	1,010,225	3.3%
Sales to Other Electric Utilities	6,110,100	6,042,600	67,500	1.1%
TOTAL FIRM	<u>4,571,158,600</u>	<u>4,592,605,190</u>	<u>(21,446,590)</u>	-0.5%
Bulk Power Sales	2,731,076,000	1,917,685,000	813,391,000	42.4%
TOTAL KWH BILLED	<u>7,302,234,600</u>	<u>6,510,290,190</u>	<u>791,944,410</u>	12.2%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2016

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2017	11,575,000	18,389,310	29,964,310
2018	10,095,000	17,926,310	28,021,310
2019	29,165,000	17,471,560	46,636,560
2020	11,970,000	16,113,310	28,083,310
2021	3,795,000	15,564,810	19,359,810
2022	3,985,000	15,375,060	19,360,060
2023	4,185,000	15,175,810	19,360,810
2024	4,395,000	14,966,560	19,361,560
2025	4,525,000	14,832,512	19,357,512
2026	24,185,000	14,685,450	38,870,450
2027	4,675,000	13,321,174	17,996,174
2028	4,905,000	13,087,424	17,992,424
2029	5,155,000	12,842,174	17,997,174
2030	27,310,000	12,584,424	39,894,424
2031	28,335,000	11,002,902	39,337,902
2032	29,335,000	9,347,016	38,682,016
2033	30,460,000	7,596,889	38,056,889
2034	31,630,000	5,779,646	37,409,646
2035	10,990,000	3,892,600	14,882,600
2036	11,535,000	3,343,100	14,878,100
2037	12,115,000	2,766,350	14,881,350
2038	12,720,000	2,160,600	14,880,600
2039	13,230,000	1,651,800	14,881,800
2040	13,755,000	1,122,600	14,877,600
2041	14,310,000	572,400	14,882,400
	<u>\$358,335,000</u>	<u>\$261,571,791</u>	<u>\$619,906,791</u>

The amounts above reflect debt service requirements, and do not include the portion funded in the current year for \$12,730,000.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Income	\$425,755,909	\$413,680,801	\$447,043,485	\$418,841,237	\$400,235,482
Less: Operating Exp	<u>332,517,701</u>	<u>319,194,537</u>	<u>314,017,260</u>	<u>296,121,581</u>	<u>284,952,355</u>
Income Available for Debt Service	<u>\$93,238,208</u>	<u>\$94,486,264</u>	<u>\$133,026,225</u>	<u>\$122,719,656</u>	<u>\$115,283,127</u>
 Bond Redemption	\$12,730,000	\$14,735,000	\$32,115,000	\$28,295,000	\$28,785,000
Bond Interest	<u>19,025,810</u>	<u>22,420,035</u>	<u>26,626,411</u>	<u>24,112,971</u>	<u>27,747,001</u>
Debt Service Payable on All Debt	\$31,755,810	\$37,155,035	\$58,741,411	\$52,407,971	\$56,532,001
 Times Debt Service Covered	2.94	2.54	2.26	2.34	2.04

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

RESOURCES
AS OF DECEMBER 31, 2016

GENERATING FACILITIES	GENERATING UNITS	AGGREGATE NAME PLATE RATING (kW)	APPROX. RATED 4-YR. AVERAGE ANNUAL OUTPUT (1,000 kWh)
Hydro:			
Alder	2	50,000	228,355
LaGrande	5	64,000	358,733
Cushman No. 1	2	43,200	130,506
Cushman No. 2	3	81,000	214,011
Mayfield	4	162,000	736,654
Mossyrock	2	300,000	1,144,311
Wynoochee	1	12,800	22,141
Total Hydro		713,000	2,834,711

Tacoma Power and the City of Seattle Light Department have entered into a 40-year purchase power contract with three Eastern Washington irrigation districts that have combined to develop the Grand Coulee Project Hydroelectric Authority. Tacoma Power and the City of Seattle Light Department share equally the output of the project which has a combined capacity of 128,700 kW and an annual energy capability of about 476,000,000 kWh.

CUSTOMERS BY CLASS	AVERAGE NUMBER BILLINGS	AVERAGE HOURLY ENERGY (kW)
Residential	157,540	1.312
Incidental	15,688	2.300
General	2,642	106.376
Public Streets and Highways	914	3.941
Total System	176,784	2.988

Circuit Miles of Transmission Lines

115 kV	307
230 kV	44

Circuit Miles of Distribution Lines

Overhead	1,178
Underground	836

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2016

FEDERAL

Power Social Security (FICA)	\$6,792,585	
Total		\$6,792,585

STATE OF WASHINGTON

Retail Sales and Use Taxes	3,753,474	
Power Utilities and Business Operations Tax	13,070,478	
Power State Employment Security	101,804	
Total		16,925,756

COUNTY

Lewis County - In Lieu of Taxes	1,529,863	
Mason County - In Lieu of Taxes	184,297	
Pierce County School Support - Eatonville	7,000	
White Pass School Support	122,293	
Mossyrock School Support	106,222	
Morton School Support	2,985	
Lewis County Fire Protection District	10,794	
Pierce County Fire Protection District	56,965	
Pierce County Drainage District	17,484	
Thurston County	938	
Total		2,038,841

MUNICIPALITIES

City of Tacoma Power Gross Earnings Tax	28,412,707	
Click!Network Gross Earnings Tax/Franchise Fees	3,304,400	
City of Fife Power Franchise Fee	1,206,459	
City of University Place Power Franchise Fee	1,080,368	
City of Lakewood Power Franchise Fee	824,727	
City of Fircrest Power Franchise Fee	244,641	
City of Steilacoom Power Franchise Fee	4,790	
Total		35,078,092
TOTAL TAXES		\$60,835,274

Taxes as a % of Operating Revenues of \$418,614,388 14.53%

EMPLOYEE WELFARE CONTRIBUTIONS

Power Industrial Insurance and Medical Aid.....	\$2,035,370	
Power City of Tacoma Pension Fund	9,282,983	
Power Medical/Life Insurance	17,386,237	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$28,704,590

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

2016 ELECTRIC RATES
(Based on 2015 rate schedules)

RATE PER MONTH

Schedule A-1 - Residential Service

Customer Charge	\$10.50 per month
Customer Charge (for collectively metered apartments)	\$8.50 per month
Energy (all energy measured in kilowatt-hours)	\$0.039710 per kWh
Delivery (all energy delivered in kilowatt-hours) .	\$0.034435 per kWh

Schedule A-2 - Low-Income/Elderly/Handicapped Residential Service

Seventy percent (70%) of the monthly bill as calculated under Section 12.06.160 of the official Code of the City of Tacoma, known as RESIDENTIAL SERVICE - SCHEDULE A-1.

Schedule B - Small General Service

Customer Charge	\$19.00 per month
Customer Charge (for unmetered services)	\$14.75 per month
Energy (all energy measured in kilowatt-hours)	\$0.042507 per kWh
Delivery (all energy delivered in kilowatt-hours) ..	\$0.034587 per kWh

Schedule G - General Service

Customer Charge	\$50.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.041192 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$7.50 per kW

Schedule HVG - High Voltage General Service

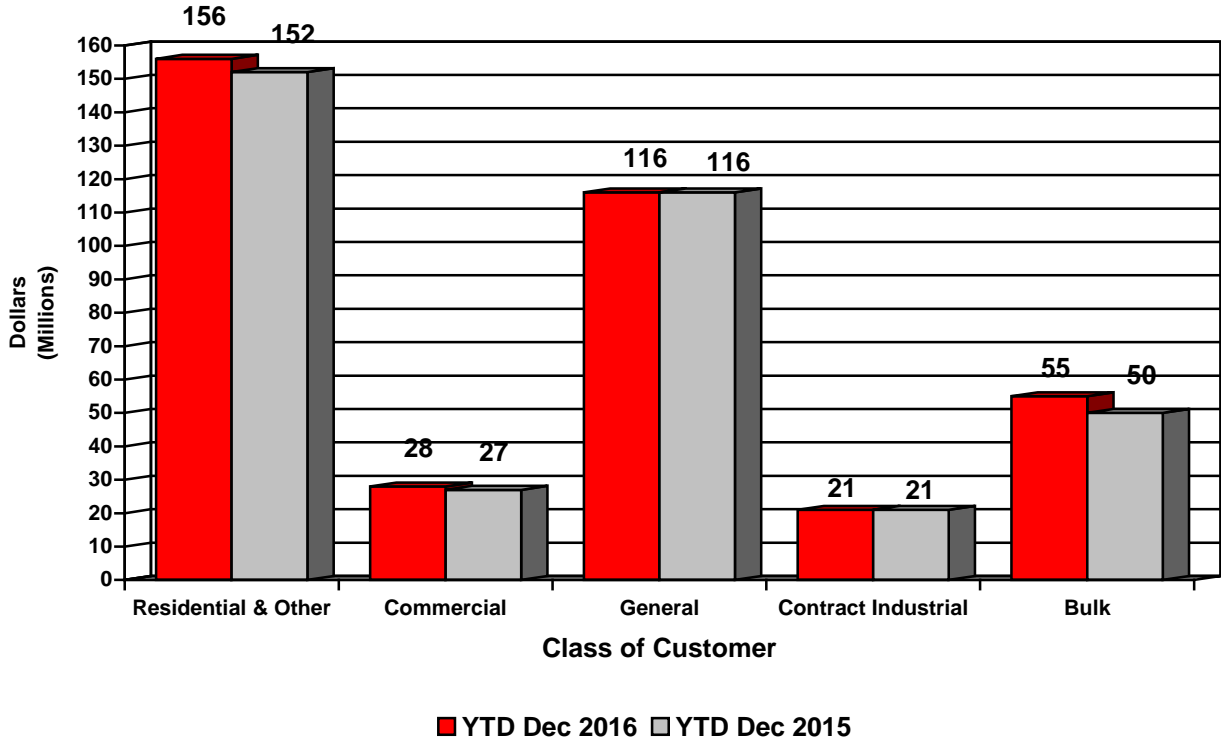
Customer Charge	\$210.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.035175 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$4.00 per kW

Other schedules also now in effect are:

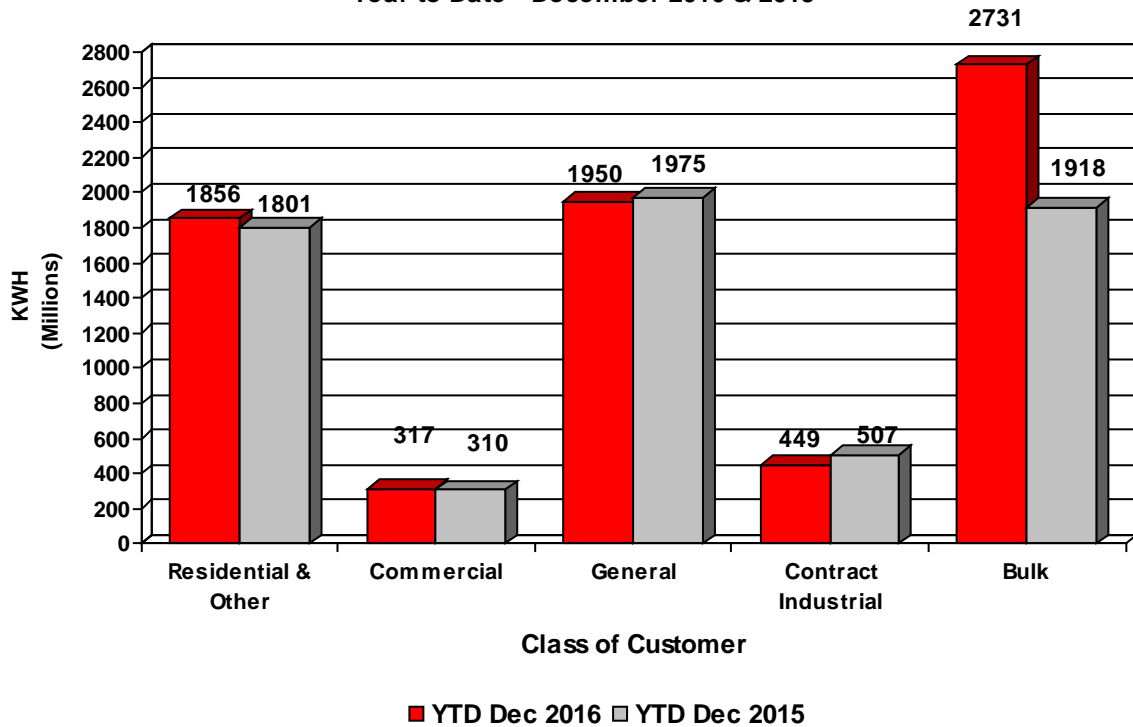
- CP - Contract Industrial Service (major industrial power use - written contract required)
- H-1 - Street Lighting and Traffic Signal Service
- H-2 - Private Off-Street Lighting Service

Electric rates were established by Ordinance No. 28285 passed March 17, 2015 and became effective April 1, 2015.

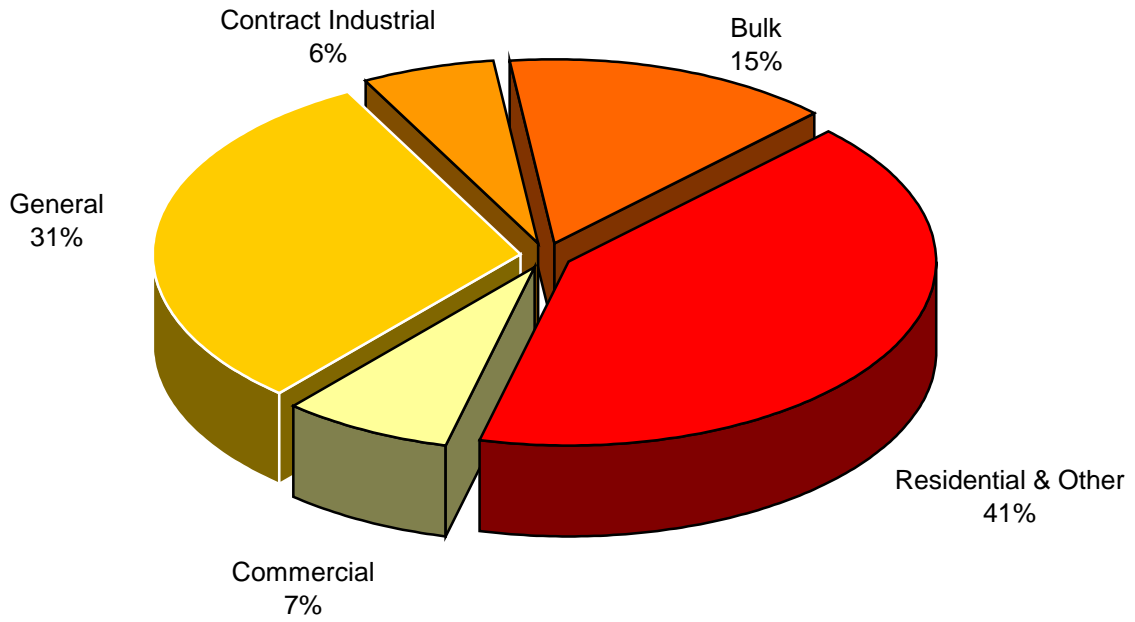
SALES OF ELECTRIC ENERGY
Year to Date - December 2016 & 2015



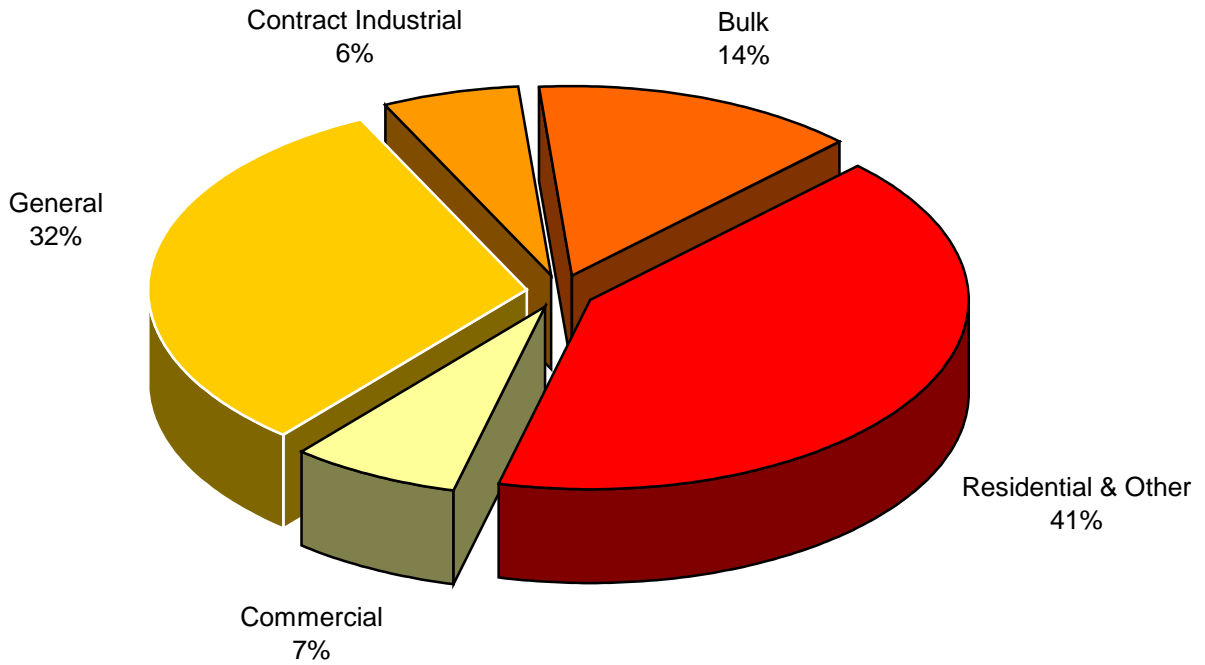
TOTAL POWER BILLED
Year to Date - December 2016 & 2015



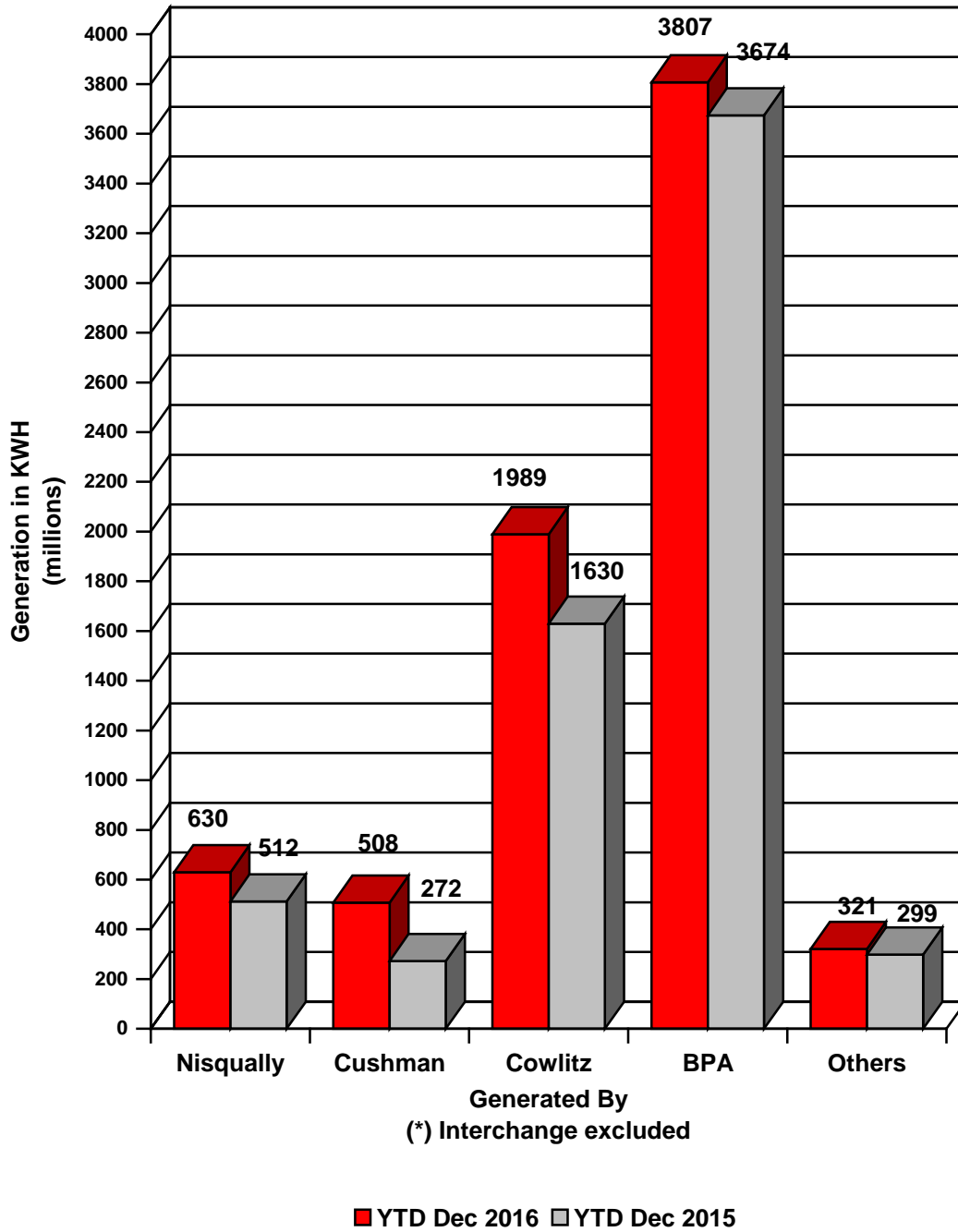
SALES OF ELECTRIC ENERGY
Year to Date - Dec 2016 (\$374,249,290)



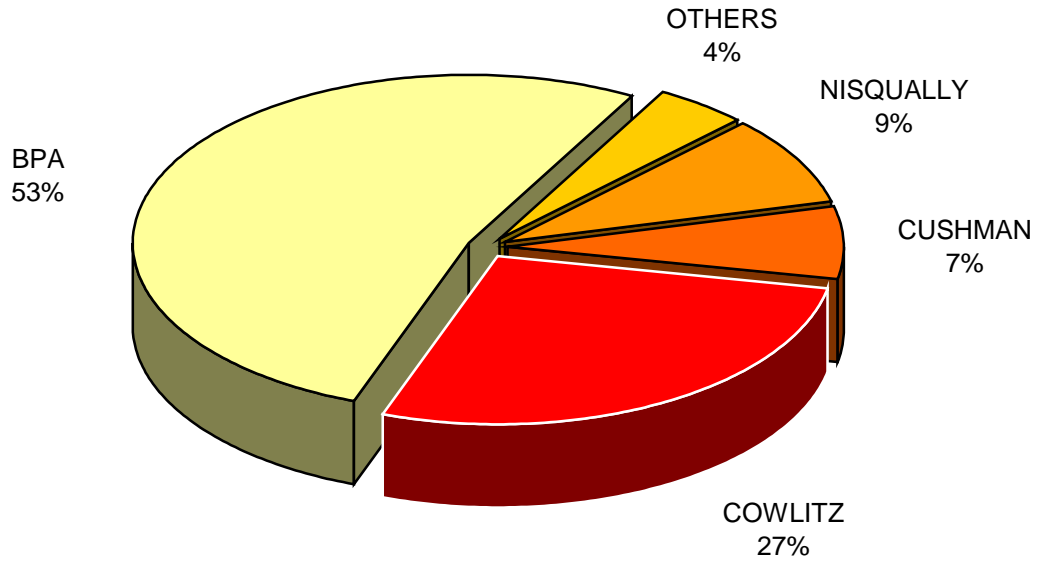
SALES OF ELECTRIC ENERGY
Year to Date - Dec 2015 (\$366,263,055)



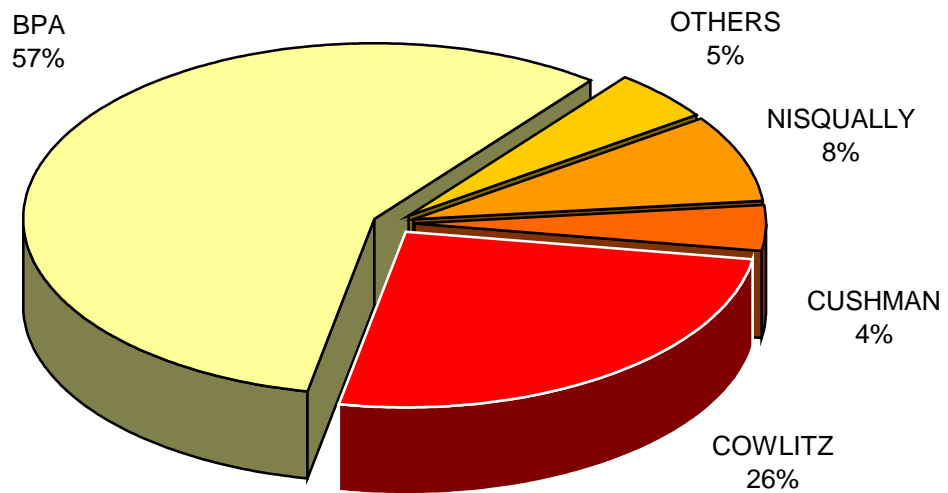
POWER SOURCES (*) Year to Date December 2016 & 2015



POWER SOURCES (*)
Year to Date - December 2016

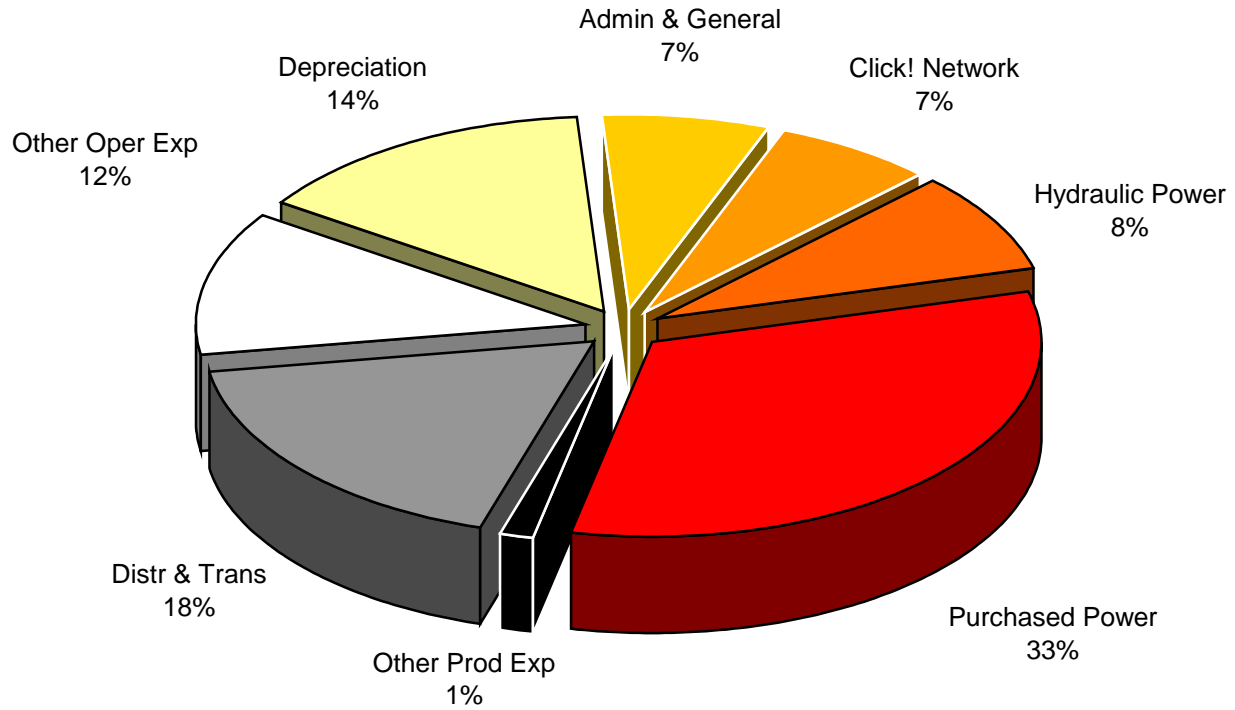


POWER SOURCES (*)
Year to Date - December 2015

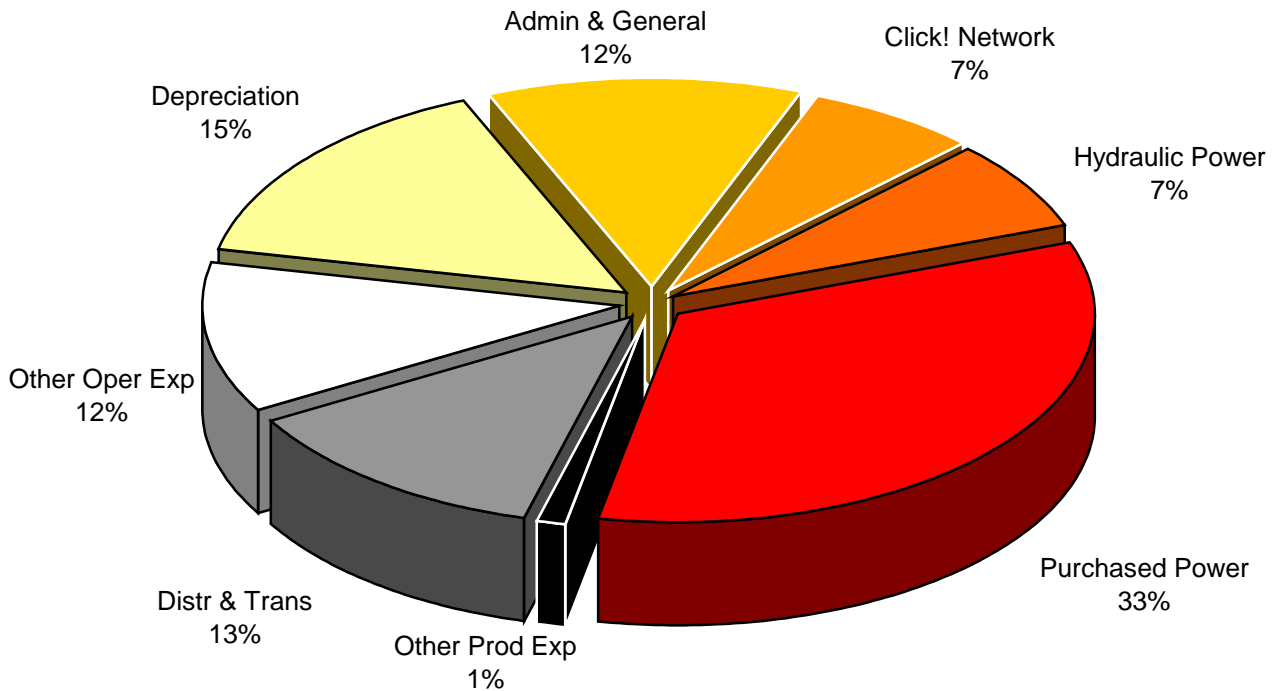


(*) Interchange excluded

TOTAL OPERATING EXPENSES *
Year to Date - Dec 2016 (\$388,219,998)

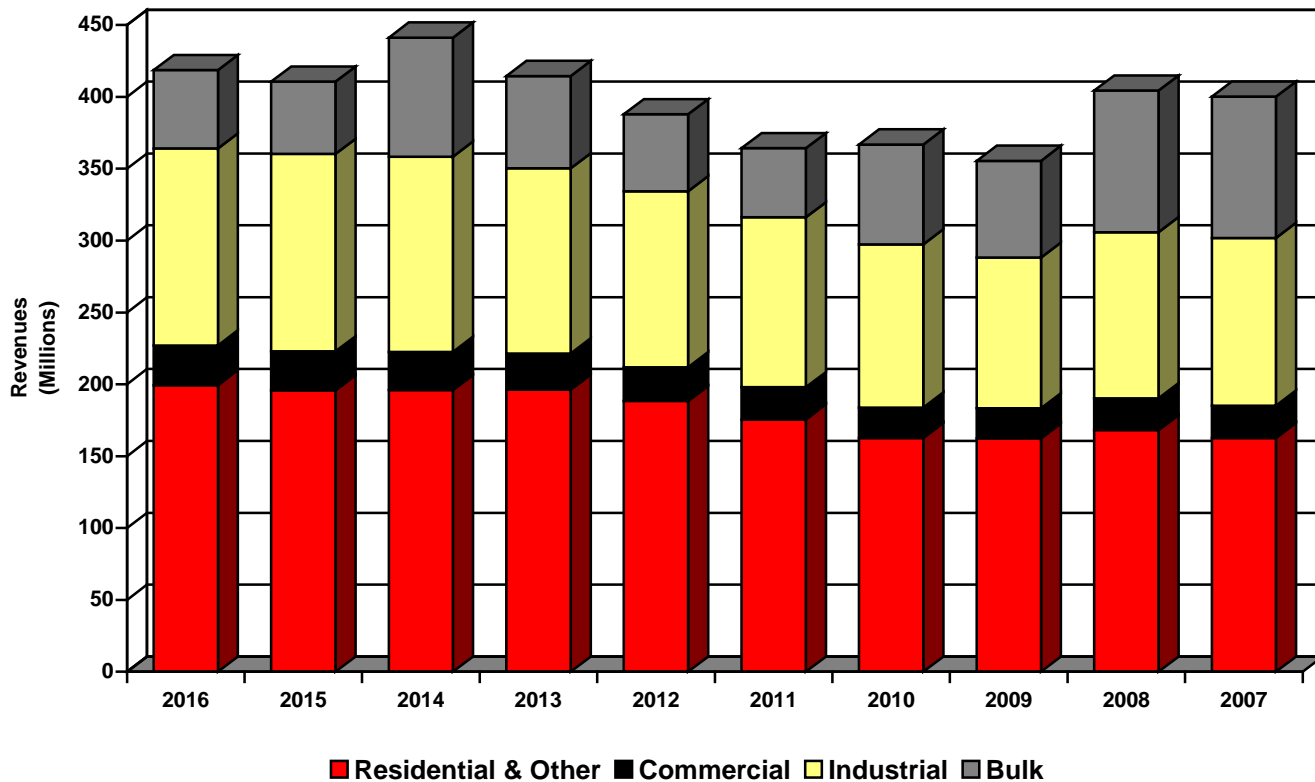


TOTAL OPERATING EXPENSES *
Year to Date - Dec 2015 (\$376,576,115)

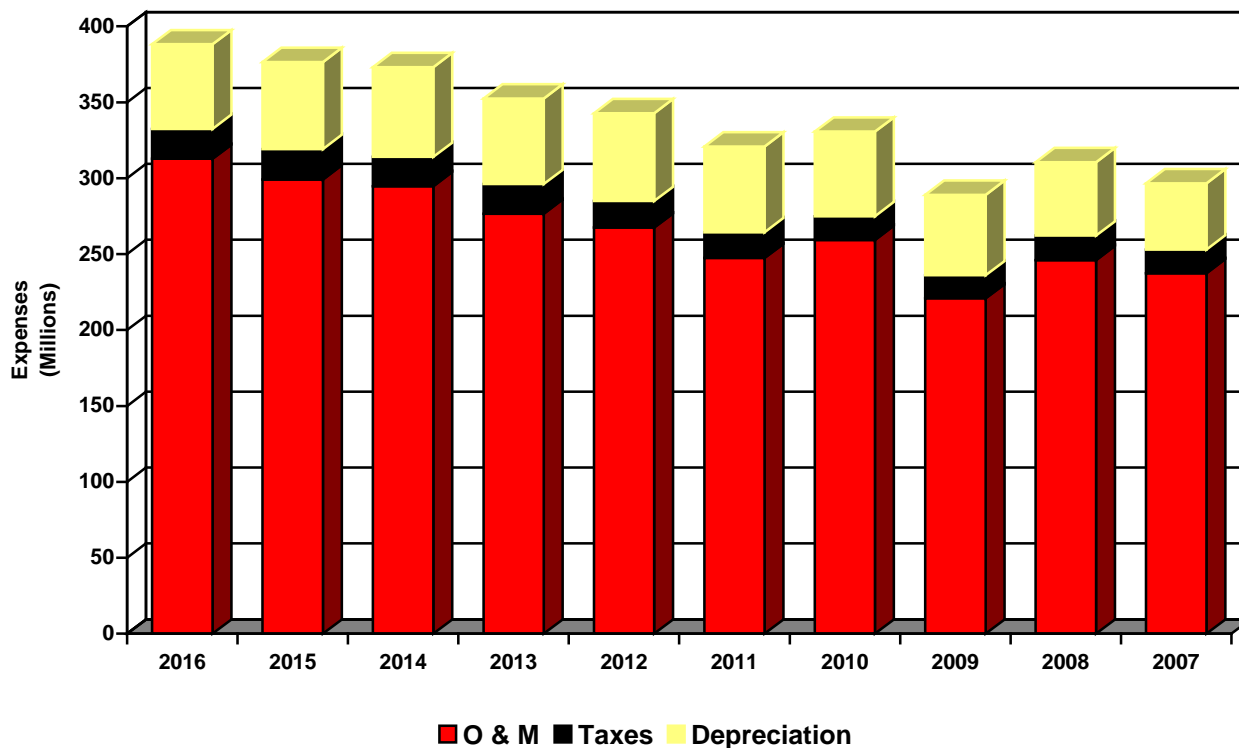


* City Gross Earnings Taxes are not included in Total Operating Expenses.

TEN-YEAR SUMMARY OF OPERATING REVENUES



TEN-YEAR SUMMARY OF OPERATING EXPENSES



2016 SUPERINTENDENT'S REPORT TACOMA POWER

CLICK!

Financial Status

Click! Network commercial revenues declined from \$27.3 million in 2015 to \$26.7 million in 2016. The retail cable TV customer base dropped 4.6 percent ending the year with 17,468 active customers, and the Internet cable modem customers served by the three wholesale Internet Service Providers (ISPs) - Advanced Stream, Net-Venture, Inc., and Rainier Connect, grew by .4 percent ending the year with 23,344 active customers. Click! provided 173 broadband transport circuits to Click!'s wholesale service providers allowing them to provide an array of telecommunication services to many businesses in the service area. Additionally, Click! continued to provide the City of Tacoma I-Net services to approximately 190 sites, keeping the cost of telecommunications low for many government entities, and also provided support for just over 15,000 gateway power meter connections.

Cable TV Rate Adjustments

Because a final policymaker decision regarding Click! Network's long term business plan remained outstanding in 2016, no cable television rate increases were implemented. Although Cable television prices continue to remain under market, the postponement of rate adjustments contributed to the decline in revenues.

Channel Additions

During 2016, Click! Network migrated 10 networks from optional service levels to its Broadcast package and migrated Big Ten Network and Sprout from its Sports & Family package to its Click! ON Digital package. Three networks discontinued operations in 2016, Pivot, UWTV, and MundoMax, but TV Tacoma HD was added, bringing the total to 376 video and 65 audio channels. Click! also added a variety of national and local video on demand content for a total offering of over 12,000 hours of content to make the product more competitive. Additionally, Click! added new networks to its Watch TV Everywhere service. Click!'s cable TV customers can now enjoy watching Click! video content from 84 networks on any of their mobile devices with an internet connection.

Website Improvements

Click! Network launched a new website in June 2016. Improvements included streamlined navigation, responsiveness to mobile device screen sizes, enhanced TV listings, and an online shopping cart. Click! cable television products, along with ISP internet packages, are now prominently displayed, enabling the potential customer to select services and submit a self-service order online.

Customer Satisfaction Survey

Customer Satisfaction survey cards were mailed to all new cable TV customers and to all customers who had a service related issue. Click! customer service and technicians representatives received ratings averaging 3.7 and 3.8 respectively on a scale of 1 – 4. In addition, a Customer Satisfaction Survey conducted on Click! Network's behalf by Washington State University's Social & Economic Sciences Research Center (SESRC) showed a mean average overall customer satisfaction score of 8.08 on a 1-10 scale. The results revealed that customers are very satisfied with the services provided by Click! and in particular, recognized the quality of service provided by our Sales and Service Representatives and Service Technicians.

New Tools

Click! purchased the CPAT Flex Digital Leakage Monitoring System to address concerns about interference from cable leakage in the aeronautical and LTE bands. The CPAT Flex Digital Leakage Monitoring System automates the signal leakage detection process freeing up technicians for other tasks. Since the tool is continuously monitoring the network, signal leakage is quickly detected and repaired.

Click! also purchased the CheetahXD software to replace the former Cheetah Lite version. The CheetahXD software helps Click! network technicians manage the HFC network by providing end-to-end visibility across the HFC operations environment, and enables NOC personnel to proactively isolate network problems, trace root causes, assess potential impacts, and prioritize truck rolls by pinpointing fault and performance issues in real-time. With CheetahXD software, HFC network assurance is simplified, operational costs are reduced, and network performance is improved resulting in enhanced customer satisfaction.

Spectrum Reclamation

In 2015, Click! fully converted its system from analog to digital and freed up nineteen (19) 6 MHz channel slots. Since then, 6 of those freed up channels have been added to the bank of downstream Internet channels to meet the growth in customers and Internet usage. Therefore leaving 13 channels available for use.

Network Bandwidth

During 2016, Click! added NETFLIX cache servers to the local network. The addition of these cache servers has reduced bandwidth utilization by as much as 30%. Click! added an additional 10 Gig connection at Downtown South and Downtown North for a total of 30 Gig potential capacity at each location. The Core routers are being upgraded from the Cisco 7600 platform to the Cisco ASR 9912 platform. This will provide the necessary 10 gig ports and throughput to support current and future network growth. The Cable Modem Termination Systems (CMTS) are also being upgraded. The existing Cisco uBR 10000 series CMTSs are going to be replaced with new Cisco cBR-8 CMTSs. The first set of Cisco cBR-8 CMTSs were purchased during 2016. These will support DOCSIS 3.1 Gigabit services and provide higher port and bandwidth capacity for meeting bandwidth demands and subscriber growth.

Asset Management Program

During 2016, Click! continued to build its asset list and has developed its registries for the Router, HFC Distribution, and Headend Equipment asset classes, and is prepared to participate in the Tacoma Power's Strategic Asset Management program. Click! also developed a Network Maturity Model, to more effectively manage its asset lifecycles and plan future capital expenditures.

Safety and Work Practices

In 2016, Click! continued to make improvements to its safety management practices. Improvements included: (i) Focusing on reviewing past performance; (ii) improvements in the oversight of injured worker claims; and (iii) increased review of leading indicators such as near misses and non-medical injury reports. Additional training was provided on Home Safety and how the employees and their families can be impacted by the activities we engage in outside of our work life. Safety posters and bulletin board messages were utilized to promote safety awareness. Each business unit held monthly safety meetings and the Click! Safety Committee met quarterly to improve safety related communications.

GENERATION

Hydroelectric Projects

Tacoma Power's hydro plants were available 99.83 percent of the time in 2016 except for scheduled maintenance outages.

Cowlitz

Construction is wrapping up on the Cowlitz Falls North Shore Collector for collection of downstream migrating smolts from the upper Cowlitz River. The collector, located at Lewis County Public Utility District Cowlitz Falls Dam, will improve natural fish runs in the Cowlitz River and help Tacoma Power meet its Federal Energy Regulatory Commission (FERC) license obligations. The \$35 million construction project is scheduled for final commissioning and operation in April, 2017. The 70 ton head gate for unit 51 was removed for the first time in 48 years and rehabilitated.

Cushman

Construction on both of the new Cushman fish hatcheries were completed and began operation in 2016. One Cushman unit was modified to allow for synchronous condensing operation which will allow Power Management to supply and sell capacity without consuming water. The 20-year-old exciters for all three generators at Cushman 2 were replaced. Construction of recreation improvements in the Staircase area were completed and opened to the public during 2016.

Nisqually

The 20-year-old exciters were replaced on four units at LaGrande and one governor was upgraded.

Regulatory Compliance and Dam Safety

All dam safety and license compliance requirements were met and submitted to the Federal Energy Regulatory Commission on time. All NERC compliance obligations were met and the 2016 audit resulted in no findings. Several studies were concluded or nearly concluded relating to seismic upgrades to parts of our plants including the Mayfield penstock slope and the spillways at both Mayfield and Mossyrock. Potential seismic loading was recently increased on these projects which will cause us to have to rework some previous studies and explore new alternatives.

Parks

Tacoma Power's parks served over 300,000 customers in 2016. Tacoma Power's park customers continue to compliment the cleanliness, admire the beauty and maintenance, and praise the friendly and helpful staff. Nearly 99 percent of the customers rate the employees as helpful in the 2300 surveys that were completed. A few of the many positive customer comments received include: "The staff is so friendly, gave a warm reception, very welcoming, helpful, warm, kind, congenial, cordial, courteous, amenable and generous!" "Great family camping spot! Well-kept and lots of fun things to do."

Facilities

Chief Imo retired as the Facilities Manager and was replaced by Terry Coggins in 2016. Construction was nearly completed on the 4th floor remodel which will combine Finance and Purchasing functions on the 4th floor and free up space on the Main floor for other pressing facility needs.

POWER MANAGEMENT

2016 was a productive year for Power Management. Highlights (with more detail following) include:

1. Power Management had overall responsibility for developing Tacoma's first community solar projects. The projects were fully subscribed, constructed ahead of schedule and under budget, and received a warm reception from the community.
2. We developed, marketed and executed numerous non-energy products and services in 2016 to mitigate weak wholesale market prices. The effort resulted in \$2.4 million in additional net benefit for our customers.
3. We exceeded the conservation target in 2016 with low resource acquisition costs.
4. Power Management led efforts to create a way to convert City of Tacoma street lights to LED technology without the City borrowing funds.
5. We participated in regional efforts to investigate and influence regional wholesale markets and to investigate the potential benefits of transportation electrification.

6. We renewed contracts with two large industrial customers that required significant negotiation and accommodation in key elements of the agreements.

Conservation Resources Management (CRM)

Tacoma Power acquires energy conservation as a resource to defer its need for future, more costly supply-side resources. Conservation in 2016 cost less than \$21/MWh while other resources we might use to meet future load cost significantly more. CRM completed over 1,000 residential projects and over 200 commercial projects. Conservation also provides a positive touch point for thousands of customers with its popular programs that provide homeowners and businesses technical assistance as well as financial incentives to reduce the cost of their energy efficiency improvements. Additionally, CRM held 30 community events and 33 retailer events to promote efficient retail products.

For the 2016-2017 compliance biennium, Tacoma Power has a target of 9.4 aMW. As the first year of the biennium draws to a close, Conservation Resources Management (CRM) projects a year-end savings of 5.7 aMW and biennial savings of about 10 aMW. Savings in excess of the target would be eligible for use against our targets in the following two biennia subject to stipulations in RCW 19.285.040(c)(i), a Tacoma Power-led amendment to the Energy Independence Act.

In addition to working to meet its conservation goals, CRM developed new programs and tools throughout 2016 to better prepare for the future. CRM has implemented a new central database to house customer, program, and financial transaction information and automate time consuming tasks. Database development projects like this often come in over budget and delayed but this project was completed on time and within budget.

CRM has launched a new community solar program which allows customers to benefit from lucrative State incentives even if they don't own their home or otherwise are not able to install solar energy themselves. The solar array is housed atop the TPU warehouse roof.

Another major project involving CRM was to create a rate whereby the City of Tacoma can convert most of its streetlights to LED fixtures without increasing its budget. CRM will manage the RFP process and oversee installation of the LED streetlights.

CRM also continues to promote the success of its "trade allies" who install energy efficiency measures under its programs. A new database portal will allow trade allies to view information regarding projects with their shared customers.

Energy Resource Planning

Tacoma Power's purchases a significant amount of power and transmission from the Bonneville Power Administration (BPA) at an annual cost of approximately \$120 million and \$18 million respectively. The Planning Unit actively participated in BPA's pre-BP-18 Wholesale Power and Transmission rate case workshops. We vigorously supported a revision to the way BPA allocated transmission costs among NT and PTP customers. However, BPA did not accept our recommendation. Pursuant to the BPA Power contract, on May 1 Tacoma Power had a one-time opportunity to change from a "slice" to a "block" customer. The Planning Unit assessed both products and found remaining a "slice" customer was most beneficial to the utility.

The Planning Unit participated with four other utilities in a study to illustrative of the value of transportation electrification to the region and individual utilities. The study identified electric vehicle adoption rates, wholesale electric prices, fuel prices, generation capacity prices, distribution system costs, and electric vehicle and charger costs as important factors to the economics of transportation electrification. The study suggests significant regional benefits from transportation electrification; however, utility impacts ranged from negative to positive depending on utility specific circumstances.

The Planning Unit worked with other parts of Tacoma Power to complete a report on potential near term strategies to interact with organized wholesale markets. The study considered functional staffing requirements, computer software and equipment costs for three level of CAISO interaction: participate as a Market Entity, pseudo-tie a unit, and bidding in an external resource.

The Planning Unit completed two contracts to acquire an estimated 200,000 RECs per year (unit contingent) for the post-2020 compliance period. Tacoma Power has now secured about 650,000 of the projected 750,000 renewable MWHs/RECs needed to comply with state mandates

The Planning Unit assessed replacing most of the current old metal-halide/sodium vapor street lights in the city of Tacoma with LED lights. The study found positive net benefits. This unit led a cross-utility team to develop a new street light ordinance to allow the instillation of the LED lights. The Tacoma City Council will consider the ordinance in 2017.

The Planning Unit participated in a number of state regulation and policy development efforts including Clean Air Rule (Ecology), amendments to the Energy Independence Act implementing rules (Commerce), fuel mix disclosure requirements (Commerce), and IRP requirements (Rep. Morris).

The Planning Unit worked with Tacoma Power's two CP customers to renew the contracts under which they receive service. The Tacoma Public Utility Board approved the contracts at their September 21, public meeting.

The Planning Unit worked with RPA to assess how potential changes to rates might affect different segments of customers (particularly low income customers) and how any negative impacts might be mitigated. This assessment was well received by internal audiences and at PPC.

The Planning Unit initiated the biennial service area energy conservation potential assessment. The study was about half complete by the end of the year. Presently it indicates about 35 aMW of achievable economic conservation potential over a 10-year period. As part of this work, the Planning Unit established the BPA Block contract power rate as the new avoided cost for the conservation cost-effectiveness test.

Resource Operations and Trading

Wholesale transactions in 2016 were characterized by strong sales volumes and lower wholesale prices compared to the prior year. Net wholesale power sales were 2.5 million MWh, exceeding the budget estimates of 1.2 million MWh. Annual revenue was \$50.1 million compared to budget estimates of \$53.3 million.

In the first quarter of 2016, flows into Tacoma Power's reservoirs were well above normal. These high inflows were due in part to warm temperatures and in part to high precipitation, especially at the Cushman hydroelectric project. The warm temperatures are typical of the strong El Niño conditions that were present in the first part of 2016.

Snowpack in Tacoma's basins was also above normal into the early spring. However, the weather turned much warmer and drier with record high temperatures in April. The result was a rapid spring melt and a much lower than expected runoff. As a consequence, the storage reservoirs at the Cowlitz and Nisqually hydroelectric projects did not reach the normal summertime operating levels. Tacoma was able to make extraordinary efforts to refill Lake Cushman by early June.

To mitigate the impact of the below normal spring and summer flows, Tacoma worked with State, Federal and Tribal Natural Resource Agencies to reduce required flows at the Nisqually hydroelectric project in order to preserve water in storage and protect the downstream environment.

In October, Tacoma's projects received above average precipitation, and record-setting inflows. The high flows continued into November, and allowed Tacoma's reservoirs to recover after the dry spring and summer. In December, after almost an entire year of above-normal temperatures, conditions shifted towards a weak La Nina, and temperatures were well below normal for the month.

Overall for calendar year 2016, stream flows into Tacoma's Cowlitz, Nisqually, and Cushman hydroelectric projects were above their historic levels at 110 percent, 101 percent, and 136 percent, respectively. Flows into the Federal Columbia River Power System, which affect Tacoma's Slice-of-the-System BPA contract, were 99 percent of normal.

In 2016, Tacoma continued to find innovative ways to monetize the flexibility of its power resource portfolio by participating in emerging markets for various ancillary energy products.

Tacoma continued selling energy as a designated Asset Controlling Supplier (ACS), one of only three in the Pacific Northwest. With this designation, any sales made from Tacoma's resource portfolio are deemed "low carbon" and can be sold at a premium. In 2016, ACS sales resulted in additional revenue of almost \$1.5 million.

Tacoma continued to analyze the capabilities of the resource portfolio to determine whether capacity and reserve products could be reliably supplied and to quantify the associated opportunity cost. We responded to several Request for Offers (RFOs) for Imbalance Capacity Products and were awarded two of the RFOs. Sale of these products plus sales made in the Day-Ahead and Real-Time markets provided additional revenue of approximately \$1 million.

Power Management worked together with T&D and Generation to analyze, develop and implement a new Frequency Reserve product. In December, we were awarded a RFO and began delivering this new product which will provide approximately \$200,000 of additional revenue.

RATES, PLANNING, AND ANALYSIS

Retail Rates

Tacoma Power completed a comprehensive update and review of its cost-of-service study working with its rate consultant, Black & Veatch. Staff also completed a rigorous study of impacts of various residential rate designs on Tacoma Power customers. Initial customer class rate adjustments were presented to the Public Utility Board on 12/14/2016.

Energy Risk Management

Tacoma Power staff completed the first generation cash-flow-at-risk model. The model will enable better analysis of risks related to hedging decisions and provide new reports to Tacoma Power executives.

Staff hired a consultant to benchmark wholesale risk management practices against industry standards. The study helped staff to develop a roadmap and begin implementation of new business processes for enhancing credit reporting and risk controls.

Finance

Facing a \$48.6 million reduction in wholesale and retail revenue, Tacoma Power focused on minimizing expense increases in the Operations & Maintenance, Personnel, and Capital budgets. Over 34 unfilled positions were repurposed during the budget process to align with the strategic needs of the utility.

Additionally, the initial Capital budget was reduced by \$29 million through a new review and development process. These cost reductions allowed the utility to hold rate increases to 5.9% each year despite the reduction in wholesale and retail revenue.

In addition, Tacoma Power’s credit ratings were confirmed by S&P in 2016 as part of their regular monitoring and review cycle for the utility. Tacoma Power’s existing credit ratings of Aa3/AA/AA- by Moody’s, Standard & Poor’s, and Fitch, respectively, continue to allow Tacoma Power access to low interest rates for future borrowing needs.

Strategy

Tacoma Power completed development of a new Strategic Plan in October 2016. The plan was developed using feedback from customers, employees, and stakeholders throughout the City of Tacoma. It focuses around the strategic principle of Community Value First and can be summarized into four primary focus areas: Employees, Customers, Finances, and Environmental Stewardship. In order to make progress on the plan, strategic initiatives have been developed and will be managed under a comprehensive strategy management program.

TRANSMISSION AND DISTRIBUTION (T&D)

System Reliability

The reliability performance of the transmission and distribution system is based on a six-year average, from January 1, 2011 through December 31, 2016. The average number of customers (ACO) without service per outage was 81 customers. The average outage duration for each customer served (SAIDI) was 58 outage minutes per customer. The average frequency of sustained interruption per customer (SAIFI) was 0.55 interruption averages per customer.

Rolling Average	6-Year	SAIDI	SAIFI	ACO
01/1/11-12/31/16		58.35	0.5509	81.06
2016 Performance Target		≤ 75	≤ 0.95	≤ 150

Three major weather events occurred again in 2016, significantly more than our normal of 0-1 storms/year. These events were on March 1 (wind gusts to 45 mph SW), March 13 (wind gusts to 44 mph S), and October 15 (wind gusts to 53 mph S). Tacoma applies Institute of Electrical and Electronics Engineers (IEEE) approved criteria to establish exclusion criteria for major storm events and continues to include major event data from qualifying events in its normal outage metrics, when widespread impacts are not realized.

The Tacoma native peak load was 906 MW on Thursday, December 8, 2016. The transmission peak occurred on Saturday, December 16, 2016, at 1,257 MW with a Tacoma Native load of 905 MW.

System Planning and Operations

In December, the T&D Horizon Plan update was completed. The plan was last updated in 2011. The Horizon Plan provides additions, expansions, upgrades, replacements, rehabilitation, and improvements to Tacoma Power's electrical infrastructure to mitigate identified future deficiencies. Staff identified 37 projects outlined in the Horizon Plan as those best to support an effective and productive electrical system, through the most economical means. These projects have been disbursed over eight biennial budgets (2017-2018 through 2031-2032) in an attempt to levelize future expenditures.

The average capital expenditure for the next 16 years is approximately \$50,830,000 per biennium, with a total cost of \$406,659,680. Both the average expenditure per biennium and the total cost are about 17% less than the amounts included in the last Horizon Plan.

On October 29, 2016, System Operations began operating with version 6.5 of the Outage Management System (OMS). The upgrade was one of many corrective actions proposed in the TPU sponsored study conducted by Utility Integration Solutions (UISOL) in 2014. The upgrade has provided System Operations with additional user functionality and resulted in a more efficient means of providing outage information to Tacoma Power customers.

In December, Tacoma Power began operating as a member of Area Control Error Diversity Interchange (ADI). Joining ADI was a recommendation of the Market Assessment and Coordination Committee (MC) Phase-3 membership. Tacoma Power is the twelfth Balancing Authority (BA) to join the group and it is anticipated that one more BA, Chelan County PUD, will join in 2017. ADI members share control error, which results in fewer generator dispatch signals and less wear on generator components.

On December 1, 2016, Tacoma Power began a one-year membership in the Northwest Power Pool (NWPP) Frequency Response Sharing Group (FRSG). The group will allow Tacoma Power to pool compliance risk similar to the NWPP Contingency Reserve Sharing Group. Membership to the FRSG has provided additional support to Tacoma Power's decision to sell 2 MW of frequency response. The sale of this newly created market product has enabled Tacoma to receive additional wholesale revenue.

Transmission Service

Tacoma Power has the following transmission service agreements in place with the Bonneville Power Administration (BPA) for delivery of power to the Pierce County Mutuals (PCM). These agreements are pursuant to Tacoma Power's Open Access Transmission Tariff (OATT).

PCM	Service Type	Agreement Term
Alder	Network	Oct 1, 2013 – Oct 1, 2028
Lewis	Network	Oct 1, 2013 – Oct 1, 2028
Lakeview	Network	Oct 1, 2014 – Oct 1, 2028
PenLight	Network	Oct 1, 2014 – Oct 1, 2028
Eatonville and Ohop	Point-To-Point	Oct 1, 2015 – Oct 1, 2018
Elmhurst and Parkland	Point-To-Point	Oct 1, 2015 – Oct 1, 2018
Milton	Point-To-Point	Oct 1, 2015 – Oct 1, 2018
Steilacoom	Point-To-Point	Oct 1, 2015 – Oct 1, 2018

The Point-To-Point agreements will be converted to network service once the arrangements are in place to allow for remote load shedding of PCM load when necessary to mitigate overloaded transmission lines. A technical team, which includes Chad Edinger and Aaron Anderson from Tacoma Power, has been meeting regularly with PCM personnel to develop a workable plan for the load shedding. Although progress has been somewhat slower than hoped, the meetings have been positive. The intention is to implement load shedding before the existing agreements expire in 2018 to allow for the transition to Network service through October 2028.

In addition to the BPA agreements, Tacoma Power provides transmission service to Avangrid Renewables (previously known as Iberdrola Renewables) and Lewis County PUD. Avandgrid's contract for 45 MW of Point-To-Point service is for the off-system delivery of power from the WestRock biomass generation project. The agreement term is from August 1, 2009 through July 31, 2021. Lewis County PUD takes service under a pre-OATT agreement. The service is for 70 MW of transmission service to deliver Cowlitz Falls generation over Tacoma Power's facilities to BPA's system. The agreement term is concurrent with Lewis County's Federal Energy Regulatory Commission (FERC) licenses for the hydro project.

The estimated annual revenues received from each of the entities are:

BPA	\$7,000,000
Avangrid	670,000
Lewis County PUD	189,000
TOTAL	\$7,859,000

Asset Management

The T&D Asset Management (AM) program optimizes data for programs such as Pole Replacement, Underground Cable Replacement, Pad and Polemount Transformers, #6 Copper Replacement, Padmount Switchgear, High Voltage (HV) Insulator and Power Transformer Replacement capital projects. With data collected, budgeting champions for these projects were able to calibrate their requested funds while optimizing risk levels to the transmission and distribution system.

Due to a higher than anticipated failure rate, T&D AM has gathered and processed asset class registries for live front padmount switchgear, HV insulators, and fused disconnects and has begun coordinated and targeted replacement. Due to high consequence of failure, and utilizing AM best practices, both HV brown porcelain insulators and 3-phase #6 copper conductors are high priority replacement items. In addition, a six-year maintenance plan was implemented for 12.5kV distribution switches to increase operability and mitigate failures.

Through the Pole Test-and-Treat program, 4,459 poles were tested with 4,312 of those poles eligible for treatment. Poles replaced under the Pole Replacement program totaled 0.76% of plant at 664 for 2016.

Utilizing consequence of failure modeling, the Cable Replacement program saw 0.69% of plant replaced in 2016, which totaled 58,397 feet of underground high voltage cable.

System Improvements

East F Substation has been rehabilitated and constructed in a new, modern configuration addressing reliability improvement and load growth. Due to safety concerns and coordination with systems that had to remain energized to carry load temporarily, Tacoma Power personnel performed all construction. The new East F Substation was energized and placed in service in November 2016.

The Potlatch Switching Station site was selected near Union, WA, within Tacoma Power-owned property along the Potlatch transmission lines. This new switching station, which is scheduled to be completed by July 2017, addresses transmission system reliability and new regulatory requirements.

The Pearl Cushman Upgrade project relaying was replaced at Pearl, Cedar, and Hilltop Substations to support rebuilding and replacing the transmission towers on North 21st Street. This project is under way and anticipated to be completed by 2018.

The Henderson Bay Tower Replacement project is 60% designed, and expected to be constructed in 2018.

A new 15 MVA Mobile Substation was added to Tacoma Power's fleet. This will improve our emergency response time to restore power.

The LaGrande Substation transformer, which serves the Nisqually Hydroelectric Project, was replaced. This included removal of the last 115 kV fuses in Tacoma Power's system.

T&D and Generation personnel coordinated with BPA to implement a generator runback and remedial action scheme at the Cowlitz Project to permit full generation output while mitigating overload conditions on the Chehalis-Mayfield 1 230kV line. In coordination with BPA, relaying was replaced on the Mossyrock-Chehalis 230kV line to modernized aging equipment.

Electrical Services

Transmission & Distribution's Electrical Services workgroup provided 216 service connections requiring construction work performed, on average, within 3.9 days and 1,491 service connections, without construction work performed, on average, within 1.7 days. T&D issued 11,876 electrical permits and performed 21,000 electrical inspections for total permit revenue of \$1,750,195.

Electrical Services completed design, agreements, and work orders for \$1,444,000 in Residential Projects and \$1,328,000 in Commercial Projects.

An Automatic Call Distribution (ACD) for the Electrical Permitting group was adopted this year. Utility Staff Support assisted 4,095 walk-in customers in the lobby and supported 23,487 customer phone calls.

Economic Development was promoted thru involvement on collaborative teams for over 20 large potential developments and pre-application meetings for over 100 smaller developments. Economic Development initiatives progressed this year culminating in four drafted policies and procedures to urge economic development.

Safety and Work Practices

This was a year filled with safety rule changes and work practice improvements as we incorporated the new state and federal electrical safety rules updates into common practice. T&D had previously field-tested and selected products to ensure adherence with these revised rules including wood-pole fall protection, bucket-truck fall protection and arc-resistant face protection. The safety rule change with the greatest impact was the use of 100% fall protection while climbing wooden poles. To facilitate this change all wood-pole climbers were issued new fall protection systems and retrained in their proper use. The change to the 100% requirement has been embraced by the Line Section employees and should help prevent falls in the future.

T&D Safety worked with the Tacoma Police Department to provide High-Voltage Safety Training to all uniformed department personnel.

Employee Resources/Development

T&D completed the thirteenth year of its engineering intern program. T&D hosts four engineering students, for 12-13 weeks each summer. The interns are recruited from local universities including University of Idaho, Washington State University, University of Washington, and Seattle University, with approximately 50% of current T&D engineers coming from the program. T&D continues its recruitment/outreach efforts and attends events targeted to increase diversity in our applicant pools. This includes working with the military and veteran populations and fostering partnerships with schools to ensure we have a pipeline of qualified applicants to fill jobs expected to become vacant through retirements in the next few years.

T&D Training and Development managed three apprenticeship programs, and provided training and work experiences to 37 apprentices and trainees in four areas: line (20); substation (12); advanced meter/relay technician (1); and system dispatcher (4).

UTILITY TECHNOLOGY SERVICES

Utility Technology Strategy & Planning

In 2016, UTS developed a comprehensive business case for a combined Water and Power deployment of Advanced Metering Infrastructure across the service area.

This effort required significant engagement with internal and external stakeholders, senior management, vendors, and other utilities in an effort to determine a direction on AMI for TPU. Over the past 10 years Tacoma Power and Tacoma Water have implemented several advanced metering technologies to meet specific business needs for residential, commercial and industrial metering installations. All of the technologies previously implemented have reached the end of their useful life and are or soon will no longer be supported. In addition, customers are beginning to expect greater products and services which are enabled by AMI. The business case development activities included:

- Identification of AMI technology options available today to Power and Water Utilities
- Recommending the best AMI technology solution to meet TPU's AMI business requirements
- Performing a detailed costs and benefits analysis for each AMI for budget planning
- Formalizing and documenting the agreed upon quantifiable and qualitative benefits for TPU
- Conducting presentations for and gaining approval from Executive Leadership and the Utility Board

This effort also established a roadmap for TPU's AMI implementation and defined a program governance model to support a combined Power and Water deployment.

UTS actively supported the Community Solar Project by providing the data communication infrastructure, and network connectivity needed for Tacoma Power to monitor and report on the amount of power generated by this new renewable energy resource. New business processes were developed to sell Community Solar units via a new web application that enabled the collection of payments from customers. This project was a collaborative effort among Power Management - Conservation, IT/EASD, Treasury, and UTS staff.

Employee Engagement

A labor management agreement addressing the support of operational and business technology systems was completed in 2016. The goal of this agreement was to improve service delivery by promoting workforce efficiencies through utilization of shared resources and improved employee knowledge and certification. As a result, UTS began to partition the private cloud computing infrastructure enabling the deployment and support of additional applications and systems from different Tacoma Power operating units and TPU Stakeholders.

Operational Efficiency

Western Electricity Coordinating Council (WECC) visited Tacoma Power in July of 2016 to conduct a Reliability & Compliance Internal Controls Evaluation (ICE).

This evaluation was used to assess whether the controls and measures Tacoma Power uses to ensure compliance with the North American Electric Reliability Corporation (NERC) Reliability Standards are adequate. The results of the evaluation along with any findings identified during the WECC On-Site Audit conducted early 2016 were then used to establish WECC's Compliance Oversight Plan (COP) for Tacoma Power. Moving forward, WECC will use the COP to determine their audit approach for Tacoma Power and the number of Reliability Standards and Requirements Tacoma Power will be required to Self-Certify on an annual basis. The outcome has already greatly reduced our workload and produced a positive outcome for Tacoma Power.

Manual data gathering and manipulation to generate TPU Fleet operational and financial reports were streamlined through a new interface between SAP and the pool car kiosk systems. This project eliminated manual activities and enabled operational efficiencies to be achieved.

Tacoma Power's Outage Management System and Customer Services' iNovah applications were upgraded to bring the applications, operating systems, and databases current for continued vendor support, increasing reliability and reducing security risks.

After a well-received pilot, the GIS team replaced the internet-enabled tool used by field staff with a new tool that provides for a better user interface, increased functionality and reliability.

Desktop Support deployed approximately 350 computers throughout TPU in 2016 using the newly adopted standards and specifications for desktops and/or laptops. In addition, the Computer Support Technicians (CSTs) sanitized over 200 computers infected by new vulnerabilities. The increase in vulnerabilities led to stronger Cyber Security Controls being applied to new computer deployments across TPU.

Technology Advancements

In 2016, UTS partnered and collaborated with key stakeholders across TPU and the City of Tacoma Information Technology Department to deliver a newly re-designed utility bill for our customers. This effort also implemented a new bill design and production solution that addressed end of life issues with the legacy platform and provide greater flexibility to future changes with the invoice and other customer facing documents. This effort was several years in the making and culminated with the delivery of a successful project that met both customer needs and internal technical support requirements.

The Lobby Queueing system was successfully implemented with new functionality that enables better reporting and real time situational awareness of customer traffic and wait times. This new technology has improved the customers experience while paying their utility bills and provided better tools to Customer Service Representatives, Supervisors and Managers.

The operational private cloud computing infrastructure deployed in 2011 to support Tacoma Power's Energy Trading and Risk Management applications was upgraded in 2016. The project significantly increased the computing capacity and included the implementation of the next generation of storage capability to increase reliability, flexibility, and performance.

In 2016, UTS completed a two year process which led to vendor selection and awarding a contract for a new Energy Management System (EMS). During the last year a rigorous evaluation process involving a Selection Advisory Committee comprised of eighteen (18) subject matter experts from UTS and other Tacoma Power workgroups reviewed and scored vendor responses to over 3,000 system requirements. Vendor finalists were then invited to present their solutions to the Selection Advisory Committee who also conducted site visits to other utilities to learn from their EMS upgrades. The new EMS is expected to come on-line in 2018 and will provide for a modern more-flexible platform supporting enhanced security along with more effective and efficient compliance with NERC CIP and other reliability standards.

A unified backup and recovery solution was deployed allowing TPU to consolidate and centrally manage the performance of system backup and recovery operations that support various operational and industrial control systems.

Prior to this implementation these operations had to be managed individually by the application owners. The new solution utilizes technology to enhance performance improve security and system reliability.

The Communications Tower located within the Pearl Substation was deemed to be structurally insufficient. In partnership with Generation, UTS identified opportunities to reduce loading on the tower and make temporary upgrades to further reduce tower loading until the replacement of the existing tower could occur. Immediate planning began and the replacement project kicked off in the third quarter of 2016. Installation of the new tower and removal of the old is scheduled for some time in first quarter of 2017.

Security

UTS established a Cyber Security group comprised of a five (5) member team to begin developing and enhancing information security operations across all of TPU. This group began by utilizing a nationally recognized cyber security framework and approach to conducting security evaluations on TPU's Industrial Control System Environments. The evaluations have identified several areas where TPU can improve its security resilience.

A new security system was designed and installed at the South Service Center to improve physical security and provide enhanced video surveillance throughout the facility.

Regulatory

Tacoma Power's 2016 Western Electricity Coordinating Council (WECC) audit occurred in March. This audit was the culmination of several hundred hours of work and successful collaborations between the Reliability & Compliance (R&C) Office and Subject Matter Experts (SME) across Tacoma Power who support the Critical Infrastructure Protection (CIP) and Operations & Planning (O&P) NERC Reliability Standards. During the audit, WECC commented that Tacoma Power has a strong culture of compliance and a solid compliance program in place. WECC stated they will point to Tacoma Power's Program as the standard for the industry.

July 1, 2016 was the effective date for a significant revision to the NERC Critical Infrastructure Protection Standards (Version 5 to Version 6), and over 20 new or revised Operation & Planning NERC Reliability Standards. Tacoma Power personnel vetted each of these standards through the new Standard Change Organizational Review and Evaluation (SCORE) process to ensure compliance. The SCORE process takes each new or revised standard and evaluates the impact (low, medium, or high) based on the risk and the resources necessary for implementation. This evaluation also assists in building a work schedule for completing any necessary work and assessing compliance prior to the enforcement date(s).

A cross-functional committee (comprised of subject matter experts from Generation, Transmission & Distribution, and Utility Technology Services) developed a plan for meeting the new CIP Low Impact requirements that become enforceable in 2017 and 2018. The planning included identifying the scope of work and resources required for each facility (people, budget, etc.).

In 2016, over 150 compliance documents went through an annual review and approval and a Cybersecurity Tabletop Exercise was conducted involving responders across Tacoma Power and the City of Tacoma Information Technology Department.

Chris Robinson
Power Superintendent



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ANNUAL

TACOMA WATER

2016

**FINANCIAL
REPORT**



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DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA WATER

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FINANCIAL DATA

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Water Division (the Division), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 5 through 14, schedule of proportionate share of net pension liability, and schedule of the city of Tacoma's contributions employer contributions on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data presented on pages 51 through 71 and the superintendent's report presented on pages 72 through 84 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.



Tacoma, Washington

April 19, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Water's financial performance provides an overview of the financial activities for the years ended December 31, 2016 and 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the 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 generally accepted accounting principles (GAAP) 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, 2016 and 2015, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of Tacoma Water's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position 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, non-capital financing, capital and related financing, and investing activities.

The Notes to 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 Tacoma Water's presentation of financial position, results of operations and changes in cash flows.

The Division adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. The statement provides guidance for determining fair value to certain investments and disclosures related to all fair value measurements, and requires accounting for investments at fair value (See note 3).

Financial Highlights

- The net position of Tacoma Water was \$549.7 million in 2016, \$542.5 million in 2015 and \$516.7 million in 2014. Of these amounts, \$57.1 million in 2016, \$53.8 million in 2015, and \$46.7 million in 2014 is reported as Unrestricted net position and is available to finance day-to-day operations without constraints established by debt covenants or other legal requirements.
- Tacoma Water's total net positions increased by \$7.2 (1.3%) million in 2016, \$24.7 (4.8%) million in 2015 and \$36.4 (7.6%) million in 2014.

- Operating revenues were \$92.8 million in 2016, a decrease of \$5.3 million (5.4%) compared to 2015. While sales and other revenue increased by \$1.5 million, contract resource obligation revenue decreased by \$6.9 million. The decrease in contract resource revenue is primarily due to a shift in focus from building the Green River Filtration Facility to operating the facility and the partners were billed accordingly. Operating revenues were \$98.1 million in 2015, a decrease of \$0.2 million (0.2%) compared to \$98.3 million in 2014. While sales revenue increased by \$7.3 million, contract resource obligation revenue decreased by \$7.5 million because the Green River Filtration Facility is complete and the partners were billed less.
- In 2016, Tacoma Water's net utility plant of \$879.5 million represented a decrease of \$5.2 million (0.6%) compared to the 2015 \$884.7 million balance. This is primarily due to a net increase of \$15.5 million in plant in service offset by an increase in accumulated depreciation of \$20.6 million. In 2015, net utility plant was \$884.7 million, \$12.6 million (1.4%) more than 2014's \$872.1 million balance. Major projects contributing to the increase include the Green River Water Filtration Facility and Main Replacements.

Overview of the Financial Statements

Tacoma Water reported net operating income of \$17.4, \$34.6 and \$39.8 million in 2016, 2015 and 2014 respectively. In 2016, operating revenues decreased by \$5.3 million and operating expenses increased \$11.8 million. For 2015, operating revenues decreased by \$0.2 million and operating expenses increased \$5.0 million.

The following tables highlight Tacoma Water's past three years' operating results and gallons billed.

Operating Results (In thousands)

Category	2016	2015	2014	16/15 Increase (Decrease)	15/14 Increase (Decrease)
Operating Revenues	\$ 92,802	\$ 98,139	\$ 98,320	\$ (5,337)	\$ (181)
Operating Expenses	75,356	63,588	58,557	11,768	5,031
Net Operating Income	17,446	34,551	39,763	(17,105)	(5,212)
Net Non-Operating Income (Expense)	(17,395)	(15,595)	(9,657)	(1,800)	(5,938)
Capital Contributions	10,274	9,053	8,671	1,221	382
Federal BAB Subsidies & Grants	3,579	3,610	3,959	(31)	(349)
Transfers Out	(6,754)	(6,874)	(6,352)	120	(522)
Change in Net Position	\$ 7,150	\$ 24,745	\$ 36,384	\$ (17,595)	\$ (11,639)

Gallons Billed
(In millions)

Type of Customer	2016	2015	2014	16/15 Increase (Decrease)	15/14 Increase (Decrease)
Residential	8,351.1	8,483.5	7,970.7	(132.4)	512.8
Commercial & Industrial	8,763.4	9,140.7	9,187.2	(377.3)	(46.5)
Wholesale	1,275.6	1,881.1	1,185.6	(605.5)	695.5
Total	18,390.1	19,505.3	18,343.5	(1,115.2)	1,161.8

Net Position

Net position may serve over time as a useful indicator of an entity's financial position. The analysis highlights net position for the last three years.

Statements of Net Position
(In thousands)

Description	2016	2015	2014	16/15 Increase (Decrease)	15/14 Increase (Decrease)
Net utility & Non-Utility Plant	\$ 880,041	\$ 885,214	\$ 872,576	\$ (5,173)	\$ 12,638
Current & Other Assets	228,621	212,475	208,947	16,146	3,528
Total Assets	1,108,662	1,097,689	1,081,523	10,973	16,166
Deferred Outflows	10,623	4,003	1,588	6,620	2,415
Total Assets & Deferred Outflows	\$1,119,285	\$1,101,692	\$1,083,111	\$ 17,593	\$ 18,581
Net Position:					
Net Investment in Capital Assets	\$ 490,052	\$ 485,977	\$ 468,209	\$ 4,075	\$ 17,768
Restricted	2,496	2,733	1,797	(237)	936
Unrestricted	57,104	53,792	46,667	3,312	7,125
Total Net Position	549,652	542,502	516,673	7,150	25,829
Long-Term Debt	478,617	478,401	483,542	216	(5,141)
Current & Other LT Liabilities	54,919	44,283	47,321	10,636	(3,038)
Total Liabilities	533,536	522,684	530,863	10,852	(8,179)
Deferred Inflows	36,097	36,506	35,575	(409)	931
Total Net Position, Liabilities & Deferred Inflows	\$1,119,285	\$1,101,692	\$1,083,111	\$ 17,593	\$ 18,581

Revenues

Tacoma Water's operating revenues were \$92.8 million in 2016, a decrease of \$5.3 million (5.4%) compared to 2015. Sales of water increased in 2016 by a net of \$1.0 million of which \$4.2 million is due to an average rate increase of 4.0% effective January 1, 2016 and a decrease in usage of \$3.2 million. This is offset by a decrease in contract resource obligations of \$6.9 million. Regional Water Second Supply (RWSS) Partners reimbursed Tacoma Water for the final expenses related to building the Green River Filtration Facility in the first quarter of 2016. Contract resource revenue for the remainder of the year includes recovery of primarily O&M related expenses, resulting in a net reduction.

Operating revenues were \$98.1 million in 2015, a decrease of \$0.2 million (0.2%) compared to 2014. Sales of water increased in 2015 by \$7.3 million of which \$1.2 million is due to an average rate increase of 4.0% effective April 1, 2015 and \$6.0 million is due to an increase in usage. This is offset by a decrease in contract resource obligations of \$7.5 million. The construction of the Green River Filtration Facility is complete and the partners were billed less.

The following table highlights water sales by type of customer for 2016, 2015 and 2014.

Type of Customer	2016	2015	2014	16/15 Increase (Decrease)	15/14 Increase (Decrease)
Residential & Domestic	\$ 50,742	\$ 48,263	\$ 44,656	\$ 2,479	\$ 3,607
Commercial & Industrial	17,559	17,234	15,406	325	1,828
Special Rate	5,846	5,951	5,802	(105)	149
Wholesale	3,972	5,192	3,718	(1,220)	1,474
Unbilled Revenue	(138)	319	121	(457)	198
Total	<u>\$ 77,981</u>	<u>\$ 76,959</u>	<u>\$ 69,703</u>	<u>\$ 1,022</u>	<u>\$ 7,256</u>

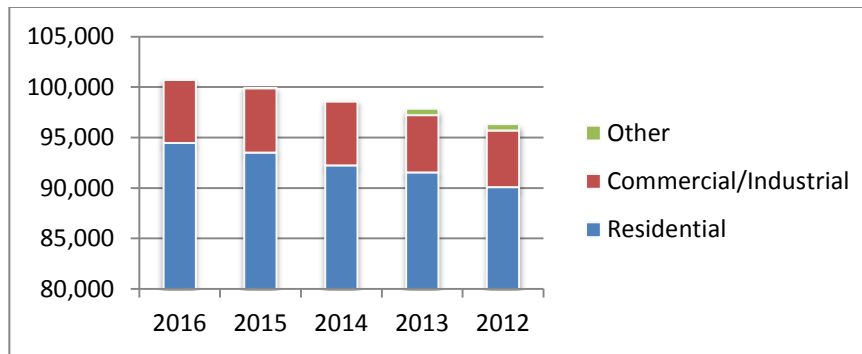
Approximately 65.1%, 62.7% and 64.1% of water sales were to residential and domestic customers in 2016, 2015 and 2014 respectively. Commercial and industrial sales were 22.5%, 22.4% and 22.1% of total sales for each year. Special rate sales were 7.5%, 7.7%, 8.3% of sales respectively.

Customers

Over the last five years, the overall number of customers has remained relatively stable. In 2016, 93.8% of all customers were residential compared to 93.6% in 2015 and 93.5% in 2014. Commercial and industrial customers were 6.2% of all customers in 2016, 6.4% in 2015 and 6.5% in 2014.

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

Number of Customers

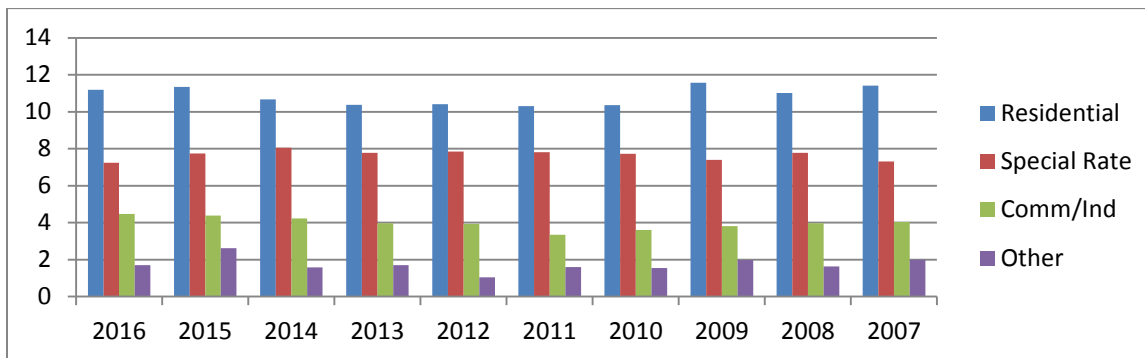


Water Users

Tacoma Water generates the majority of its revenues from its residential and domestic customer base. Consumption is measured in 100 cubic feet (CCF). In the years 2016, 2015 and 2014 residential customers used 11.2 million CCF (45.5%), 11.3 million CCF (43.5%) and 10.7 million CCF (43.4%) of total sales respectively. Special Rate customers used approximately 7.2 million CCF (29.4%), 7.7 million CCF (29.7%) and 8.1 million CCF (33.0%) respectively. Commercial and industrial customers used 4.5 million CCF (18.2%), 4.4 million CCF (16.8%) and 4.2 million CCF (16.8%) respectively. The remaining 1.7 million CCF (6.9%), 2.6 million CCF (10.0%) and 1.6 million CCF (6.8%) respectively was consumed by other customers.

Below is a graphical representation of the annual water usage by customer type for the last 10 years.

Annual Water Usage (In millions of CCF)



Expenses

In 2016, operating expenses increased \$11.8 million (18.5%), compared to an increase of \$5.0 million (8.6%) in 2015. Source of Supply saw expenses returning to normal in 2016. Increased use of in-town wells due to the 2015 drought caused a labor shift from other sections of Tacoma Water to focus on operating the wells. In 2016, the wells were used significantly less which resulted in a decrease in expenses of \$0.5 million (6.4%) when compared to 2015. Similarly, the cost to pump the well water decreased by \$0.3 million (34.0%), as well as the costs related to Transmission and Storage which decreased by \$0.1 million (1.9%).

Treatment experienced an increase of \$1.8 million (37.1%) compared to 2015 as expenses shifted back from in-town supply sources to the planned operation of the Green River Filtration Facility (GRFF). Although the GRFF came online in 2015, due to the statewide drought and the requirements to ensure adequate fish passage in the Green River, it was used less than expected. When compared to 2015, chemical expenses increased by \$0.6 million, solid handling costs increased by \$0.1 million and electricity increased by \$0.3 million. Also contributing nearly \$0.1 million to the increased treatment costs was the response to lead detected in our water system in April of 2016.

Expenses related to the Distribution system increased by approximately \$2.0 million (16.6%) in 2016. This is primarily due to a shift from capital work to a focus on operations and maintenance, which accounted for an additional \$0.4 million in labor and equipment charged to operating expenses rather than capital projects. Also contributing to the variance in Distribution was \$0.3 million that was spent in 2016 on condition assessment for distribution lines.

Due primarily to an increase in assessments, Administrative and General and Customer Accounting expenses experienced increases of \$1.6 million (18.3%) and \$0.5 million (11.6%) respectively.

Depreciation expense increased by \$6.7 million (39.3%) in 2016 due to a net increase in depreciable assets of \$192.3 million during 2015.

GASB 68, *Accounting and Financial Reporting for Pensions*, resulted in an increase in expense of \$1.4 million in 2016. This expense was allocated across the Water sections as follows: Source \$0.3 million, Treatment \$0.2 million, Transmission \$0.1 million, Distribution \$0.6 million, and Admin & General \$0.2 million.

In 2015, operating expenses increased \$5.0 million (8.6%), compared to an increase of \$2.7 million (4.8%) in 2014. Not only did the Green River Filtration Facility come online in 2015 but a statewide drought was declared as well. Source of Supply experienced the largest increase, \$1.7 million (26.6%). Two major projects during the drought were the purchase of water from Lakehaven, \$0.6 million, and the pumping of Eagle Lake, \$0.3 million. Source of Supply also experienced an increase in labor, approximately \$0.7 million, as labor was shifted from Transmission to Source.

Treatment saw an increase this year of \$1.1 million (28.3%) compared to 2014. Most of this increased cost of treatment can be attributed to the Green River Filtration Facility coming online. This shift in focus from capital to maintenance caused labor to increase by \$0.9 million. The drought also played a part by causing the need to purchase additional chemicals, \$0.2 million, to treat well water.

Power Pumping experienced an increase of \$0.3 million largely due to increased electricity expense due to the drought.

Administrative and General expense increased \$0.8 million (9.8%). In 2015, the department filled previously vacant positions causing a \$0.5 million increase in labor expense. Insurance expense also increased by \$0.2 million because Tacoma Water is now insuring the Plant and other facilities in the Headworks.

Due to the shift in focus from capital to maintenance, Distribution saw an increase of \$0.2 million (3.1%). However, Transmission experienced a decrease of \$0.1 million (5.2%) because labor was shifted from Transmission to Source of Supply.

Depreciation expense increased by \$0.3 million (1.9%) in 2015 due to an increase in depreciable assets of \$17.8 million during 2014.

The following table highlights Tacoma Water's operating expenses for 2016 – 2014.

Operating Expenses						
(In thousands)						
Category	2016	2015	2014	16/15 Increase (Decrease)	15/14 Increase (Decrease)	
Production Expense						
Source of Supply	\$ 7,541	\$ 8,056	\$ 6,333	\$ (515)	\$ 1,723	
Water Treatment	6,794	4,957	3,894	1,837	1,063	
Total Production Expense	14,335	13,013	10,227	1,322	2,786	
Power Pumping Expense	559	847	568	(288)	279	
Transmission & Storage Expense	2,770	2,823	2,966	(53)	(143)	
Distribution Expense	13,882	11,902	11,695	1,980	207	
Customer Accounting & Service	4,830	4,327	4,435	503	(108)	
Taxes	4,639	4,681	3,779	(42)	902	
Depreciation	23,823	17,103	16,784	6,720	319	
Administrative & General	10,518	8,892	8,102	1,626	790	
Total Operating Expense	<u>\$ 75,356</u>	<u>\$ 63,588</u>	<u>\$ 58,556</u>	<u>\$ 11,768</u>	<u>\$ 5,032</u>	

Capital Assets

Tacoma Water invests in a broad range of utility assets and at the end of 2016 had \$879.5 million in net utility plant, a decrease of \$5.2 million from 2015.

Plant in Service increased \$15.5 million compared to 2015. In 2016, 11.6 miles of water main were added or replaced. Construction was completed on 27 private contracts in 2016, resulting in 8.33 miles. The \$20.6 million increase in accumulated depreciation is due to the net increase in Plant in Service in 2015 of \$192.3 million.

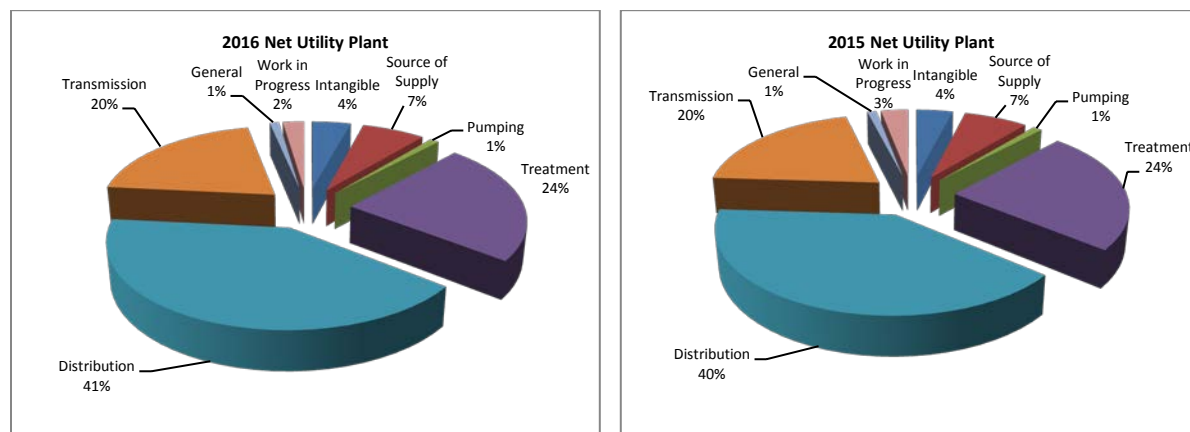
At the end of 2015 Tacoma Water had \$884.7 million in net utility plant, an increase of \$12.6 million from 2014. Plant in Service increased \$192.3 million primarily due to the completion and capitalization of the Green River Filtration Facility. The capitalization of the new facility also attributed to the decrease of \$165.7 million in construction work in progress. In 2015, 11.7 miles of water main were added; and 11.5 miles in 2014. Construction was completed on 17 private contracts in 2015, adding 5.87 miles; and 18 private contracts in 2014 added 7.55 miles.

The following table summarizes Tacoma Water's capital assets, net of accumulated depreciation, for 2016 – 2014.

Capital Assets, Net of Accumulated Depreciation (In thousands)

	2016	2015	2014	16/15 Increase (Decrease)	15/14 Increase (Decrease)
Net Utility Plant					
Intangible Plant	\$ 36,581	\$ 36,368	\$ 36,006	\$ 213	\$ 362
Source of Supply Plant	60,348	60,534	62,218	(186)	(1,684)
Pumping Plant	5,448	5,542	5,748	(94)	(206)
Water Treatment Plant	206,273	213,512	36,260	(7,239)	177,252
Transmission Plant	176,439	180,209	183,974	(3,770)	(3,765)
Distribution Plant	361,693	355,557	348,655	6,136	6,902
General Plant	12,194	12,368	12,868	(174)	(500)
Construction Work In Progress	20,572	20,631	186,354	(59)	(165,723)
Total	<u>\$ 879,548</u>	<u>\$ 884,721</u>	<u>\$ 872,083</u>	<u>\$ (5,173)</u>	<u>\$ 12,638</u>

The following graphs provide a visual presentation of the allocation of Tacoma Water's capital investments in 2016 and 2015.



Additional information on capital assets can be found in Note 4 of the financial statements.

Debt Administration

At December 31, 2016 Tacoma Water had outstanding revenue bond obligations of \$392.3 million (net of unamortized bond premiums), a decrease of \$7.6 million compared to 2015. As of year-end 2015, the Utility had outstanding revenue bond obligations of \$399.9 million (net of unamortized bond premiums); a decrease of \$7.4 million compared to 2014. Tacoma Water issued \$23.0 million of Water System Refunding Bonds in May 2015.

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

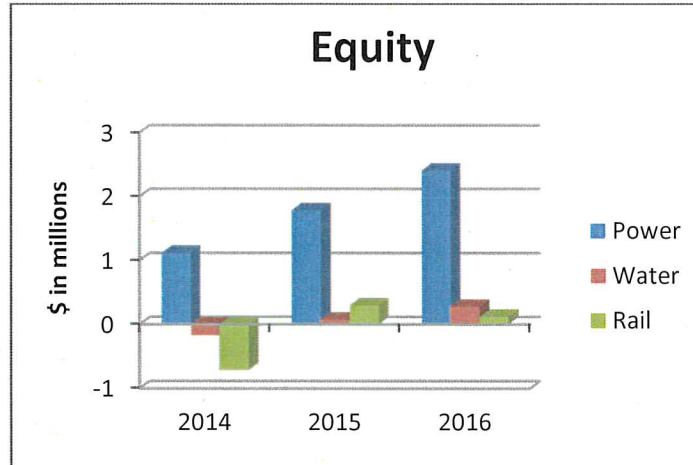
Tacoma Water is required by bond covenants to maintain a debt service coverage ratio of 1.25 for principle and interest. Debt service coverage ratios (excluding RWSS) were 2.29, 2.33, and 2.14 in 2016, 2015 and 2014 respectively.

At the end of 2016, Tacoma Water had an outstanding State loan balance of \$99.5 million compared to \$89.0 million in 2015 and \$86.7 million in 2014. During 2016, Tacoma Water received \$16.8 million in Drinking Water State Revolving Fund (DWSRF) Loans. Tacoma Water received \$0.6 million against the 2010 DWSRF Loan, \$0.6 million against the 2011 DWSRF Loan, \$1.2 million against the 2012 DWSRF Loan, \$1.2 million against the 2013 DWSRF Loan, \$1.2 million against the 2013 Fall DWSRF Loan and \$12.0 million against the 2015 DWSRF Loan. These loans were specifically for the Green River Filtration Facility.

Additional information on Tacoma Water's long-term debt can be found in Note 5 of the financial statements and in the supplementary statistical data.

Equity

The Fund's equity at the end of 2016 is \$2.8 million compared to \$2.1 million in 2015 and \$233,000 in 2014. The following graph provides a visual presentation as to how the Fund's equity is shared.



Summary

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Self-Insurance Fund's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Division Manager of Utilities Accounting, 3628 South 35th Street, Tacoma, Washington, 98409.


William A. Gaines
Director of Utilities/CEO


Andrew Cherullo
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION

	DECEMBER 31,	
ASSETS AND DEFERRED OUTFLOWS	2016	2015
UTILITY PLANT		
In Service, at Original Cost	\$1,073,997,566	\$1,058,533,815
Less - Accumulated Depreciation	(215,021,698)	(194,443,324)
Total	858,975,868	864,090,491
Construction Work In Progress	20,571,782	20,630,616
Net Utility Plant	879,547,650	884,721,107
NON-UTILITY PROPERTY	492,963	492,963
SPECIAL FUNDS		
Construction Funds	41,717,595	33,587,187
Debt Service Funds	4,394,278	3,633,933
Bond Reserve Funds	22,030,885	22,037,730
System Development Charge Fund	58,617,922	55,889,603
Other Cash & Equity in Pooled Investments	30,066,803	28,161,316
Total Special Funds	156,827,483	143,309,769
CURRENT ASSETS		
Operating Funds Cash and Equity in Pooled Investments	54,768,598	49,778,192
Accounts Receivable	5,496,341	5,321,184
(Net of Allowance for Doubtful Accounts of \$439,846 in 2016 and \$287,805 in 2015)		
BABs Interest Subsidies Receivable	297,980	298,300
Accrued Unbilled Revenues	4,797,144	4,935,000
Materials and Supplies	2,341,548	2,487,075
Interfund Receivable	107,970	686,030
Prepayments.....	1,118,062	970,331
Total Current Assets	68,927,643	64,476,112
OTHER ASSETS		
Regulatory Asset-Public Fire Protection Fees ...	1,297,001	2,124,573
Regulatory Asset-Surcharges	1,569,477	1,683,348
Net Pension Asset	-	881,279
Total Other Assets	2,866,478	4,689,200
 TOTAL ASSETS	 1,108,662,217	 1,097,689,151
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Losses on Refunding Bonds	1,629,071	1,910,392
Deferred Outflows for Pensions	8,994,103	2,092,307
Total Deferred Outflows of Resources	10,623,174	4,002,699
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$1,119,285,391	\$1,101,691,850

The accompanying notes are an integral part of these financial statements

	DECEMBER 31,	
NET POSITION, LIABILITIES AND DEFERRED INFLOWS	2016	2015
NET POSITION		
Net Investment in Capital Assets	\$446,518,253	\$446,537,863
Restricted for:		
Water Capital and System Development Charge	43,533,806	39,439,003
Debt Service Funds	2,495,984	1,852,099
Net Pension Asset	-	881,279
Unrestricted	57,104,183	53,791,579
Total Net Position	<u>549,652,226</u>	<u>542,501,823</u>
LONG-TERM DEBT		
Revenue Bonds	386,065,146	393,841,093
Public Works Trust Fund Loans	22,708,007	25,404,777
Drinking Water State Revolving Fund Loan	69,844,046	59,154,872
Total Long-Term Debt	<u>478,617,199</u>	<u>478,400,742</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	13,153,017	10,490,543
Current Maturities of Long-Term Liabilities	185,889	190,536
Accrued Taxes	1,492,476	1,863,652
Accrued Expenses and Contracts Payable	1,547,790	1,418,870
Salaries, Wages and Fringe Benefits Payable	680,647	584,328
Interest Payable	1,898,294	1,781,834
Customers' Deposits	349,725	348,793
Interfund Payables	1,678,889	1,582,992
Total Current Liabilities	<u>20,986,727</u>	<u>18,261,548</u>
LONG-TERM LIABILITIES		
Muckleshoot Agreements	6,943,806	7,129,695
Customer Advances for Construction	4,748,046	4,502,578
Unearned Revenue	7,568,812	7,905,152
Long-Term Accrued Compensated Absences	2,428,375	2,340,426
Net Pension Liability	7,788,151	-
Other Long-Term Liabilities	4,455,228	4,144,086
Total Long-Term Liabilities	<u>33,932,418</u>	<u>26,021,937</u>
TOTAL LIABILITIES	<u>533,536,344</u>	<u>522,684,227</u>
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization	35,575,447	35,575,447
Deferred Inflows for Pensions	521,374	930,353
Total Deferred Inflows of Resources	<u>36,096,821</u>	<u>36,505,800</u>
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	<u><u>\$1,119,285,391</u></u>	<u><u>\$1,101,691,850</u></u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2016	2015
OPERATING REVENUES		
Sale of Water	\$77,980,741	\$76,959,187
Other Operating Revenues	9,997,213	9,487,934
Contract Resource Obligation Revenues	4,823,656	11,691,703
Total Operating Revenues	92,801,610	98,138,824
OPERATING EXPENSES		
Operations	17,211,669	15,571,889
Production	14,334,563	13,013,178
Administrative and General	15,348,131	13,219,166
Depreciation	23,822,527	17,102,664
Taxes	4,639,031	4,681,114
Total Operating Expenses	75,355,921	63,588,011
Net Operating Income	17,445,689	34,550,813
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	1,826,299	1,112,850
Other	(221,125)	(30,042)
Interest on Long-Term Debt (Net of AFUDC)	(20,754,254)	(20,022,582)
Amortization of Premium and Loss on Refunding ..	1,269,625	1,678,959
Interest Charged to Construction	484,093	1,665,978
Total Non-Operating Expenses	(17,395,362)	(15,594,837)
Net Income Before Capital Contributions and Transfers	50,327	18,955,976
Capital Contributions		
Cash	5,707,338	6,442,694
Donated Fixed Assets	4,566,692	2,609,980
Federal BAB Subsidies	3,577,355	3,548,228
Grants	1,752	61,478
Transfers		
City of Tacoma Gross Earnings Tax	(6,753,061)	(6,778,140)
Transfer to/from Other Funds	-	(95,327)
CHANGE IN NET POSITION	7,150,403	24,744,889
NET POSITION - BEGINNING OF YEAR	542,501,823	516,673,245
ACCUMULATED ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE		1,083,689
TOTAL NET POSITION - BEGINNING OF YEAR, AS ADJUSTED		517,756,934
TOTAL NET POSITION - END OF YEAR	\$549,652,226	\$542,501,823

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,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$93,706,684	\$97,165,918
Cash Paid to Suppliers	(18,676,633)	(20,972,089)
Cash Paid to Employees	(25,874,134)	(25,556,817)
Taxes Paid	(5,010,207)	(4,222,796)
Net Cash From		
Operating Activities	44,145,710	46,414,216
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	-	(95,327)
Transfer Out for Gross Earnings Tax	(6,753,061)	(6,778,140)
Net Cash From Non-Capital		
Financing Activities	(6,753,061)	(6,873,467)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(13,598,285)	(25,464,456)
Proceeds from State Drinking Water Loan	16,800,000	6,420,000
Proceeds from Sale of Bonds	-	23,010,000
Debt Issuance Costs	13,680	(986,513)
Premium on Sale of Bonds	-	2,921,513
Principal Payments on Long-Term Debt	(12,370,124)	(10,442,545)
Principal Payments on Muckleshoort LT Liability ..	(190,536)	(195,300)
Payments on Refunding of Bonds	-	(25,065,000)
Interest Paid	(20,637,794)	(20,041,363)
BABs Federal Interest Subsidies	3,577,675	3,569,992
Grants Received	1,752	61,478
Contributions in Aid of Construction	5,707,338	6,442,694
System Development Charges & Other LT Liabilities.	220,270	(380,032)
Net Cash From Capital and		
Related Financing Activities	(20,476,024)	(40,149,532)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	1,826,299	1,112,850
Other Net Non-Op Revenues and Expenses	(234,804)	375,652
Net Cash From Investing Activities	1,591,495	1,488,502
Net Change in Cash and Equity in		
Pooled Investments	18,508,120	879,719
Cash & Equity in Pooled Investments at January 1 ...	193,087,961	192,208,242
Cash & Equity in Pooled Investments at December 31 .	\$211,596,081	\$193,087,961

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

	YEAR ENDED DECEMBER 31,	
	2016	2015
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$17,445,689	\$34,550,813
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	23,822,527	17,102,664
Pension (Credits) Expense	1,358,655	(959,544)
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	(37,301)	(1,007,395)
Interfund Receivables	578,060	(393,736)
Regulatory Asset-Public Fire Protection Fees	827,572	816,101
Regulatory Asset Surcharges.....	113,871	(854,814)
Materials and Supplies	145,527	(85,552)
Prepayments	(147,731)	(263,767)
Accrued Taxes	(371,176)	458,318
Salaries, Wages and Fringe Benefits Payable	96,319	(708,707)
Long-Term Accrued Compensated Absences	87,949	39,929
Customers' Deposits	932	73,202
Accrued Expenses and Contracts Payable	128,920	(2,597,089)
Interfund Payables	95,897	243,793
Total Adjustments	<u>26,700,021</u>	<u>11,863,403</u>
Net Cash From Operating Activities	<u><u>\$44,145,710</u></u>	<u><u>\$46,414,216</u></u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$156,827,483	\$143,309,769
Cash and Equity in Pooled Investments in Operating Funds	<u>54,768,598</u>	<u>49,778,192</u>
Cash and Equity in Pooled Investments at December 31	<u><u>\$211,596,081</u></u>	<u><u>\$193,087,961</u></u>

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**CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER**

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA WATER – The Division, doing business as Tacoma Water, is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department) and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. 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 100,731 customers and had 242 employees as of December 31, 2016. 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 and multiple other cities. Tacoma Water is organized functionally as Water Distribution Engineering, Water Distribution Operations, Water Quality, Water Supply, Asset and Information Management, and Water Rates and Financial Planning.

WATER DISTRIBUTION ENGINEERING – To plan, forecast and model distribution system expansion and renewal and replacements; engineer, design, and oversee construction of mains, hydrants, services, meters, pressure reducing valves and pressure zones; provide excellent customer service and key account management; support growth and development through coordination, permitting and contracting; promote water conservation through outreach and customer programs.

WATER DISTRIBUTION OPERATIONS – To effectively operate and maintain the various components of the distribution system including mains, hydrants, valves, services and meters; to respond to and repair main breaks and leaks; to install new services and hydrants as need for development; to manage the warehouse and materials purchasing; to provide customer service for outages and all other water service issues; to oversee and manage the apprenticeship program; and to provide effective leadership for Tacoma Water's safety program.

WATER QUALITY – To manage, operate and maintain the Green River Headworks and Watershed; to assure natural resource management of Water utility lands including the Watershed; to provide for fish and wildlife habitat management; to install, operate and maintain water treatment equipment within the system; to respond to all matters relating to water quality from the source to the customer; to monitor for contaminants and assure regulatory compliance; to participate in shaping water quality legislation and regulations; to be aware of changes in water system security needs and to coordinate as needed; to support wholesale water customers.

WATER SUPPLY – Designs, constructs, operates and maintains the following of the City's water supply structures: transmission mains and appurtenances, rights-of-ways, wells, pump stations and other mechanical/electrical equipment, storage tanks and reservoirs, pressure reducing stations, many Tacoma Water buildings and properties, communication and telemetry systems (including the Water Control Center), corrosion control facilities, and administers water rights and tracks water system security issues, while overseeing and managing Tacoma Water's emergency preparedness and coordinating with outside agencies.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

WATER ASSET AND INFORMATION MANAGEMENT – Prepares system and strategic plans, supports Tacoma Water’s Geographic Information System and Hydraulic Model operating technologies, promotes use and maturity of TPU information technologies, and oversees asset management implementation which incorporates risk, levels of service, and lifecycle costs into the Tacoma Water decision making process.

WATER RATES AND FINANCIAL PLANNING – Is responsible for the utility’s long range financial plan, rates and charges, budget development and monitoring, and rate and financial policies. This group provides financial, supply and demand, and customer analytics and reports to support decision-making by executive management, policymakers and the RWSS Partners. This group develops and administers special retail and wholesale water supply agreements in pursuit of the utility’s strategic objectives, and is responsible for leading new performance management, risk management, and advanced metering objectives through cross-functional engagement with the utility and TPU.

REGIONAL WATER SUPPLY SYSTEM – The Regional Water Supply System (RWSS) is a partnership formed by Tacoma, the City of Kent, Covington Water District and Lakehaven Utility District (the “Participants”) to permit, design, finance, construct, operate, maintain and receive delivery of water from the Second Supply Project. The Second Supply Project consists of the following components: (i) water from the exercise of Tacoma Water’s Second Diversion Water Right, (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) associated Treatment Facilities. Participants’ rights and obligations with regard to the Second Supply Project are called out in the Second Supply Project Agreement. Tacoma has a 15/36 Participant Share and each of the others have a 7/36 Participant Share. A Participant Share represents a Participant’s proportional right to receive water delivered by the Second Supply Project and represents a Participant’s obligation to pay project costs, including Fixed and Variable Operation & Maintenance Costs, Initial Project Construction Costs and ongoing Capital Expenditures. Tacoma, consistent with the Project Agreement, is the owner and operator of the Second Supply Project.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION – The financial statements of the Division are prepared under the accrual basis of accounting in accordance with GAAP issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to business in the private sector and are maintained on the accrual basis of accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

The Division 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.

The Division 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 NOTES TO FINANCIAL STATEMENTS (continued)

CASH AND EQUITY IN POOLED INVESTMENTS – The Division’s fund cash balances are a “deposit” with the City Treasurer’s Tacoma Investment Pool (TIP) for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the TIP are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Position. Interest earned on such pooled investments is allocated daily to the participating funds based on each fund’s daily equity in the TIP.

The TIP operates like a demand deposit account in that all City departments, including the Division, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City’s daily obligations is maintained by investing a portion of the City’s Investment Pool in the LGIP and in certificates of deposit with East West Bank and Opus Bank.

The Division’s equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2016 and 2015 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. The City of Tacoma investment policy allows for authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000. All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

ACCOUNTS RECEIVABLE AND ACCRUED UNBILLED REVENUES – Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed as of December 31st.

ALLOWANCE FOR DOUBTFUL ACCOUNTS – A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally accounts receivable are considered past due after 30 days.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

INTERFUND TRANSACTIONS – Unsettled transactions between City funds at year end are recorded as due to or due from other funds.

MATERIALS AND SUPPLIES INVENTORY – Materials and supplies consist primarily of items for maintenance of Division assets and are valued at the lower of average cost or fair market value.

RESTRICTED ASSETS – In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. Generally, restricted assets include bond construction, reserve and debt service funds, system development charges funds, notes and contracts receivable, and customer deposits.

BOND PREMIUM AND LOSS ON REFUNDING – Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding. Losses on refunding are amortized on a straight-line basis over the applicable bond period.

RATE STABILIZATION – The Division has established a rate stabilization account to reduce significant year-to-year variations in rates. Amounts deposited into the account are excluded from the statement of revenues, expenses and changes in net position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions and debt service covenants.

UTILITY PLANT AND DEPRECIATION – Utility plant is stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using a straight-line composite method based on National Association of Regulatory Utility Commissioners (NARUC) recommended economic asset lives from 13 to 60 years for related operating assets placed in service at the beginning of the year. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

The economic lives for plant in service are as follows:

Source of Supply Plant	34 years
Pumping Plant	40 years
Water Treatment Plant	28 years
Transmission Plant	60 years
Distribution Plant	53 years
General Plant	13 years

CONSTRUCTION WORK IN PROGRESS – Capitalizable costs incurred on projects which are not in service or ready for use are held in construction in progress. When the asset is ready for service, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

ASSET VALUATION – The Division 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 flows.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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.

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 change in net position. 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 the Division's net position. System development charges on uncompleted projects are recorded in other long term liabilities.

REGULATORY ASSETS – The Division has deferred Public Fire Protection Fees, Hyada Surcharges and Andrain Surcharges to future periods matching the time when the revenues and expenses are included in rates. The deferred balance is reduced as fees and surcharges are recovered and amortized as expenses on the statements of revenues, expenses and changes in net position.

INTANGIBLE ASSETS – In accordance with GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", land use rights such as easements and right-of-ways are recorded as intangible assets.

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 accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees 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. Sick leave pay is recorded as a liability and an expense in the year earned.

The accrued liability is computed at 100% vacation and PTO while sick leave is accrued at 10%, which is considered the amount vested or 25% if the employee meets retirement criteria. Based on historical information, 10% of compensated absences are considered short term.

OPERATING REVENUE – 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.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NON-OPERATING REVENUES AND EXPENSES – These are items that do not qualify as operating defined above such as interest and gain (loss) on disposition of property.

TAXES – The City charges the Division a Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Division also pays business and occupation tax to the State at the rate of 1.8% on certain other non-utility revenues. The Division is exempt from payment of federal income tax.

NET POSITION – The Statement of Net Position reports all financial and capital resources. The difference between assets and liabilities is net position. There are three components of net position: net investment in capital assets, restricted or unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the outstanding balances of any bonds, loans or other borrowings, less outstanding construction funds that are attributable to the acquisition, construction, or improvements of those assets.

Net position components are restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position components are those that are not “net investment in capital assets” or “restricted” so that it can be used for daily operation of the Water Utility.

ARBITRAGE REBATE REQUIREMENT – The Division is subject to the Internal Revenue Code (“IRC”), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the fund would record such a rebate as a liability. The Division had no liability in the current or prior year.

SHARED SERVICES – The Division receives certain services from other departments and agencies of the City, including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies.

USE OF ESTIMATES – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post Employment Benefit (OPEB), pension, self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

SIGNIFICANT RISKS AND UNCERTAINTIES – The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, 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.

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE - The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 – Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.
- Level 2 – Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- Level 3– Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations are provided by Interactive Data. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, Interactive Data's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, Interactive Data uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and development payment scenarios. Their models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

Source: Interactive Data "Summary of Inputs by Asset Class Fixed Income Evaluations, Fair Value Information Service and Valuations of Certain Other Instruments" dated January 2016.

Cash and cash equivalents include highly liquid investments including short-term investment funds. Cash and cash equivalents are valued at cost and, therefore, excluded from the fair value schedule.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Data regarding the City's investments, valued and categorized according to the above outlined levels, is below:

Debt Securities	As of			
	12/31/2016	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 146,824,628	\$ -	\$ 146,824,628	\$ -
U.S. Agency Securities	544,579,831	-	544,579,831	-
Municipal Bonds	61,450,051	-	61,450,051	-
Total	\$ 752,854,510	\$ -	\$ 752,854,510	\$ -

Debt Securities	As of			
	12/31/2015	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 108,647,159	\$ -	\$ 108,647,159	\$ -
U.S. Agency Securities	541,730,184	-	541,730,184	-
Municipal Bonds	119,200,942	-	119,200,942	-
Total	\$ 769,578,285	\$ -	\$ 769,578,285	\$ -

Tacoma Water's share of the City Investments shown in the table above is 24.45% and 23.98% for 2016 and 2015.

NOTE 4 UTILITY PLANT – A summary of the balances and changes in utility plant for 2016 and 2015 follows:

	Balance			Transfers & Adjustments	Balance	
	December 31, 2015	Additions	Retirements		December 31, 2016	
Intangible Plant	\$ 36,367,666	\$ 783,399	\$ (569,580)	\$ -	\$ 36,581,485	
Source of Supply Plant	83,671,496	1,813,377	-	-	85,484,873	
Pumping Plant	9,400,042	143,831	-	-	9,543,873	
Water Treatment Plant	229,764,871	1,056,127	-	-	230,820,998	
Transmission Facilities	230,986,906	2,766	-	-	230,989,672	
Distribution Facilities	433,734,385	13,210,948	(2,150,707)	-	444,794,626	
General Plant	34,608,449	1,189,967	(16,377)	-	35,782,039	
Total water Plant in Service	1,058,533,815	18,200,415	(2,736,664)	-	1,073,997,566	
Less Accumulated Depreciation	194,443,324	23,822,527	(2,167,084)	(1,077,069)	215,021,698	
	864,090,491	(5,622,112)	(569,580)	1,077,069	858,975,868	
Construction Work in Progress	20,630,616	18,141,410	-	(18,200,244)	20,571,782	
Net Utility Plant	\$ 884,721,107	\$ 12,519,298	\$ (569,580)	\$ (17,123,175)	\$ 879,547,650	

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2014	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2015
Intangible Plant	\$ 36,006,378	\$ 556,588	\$ (195,300)	\$ -	\$ 36,367,666
Source of Supply Plant	83,383,567	287,929	-	-	83,671,496
Pumping Plant	9,388,535	32,123	(20,616)	-	9,400,042
Water Treatment Plant	50,736,258	179,028,769	(156)	-	229,764,871
Transmission Facilities	230,964,809	22,097	-	-	230,986,906
Distribution Facilities	422,055,694	13,647,713	(1,969,022)	-	433,734,385
General Plant	33,744,366	1,106,582	(29,300)	(213,199)	34,608,449
Total water Plant in Service	866,279,607	194,681,801	(2,214,394)	(213,199)	1,058,533,815
Less Accumulated Depreciation	180,549,889	17,102,664	(2,019,094)	(1,190,135)	194,443,324
	685,729,718	177,579,137	(195,300)	976,936	864,090,491
Construction Work in Progress	186,353,639	28,745,579	-	(194,468,602)	20,630,616
Net Utility Plant	\$ 872,083,357	\$ 206,324,716	\$ (195,300)	\$ (193,491,666)	\$ 884,721,107

Total Water Plant in Service includes non-depreciable assets of \$59,139,334 for 2016 and \$58,314,508 for 2015. The total amount of interest incurred and capitalized is \$484,093 for 2016 and \$1,665,979 for 2015.

NOTE 5 LONG-TERM DEBT – The Division's Long-term Liabilities are primarily for the purpose of capital improvements. Long-term debt activities for 2016 and 2015 were as follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Revenue Bonds	\$ 384,705,000	\$ -	\$ (6,080,000)	\$ 378,625,000	\$ 6,225,000
Plus: Unamortized Premium	15,216,093	-	(1,550,947)	13,665,146	
Net Revenue Bonds	399,921,093	-	(7,630,947)	392,290,146	6,225,000
Public Works Trust Fund Loans	28,101,548	-	(2,696,771)	25,404,777	2,696,771
Drinking Water State Revolving Fund Loans	60,868,644	16,800,000	(3,593,351)	74,075,293	4,231,246
Total Long-Term Debt	\$ 488,891,285	\$ 16,800,000	\$ (13,921,069)	\$ 491,770,216	\$ 13,153,017

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Revenue Bonds	\$ 393,065,000	\$ 23,010,000	\$ (31,370,000)	\$ 384,705,000	\$ 6,080,000
Plus: Unamortized Premium	14,231,813	2,921,513	(1,937,233)	15,216,093	
Net Revenue Bonds	407,296,813	25,931,513	(33,307,233)	399,921,093	6,080,000
Public Works Trust Fund Loans	30,798,319	-	(2,696,771)	28,101,548	2,696,771
Drinking Water State Revolving Fund Loans	55,889,417	6,420,000	(1,440,773)	60,868,644	1,713,772
Total Long-Term Debt	\$ 493,984,549	\$ 32,351,513	\$ (37,444,777)	\$ 488,891,285	\$ 10,490,543

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

SENIOR LIEN BONDS

	<u>2016</u>	<u>2015</u>
2005 Water System Revenue and Refunding Bonds, with interest rate of 5.0%, due in 2025. Original Issue: \$46,550,000 Current Portion: \$0	\$ 5,000	\$ 5,000
2009 Water System Revenue Bonds, with interest rate at 5.751%, with Build America Bond (BAB) rebate ranging from 32.45% to 32.62%, due in yearly installments starting in 2033 ranging from \$9,800,000 to \$12,210,000 through 2039. Original Issue: \$76,775,000 Current Portion: \$0	76,775,000	76,775,000
2010A Water System Revenue Refunding Bonds, with interest rates ranging from 3.0% to 5.0%, due in yearly installments ranging from \$570,000 to \$4,655,000 through 2023. Original Issue: \$29,100,000 Current Portion: \$570,000	26,395,000	26,950,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

SENIOR LIEN BONDS CONTINUED

	2016	2015
<p>2010B Water System Revenue Bonds, with interest rates ranging from 4.581% to 5.621%, with Build America Bond (BAB) Rebate ranging from 32.45% to 32.62% of interest, due in yearly installments starting in 2024 ranging from \$2,115,000 to \$15,390,000 through 2040.</p> <p>Original Issue: \$74,985,000 Current Portion: \$0</p>	74,985,000	74,985,000
<p>2010A Regional Water Supply System Revenue Bonds, with interest rates ranging from 3.0% to 4.0%, due in yearly installments starting ranging from \$280,000 to \$355,000 through 2024. (See Note 6)</p> <p>Original Issue: \$3,595,000 Current Portion: \$280,000</p>	2,525,000	2,800,000
<p>2010B Regional Water Supply System Revenue Bonds, with interest rates ranging from 5.371% to 5.621%, with Build America Bond (BAB) rebate ranging from 32.45% to 32.62% of interest, due in yearly installments starting in 2025 ranging from \$370,000 to \$5,775,000 through 2040. (See Note 6)</p> <p>Original Issue: \$44,245,000 Current Portion: \$0</p>	44,245,000	44,245,000
<p>2013 Water System Revenue and Refunding Bonds, with interest rates ranging from 2.0% to 4.0%, due in installments of \$980,000 in 2014 and yearly installments starting in 2041 ranging from \$23,820,000 to \$25,765,000 through 2043.</p> <p>Original Issue: \$78,305,000 Current Portion: \$0</p>	74,355,000	74,355,000
<p>2013 Regional Water Supply System Revenue and Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$745,000 to \$6,425,000 through 2032.</p> <p>Original Issue: \$64,795,000 Current Portion: \$745,000</p>	60,910,000	61,580,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

SENIOR LIEN BONDS CONTINUED

	2016	2015
2015A Water System Refunding Bonds with interest rates ranging from 4.0% to 5.0%, due in yearly installments starting in 2017 ranging from \$1,460,000 to \$2,845,000 through 2025. Original Issue: \$16,645,000 Current Portion: \$2,845,000	16,645,000	16,645,000
2015B Water System Refunding Bonds with interest rate of 1.15%, final installment due in the amount of \$1,785,000 in 2017. Original Issue: \$6,365,000 Current Portion: \$1,785,000	1,785,000	6,365,000
Subtotal Sr. Lien Debt	\$ 378,625,000	\$ 384,705,000
Unamortized Premium	13,665,146	15,216,093
Less Current Portion of Revenue Bond Debt	(6,225,000)	(6,080,000)
Long-term Portion of Revenue Bond Debt	\$ 386,065,146	\$ 393,841,093

Scheduled principal maturities on the bonds and interest payments are as follows:

Year	Principal	Interest
2017	\$ 6,225,000	\$ 18,887,997
2018	6,450,000	18,690,919
2019	7,610,000	18,428,169
2020	7,950,000	18,094,669
2021	8,355,000	17,703,369
2022-2026	46,655,000	82,269,708
2027-2031	58,715,000	69,381,686
2032-2036	82,085,000	52,278,699
2037-2041	104,045,000	26,442,615
2042-2043	50,535,000	3,052,000
	\$ 378,625,000	\$ 325,229,831

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. The Division was in compliance with all debt covenants at December 31, 2016.

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT

	2016	2015
Public Works Trust Fund Loans		
2001 Public Works Trust Fund pre-construction loan for the Second Supply Project (SSP) Howard Hanson Dam Additional Storage Project, with interest of .5% per annum, due in yearly installments of \$52,631 through 2021.	\$ 263,158	\$ 315,789
2001 Public Works Trust Fund construction loan for the SSP, with interest of .5% per annum, due in yearly installments of \$533,333 through 2021.	2,666,667	3,200,000
2002 Public Works Trust Fund pre-construction loan for Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$54,179 through 2021.	270,898	325,077
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.	3,187,500	3,718,750
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 \$53,362 through 2024.	426,901	480,263
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 \$370,589 through 2026.	3,705,882	4,076,471
2008 Public Works Trust Fund construction loan for the McMillin Reservoir Reconstruction, with interest of .5% per annum, due in yearly installments of \$545,869 through 2028.	6,550,439	7,096,308
2012 Public Works Trust Fund construction loan for the Green River Filtration Facility, with interest of .5% per annum, due in yearly installments of \$555,556 through 2031.	8,333,333	8,888,889

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT CONTINUED

	2016	2015
Drinking Water State Revolving Fund Loans		
2002 construction loan for the Portland Avenue Reservoir, with interest of 2.5% per annum, due in yearly installments of \$161,053 through 2021.	805,263	966,316
2008 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$215,109 through 2028.	2,581,300	2,796,409
2009 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.0% per annum, due in yearly installments of \$367,088 through 2032.	5,873,406	6,240,494
2010 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2032.	4,848,000	5,151,000
2010 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$304,579 through 2034.	5,482,421	5,187,000
2011 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$121,524 through 2033.	2,065,902	2,187,426
2011 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2035.	5,757,000	5,460,000
2012 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$606,000 through 2035.	11,514,000	10,920,000
2013 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$606,000 through 2035.	11,514,000	10,920,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT CONTINUED

	2016	2015
2013F construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$606,000 through 2035.	11,514,000	10,920,000
2015 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$637,895 through 2035.	12,120,000	120,000
Subtotal Junior Lien Debt	99,480,070	88,970,192
Less Current Portion of Debt	(6,928,017)	(4,410,543)
Long-term Portion of Junior Lien Debt	\$ 92,552,053	\$ 84,559,649

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

Year	Principal	Interest
2017	\$ 6,928,017	\$ 1,156,239
2018	6,928,017	1,082,701
2019	6,928,017	1,009,162
2020	6,928,017	935,624
2021	6,928,017	862,087
2022-2026	28,402,373	3,295,833
2027-2031	23,575,161	1,743,272
2032-2035	12,862,451	423,036
	\$ 99,480,070	\$ 10,507,954

NOTE 6 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.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 SIGNIFICANT CUSTOMER – Contracted sales to WestRock CP LLC accounted for 7.5% and 7.7% of Tacoma Water's total water sales in 2016 and 2015, respectively. There were no outstanding accounts receivables from WestRock at year-end 2016 or 2015.

Tacoma Water has contracted with WestRock to supply certain quantities of water at a specified rate through July 31, 2020.

NOTE 8 FLEET SERVICES FUND – 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 2016 and 2015 were \$2,148,122 and \$2,305,433, 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. The solvency of the Replacement Fund allowed Fleet Services to return a portion of interest earned on Fund investments for the year to their customers. In 2016 and 2015, Fleet Services returned 75% of the interest earned on the capital replacement reserve to Tacoma Water's replacement fund. The amounts refunded in 2016 and 2015 were \$35,278 and \$36,966, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 9 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 were \$240,000 in 2016 and 2015. Assets in the Self-Insurance Fund total \$7.6 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.

The City purchased a \$15 million Fiduciary Liability Policy with a \$100,000 deductible that provides for wrongful acts arising out of the administration of the City's employee benefit programs and a Crime policy with a \$1 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities and property.

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 property within buildings and \$10,000 per vehicle. There is a self-insured retention of \$1.5 million for general liability. The public official liability policy has a \$200,000 deductible. The Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate. The general government general liability and public official liability policies provide \$20 million of excess coverage with \$3 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit and a self-insured retention of \$1 million per occurrence and an additional \$250,000 for each 12 month policy period.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS) – The Tacoma Employees' Retirement System (TERS or System), a pension trust fund of the City of Tacoma, issues a publicly available CAFR that includes financial statements and required supplementary information may be obtained by writing to:

Tacoma Employee's Retirement System
3628 South 35th Street
Tacoma, WA 98409

Or the TERS CAFR may be downloaded from the TERS website at www.cityoftacoma.org/retirement.

Administration of The System – The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and Law Enforcement Support Agency who established membership in the System when these agencies were still City of Tacoma departments, are also members. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

At the direction of the City Council, the System is administered by the Board of Administration (the Board) consisting of nine regular members and one alternate member. The members of the Board are: the Mayor, who serves as Chair; the Director of Finance; the City Manager (or designee); the Public Utilities Director (or designee); three elected employee representatives; one elected retired representative; and one City resident (not employed by the City) elected by the other eight members. The nine Board members appoint a TERS member, either active or retired, as an alternate Board member. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of the System. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of the System.

The breakdown of membership as of December 31, 2015 is as follows:

Retirees and beneficiaries currently receiving benefits		2,234
Terminated vested and other terminated participants		644
Active members:		
City of Tacoma	2,654	
South Sound 911	4	
Pierce Transit	7	
Tacoma-Pierce County Health Department	262	
Total active members		2,927
Total membership		5,805

Membership – Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighter, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments.

Benefits – There are two formulas to calculate the retirement benefits. The benefit paid will be issued on the formula which provides the higher benefit. The most commonly applied formula, "service retirement", is a product of the member's average monthly salary for the highest, consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum)

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

that is based on the member's age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred retirement. Additionally, the

System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the Consumer Price Index (Seattle Area – all items) over the preceding calendar year.

Any active member who has not retired, and has five or more years of service as a member may purchase up to five additional years of service at the time of retirement. Total service including service purchased cannot exceed 30 years.

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 4154 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

Contributions – The participating employers are responsible for funding the System at a level sufficient to pay obligations and ensure the actuarial and financial soundness of the System. Contribution rates for the employer and the employee are recommended by the Board of Administration and final approval rests with the Tacoma City Council. Currently, the required contribution rate for employees is 9.20% of their regular gross pay; the employer contributes 10.80%, for a combined total of 20.00% which is sufficient to amortize the UAAL of the System if future experience follows all actuarial assumptions. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

Significant Assumptions – The following actuarial methods were used in the funding valuation.

Measurement Date	December 31, 2015
Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
	Funding is based on statutory contributions rate.
	This amount is compared to a 30-year amortization for the purposes of calculating the Actuarially Determined Contribution.
	The amortization method for the ADC is as follows:
Amortization Method	<ul style="list-style-type: none">• Level percent• Open periods• 30 year amortization period at 01/01/2016• 4% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	3%
Salary Increases	4% general wage increase assumption
Investment Rate of Return	7.25%
Cost of Living Adjustment	2.13%
Retirement Age	Varies by age, gender, eligibility
Turnover	Varies by age, gender, eligibility
Mortality	RP-2000 mortality for healthy and disabled annuitants, with age adjustments

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Benefit and Assumption Changes – The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. Between January 1, 2015 and January 1, 2016 no assumptions were changed.

Target Allocations – The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation. The capital market assumptions are per Milliman’s investment consulting practice as of December 31, 2015. The target asset allocation is based on TERS Investment Policy Statement dated February 2014.

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	2.00%
US Inflation-Indexed Bonds	5.0%	1.41%
High Yield Bonds	9.0%	4.22%
Emerging Market Debt	5.0%	5.06%
Global Equity	41.5%	5.72%
Public Real Estate	2.0%	6.07%
Private Real Estate	2.5%	3.60%
Private Equity	10.0%	9.29%
Master Limited Partnerships	4.0%	3.98%
Timber	2.0%	3.73%
Infrastructure	2.0%	5.14%
Agriculture	2.0%	4.30%
Assumed Inflation - Mean		3.00%
Assumed Inflation - Standard Deviation		1.89%
Portfolio Arithmetic Real Mean Return		4.94%
Portfolio Median Nominal Geometric Return		7.06%
Portfolio Standard Deviation		11.84%
Long-Term Expected Rate of Return, net of investment expenses		7.25%

Sensitivity Analysis – The following presents the net pension liability (asset) of the System, calculated using the discount rate of 7.25%, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net Pension Liability (asset)	\$ 24,152,376	\$ 7,788,151	\$ (5,992,361)

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ (521,276)	\$ -
Net Difference Between Projected and Actual Earnings	-	6,864,209
Changes in Employer Proportion	(98)	5,642
Contributions Made Subsequent to the Measurement Date	-	2,124,252
Total	\$ (521,374)	\$ 8,994,103

The net amount of deferred inflows and outflows, other than contributions made subsequent to the measurement date, will be recognized as pension expense in each of the next four years.

Amounts will be recognized in pension expense as follows:

Year-ended December 31,	
2016	\$ 1,535,119
2017	1,535,119
2018	1,535,119
2019	1,763,645
2020	(20,525)
	<u>\$ 6,348,477</u>

The proportionate share of the Water Division is 8.99% of total System's pension liability. The proportionate share was based on the actual contributions for the year.

NOTE 11 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. GAAP requires 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 (3.75%).

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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 (3.75%).

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 is required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the UAAL on a closed basis of 30 years, beginning January 1, 2007. The remaining amortization period for 2016 is 21 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 balance sheet. The City has a Net OPEB Obligation as of December 31, 2016 as the City has not set aside funds for OPEB.

Excise Tax for High Cost or “Cadillac” Health Plans in 2018 and Beyond – An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The 2018 annual thresholds are \$10,200 for single coverage and \$27,500 for a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB released two new statements for Post Employment Benefits Other than Pension Plans, or OPEB. The new GASB Statements 74 and 75 were released in June 2015 and will replace GASB 43 and 45. The statements are available via the GASB website. GASB 74 is effective for fiscal years beginning after June 15, 2016, and GASB 75 is effective for fiscal years beginning June 15, 2017. These statements will mean fundamental changes in financial reporting for OPEB.

Summary of Changes – As of the January 1, 2015 valuation the total AAL was \$208,814,312, for the City, 20% lower than expected primarily due to clarification in spouse benefits, medical costs, demographic experience and a change to the assumption for future medical trends.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

The following table is a summary of valuation results with a comparison to the results from the last valuation.

	<u>January 1, 2013</u>	<u>January 1, 2015</u>
Total Membership:		
Active Employees	3,335	3,404
Terminated vested employees	394	442
Retired employees & dependents	846	744
Total	<u>4,575</u>	<u>4,590</u>
Annual Benefit Payments	\$ 9,887,335	\$ 8,963,089
Discount Rate	3.75%	3.75%
Present Value of Benefits (PVB)	\$ 326,742,538	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 251,839,846	\$ 208,814,312
Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 251,839,846</u>	<u>\$ 208,814,312</u>
Normal Cost	\$ 5,484,587	\$ 3,832,131
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 16,966,964

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2015.

<u>Value of Subsidy at 3.75% Interest Rate</u>	<u>Total Value of Benefits</u>	<u>Member Paid Premiums</u>	<u>City Paid Benefits</u>
Present Value of Benefits (PVB)	\$ 420,832,932	\$ 158,648,737	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 291,228,295	\$ 82,413,983	\$ 208,814,312
Normal Cost	\$ 9,501,758	\$ 5,669,627	\$ 3,832,131
Annual Benefit Payments	\$ 12,325,369	\$ 3,362,280	\$ 8,963,089

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 the Division as of December 31, 2016.

	City	Water
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 3,803,090	\$ 263,819
Amortization of UAAL	15,665,117	113,394
Annual Required Contribution (ARC)	<u>\$ 19,468,207</u>	<u>\$ 377,213</u>
Determination of Net OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 19,468,207	\$ 377,213
Interest on prior year Net OPEB Obligation	2,666,468	118,141
Adjustments to ARC	<u>(3,983,647)</u>	<u>(146,437)</u>
Annual OPEB Cost	18,151,028	348,917
Actual benefits paid	<u>(8,539,402)</u>	<u>(114,698)</u>
Increase in Net OPEB Obligation	9,611,626	234,219
Net OPEB Obligation - beginning of year	<u>73,129,502</u>	<u>3,150,430</u>
Net OPEB Obligation - end of year	<u>\$ 82,741,128</u>	<u>\$ 3,384,649</u>

The Division has included the liability in the other long term liabilities on the Statement of Net Position.

Funding Status and Funding Progress – The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 3.75% interest rate.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
12/31/2014	\$19,319,944	\$575,750	\$9,292,539	\$165,318	\$66,138,206	\$2,908,139
12/31/2015	\$15,954,387	\$357,394	\$8,963,089	\$115,102	\$73,129,502	\$3,150,430
12/31/2016	\$18,151,028	\$348,917	\$8,539,402	\$114,698	\$82,741,128	\$3,384,649

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 the 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 UAAL. In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and the remaining is now 21 years.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date:	January 1, 2015
Census Date:	January 1, 2015
Actuarial Cost Method:	Entry Age
Amortization Date:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	21 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate:	3.75% for pay-as-you-go funding	
Medical Cost Trend:	2015	6.90%
	2016	6.60%
	2017	5.90%
	2020	5.50%
	2030	5.90%
	2040	5.70%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2071 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions - Discount Rate (Liabilities):

3.75%

Demographic Assumptions:

Eligibility:

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

Retirement - 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
- Age 40 with 20 years of service

NOTE 12 COMMITMENTS AND CONTINGENCIES

Capital Improvements – The financial requirement for Tacoma Water’s 2015-2016 biennial Capital Improvement program is approximately \$32.9 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2016 the remaining financial requirement for Capital Improvement Programs relating to all prior biennia is approximately \$4.0 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.

General Legal Matters – The Water Division has received several other miscellaneous claims or litigation that either do not allege material amounts or that the Legal Department has determined do not pose a risk of liability to the Utility.

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REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Net Pension Liability Last 10 Years*

	Fiscal Year Ended December 31st,	
	2016	2015
Employer's proportion of the net pension liability (asset) as a percentage	8.99%	9.17%
Employer's proportion share of net pension liability (asset)	\$7,788,151	(\$881,279)
Employer's covered payroll	\$20,220,795	\$21,148,347
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	38.52%	-4.17%
Plan fiduciary net position as a percentage the total pension liability	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years

	Fiscal Year Ended December 31st,	
	2016	2015
Contractually required employer contribution	\$2,124,252	\$2,086,719
Contributions in relation to the contractually required employer contribution	(\$2,124,252)	(\$2,086,719)
Employer contribution deficiency (excess)	-	-
Employer's covered employee payroll	\$20,220,795	\$21,148,347
Employer contribution as a percentage of covered-employee payroll	10.51%	9.87%

*Fiscal year 2015 was the first year of implementation; therefore, only two years are shown.

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2016	2015	2014	2013
ASSETS				
Utility Plant - Net	\$879,547,650	\$884,721,107	\$872,083,357	\$813,050,518
Special Funds & Non-Util Prop	157,320,446	143,802,732	146,933,170	157,311,979
Current Assets	68,927,643	64,476,112	58,737,269	63,568,675
Other Assets	2,866,478	4,689,200	3,769,208	4,679,599
Total Assets	<u>1,108,662,217</u>	<u>1,097,689,151</u>	<u>1,081,523,004</u>	<u>1,038,610,771</u>
Deferred Outflows	10,623,174	4,002,699	1,587,851	1,813,858
TOTAL ASSETS AND DEFERRED OUTFLOWS .	<u>1,119,285,391</u>	<u>1,101,691,850</u>	<u>1,083,110,855</u>	<u>1,040,424,629</u>
NET POSITION	549,652,226	542,501,823	516,673,245	480,288,973
LIABILITIES AND EQUITY				
Long-Term Debt	478,617,199	478,400,742	483,542,005	455,876,975
Current Liabilities	20,986,727	18,261,548	20,767,576	42,478,805
Long-Term Liabilities	33,932,418	26,021,937	26,552,582	26,204,429
Total Liabilities	<u>533,536,344</u>	<u>522,684,227</u>	<u>530,862,163</u>	<u>524,560,209</u>
Deferred Inflows	36,096,821	36,505,800	35,575,447	35,575,447
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	<u>\$1,119,285,391</u>	<u>\$1,101,691,850</u>	<u>\$1,083,110,855</u>	<u>\$1,040,424,629</u>
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential and Domestic	\$50,742,135	\$48,263,128	\$44,655,076	\$40,928,355
Commercial and Industrial	17,558,905	17,233,617	15,406,078	13,507,899
Special Rate-Simpson/Other	5,845,719	5,951,348	5,801,842	5,242,359
Municipal	-	-	-	445,844
Wholesale	3,971,839	5,192,149	3,718,315	3,519,409
Unbilled	(137,857)	318,945	121,346	468,030
Total Water Sales	<u>77,980,741</u>	<u>76,959,187</u>	<u>69,702,657</u>	<u>64,111,896</u>
Other Operating Revenues	14,820,869	21,179,637	28,617,297	32,007,524
Total Operating Revenues	<u>92,801,610</u>	<u>98,138,824</u>	<u>98,319,954</u>	<u>96,119,420</u>
OPERATING EXPENSES				
Operation and Maintenance	46,894,363	41,804,233	37,993,563	35,906,356
Taxes	4,639,031	4,681,114	3,779,373	3,918,944
Depreciation	23,822,527	17,102,664	16,783,698	16,072,243
Total Operating Expenses	<u>75,355,921</u>	<u>63,588,011</u>	<u>58,556,634</u>	<u>55,897,543</u>
NET OPERATING INCOME (LOSS)	17,445,689	34,550,813	39,763,320	40,221,877
NON-OPERATING REVENUES (EXPENSES)				
Other Income	(221,125)	(30,042)	537,052	(1,246,053)
Interest Income	1,826,299	1,112,850	1,718,226	807,466
Gain from Disposition of Property	-	-	-	-
Interest Charges (Net)	(19,000,536)	(16,677,645)	(11,911,850)	(14,141,036)
Net Income (Loss) Before Contributions & Transfers	50,327	18,955,976	30,106,748	25,642,254
Total Capital Contributions	10,274,030	9,052,674	8,670,639	7,175,575
Grants & Federal BAB Subsidies	3,579,107	3,609,706	3,959,446	3,535,426
Transfers Out	(6,753,061)	(6,873,467)	(6,352,561)	(5,922,418)
CHANGE IN NET POSITION	<u>\$7,150,403</u>	<u>\$24,744,889</u>	<u>\$36,384,272</u>	<u>\$30,430,837</u>

In accordance with Governmental Accounting Standards Board Statement No. 65 both 2012 and 2011 were restated for comparative purposes. Years prior to 2011 are shown as originally reported.

2012	2011	2010	2009	2008	2007
\$722,852,270	\$661,153,297	\$636,592,771	\$604,657,775	\$590,593,258	\$568,493,015
161,863,075	214,619,106	240,132,895	133,949,294	80,858,401	99,062,414
56,407,560	31,403,521	30,200,303	35,753,843	22,151,467	23,150,235
5,300,185	4,664,090	4,654,608	3,654,494	3,319,156	2,123,339
946,423,090	911,840,014	911,580,577	778,015,406	696,922,282	692,829,003
1,764,332	2,056,555	-	-	-	-
948,187,422	913,896,569	911,580,577	778,015,406	696,922,282	692,829,003
449,858,136	425,932,810	417,695,083	412,592,671	404,010,304	391,763,317
401,465,338	419,800,757	421,228,553	292,165,406	218,869,015	227,315,790
35,106,590	18,201,697	20,548,451	15,167,938	16,288,305	15,169,687
26,181,911	19,385,858	52,108,490	58,089,391	57,754,658	58,580,209
462,753,839	457,388,312	493,885,494	365,422,735	292,911,978	301,065,686
35,575,447	30,575,447	-	-	-	-
\$948,187,422	\$913,896,569	\$911,580,577	\$778,015,406	\$696,922,282	\$692,829,003
\$38,737,505	\$36,730,275	\$35,503,069	\$36,695,919	\$34,651,756	\$32,719,149
12,478,932	11,868,976	11,703,099	11,467,636	10,600,262	9,868,874
5,031,760	4,774,237	3,798,922	4,153,327	4,371,527	3,917,760
383,385	400,322	364,357	380,267	349,722	396,131
2,090,430	1,625,163	1,530,116	1,776,686	1,251,815	1,433,705
416,986	478,594	(648,438)	187,966	417,145	37,113
59,138,998	55,877,567	52,251,125	54,661,801	51,642,227	48,372,732
21,541,733	9,526,467	10,735,630	9,331,955	5,382,313	4,353,478
80,680,731	65,404,034	62,986,755	63,993,756	57,024,540	52,726,210
32,602,452	32,821,611	34,453,742	34,055,463	33,387,663	31,076,515
3,485,243	3,106,516	3,142,772	3,093,311	2,881,877	2,924,930
15,262,686	14,389,681	14,474,964	13,845,799	13,016,544	11,363,970
51,350,381	50,317,808	52,071,478	50,994,573	49,286,084	45,365,415
29,330,350	15,086,226	10,915,277	12,999,183	7,738,456	7,360,795
288,182	(12,371)	33,795	497,331	61,265	306,680
2,320,753	3,141,374	2,370,993	1,955,385	3,730,407	5,255,881
-	-	-	26,100	-	4,199,382
(14,462,441)	(14,867,263)	(15,175,660)	(9,076,156)	(8,406,264)	(8,484,405)
17,476,844	3,347,966	(1,855,595)	6,401,843	3,123,864	8,638,333
7,834,345	9,250,677	9,713,596	7,120,993	14,137,605	12,801,825
3,840,767	4,006,209	2,355,132	244,683	-	-
(5,226,630)	(4,960,736)	(5,110,721)	(5,185,152)	(5,014,482)	(4,562,657)
\$23,925,326	\$11,644,116	\$5,102,412	\$8,582,367	\$12,246,987	\$16,877,501

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
REGIONAL WATER SUPPLY SYSTEM

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2016	2015	2014	2013
ASSETS				
Utility Plant - Net	\$287,187,547	\$295,780,351	\$293,110,553	\$264,883,717
Current Assets	10,395,435	9,274,080	11,321,557	20,473,681
Total Assets	297,582,982	305,054,431	304,432,110	285,357,398
Deferred Outflows	256,313	272,417	288,520	304,624
TOTAL ASSETS AND DEFERRED OUTFLOWS .	297,839,295	305,326,848	304,720,630	285,662,022
NET POSITION	180,852,158	186,712,448	183,898,541	154,285,209
LIABILITIES AND EQUITY				
Long-Term Debt	114,364,416	116,113,730	117,798,157	120,006,348
Current Liabilities	1,601,549	1,496,773	1,993,880	10,436,851
Total Liabilities	115,965,965	117,610,503	119,792,037	130,443,199
Deferred Inflows	1,021,172	1,003,897	1,030,052	933,614
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	297,839,295	305,326,848	304,720,630	285,662,022
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
CRO - Debt Service	\$5,582,030	\$6,047,314	\$6,008,599	\$6,208,432
CRO - O&M	3,858,714	2,840,435	2,706,023	2,740,645
CRO - Capital	483,498	7,621,901	15,132,508	18,535,695
Other Operating Revenue	-	1,675	-	-
Total Operating Revenues	9,924,242	16,511,325	23,847,130	27,484,772
OPERATING EXPENSES				
Operation and Maintenance	3,871,737	2,864,326	2,735,246	2,895,385
Depreciation	8,263,267	4,582,300	4,542,912	4,505,158
Total Operating Expenses	12,135,004	7,446,626	7,278,158	7,400,543
NET OPERATING INCOME (LOSS)	(2,210,762)	9,064,699	16,568,972	20,084,229
NON-OPERATING REVENUES (EXPENSES)				
Other Income	-	(120,564)	(18,732)	(373,899)
Interest Income	87,696	64,497	114,387	51,743
Interest Charges (Net)	(4,715,565)	(4,072,780)	(880,966)	(2,665,310)
Net Income (Loss) Before Contributions & Transfers	(6,838,631)	4,935,852	15,783,661	17,096,763
Total Capital Contributions	456,685	(2,924,135)	13,024,297	148,865
Grants & Federal BAB Subsidies	808,775	802,190	805,374	799,296
Transfers Out	(287,119)	-	-	40,079
CHANGE IN NET POSITION	(\$5,860,290)	\$2,813,907	\$29,613,332	\$18,085,003

In accordance with Governmental Accounting Standards Board Statement No. 65 both 2012 and 2011 were restated for comparative purposes. Years prior to 2011 are shown as originally reported.

2012	2011	2010	2009	2008	2007
\$223,896,711	\$203,938,358	\$207,242,527	\$206,708,069	\$231,099,649	\$234,373,114
41,256,611	55,640,447	59,811,400	15,845,604	9,519,659	8,924,226
265,153,322	259,578,805	267,053,927	222,553,673	240,619,308	243,297,340
-	-	1,194,533	807,387	856,484	906,294
265,153,322	259,578,805	268,248,460	223,361,060	241,475,792	244,203,634
136,200,206	132,830,089	138,246,799	142,801,029	151,581,061	149,348,807
122,882,652	124,045,739	124,890,764	77,694,584	88,122,323	92,649,652
5,253,742	1,931,325	5,110,897	2,865,447	1,772,408	2,205,175
128,136,394	125,977,064	130,001,661	80,560,031	89,894,731	94,854,827
816,722	771,652	-	-	-	-
265,153,322	259,578,805	268,248,460	223,361,060	241,475,792	244,203,634
\$6,272,476	\$6,239,797	\$5,119,047	\$4,293,912	\$2,016,804	\$1,999,664
2,478,238	1,778,186	2,732,956	2,517,129	6,074,980	4,646,715
5,665,557	274,081	1,301,346	(339,930)	-	-
-	-	-	-	-	-
14,416,271	8,292,064	9,153,349	6,471,111	8,091,784	6,646,379
2,510,085	2,485,977	2,458,379	2,629,850	2,300,026	2,377,499
4,495,971	4,482,820	4,426,113	4,792,037	4,803,549	3,513,441
7,006,056	6,968,797	6,884,492	7,421,887	7,103,575	5,890,940
7,410,215	1,323,267	2,268,857	(950,776)	988,209	755,439
-	-	-	-	14,360	43,532
407,622	396,391	861,775	184,332	293,709	355,782
(4,901,784)	(7,574,948)	(4,833,300)	(3,918,240)	(3,411,937)	(4,083,294)
2,916,053	(5,855,290)	(1,702,668)	(4,684,684)	(2,115,659)	(2,928,541)
(414,376)	(508,791)	(4,593,787)	8,085,876	1,287,306	10,186,209
868,328	868,328	306,327	-	-	-
112	79,043	1,435,898	(12,181,224)	3,060,607	5,227,148
\$3,370,117	(\$5,416,710)	(\$4,554,230)	(\$8,780,032)	\$2,232,254	\$12,484,816

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION

	WATER		RWSS		TACOMA WATER STATEMENTS	
	W/O RWSS			ADJUSTMENTS		
ASSETS						
UTILITY PLANT						
In Service, at Original Cost	\$ 736,745,320	\$	337,252,246	\$ -	\$	1,073,997,566
Less - Accumulated Depreciation	(157,550,217)		(57,471,481)	-		(215,021,698)
Total	579,195,103		279,780,765	-		858,975,868
Construction Work In Progress	13,165,000		7,406,782	-		20,571,782
Net Utility Plant	592,360,103		287,187,547	-		879,547,650
NET UTILITY PROPERTY	492,963	-	-	-	-	492,963
SPECIAL FUNDS						
Construction Funds	41,717,595	-	-	-	-	41,717,595
Debt Service Funds	4,093,776	-	300,502	-	-	4,394,278
Bond Reserve Funds	13,615,236	-	8,415,649	-	-	22,030,885
System Development Charge Fund	58,617,922	-	-	-	-	58,617,922
Other Cash & Equity in Pooled Investments	28,984,849	-	-	1,081,954	-	30,066,803
Total Special Funds	147,029,378	-	8,716,151	1,081,954	-	156,827,483
CURRENT ASSETS						
Operating Funds Cash & Equity in Pooled Investments	54,768,598		1,081,954	(1,081,954)		54,768,598
Accounts Receivable	5,040,588		455,753	-		5,496,341
(Net of Allowance for Doubtful Accounts of \$258,344 in 2014)						
BABs Interest Subsidies Receivable	230,612		67,368	-		297,980
Accrued Unbilled Revenues	4,797,144		-	-		4,797,144
Materials and Supplies	2,341,548		-	-		2,341,548
Interfund Receivable	107,094		876	-		107,970
Prepayments	1,044,729		73,333	-		1,118,062
Total	68,330,313		1,679,284	(1,081,954)		68,927,643
OTHER ASSETS						
Regulatory Asset - Public Fire Protection Fees	1,297,001		-	-		1,297,001
Regulatory Asset - Surcharges	1,569,477		-	-		1,569,477
Pension Asset	-		-	-		-
Total Other Assets	2,866,478		-	-		2,866,478
DEFERRED OUTFLOWS OF RESOURCES						
Unamortized Losses on Refunding Bonds	1,372,758		256,313	-		1,629,071
Pension Contributions	8,994,103		-	-		8,994,103
Total Deferred Outflows	10,366,861		256,313	-		10,623,174
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 821,446,096	\$	297,839,295	\$ -	\$	1,119,285,391

	NET ASSETS	WATER W/O RWSS	RWSS	ADJUSTMENTS	WATER STATEMENTS
NET ASSETS AND LIABILITIES					
NET ASSETS					
Invested in Capital Assets, Net of Related Debt Restricted for:	\$ 266,048,160	\$ 180,470,093	\$ -	\$ 446,518,253	
Water Capital and System Development Charge	43,533,806	-	-	43,533,806	
Debt Service Funds	2,647,811	(151,827)	-	2,495,984	
Unrestricted	56,570,291	533,892	-	57,104,183	
Total Net Position	368,800,068	180,852,158	-	549,652,226	
LONG-TERM DEBT					
Revenue Bonds	271,700,730	114,364,416	-	386,065,146	
Public Works Trust Fund Loans	22,708,007	-	-	22,708,007	
Drinking Water State Revolving Fund Loan	69,844,046	-	-	69,844,046	
Total Long-Term Debt	364,252,783	114,364,416	-	478,617,199	
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	12,128,017	1,025,000	-	13,153,017	
Current Maturities of Long-Term Liabilities	185,889	-	-	185,889	
Accrued Taxes	1,492,124	352	-	1,492,476	
Accrued Expenses and Contracts Payable	1,508,021	39,769	-	1,547,790	
Salaries, Wages and Fringe Benefits Payable	680,647	-	-	680,647	
Interest Payable	1,445,965	452,329	-	1,898,294	
Customers' Deposits	349,725	-	-	349,725	
Interfund Payables	1,594,790	84,099	-	1,678,889	
Total Current Liabilities	19,385,178	1,601,549	-	20,986,727	
LONG-TERM LIABILITIES					
Muckleshoot Agreements	6,943,806	-	-	6,943,806	
Customer Advances for Construction	4,748,046	-	-	4,748,046	
Unearned Revenue	6,547,640	1,021,172	-	7,568,812	
Long-Term Accrued Compensated Absences	2,428,375	-	-	2,428,375	
Pension Liability	7,788,151	-	-	7,788,151	
Other Long-Term Liabilities	4,455,228	-	-	4,455,228	
Total Long-Term Liabilities	32,911,246	1,021,172	-	33,932,418	
DEFERRED INFLOWS OF RESOURCES					
Rate Stabilization	35,575,447	-	-	35,575,447	
Pension Contribution	521,374	-	-	521,374	
Total Inflows of Resources	36,096,821	-	-	36,096,821	
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$ 821,446,096	\$ 297,839,295	\$ -	\$ 1,119,285,391	

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	WATER		RWSS	ADJUSTMENTS	TACOMA WATER STATEMENTS
	W/O	RWSS			
OPERATING REVENUES					
Sale of Water	\$ 77,980,741	\$ -	\$ -	-	\$ 77,980,741
Other Operating Revenues	9,997,213	-	-	-	9,997,213
Contract Resource Obligation Revenues	-	9,924,242	-	(5,100,586)	4,823,656
Total Operating Revenues	87,977,954	9,924,242	-	(5,100,586)	92,801,610
OPERATING EXPENSES					
Operations	21,860,765	180,577	-	-	22,041,342
Production	10,896,695	3,437,868	-	-	14,334,563
Administrative and General	15,365,752	253,292	-	(5,100,586)	10,518,458
Depreciation	15,559,260	8,263,267	-	-	23,822,527
Taxes	4,639,031	-	-	-	4,639,031
Total Operating Expenses	68,321,503	12,135,004	-	(5,100,586)	75,355,921
Net Operating Income	19,656,451	(2,210,762)	-	-	17,445,689
NON-OPERATING REVENUES (EXPENSES)					
Interest Income	1,738,603	87,696	-	-	1,826,299
Other	(221,125)	-	-	-	(221,125)
Interest on Long-Term Debt	(15,285,352)	(5,468,902)	-	-	(20,754,254)
Amortization of Premium and Loss on Refunding	561,415	708,210	-	-	1,269,625
Interest Charged to Construction	438,966	45,127	-	-	484,093
Total Non-Operating Expenses	(12,767,493)	(4,627,869)	-	-	(17,395,362)
Net Income Before Capital Contributions and Transfers	6,888,958	(6,838,631)	-	-	50,327
Capital Contributions					
Cash	5,250,653	456,685	-	-	5,707,338
Donated Fixed Assets	4,566,692	-	-	-	4,566,692
Federal BABs Subsidies	2,768,580	808,775	-	-	3,577,355
Grants	1,752	-	-	-	1,752
Transfers					
City of Tacoma Gross Earnings Tax	(6,753,061)	-	-	-	(6,753,061)
Transfer to/from Other Funds	287,119	(287,119)	-	-	-
CHANGE IN NET POSITION	13,010,693	(5,860,290)	-	-	7,150,403
TOTAL NET POSITION - BEGINNING OF YEAR	355,789,375	186,712,448	-	-	542,501,823
TOTAL NET POSITION - END OF YEAR	\$ 368,800,068	\$ 180,852,158	\$ -	\$ -	\$ 549,652,226

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

BOND DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2016

YEAR	WATER W/O RWSS		RWSS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2017	5,200,000	13,460,060	1,025,000	5,427,937	25,112,997
2018	5,395,000	13,308,633	1,055,000	5,382,286	25,140,919
2019	5,620,000	13,092,833	1,990,000	5,335,336	26,038,169
2020	5,850,000	12,852,833	2,100,000	5,241,836	26,044,669
2021	6,150,000	12,560,333	2,205,000	5,143,036	26,058,369
2022	6,410,000	12,297,633	2,315,000	5,035,935	26,058,568
2023	6,240,000	11,977,133	2,455,000	4,923,486	25,595,619
2024	4,300,000	11,665,133	4,930,000	4,804,186	25,699,319
2025	4,465,000	11,460,042	5,190,000	4,561,236	25,676,278
2026	4,930,000	11,244,560	5,420,000	4,300,364	25,894,924
2027	5,085,000	11,003,926	5,700,000	4,027,936	25,816,862
2028	5,265,000	10,730,811	5,970,000	3,741,451	25,707,262
2029	5,445,000	10,448,028	6,300,000	3,441,430	25,634,458
2030	5,640,000	10,155,577	6,595,000	3,124,854	25,515,431
2031	5,835,000	9,852,652	6,880,000	2,855,021	25,422,673
2032	6,050,000	9,524,667	6,660,000	2,572,446	24,807,113
2033	11,915,000	9,184,597	4,495,000	2,298,427	27,893,024
2034	12,360,000	8,502,115	4,655,000	2,045,763	27,562,878
2035	12,820,000	7,794,144	4,830,000	1,784,105	27,228,249
2036	13,295,000	7,059,824	5,005,000	1,512,611	26,872,435
2037	13,790,000	6,298,290	5,185,000	1,231,280	26,504,570
2038	14,305,000	5,508,406	5,375,000	939,831	26,128,237
2039	14,835,000	4,689,020	5,570,000	637,703	25,731,723
2040	15,390,000	3,839,272	5,775,000	324,613	25,328,885
2041	23,820,000	2,974,200	-	-	26,794,200
2042	24,770,000	2,021,400	-	-	26,791,400
2043	25,765,000	1,030,600	-	-	26,795,600
	<u>\$270,945,000</u>	<u>\$244,536,722</u>	<u>\$107,680,000</u>	<u>\$80,693,109</u>	<u>\$703,854,831</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER
without RWSS
FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Income	\$94,688,383	\$92,203,086	\$86,134,608	\$77,677,321	\$77,504,402
Less: Operating Exp	<u>52,762,243</u>	<u>48,438,968</u>	<u>43,722,021</u>	<u>41,649,837</u>	<u>37,833,621</u>
Income Available for Debt Service	<u><u>\$41,926,140</u></u>	<u><u>\$43,764,118</u></u>	<u><u>\$42,412,587</u></u>	<u><u>\$36,027,484</u></u>	<u><u>\$39,670,781</u></u>
Bond Redemption	5,140,416	4,873,754	5,551,250	6,957,496	5,817,917
Bond Interest	<u>13,156,254</u>	<u>13,913,407</u>	<u>14,303,864</u>	<u>14,032,328</u>	<u>19,342,423</u>
Debt Service Payable	<u><u>\$18,296,670</u></u>	<u><u>\$18,787,161</u></u>	<u><u>\$19,855,114</u></u>	<u><u>\$20,989,824</u></u>	<u><u>\$25,160,340</u></u>
Times Debt Service Covered	2.29	2.33	2.14	1.72	1.58

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER SALES - 2016

	AVERAGE MONTHS BILLED	CONSUMPTION (CCF)	REVENUE	% of TOTAL REVENUE	MGD	% of TOTAL MGD
RESIDENTIAL AND DOMESTIC SERVICE						
Inside City						
1 Single and Multiple House	55,278	4,663,915	\$ 21,783,082	28.0%	9.56	19.0%
2 Multiple Unit Dwellings	3,239	1,690,719	\$ 5,548,904	7.1%	3.47	6.9%
3 Parks & Irrigation Services	188	99,278	\$ 399,338	0.5%	0.20	0.4%
4 Private Fire Services	103	988	\$ 78,627	0.1%	0.00	0.0%
	58,808	6,454,900	\$ 27,809,951	35.7%	13.23	26.3%
Outside City						
5 Single and Multiple Houses	33,500	3,538,397	\$ 17,992,823	23.1%	7.25	14.4%
6 Multiple Unit Dwellings	1,843	1,045,128	\$ 4,257,072	5.5%	2.14	4.2%
7 Parks & Irrigation Services	232	152,402	\$ 646,164	0.8%	0.31	0.6%
8 Private Fire Services	80	2	\$ 36,125	0.0%	0.00	0.0%
	35,655	4,735,929	\$ 22,932,184	29.4%	9.70	19.2%
COMMERCIAL AND INDUSTRIAL SERVICE						
Inside City						
9 Large Volume Service	3	450,874	\$ 730,903	0.9%	0.92	1.8%
10 General Service	3,839	2,440,172	\$ 8,093,570	10.4%	5.00	9.9%
11 Parks & Irrigation Services	372	384,379	\$ 1,514,617	1.9%	0.79	1.6%
12 Private Fire Services	789	11,035	\$ 2,670,988	3.4%	0.02	0.0%
	5,003	3,286,460	\$ 13,010,078	16.6%	6.73	13.3%
Outside City						
13 Large Volume Service	4	584,260	\$ 1,136,570	1.5%	1.20	2.4%
14 General Service	990	486,843	\$ 1,994,916	2.6%	1.00	2.0%
15 Parks & Irrigation Services	86	114,401	\$ 501,992	0.6%	0.23	0.5%
16 Private Fire Services	167	2,381	\$ 915,349	1.2%	0.01	0.0%
	1,247	1,187,885	\$ 4,548,827	5.9%	2.44	4.9%
17 WESTROCK	1	7,240,604	\$ 5,845,719	7.5%	14.84	29.4%
21 WHOLESALE	17	1,705,218	\$ 3,971,839	5.1%	3.50	6.9%
Unbilled Revenue			\$ (137,857)	-0.2%		
TOTAL WATER SALES	100,731	24,610,996	\$ 77,980,741	100.0%	50.44	100.0%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATISTICS
AS OF DECEMBER 31, 2016

Tacoma Water System:		
Average daily delivery exclusive of pulp mill		38.99 MG
Average daily delivery of pulp mill		14.81 MG
Total average daily delivery		53.80 MG
Maximum daily production	8/19/2016	83.92 MG
Minimum daily production	1/29/2016	32.92 MG
Total water produced in 2016*		19,652 MG
Regional Water Supply System (RWSS):		
Total average daily delivery		12.3 MG
Average daily consumption per single family residential service		173.0 GPD
Miles of transmission and wells supply mains - 28" to 96" diameter (includes North Fork wells system)		150 mi
Miles of distribution mains - 2" to 24" in diameter		1,240 mi
Fire Hydrants (Inside)		6,050
Fire Hydrants (Outside)		4,528

The primary source of Tacoma's water supply is the Green River. Additionally the North Fork well field provides blending options during periods of excessive river turbidity. The Green River source consists of a 73 million gallons per day (MGD) water right. Tacoma is also partner in the Regional Water Supply System (RWSS) and holds a 27 MGD average share of that 64.6 MGD interruptible, junior water right on the Green River. Tacoma also has ground water rights totaling 87 MGD with an installed pumping capacity of 55 MGD.

Tacoma's water supply is robust and of very high quality, benefiting from decades of source protection and substantial investment in treatment. City of Tacoma business and residents continued to receive extraordinary service reliability while meeting or exceeding all regulatory requirements of the United States Environmental Protection Agency and the Washington Department of Health.

Storage facilities are provided at 15 locations. These facilities consist of 10 concrete tanks and 12 steel standpipes. The combined storage capacity is equal to approximately 140.7 million gallons. Of this storage capacity 67.6 million gallons are located at the McMillin Reservoir approximately 14 miles southeast of Tacoma.

**Includes losses and water for self-consumption excludes RWSS*

MG equals million gallons

GPD equals gallons per day

mi equals miles

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2016

FEDERAL

Social Security (FICA)		\$1,533,689
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STATE OF WASHINGTON

Retail Sales Tax	\$587,049	
Utilities and Business Activities Tax	3,972,441	
Total		4,559,490

COUNTY

Real Property	35,940	
Total		35,940

MUNICIPALITIES

City of Tacoma Gross Earnings Tax	6,753,061	
City of Fircrest Administrative Fee	6,397	
City of Lakewood Administrative Fee	6,450	
City of Puyallup Administrative Fee	19,625	
City of University Place Administrative Fee	620,720	
		7,406,253

TOTAL TAXES		\$13,535,372
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Taxes as a % of Non-CRO Revenues of \$87,977,954 ..		15.38%
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EMPLOYEE WELFARE CONTRIBUTIONS

Industrial Insurance and Medical Aid	\$512,054	
Pensions	2,094,717	
Medical Insurance	3,837,167	
Dental Insurance	330,983	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$6,774,921

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2016 WATER RATES

		READY TO SERVE CHARGE PER MONTH	
		INSIDE TACOMA	OUTSIDE TACOMA
METER SIZE			
5/8	inch	\$20.38	\$24.46
3/4	inch	\$30.57	\$36.68
1	inch	\$50.95	\$61.14
1-1/2	inch	\$101.90	\$122.28
2	inch	\$163.04	\$195.65
3	inch	\$305.70	\$366.84
4	inch	\$509.50	\$611.40
6	inch	\$1,019.00	\$1,222.80
8	inch	\$1,630.40	\$1,956.48
10	inch	\$2,343.70	\$2,812.44
12	inch	\$3,439.13	\$4,126.96

		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	\$1.756	\$2.107
	First 500 cubic ft. of water consumption per month during the summer months of June through September	\$1.756	\$2.107
	Each 100 cubic ft. of water consumption over 500 cubic ft. during the summer months of June through September	\$2.195	\$2.634
<u>Commercial and Industrial</u>			
	General Service	\$1.945	\$2.334
	Large Volume Service (over 65,000 cubic feet annually)	\$1.557	\$1.868
<u>Parks and Irrigation Service</u>			
	Each 100 cubic feet of water consumption	\$2.769	\$3.323

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. 28286 and were effective January 1, 20

Residential service rate for outside Tacoma does not include Fircrest, Puyallup, University Place, and Lakewood.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2016 FIRE PROTECTION RATES

RATES FOR PRIVATE FIRE PROTECTION SERVICE ON A SEPARATE METER INSIDE THE CITY OF TACOMA ARE AS FOLLOWS:

METER SIZE	<u>MONTHLY CHARGE</u>	<u>WATER INCLUDED FOR MONTHLY LEAKAGE AND TESTING PURPOSES (100 Cubic Feet)</u>
2 inch	\$24.82	2.99
3 inch	\$36.14	2.99
4 inch	\$60.38	2.99
6 inch	\$135.43	2.99
8 inch	\$241.10	2.99
10 inch	\$377.11	2.99
12 inch	\$603.19	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 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 \$3.960

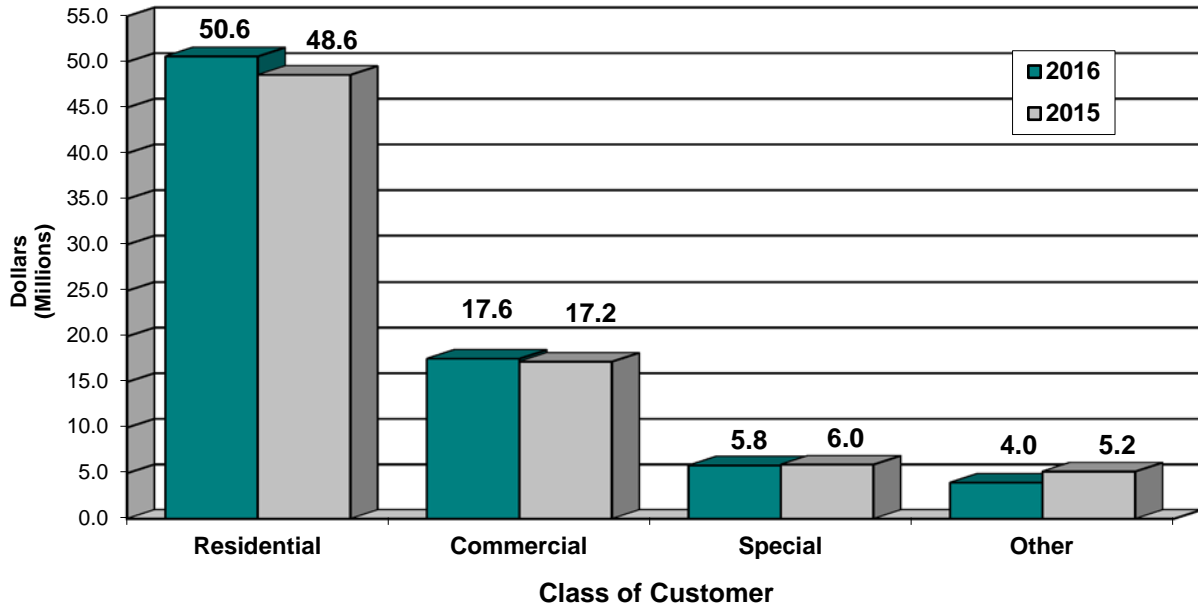
The above rates for fire service shall apply where City water is used for all purposes on such premises exclusive of that amount allowed for testing and leakage.

Costs associated with fire hydrant services are currently recovered from customers in two different ways, depending on their location in the service area. Customers outside the City of Tacoma with residential and commercial accounts pay a flat monthly franchise "Franchise Hydrant Service Fee" as shown below:

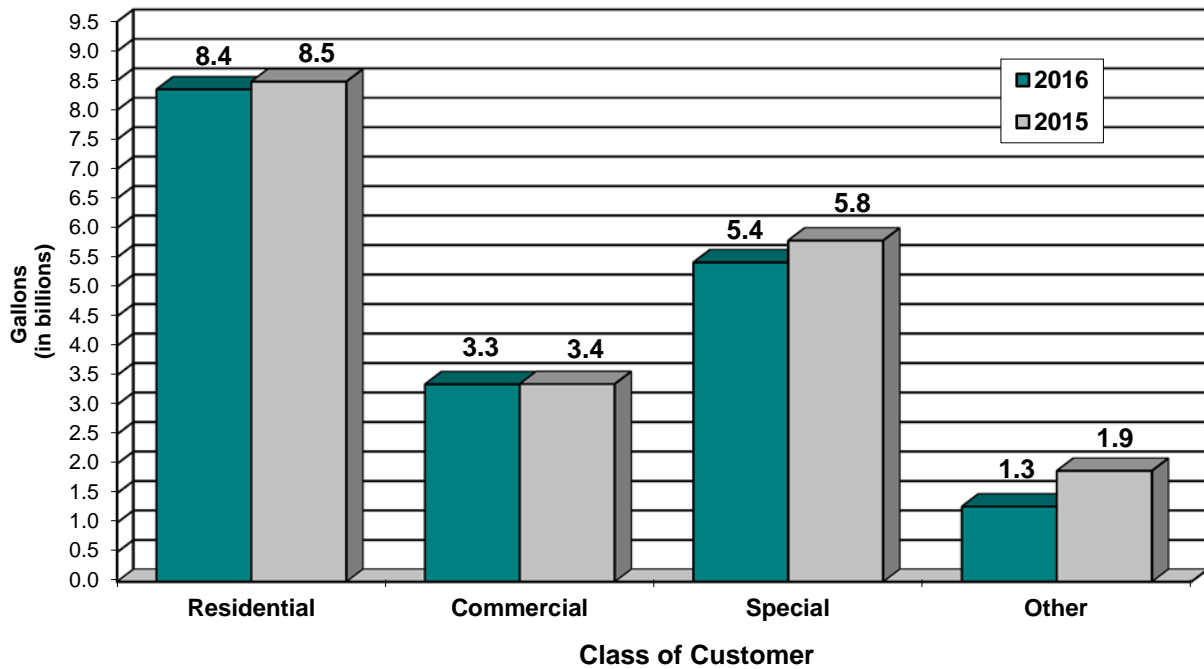
Outside City, other contract.....	\$4.752
Fircrest Franchise.....	\$4.752
Lakewood, Puyallup, and University Place Franchises.	\$4.752

The Fire Protection Rates were established by Ordinance No. 28286 and were effective January 1, 2016.

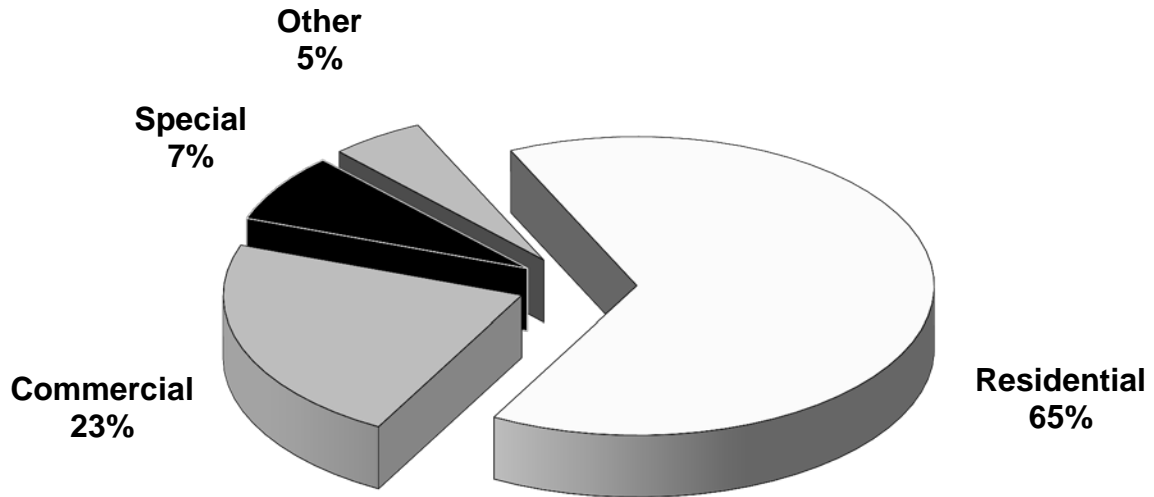
WATER SALES
Year to Date - December 2016 & 2015



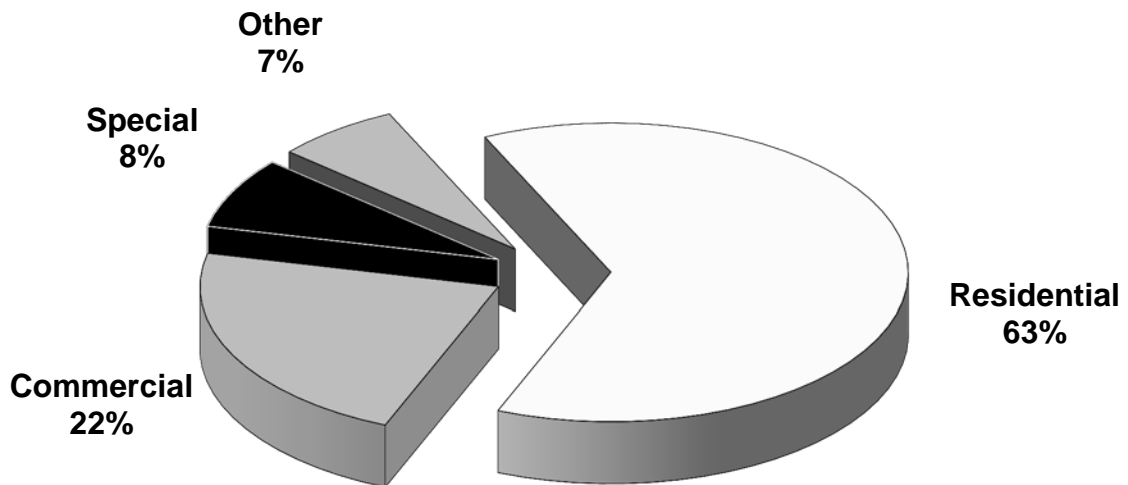
WATER CONSUMPTION
Year to Date - December 2016 & 2015



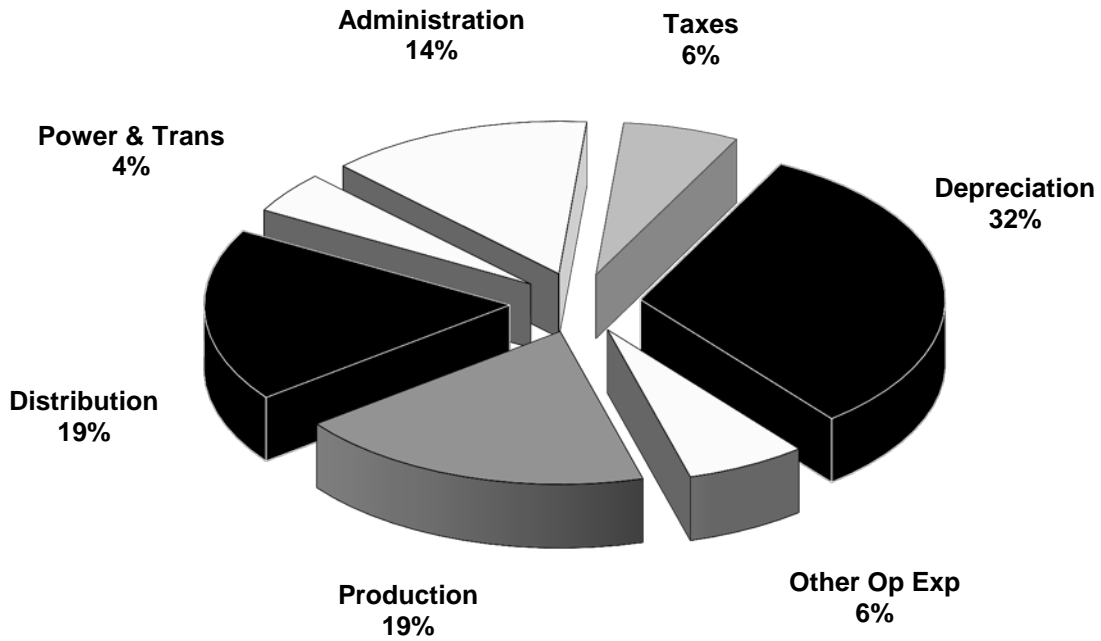
WATER SALES
Year to Date - December 2016
(\$77,980,741)



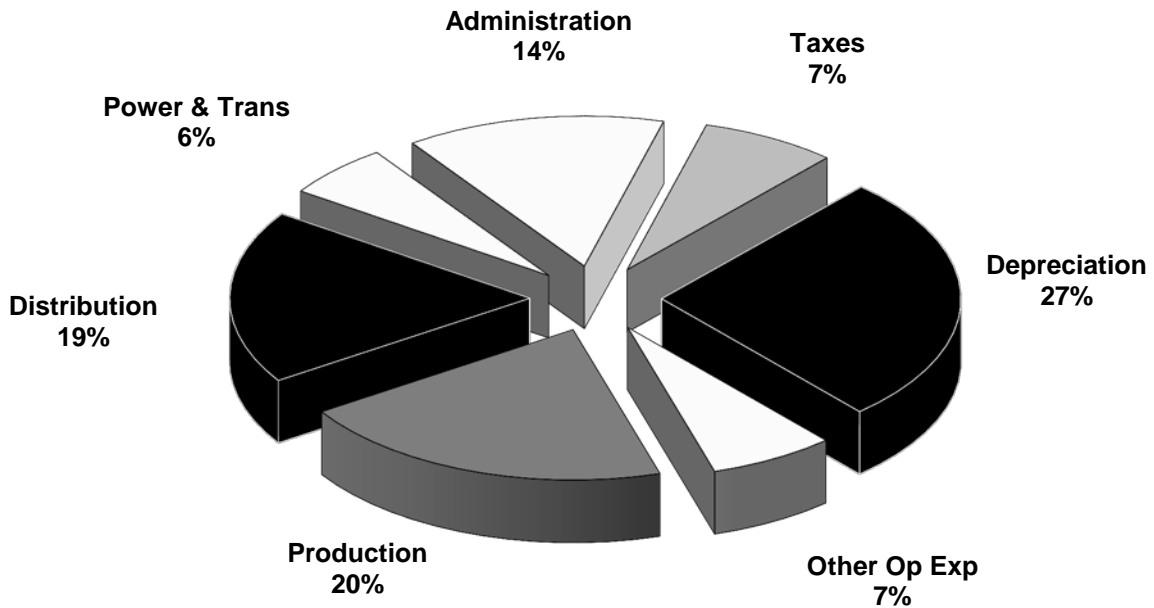
WATER SALES
Year to Date - December 2015
(\$76,959,187)



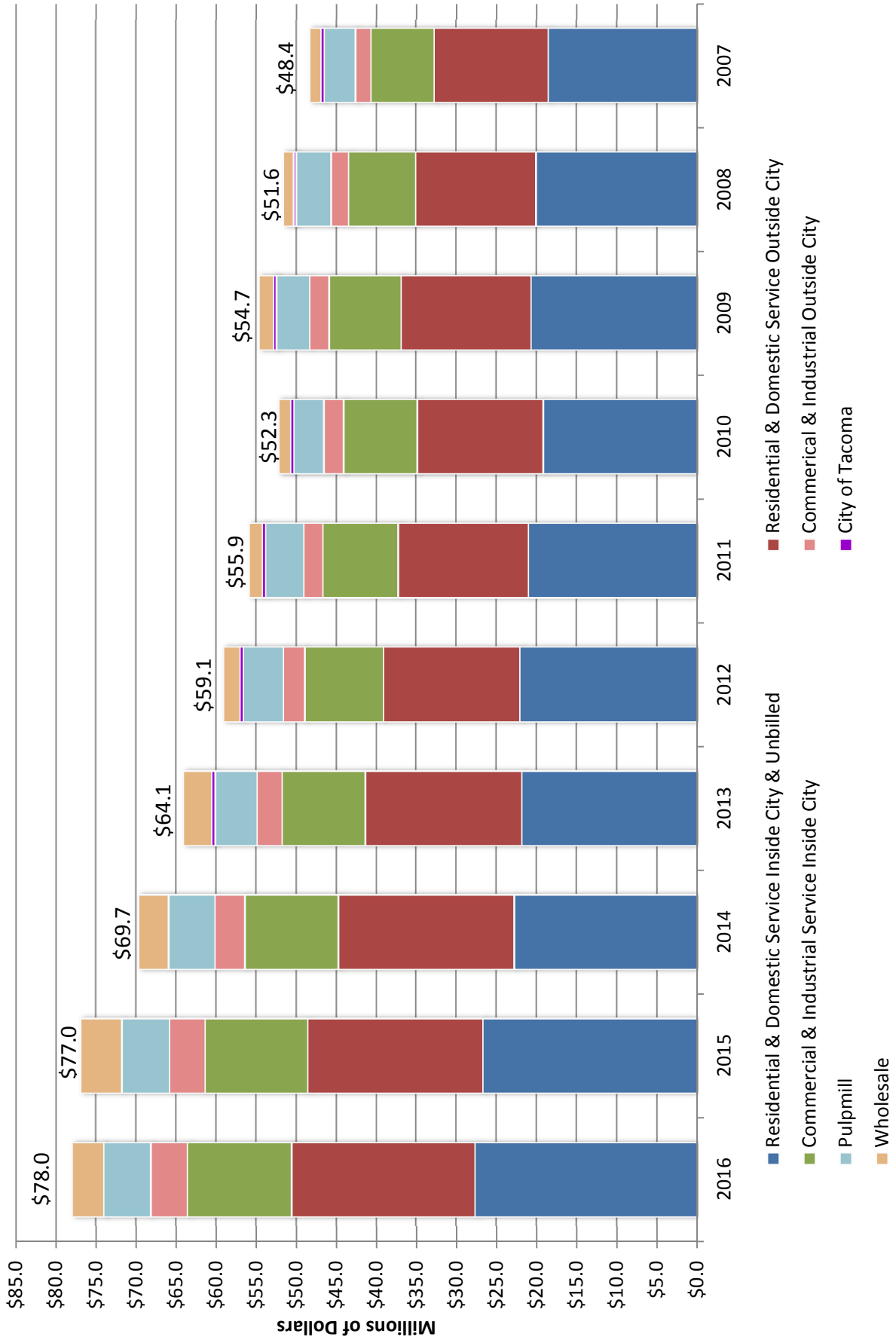
TOTAL OPERATING EXPENSES
Year to Date - December 2016
(\$75,355,921)



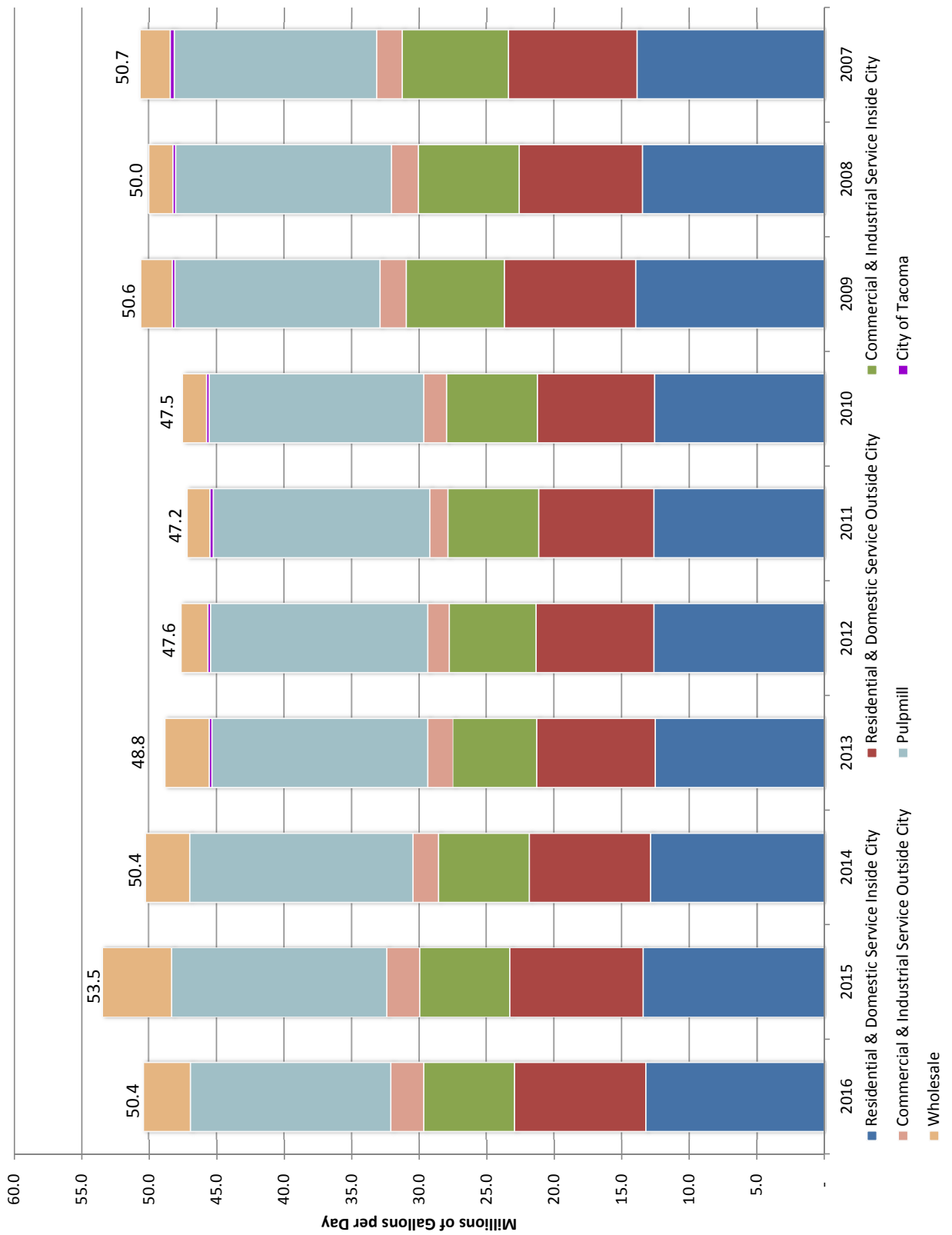
TOTAL OPERATING EXPENSES
Year to Date - December 2015
(\$63,588,011)



TEN-YEAR SUMMARY OF WATER SALES (MILLIONS OF \$)



TEN-YEAR SUMMARY OF WATER DEMAND (MGD)



TEN-YEAR SUMMARY OF O&M EXPENSE (MILLIONS OF \$)



2016 SUPERINTENDENT'S REPORT TACOMA WATER

Improved planning, community engagement, and emergency preparedness/response were the major themes of 2016 for Tacoma Water.

Community Engagement

Following the 2015 drought, starting the year with snow in the mountains was a welcomed event. Although spring came early and was unusually warm, snowpack and rainfall were adequate to support water demands and instream flows through the summer and fall. In spite of that, concerns regarding water supply were heightened in the community.

On the heels of asking customers to voluntarily reduce their water use to preserve flows for fish in the fall of 2015, a methanol plant requiring 10.4 million gallons per day of water (20% of our average day demand) announced their intent to locate in the Tacoma Tideflats. A vocal opposition to the project made the question of adequate water supply a primary issue with the intent to stop the project on that basis. Tacoma Water has a supply surplus that is projected to meet anticipated growth and development over the next 50 years with no new supplies needed. Although the proposed methanol plant would have been a significant new customer, the requested water use would have been available to meet their needs as was shared with the community through presentations, information and meetings. Ultimately, the plant proponents chose not to pursue the Tacoma location as a result of significant community opposition.

As a result of our experiences during the 2015 drought and the concerns expressed by the community about water supply, Tacoma Water developed a scope of work and consulting contract for an Integrated Resource Plan (IRP). The IRP will be a priority project in 2017.

As the country learned the extent of the lead issues in Flint, Michigan, all water systems took a deeper look at their own exposure and compliance. Tacoma Water generally has very little lead pipe in its system and effective corrosion control of its water sources. Even so, a series of high lead samples in the spring became a very public issue with considerable media and customer engagement. Tacoma Water took a proactive approach to engaging the media and customers throughout the process of further analyzing and understanding the cause of the concerning sample results, determining which customers were affected and developing solutions to resolve the problem. Tacoma received positive feedback from both customers and policymakers for being open and transparent throughout the event.

Emergency Preparedness

Given the sensitivity of lead in drinking water, when Tacoma Water found high lead levels in some voluntary sampling it did, an incident command structure (ICS) was implemented to oversee the handling of the event. This became a coordinated structure with local and State Health agencies. It was the first time Tacoma has used ICS to

manage a water quality event and the experience provided good insight into areas for improvement and challenges of coordinating with multiple agencies and policy makers. Overall use of ICS for this event helped to assure good coordination of activities, messaging and management of priorities.

Tacoma and the region are located in an area vulnerable to seismic activity and as such emergency preparedness for events such as earthquakes is very important to our service commitment to our customers. The City of Tacoma and Tacoma Public Utilities participated in a multistate exercise in June that was based on a 9.0 earthquake occurring just off the west coast along the 700 mile Cascadia Subduction Zone. The earthquake scenario included a large tsunami, landslides, and many aftershocks in the days and weeks following the initial earthquake. In the scenario, infrastructure for the region (including roads, communications, and healthcare) were significantly damaged and the death toll in the Pacific Northwest was projected to exceed 10,000. The Cascadia Rising exercise was an opportunity for governments at all levels (cities, counties, state agencies, and Federal officials, military and tribal nations) as well as non-governmental organizations and private companies to coordinate disaster operations, identify planning gaps and solidify relationships between response organizations. Tacoma Water fully participated in this comprehensive drill by involving over two thirds of our organization in the 3-day drill.

The exercise was a successful implementation of our emergency response plan, and many lessons were learned. The after action report and formalized lessons learned were documented and shared with City of Tacoma Emergency Management, Pierce County Department of Emergency Management, and State of Washington Department of Emergency Management. A performance improvement plan was developed and presented to the Public Utility Board.

Planning

Tacoma Water, through the development of our Asset Management Framework, and in addressing the initiatives identified in our Strategic Plan, has focused on improved planning and decision making, especially as it relates to the work we do on our infrastructure. As data becomes more available and analysis capabilities have expanded, strategic asset plans and maintenance strategies are driving decision making about the work that Tacoma Water performs on the system. Advancing planning and scheduling of operations and maintenance work was a significant 2016 effort along with further development of economic models to project optimal replacement timelines for system components. All of this enhanced planning and analysis became the foundation for capital business cases and decision making incorporated into the 2017/2018 budget request. The resulting budget proposal was successfully adopted by the Public Utility Board and City Council.

As a tribute to the progress Tacoma Water is making in the area of planning and decision making, we were honored to be recognized by one of the premier professional associations for drinking water utilities. Tacoma Water was one of 10 utilities nationally

to receive the Association of Metropolitan Water Agencies (AMWA) Platinum Award for Utility Excellence.

The award is based on ten attributes determined to define effective management: Strategic Business Planning, Measurement, Continual Improvement Management Framework, Product Quality, Customer Satisfaction, Employee and Leadership Development, Operational Optimization, Financial Viability, Infrastructure Stability, Operational Resiliency and Community Sustainability. Tacoma Water received recognition for:

- Strategic planning and execution
- Construction and startup of the Green River Filtration Facility
- Significant natural resource enhancements and habitat work in the Green River Watershed
- GIS implementation
- Asset management program development

The award is a reflection of Tacoma Water's focus on both day-to-day and long-term planning.

Strategy Management

Tacoma Water has addressed a number of the issues identified in the 2012 strategic plan, and continues to make strategic progress on the remaining areas. 2016 was our fourth year of using a Balanced Scorecard approach to manage strategic work. Each year the strategy map is updated to identify the strategic objectives that will be addressed in that year. Through strategy management efforts Tacoma Water has worked to ensure that the strategic work is prioritized, adequately resourced, actions are planned, progress measured, and issues resolved. This discipline was again put to the test in 2016 with the unanticipated lead effort that employees needed to be diverted to.

An impressive 18 initiatives were completed in 2016, which is a reflection of the substantial strategic progress Tacoma Water is making while continuing to provide a high level of reliable, safe, clean water at affordable rates to our customers. An example of one of the initiatives completed is the employee performance and development initiative. The water industry, as is the case with most businesses, is undergoing significant change due to technology, customer expectations and regulatory pressures. This affects the workplace and our employees. Tacoma Water, in its commitment in effectively supporting employees to adapt to all of this change, assigned a cross functional employee team to identify the knowledge, skills, information and tools needed by each of our employees to be successful in this new environment.

Over the past year, the team documented training and development currently available. This inventory identified a wealth of great ideas and approaches to employee development already taking place throughout our organization. Additionally, interviews with employees were conducted for their perspective on the topic.

The final report includes recommendations that will lead to individualized training plans for all of our employees and a number of other unique development programs. Further work in 2017 will flush out the program and management's commitment to employee development.

ASSET & INFORMATION MANAGEMENT

Asset Management

Tacoma Water made inroads into better understanding and documentation of current business processes associated with work management and the data that we collect on our assets.

Strategic Maintenance Management Program (SMMP)

Tacoma Water's SMMP is a strategic approach to our maintenance practices to ensure that we are doing the right maintenance on the right equipment at the right time. Doing so increases system reliability, lowers risk, provides better service for our customers, produces data needed to drive decision making and delivers long term value to our ratepayers. In 2016, the Asset Management group partnered with the Water Supply and Water Quality sections to focus attention on planning both preventative and corrective maintenance activities. As a result our maintenance library grew to include almost 200 maintenance procedures documented in SAP. These procedures document both the specific steps and tools and resources needed.

Buildings, Structures & Grounds Strategic Asset Management Plan (SAMP)

In 2016, the Buildings, Structures and Grounds SAMP produced, for the first time, a detailed registry in SAP of over 140 Tacoma Water buildings and structures. This registry also documents the building materials, construction types and site details (bathrooms, fencing, alarms, lighting, gutters, etc.). Additionally, each building or structure was photographed and an indexed photo library was created in Sharepoint that allows for easy search of these photos by site or by the type of equipment.

Business Process Documentation and Data Lifecycle

In support of planning and scheduling, Water Supply Operations and Maintenance group, defined roles and responsibilities associated with identifying, planning, completing and closing out work. This effort provided insight into current business processes and led to development of improved, formal work management. While it is not perfect, it continues to undergo improvements which suggest it is succeeding in being a living document.

In support of improving data integrity, two strategic initiatives were created to focus on the data lifecycle for our valves and pressure reducing valves. Cross functional teams from Finance, Maintenance, Operations, Information Management and Engineering backgrounds were formed to document the steps

in the lifecycle of these assets and determine what data/information is required and how it is kept current. The end result was an understanding of the amount of documentation required to maintain current records and an appreciation by all parties of the role played by each participant in the process.

Both of these efforts provided a glimpse into the amount of work that lays ahead for Tacoma Water as we seek to establish a more formal system of consistent work processes and data integrity.

Information Management

Smart Water Vision

In 2016, Tacoma Water had a goal to document Smart Water opportunities and options - specifically what solutions have been implemented around the world and how successful they have been. A Tacoma Water team reviewed industry literature, conducted a site visit to Halifax Water and attended Smart Water conferences to educate themselves on what is available. Their learnings and considerations for moving forward with Smart Water are captured in a report.

Big Bang

We completed the Big Bang project, populating the SAP keys on all of our service connections (meters). With the functional location, connection object and device location on each point, we are now able to acquire current address and other meter attributes directly from SAP, saving on manual entry and most importantly, ensuring our systems of record match. We started the year with 12,000+ targeted fixes and completed the project at the end of December with the help of several staff from Distribution Operations.

BlueWave (GIS)

Our GIS system continues to be updated to meet new needs of our workforce. Several improvements were implemented this year including an improved SAP interface, the addition of a new flushing application, 2015 imagery, project reports, and saved custom views. We also made progress towards a single sign-on, now using our network login for added system security. Four training sessions were held last summer to help staff transition to use of version 3 of the software. We continued our GPS project to improve the spatial accuracy of our maps. This highly successful project is a partnership between Distribution Engineering (GPS capture), Distribution Operations (locating) and Information Management (digital adjustments). During 2016, we completed 25 areas both in the county and in University Place. This work revealed 588 new services that were never mapped (acquired areas) and resulted in the completion of over 700 DOs.

Counter Maps Retired

The paper counter maps used at the Permit Counter were very out-of-date but had important hand-written notes on them that our staff needed to retain. In order

to address the concerns, transfer of the hand-written notes into permit notes on BlueWave was completed. The counter maps were also scanned and are now available for viewing by clicking on the map grid layer on BlueWave.

WATER QUALITY

Lead

In 2016, The Water Quality Section embarked on a project to solve a challenging objective: Determine the number and location of legacy lead goosenecks, and determine if they pose a threat to customers.

In April, 2016, initial testing results from the meter location to four homes showed high lead levels, triggering a major response and communication effort to determine the magnitude of the problem, and to provide customers timely and accurate information. We worked closely with our Community and Media Services Manager and staff, local and state public health officials, and other major water utilities to maintain consistent and clear messages as information developed.

We learned that our treatment processes are indeed effective at controlling lead corrosion. Our regulatory testing for lead and copper at over 70 homes in the summer of 2016 further confirmed this. However, we also learned that certain operational steps can liberate small particles of metal that contain lead, resulting in potential short term exposures. We have modified operational practice and advice to customers accordingly.

While this was a difficult period for the utility, the openness and directness of the response did receive positive reaction from regulators, utility and city leaders and some media.

To further bolster customer confidence, Tacoma Water initiated a program for in-house testing for any customer with concerns. At year end, 841 testing kits had been requested and mailed; 356 kits have been returned, and all but two results have been very low. Those two elevated results have been further investigated, a plumbing fixture was replaced in one case, and follow-up samples at both locations came back very low.

Filtration Operations

The Green River Filtration Facility completed its first full year of operation in 2016, and though minor modifications have been implemented along the way, the plant has continued to perform very well. Finished water quality is extremely consistent, and we have seen the dividends in that higher quality water through reduced chlorine need, reduced formation of regulated disinfection byproducts, better stability of chlorine to the far reaches of the system, greatly reduced deposition of silt and dirt in our distribution and storage systems.

Emergency Response Drills

The Watershed Management group led a planning effort and exercise in coordination with the Burlington Northern-Santa Fe railroad, and the US Army Corps of Engineers, simulating a locomotive derailment. We believe this to be an important risk issue, and this coordinated response is a strong step forward in preparedness in this area.

Water Quality personnel were also actively engaged in the Cascadia Rising exercise, and learning from that activity continues to shape our emergency response planning.

Water Supply Forum - Resiliency

In an unprecedented planning effort spanning three counties, the Water Supply Forum (Pierce County, King County and Snohomish County) came together to help the central Puget Sound region better prepare for the impacts of risks to water supply due to a variety of events. The project was driven by recognition on the part of the Forum members that the Central Puget Sound is susceptible to a variety of natural threats, such as earthquakes, severe storms, wildfires and drought, all of which have the potential to disrupt the delivery of safe and reliable water. Although the region's water utilities currently manage their own systems for a variety of risks, the Forum recognized the importance of leveraging regional resources to better prepare for potentially major water supply disruptions. Phase I of the project focused on evaluating risks to water supply and infrastructure under four phenomena: seismic, water quality, drought and climate change.

For each risk topic, a utility-led team was formed that included Forum representatives from multiple agencies, augmented by risk-area consultants. After 15 months of evaluations and collaboration, the risk teams have prepared a report of initial conclusions and recommendations. The report was published late in 2016.

Tacoma Water and the Forum were named by The Ash Center for Democratic Governance and Innovation at the John F. Kennedy School of Government, Harvard University as one of the 2017 Bright Ideas in Government initiative in government policies, initiatives and best practices.

The group was selected for its work across jurisdictional boundaries to identify potential challenges to the region's water supply and determining impacts and potential mitigation strategies with a goal of ensuring safe, reliable quality water to the region's 2.3 million residents and businesses.

Based on the Phase 1 recommendations, the Forum has identified additional evaluations for Phase 2 of the Resiliency Project to better understand water system vulnerabilities in the region and measures that could mitigate these risks. This work will begin in 2017.

WATER SUPPLY

Operational Wells

Well availability plays a critical role in ensuring adequate backup supply for the Green River, Tacoma's primary water source. In order to monitor and drive reliability of water supply we have begun to use the measure of "total minimum well capacity available" to ensure annual readiness under a range of conditions including drought and the potential loss of river supply due to a variety of events such as a treatment plant malfunction, intake failure, or poor river conditions. This new performance measure will drive maintenance and capital decisions related to the amount of backup well supply that will be available. In 2016, the total minimum well capacity available is based on comparing the Average Day Demand with the level of readiness achieved during the 2015 Drought (48 MGD approximately). An additional buffer of approximately 5-7 MGD was added to allow for mechanical failure of 1-2 wells while still maintaining the established capacity needs.

We have also changed our maintenance practices and priorities to dedicate our resources to the wells we use most often. Wells used less frequently have a lower priority for maintenance and attention.

Planning & Scheduling

We continue to create and improve Preventive Maintenance (PMs) plans for all maintenance work that we do. Many of the PMs that we have developed will need refinement and modification by the Strategic Asset Management Plans (SAMPs) moving forward, but they now form the backbone of how maintenance work is performed in Supply.

We currently generate over 60 percent of our work directly via SAP preventive or corrective orders. New asset management planning work in 2016 for buildings, structures, and rights-of-ways will improve the SAP generated maintenance orders to capture over 80 percent of our work. There are still many opportunities to improve and expand the work captured, and we will continue our efforts going forward.

Information from PM plans improved the inputs to the 2017/2018 budget proposal. We continue to develop strategic maintenance plans and perform more of our work through formal planning and scheduling. Data from the PMs will serve as an indicator of whether sufficient resources are available to complete needed work; it will also be the basis for the priorities requested in future budgets.

Microwave System

The West McDonald Ridge Microwave site was first established in 2012 and is a Tacoma Water owned and operated microwave relay station. The site relays SCADA and Corporate Network traffic between the main TPU administrative building and the Headworks facility and is located approximately two miles northwest of the Headworks facility.

Since its construction the site has been powered by two generators that alternate weekly to provide primary power. This was an interim solution while a more permanent power source was acquired. A Business Case Evaluation and alternatives analysis study was conducted to determine what the most cost effective method to provide reliable power would be. Alternatives investigated included: Solar, Wind Turbines, Hybrid renewable sources, Solid Oxide Fuel Cells and Hydrogen Fuel Cells. Although representative of some excellent technologies, constructing an underground medium voltage utility power source was determined to be the preferred alternative.

The new medium voltage power feeder to the Microwave site was constructed in 2016. The project involved installing 3,100 feet of buried conduits, utility vaults, installation and testing of medium voltage power cable, exposing and intercepting the existing utility power feeder, and installing the transformer. The project scope also included redirecting the power feeder and the subsequent construction of 900' of new forest road and improved turn-around and parking capabilities.

Construction and testing was completed in mid-November of 2016. The generators were finally turned off (after each ran for over 17,000 hours) and the site now has permanent power fed from a medium voltage underground distribution feeder.

Water Rights

Tacoma Water has a number of water rights in our source portfolio. We have two surface water rights – the First Diversion Water Right (FDWR) and the Second Diversion Water Right (SDWR) – that rely on storage and release of water to satisfy regulatory conditions. We also have numerous groundwater rights that play an important part in our source portfolio. As we embark on the Integrated Resource Plan and Water System Plan in 2017, and with the drought of 2015 still very fresh in our minds, a firm understanding of these foundational source documents is essential.

We have undertaken a legal review with an outside legal source to ensure that the current legal and regulatory landscape with regard to water rights is fully understood and able to be factored into our planning. The research will check for cases and legal authorities in other jurisdictions regarding federal projects and water rights issues similar or comparable to ours. Documents from Tacoma Water, the Washington State Department of Ecology, and federal agencies will also be considered in our review. In 2016, we submitted applications to extend 3 groundwater rights in permit status, and are continuing to work towards perfection of the Second Diversion Water Right (SDWR) on the Green River.

WATER RATES & FINANCIAL PLANNING

Budget Development and Adoption

Tacoma Water's 2017-2018 biennial budget was unanimously adopted by the City Council on November 22nd, 2016. This budget was developed by staff across Tacoma Water, and features a 4.0% system-wide average annual rate increase and a \$48 million biennial capital budget. This capital budget was developed using business case

evaluations that document the justification for each capital planning decision, with projects of \$200,000 or more receiving the most rigorous alternatives analyses.

Project Management

In order to improve our ability to deploy capital projects and achieve organizational visibility into their status, we did significant work on strategic initiatives to develop a capital project management framework for Tacoma Water. "Project Status Reports" were developed for a sample set of capital projects in 2016, which provide quarterly insights into scope, schedule, budget and resourcing, identifies risks and issues as well as the current strategy to mitigate for them. A cross-functional team developed an action plan for the full deployment of project management tools, capabilities and programs for Tacoma Water. Intermediate project management training was also provided to that group. This work lays the foundation for further development in coming years, to include the expansion of project management principles to include more than just capital projects.

Economic Development Study

Tacoma Water hired FCS GROUP to provide an independent economic competitiveness assessment and expert review of cost of service rates. The findings are intended to provide policymakers with current information regarding customer trends, demographic/economic forecasts, cost of service, comparative water rates and charges, and a basis for system development charge (SDC) adjustments. With this economic review and analysis future decisions to alter Tacoma Water's fees and charges will be informed with a broad economic understanding of our service territory and its competitiveness from an economic development perspective. Tacoma Water reviewed findings from this work with the Public Utility Board in late 2016. Staff will bring some of these findings back as part of a more comprehensive policy package in 2017 for Board consideration.

Advanced Metering Infrastructure

Advanced Metering Infrastructure (AMI) has been under consideration at TPU for about 10 years, and during that time the cost of the technology has fallen as the capabilities have increased. In 2016, Tacoma Water participated in the development of a TPU business case evaluation of a joint water and power deployment of AMI. Additionally, a water-specific business case evaluation was also conducted to further clarify the potential benefits that can be realized from implementation of this technology. These business case evaluations provided a preliminary indication that AMI cannot be justified using strictly quantifiable benefits. But because this technology enables the potential realization of a host of softer benefits, it could be justifiable if we can develop a robust plan to achieve those softer benefits. In 2016, TPU began the development of those plans, to include program governance and charters for an AMI program.

Demand Forecast Updated

In support of improved system and financial planning, Tacoma Water developed two distinct demand forecasts with differing objectives in mind, each of which was addressed by a separate model, developed with a slightly different methodology. (1)

The Short-Term Forecast focuses on revenue-generating demand and accounts to project revenue for a 10-year planning horizon. This forecast informs the establishment of the revenue requirement, and aids in conducting the cost of service analysis and rate design efforts. (2) The Long-Term Forecast examines potential source-of-supply constraints and wholesale/large volume customer contracting demand risks when used in conjunction with the Tacoma Water Supply group's Source-of-Supply Model. Both models in 2016 were streamlined, semi-automated, and updated with current data to provide Tacoma Water more timely and actionable forecasting results. In addition to structural improvements, staff worked to improve the accessibility and transparency of the models by uploading the results and models to SharePoint and incorporating the results into live displays on SharePoint.

DISTRIBUTION ENGINEERING

One-Stop Permitting

Tacoma Public Utilities consolidated all services to the main floor lobby which included Tacoma Water's customer support counter. A new Qmatic queuing system was installed to serve walk-in customers and eliminate the customer experience of waiting in line. New conference rooms were built, paper forms were automated, and data was consolidated from various computer systems for ease of use. Improvements to the phone system resulted in less hold/wait time and better customer satisfaction.

Conservation and Efficiency Programs

Tacoma Water helped residential customers save water and reduce their bills by giving out over 900 water efficient showerheads and over 800 sink aerators. Our rebate program for commercial and industrial customers remains strong, and includes the completion of a water-recycling laundry facility at Pierce County Jail. This project will save over 2 million gallons of water per year. Our staff attended nearly 30 community events in 2016, engaging with citizens and community members on topics of water conservation.

System Acquisition

In November 2016, the membership of the Curran Road Mutual Water Association voted in favor of negotiating an acquisition agreement with Tacoma Water. Curran Road is a long standing wholesale customer with more than 620 service connections. As part of the acquisition, Tacoma Water proposes to make \$12M in system improvements over an 8-10 year period. The cost of the system improvements will be paid for through a customer surcharge. By transitioning the Curran Road wholesale account to 620 retail accounts, Tacoma Water will increase annual revenue by \$100K/year.

Main Replacement Program

8.3 miles of new distribution main was added to the system and 26 design plans were completed for new developments. Approximately 3.2 miles of distribution main were replaced in 2016 as prioritized through our distribution main economic model. The continued use and refinement of our economic model allowed Distribution Engineering

to complete more than 30 business cases and various other studies to provide input to our 17/18 biennial budget planning.

Distribution Engineering reviewed more than 100 street sections identified for paving with Proposition 3 funding by the Department of Public Works. During review of the street sections, Distribution Engineering assessed Tacoma Water's assets to determine if water mains, valves, or hydrants needed to be replaced prior to paving.

Tacoma Water has worked with the Department of Public Works and Sound Transit to develop 60% plans for the expansion of the Tacoma Light Rail system. Due to the location of the proposed tracks, more than a mile of water main will need to be replaced to facilitate the construction of the Light Rail Extension. Tacoma Water staff has coordinated our design with that of the Sound Transit consultant, in an effort to minimize errors during construction.

Condition Assessment

Tacoma Water completed two contracts for non-invasive condition assessment testing on asbestos cement water mains. Between the two contracts more than 17 miles of water main were tested. The condition assessment information will be used to inform future business case evaluations.

Decant Facility

Tacoma Power and Tacoma Water have collaborated to construct a shared facility in which the water/soil mixture resulting from vacuum hydro excavation is properly managed. In response to concerns from the Tacoma Pierce County Health Department, the new facility will comply with requirements for the handling of solid waste, and protect groundwater resources in the South Tacoma Groundwater Protection District. In conjunction with the new decant facility, Tacoma Water developed a soil management plan that provides clear direction to staff as to how soil excavated on Tacoma Water projects is to be sampled, tested, handled and ultimately disposed of.

DISTRIBUTION OPERATIONS

Construction

New water service installations were down slightly from the previous year at 844 and the number of new meter installs increased significantly to 1,037. The numbers reflect steady pattern of growth over the past few years.

Operations

In 2016 the system experienced 36 main breaks with an average response time of 44 minutes. This is well below industry averages and reflects a highly reliable water system.

Soils Management

In conjunction with Tacoma Power and while permitting and final plans are being developed for a permanent facility, a temporary Vector truck decant facility was permitted and constructed.

Meters

A program to replace meters with extremely high consumption to assure they are accurately registering usage resulted in 3,765 new meters.

360 meter exchanges for meters are no longer working. Of that number, 66 were new non-mechanical (electromagnetic) meters.

Flushing

The unidirectional flush teams cleaned 273 miles of main in 2016, approximately 20% of the distribution system. Additionally 2,135 dead end mains were flushed.

Planning

In 2016, Distribution Operations engaged a consultant to complete an assessment of planning and scheduling of work and recommended next steps for improving how we plan and schedule our work. Results of the assessment were shared with all Distribution Operations staff in report format and discussed during crew meetings.

The assessment, completed in June, included a review of documents, schedules and processes gathered during interviews with more than 40 employees representing operations, maintenance, engineering and our water warehouse. Beginning in 2017, work to take the next steps will begin. A steering committee will guide the effort and will first create the change management plan, communication plan and a complete process documentation study.

Safety

A heightened focus on safety resulted from the review of benchmarks for injury incidents and lost time accidents at Tacoma Water versus at other water utilities. Our performance is not what we would like it to be. In order to improve our safety outcomes we will be involved in a safety program assessment for Tacoma Public Utilities in 2017. Safety culture awareness was enhanced with attendance at monthly safety meetings by water managers. At least one manager will attend and participate in each meeting. Monthly safety huddles were conducted with each work group on a range of topics. Impromptu safety audits were conducted by safety committee members and identification of opportunities for improvements were discussed with responsible persons.

Linda McCrea
Water Superintendent



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.

ANNUAL

TACOMA RAIL

2016

**FINANCIAL
REPORT**



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DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

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DEPARTMENT OF PUBLIC UTILITIES

TACOMA RAIL

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FINANCIAL DATA

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Rail Division (the Division), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 5 through 10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data presented on pages 33 through 44 and the superintendent's report presented on pages 45 through 46 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.



Tacoma, Washington

April 19, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Rail's financial performance provides an overview of the financial activities for the years ended December 31, 2016 and 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the 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 generally accepted accounting principles (GAAP) 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, 2016 and 2015, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of Tacoma Rail's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position 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, capital and related financing, non-capital financing and investing activities.

The Notes to 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 Tacoma Rail's presentation of financial position, results of operations and changes in cash flow.

The Division adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. The statement provides guidance for determining fair value to certain investments and disclosures related to all fair value measurements, and requires accounting for investments at fair value (See note 3).

Financial Highlights

Tacoma Rail continued to meet its goal of providing efficient, cost-effective rail service to the Ports of Tacoma and Olympia as well as Tacoma's industrial areas. Doing so required a continued investment in infrastructure and enforcing a disciplined tactical plan to respond to growth in local, national and world economies as they pertain to the rail industry.

The operating results for Tacoma Rail in 2016 indicate an increase in both intermodal platform traffic and non-intermodal traffic. The intermodal increase is due to the International Longshore and Warehouse Union (ILWU) and Pacific Maritime Association (PMA) negotiations in 2015. The increase also coincides with the continued consolidation of ocean shipping lines and realignment of vessel-sharing agreements

due to the formation of the Northwest Seaport Alliance (NWSA). Non-intermodal traffic increased as three of the top four largest non-intermodal customers experienced more than 9 percent growth. Capital Division volumes decreased due to the loss of the Belmore, Olympia, and Quadlok lines. Locomotive servicing improved due to both the Union Pacific (UP) and Burlington Northern and Santa Fe Railway's (BNSF) increased demand for the service.

Overview of the Financial Statements

Tacoma Rail is reporting a change in net position of \$2.0 million in 2016, compared to \$2.8 million in 2015, a decrease of \$0.8 million. The decrease in net position is predominately due to an increase of \$1.7 million in operating revenues, an increase of \$2.8 million in operating expenses, and an increase in non-operating revenues of \$0.4 million.

In 2015, Tacoma Rail realized a change in net position of \$2.8 million, compared to \$2.0 million in 2014, an increase of \$0.8 million. The increase in net position was due to a decrease of \$0.3 million in operating revenues, a decrease of \$0.8 million in operating expenses, and a decrease of \$0.3 million in transfers out.

The following table highlights Tacoma Rail's past three years' operating results.

<u>Description</u>	OPERATING RESULTS (in thousands)			16/15	15/14
	<u>2016</u>	<u>2015</u>	<u>2014</u>	Increase (Decrease)	Increase (Decrease)
Operating Revenues	\$ 30,827	\$ 29,165	\$ 29,457	\$ 1,662	\$ (292)
Operating Expenses	28,608	25,806	26,563	2,802	(757)
Operating Income	2,219	3,359	2,894	(1,140)	465
Net Non-Operating Revenues	1,425	1,061	991	364	70
Contributions	939	846	878	93	(32)
Transfers Out	(2,591)	(2,455)	(2,751)	(136)	296
Change in Net Position	\$ 1,992	\$ 2,811	\$ 2,012	\$ (819)	\$ 799

Net position may serve over time as a useful indicator of an entity's financial position. The following analysis highlights net position for the last three years.

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>16/15 Increase (Decrease)</u>	<u>15/14 Increase (Decrease)</u>
Capital Assets (Net)	\$ 28,217	\$ 24,748	\$ 21,059	\$ 3,469	\$ 3,689
Current and Other Assets	14,026	14,909	16,029	(883)	(1,120)
Total Assets	\$ 42,243	\$ 39,657	\$ 37,088	\$ 2,586	\$ 2,569
Net Investment in Capital Assets	\$ 22,003	\$ 18,246	\$ 16,023	\$ 3,757	\$ 2,223
Restricted Net Position	65	65	65	-	-
Unrestricted Net Position	6,966	8,731	8,142	(1,765)	589
Total Net Position	29,034	27,042	24,230	1,992	2,812
Long-Term Debt, net of current maturities	5,397	5,556	4,483	(159)	1,073
Current and Long Term Liabilities	7,812	7,059	8,375	753	(1,316)
Total Liabilities	13,209	12,615	12,858	594	(243)
Total Net Position & Liabilities	\$ 42,243	\$ 39,657	\$ 37,088	\$ 2,586	\$ 2,569

Revenues

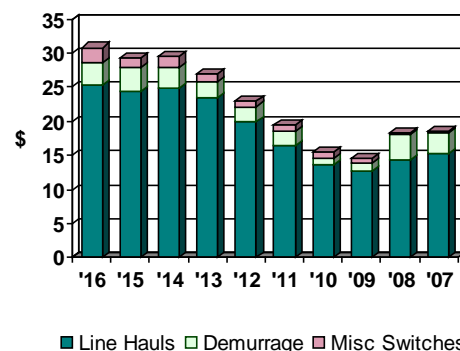
2016 Compared to 2015

In 2016, Tacoma Rail operating revenues of \$30.8 million were \$1.7 million higher than the \$29.2 million in 2015. Overall switching revenues increased \$1.7 million (6.7%), from 2015. The following table summarizes the switching revenues by activity type for the last two years.

<u>Activity Types</u>	<u>Rail Cars</u>				<u>Switching Revenues (in thousands)</u>			
	<u>2016</u>	<u>2015</u>	<u>Var</u>	<u>% Chg</u>	<u>2016</u>	<u>2015</u>	<u>Var</u>	<u>% Chg</u>
Intermodal Line Hauls	76,714	68,453	8,261	12.1%	\$ 12,718	\$ 11,440	\$ 1,278	11.2%
Commercial Line Hauls	29,583	29,091	492	1.7%	12,643	12,147	496	4.1%
Capital Div. Line Hauls	762	1,733	(971)	(56.0%)	323	748	(425)	(56.8%)
Miscellaneous Switches	3,863	2,896	967	33.4%	1,734	1,356	378	27.9%
Total Line Hauls	110,922	102,173	8,749	8.6%	\$ 27,418	\$ 25,691	\$ 1,727	6.7%

Demurrage and other operating revenues decreased \$65,000. Demurrage revenue decreased by \$329,000 and locomotive servicing revenue and other revenue increased \$264,000. This was due to both the Union Pacific and BNSF's increased demand for locomotive servicing.

**OPERATING REVENUES
(in millions)**



2015 Compared to 2014

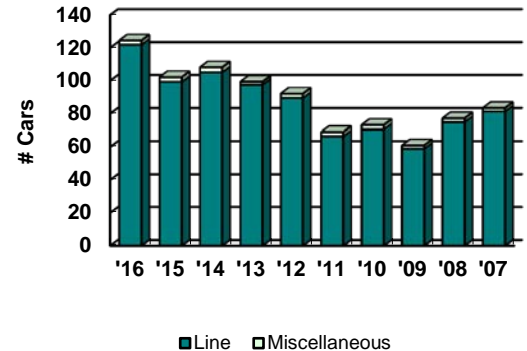
In 2015, Tacoma Rail operating revenues of \$29.2 million were \$292,000 lower than the \$29.5 million in 2014. Overall switching revenues decreased \$804,000 (3.0%), from 2014.

Switching Activities

Switching activities increased in 2016 by 8,749 cars (8.6%) to 110,922, from 102,173 in 2015. The most significant increase in switching activity can be seen in intermodal line-hauls which were up by 8,261 cars (12.1%) due to an increase in intermodal line haul rail traffic. The average number of cars switched over the last ten years is 87,638.

During 2015, total switching activities decreased by 5,964 cars (5.5%) from 2014. The decrease in commercial line-haul rail traffic was the dominant factor. Commercial line-hauls were down by 3,005 cars (9.4%) in 2015.

SWITCHING ACTIVITIES
(in thousands)



The table below shows the changes in switching volumes for the last three years.

SWITCHING ACTIVITIES

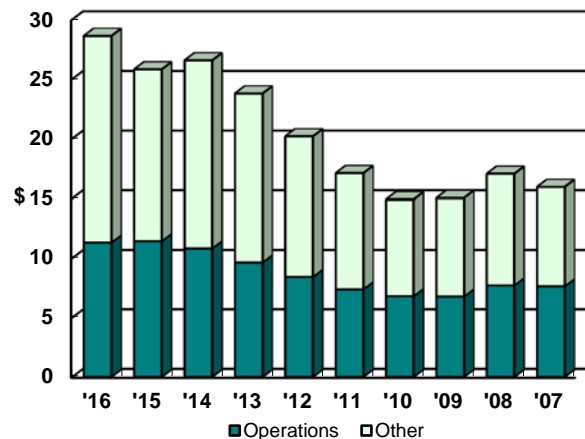
<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>16/15</u>	<u>15/14</u>
				<u>Increase</u>	<u>Increase</u>
				<u>(Decrease)</u>	<u>(Decrease)</u>
Line Hauls	107,059	99,277	105,079	7,782	(5,802)
Miscellaneous Switches	3,863	2,896	3,058	967	(162)
Total Cars Switched	110,922	102,173	108,137	8,749	(5,964)

Expenses

2016 Compared to 2015

In 2016, Tacoma Rail operating expenses of \$28.6 million were \$2.8 million higher than the \$25.8 million in 2015. Salaries and wages decreased \$0.2 million due to a decrease in personnel. Supplies and expenses increased \$2.7 million, of which Incurred But Not Reported (IBNR) claims increased \$1.2 million predominately due to a credit adjustment in 2015; volume incentives increased \$0.7 million; repair and maintenance increased \$0.4 million; and fleet replacement fees increased \$0.4 million.

OPERATING EXPENSES
(in millions)



2015 Compared to 2014

In 2015, Tacoma Rail operating expenses of \$25.8 million were \$0.8 million lower than the \$26.6 million in 2014. This was primarily due to an increase of \$2.0 million in salaries and wages and decrease of \$2.9 million in supplies and expenses. Salaries and wages were higher due to an increase in personnel, an increase in cost of benefits and a new labor agreement with the largest union at Tacoma Rail. The decrease in supplies and expenses was mainly attributable IBSR claims decrease of \$2.4 million and a decrease of \$0.4 million of capitalized administrative and general (A&G) expenses.

Capital Assets

At the end of 2016, Tacoma Rail had \$28.2 million in net utility plant, an increase of \$3.5 million from 2015. This increase was reflected primarily in machinery equipment which increased by \$2.1 million due to the 2014 Locomotive Repower/Replacement project completed in 2016. Road property plant increased \$0.9 million for track upgrades and rehabilitation projects such as East Lead Low Side, Edwards Crossover, Alexander Wye Crossing, Taylor Way Wye, and the SR-509 Track Rebuild.

At the end of 2015, Tacoma Rail had \$24.7 million in net utility plant, an increase of \$3.7 million from 2014. This increase was reflected primarily in road property plant which increased by \$4.7 million due to track upgrades and rehabilitation projects such as the SR-509 track rebuild, Port of Tacoma RR crossing, Taylor Way Wye and West Loop. Machinery and equipment increased \$0.4 million due to the purchase of a Ballast Regulator.

The following table summarizes Tacoma Rail's capital assets, net of accumulated depreciation, for the last three years.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (in thousands)

<u>Description</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	16/15	15/14
				Increase	Increase
				<u>(Decrease)</u>	<u>(Decrease)</u>
Land	\$ 167	\$ 160	\$ 160	\$ 7	\$ -
Road Property Plant	14,928	14,951	10,926	(23)	4,025
Building	2,040	1,614	1,711	426	(97)
Machinery Equipment	8,702	7,051	7,102	1,651	(51)
Office and Fixture	126	156	160	(30)	(4)
Construction Work In Progress	2,254	816	1,000	1,438	(184)
Total Net Capital Assets	<u>\$ 28,217</u>	<u>\$ 24,748</u>	<u>\$ 21,059</u>	<u>\$ 3,469</u>	<u>\$ 3,689</u>

Additional information on Tacoma Rail's capital assets can be found in Note 4 to the Financial Statements.

Debt Administration

In 2016, no new Washington State loans from the Department of Transportation were obtained. Draws were taken in 2016 on Edwards Crossover Rehabilitation, East Lead Low Side Rebuild, and Transfer Yard Connection (Phase 3) in the amounts of \$119,550, \$404,465 and \$115,029 respectively.

In 2015, Tacoma Rail obtained five new Washington State loans from the Department of Transportation for the following capital track projects: Taylor Way Wye rehabilitation \$311,457, Edwards Crossover rehabilitation \$156,997, East Lead Low Side rebuild \$469,270, West Lead High Side rebuild \$369,518 and Transfer Yard connection \$150,000. No funds have been drawn on these projects. Draws were taken in 2015 on Taylor Way Wye Track Rehabilitation & Extension, West Loop and SR509 track improvement in the amounts of \$594,793, \$515,770 and \$908,632 respectively.

The following table shows the outstanding long-term debt balances for the past three years. Additional information on Tacoma Rail's long-term debt can be found in Note 5 to the Financial Statements.

	LONG-TERM DEBT			16/15	15/14
	(in thousands)			Increase	Increase
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
Long-Term Debt Balance, December 31	\$6,213	\$6,502	\$5,036	(\$289)	\$1,466

Debt Service Coverage

Tacoma Rail is required by its bond covenants to maintain a 1.25 times debt service coverage. In 2016, principal and interest were covered 19.68 times compared to 21.75 times in 2015 and 19.16 times in 2014.

Summary

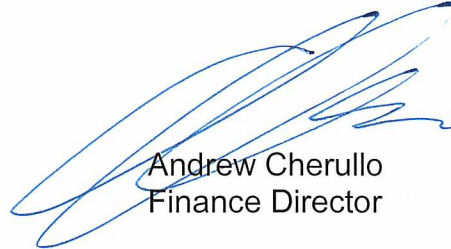
The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray Tacoma Water's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information.

The financial statements have been audited by Moss Adams LLP. 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



Andrew Cherullo
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF NET POSITION

ASSETS	DECEMBER 31,	
	2016	2015
CAPITAL ASSETS		
Road and Equipment Property	\$44,809,760	\$41,306,956
Less Accumulated Depreciation	(18,847,293)	(17,374,337)
Total	25,962,467	23,932,619
Construction Work in Progress	2,254,277	815,769
Net Capital Assets	28,216,744	24,748,388
SPECIAL FUNDS		
Debt Service Funds	64,974	64,861
Total Special Funds	64,974	64,861
CURRENT ASSETS		
Cash & Equity in Pooled Investments	7,986,328	9,095,985
Customer Accounts Receivable	3,133,279	2,839,515
(Net of Allowance for Doubtful Accounts of \$93,597 in 2016 and \$182,772 in 2015)		
Interfund Receivable	9,827	53,051
Prepayments	1,807,210	1,917,733
Materials and Supplies Inventory	1,024,333	937,461
Total Current Assets	13,960,977	14,843,745
TOTAL ASSETS	\$42,242,695	\$39,656,994

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

	DECEMBER 31,	
NET POSITION AND LIABILITIES	2016	2015
NET POSITION		
Net Investment in Capital Assets.....	\$22,003,325	\$18,246,395
Restricted for:		
Debt Service	64,974	64,861
Unrestricted	6,965,599	8,730,405
TOTAL NET POSITION	<u>29,033,898</u>	<u>27,041,661</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
2006 Senior Lien Revenue Bond	-	64,238
State Loans.....	5,397,028	5,492,064
Total Long-Term Debt	<u>5,397,028</u>	<u>5,556,302</u>
CURRENT LIABILITIES		
Accounts Payable	885,690	536,827
Customer Deposits	10,500	45,900
Wages Payable and Compensated Absences	279,822	243,713
Unemployment and Other Tax Payables	290,010	273,464
Volume Incentive Payable	1,249,999	1,208,334
Current Portion of Long-Term Debt	816,390	945,691
Interest Payable	866	4,214
Interfund Payable	260,518	185,446
Total Current Liabilities	<u>3,793,795</u>	<u>3,443,589</u>
LONG-TERM LIABILITIES		
On the Job Injury Reserve	773,407	721,029
Long-Term Portion of Compensated Absences	1,003,644	1,018,056
Other Post Employment Benefits	1,001,889	695,629
Incurred but not Reported Claims	1,239,034	1,180,728
Total Long-Term Liabilities	<u>4,017,974</u>	<u>3,615,442</u>
TOTAL LIABILITIES	<u>13,208,797</u>	<u>12,615,333</u>
TOTAL NET POSITION AND LIABILITIES	<u><u>\$42,242,695</u></u>	<u><u>\$39,656,994</u></u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2016	2015
OPERATING REVENUES		
Switching Revenues	\$27,417,653	\$25,690,797
Demurrage and Other Operating Revenues	3,409,347	3,474,443
Total Operating Revenues	30,827,000	29,165,240
OPERATING EXPENSES		
Maintenance of Way and Structures	2,963,532	2,507,631
Mechanical	4,712,661	4,640,554
Operations	11,304,238	11,425,661
Administration	7,715,637	5,594,322
Taxes - State	439,317	417,135
Depreciation	1,472,956	1,220,882
Total Operating Expenses	28,608,341	25,806,185
Net Operating Income	2,218,660	3,359,055
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	86,126	51,379
Miscellaneous	1,347,695	1,032,046
Interest Expense	(8,542)	(21,678)
Total Non-Operating Revenues	1,425,279	1,061,747
Contributions - Grants	801,949	587,480
Contributions - Others	137,686	258,583
Total Contributions	939,635	846,063
Transfers		
City of Tacoma Gross Earnings Tax	(2,591,337)	(2,410,016)
Transfers to Other Funds	-	(45,378)
Total Transfers	(2,591,337)	(2,455,394)
CHANGE IN NET POSITION	1,992,237	2,811,471
TOTAL NET POSITION - BEGINNING OF YEAR	27,041,661	24,230,190
TOTAL NET POSITION - END OF YEAR	\$29,033,898	\$27,041,661

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

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	DECEMBER 31, 2016	DECEMBER 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$30,541,060	\$29,319,675
Cash Paid to Suppliers	(10,258,991)	(9,938,384)
Cash Paid to Employees	(15,509,184)	(15,908,933)
Taxes Paid	(422,771)	(425,106)
Net Cash Provided by Operating Activities	4,350,114	3,047,252
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(2,591,337)	(2,455,394)
Net Cash Used in Non-Capital Financing Activities	(2,591,337)	(2,455,394)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, Net	(4,941,312)	(4,910,461)
Principal Payments on Long-Term Debt	(932,991)	(553,009)
Interest Paid	(11,890)	(24,853)
Proceeds from Capital Contributions	939,635	846,063
Proceeds from Long-Term Debt	644,415	2,019,195
Proceeds from Other Non-Operating Revenues	1,347,695	1,032,046
Net Cash Used in Capital and Related Financing Activities	(2,954,448)	(1,591,019)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	86,126	51,379
Net Cash Provided by/(Used in) Investing Activities	86,126	51,379
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(1,109,544)	(947,782)
Cash & Equity in Pooled Investments at January 1	<u>9,160,846</u>	<u>10,108,628</u>
Cash & Equity in Pooled Investments at December 31	<u><u>\$8,051,302</u></u>	<u><u>\$9,160,846</u></u>

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

	YEAR TO DATE DECEMBER 31, 2016	YEAR TO DATE DECEMBER 31, 2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$2,218,660	\$3,359,055
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,472,956	1,220,882
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable	(293,764)	104,243
Interfund Receivable	43,224	50,192
Materials and Supplies Inventory	(86,872)	(52,061)
Prepayments	110,523	70,578
Accounts Payable	348,863	(707,622)
Customer Deposits	(35,400)	-
Unemployment and other Tax Payables	16,546	(7,971)
Wages Payable and Compensated Absences.....	36,109	(315,145)
Volume Incentive Payable	41,665	291,668
Interfund Payable	75,072	(314,841)
Long-Term Portion of Compensated Absences	(14,412)	117,448
On the Job Injury Reserve	52,378	24,246
Other Post Employment Benefits	306,260	332,565
Incurred but not Reported Claims	58,306	(1,125,985)
Total Adjustments	<u>2,131,454</u>	<u>(311,803)</u>
Net Cash Provided by Operating Activities	<u>\$4,350,114</u>	<u>\$3,047,252</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$64,974	\$64,861
Cash and Equity in Pooled Investments in Operating Funds	<u>7,986,328</u>	<u>9,095,985</u>
Cash and Equity in Pooled Investments at December 31	<u>\$8,051,302</u>	<u>\$9,160,846</u>

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**CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL**

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA RAIL - Tacoma Rail (the Division) is a division of the City of Tacoma, Department of Public Utilities, which also operates the Light and the Water Divisions and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. Tacoma Rail provides rail switching services to the Port of Tacoma and major Tacoma industries under its Tidelands Division. Tacoma Rail also provides rail service from its Capital Division. The Capital Division interchanges rail cars with BNSF in East Olympia. No traffic for the Capital Division enters Tacoma Rail's Tidelands infrastructure. In addition, Tacoma Rail manages the Mountain Division which is a reporting unit within Public Works and is included in the CAFR. Tacoma Rail is reimbursed for direct expenses. An operating agreement between Tacoma Rail and the Mountain Division is in place through 2017.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with GAAP issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and are maintained on the accrual basis of accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

CASH AND EQUITY IN POOLED INVESTMENTS – The Division's cash balances are a "deposit" with the City Treasurer's Tacoma Investment Pool (TIP) for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the TIP are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Position. Interest earned on such pooled investments is allocated daily to the participating funds based on each fund's daily equity in the TIP.

The TIP operates like a demand deposit account in that all City departments, including the Division, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 RCW), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and in certificates of deposit with East West Bank and Opus Bank.

The Division's equity in that portion of City Tacoma Investment Pool held in qualified public depositories at December 31, 2016 and 2015 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. The City of Tacoma investment policy allows for authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the FDIC insurance up to \$250,000. All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

CUSTOMER ACCOUNTS RECEIVABLE - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally accounts receivable are considered past due after 30 days.

INTERFUND TRANSACTIONS - Unsettled transactions between funds at year-end are recorded as due to or due from other funds.

MATERIALS AND SUPPLIES INVENTORY - Materials and supplies consist primarily of items for maintenance of Division assets and are valued at the lower of average cost or fair market value.

SPECIAL FUNDS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council.

CAPITAL ASSETS AND DEPRECIATION – Capital assets are stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using the straight-line method at the beginning of the year and based on estimated economic lives of operating assets placed in service as follows:

Roads RR & bridges	7 – 20 years
Building	10 – 25 years
Machinery Equipment	10 – 25 years
Office and Fixture	5 – 20 years

CONSTRUCTION WORK IN PROGRESS – Capitalizable costs incurred on projects which are not in service or ready for use are held in construction work in progress. When the asset is ready for service, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

CONTRIBUTIONS - In accordance with GASB No. 33, Accounting and Financial Reporting for Non-exchange Transactions, grants and contributions are recorded as contribution revenue.

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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 accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees 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. Sick leave pay is recorded as a liability and an expense in the year earned.

The accrued liability is computed at 100% vacation and PTO while sick leave is accrued at 10%, which is considered the amount vested or 25% if the employee meets retirement criteria. Based on historical information, 10% of compensated absences are considered short term.

OPERATING 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. Revenues are based on services rendered through the end of the year.

NON-OPERATING REVENUES AND EXPENSES - These are items that do not qualify as operating defined above.

TAXES – The City charges the Division Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays business and occupation tax to the State at the rate of 1.8% on service revenues. The Division is exempt from payment of federal income tax.

NET POSITION – The Statement of Net Position reports all financial and capital resources. The difference between assets and liabilities is net position. There are three components of net position: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets less accumulated depreciation reduced by the outstanding balances of any bonds, loans or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Net position components are restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position components are those that are not “net investment in capital assets” or “restricted”.

SHARED SERVICES – The Division receives certain services from other departments and agencies of the City including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies.

USE OF ESTIMATES - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post-Employment Benefits (OPEB), self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

ON THE JOB INJURY RESERVE - Liabilities for claims are initially recorded when the expected loss is both probable and reasonably estimated. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. Liabilities recorded for unasserted on the job injury claims are based on information currently available. Estimates of liabilities for on the job injury claims are undiscounted.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, general economic conditions, fuel supply availability and rising fuel prices, weather and natural disaster-related disruptions, collective bargaining labor disputes, federal government regulations such as Federal Railroad Administration and Environmental Protection Agency or orders concerning the operation, maintenance and/or licensing of facilities, transportation of chemicals and other hazardous materials, acts of terrorism, war, or risk of war.

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE - The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 – Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.
- Level 2 – Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- Level 3– Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations are provided by Interactive Data. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, Interactive Data's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, Interactive Data uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and development payment scenarios. Their models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

Source: Interactive Data "Summary of Inputs by Asset Class Fixed Income Evaluations, Fair Value Information Service and Valuations of Certain Other Instruments" dated January 2016

Cash and cash equivalents include highly liquid investments including short-term investment funds. Cash and cash equivalents are valued at cost and, therefore, excluded from the fair value schedule.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Data regarding the City's investments, valued and categorized according to the above outlined levels, is below:

Debt Securities	As of			
	12/31/2016	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 146,824,628	\$ -	\$ 146,824,628	\$ -
U.S. Agency Securities	544,579,831	-	544,579,831	-
Municipal Bonds	61,450,051	-	61,450,051	-
Total	\$ 752,854,510	\$ -	\$ 752,854,510	\$ -

Debt Securities	As of			
	12/31/2015	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 108,647,159	\$ -	\$ 108,647,159	\$ -
U.S. Agency Securities	541,730,184	-	541,730,184	-
Municipal Bonds	119,200,942	-	119,200,942	-
Total	\$ 769,578,285	\$ -	\$ 769,578,285	\$ -

Tacoma Rail's share of the City Investments shown in the table above is 1.16% and 1.14% for 2016 and 2015.

NOTE 4 CAPITAL ASSETS - A summary of the balances and changes in capital assets for 2016 and 2015 follows:

	Balance			Transfers & Adjustments	Balance
	December 31, 2015	Additions	Retirements		December 31, 2016
Land	\$ 160,456	\$ 6,800	\$ -	\$ -	\$ 167,256
Road Property Plant	25,818,064	867,553	-	-	26,685,617
Building	3,916,280	540,764	-	-	4,457,044
Machinery Equipment	10,726,901	2,087,300	-	-	12,814,201
Office and Fixture	685,255	387	-	-	685,642
Total Capital Assets In Service	41,306,956	3,502,804	-	-	44,809,760
Less Accumulated Depreciation	(17,374,337)	(1,472,956)	-	-	(18,847,293)
	23,932,619	2,029,848	-	-	25,962,467
Construction Work In Progress	815,769	4,941,312	-	(3,502,804)	2,254,277
Net Capital Assets	\$ 24,748,388	\$ 6,971,160	\$ -	\$ (3,502,804)	\$ 28,216,744

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2014	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2015
Land	\$ 160,456	\$ -	\$ -	\$ -	\$ 160,456
Road Property Plant	21,139,870	4,678,194	-	-	25,818,064
Building	3,896,587	19,693	-	-	3,916,280
Machinery Equipment	10,353,086	373,815	-	-	10,726,901
Office and Fixture	862,954	23,430	(201,129)	-	685,255
Total Capital Assets In Service	36,412,953	5,095,132	(201,129)	-	41,306,956
Less Accumulated Depreciation	(16,354,584)	(1,220,882)	201,129	-	(17,374,337)
	20,058,369	3,874,250	-	-	23,932,619
Construction Work In Progress	1,000,440	4,910,461	-	(5,095,132)	815,769
Net Capital Assets	<u>\$ 21,058,809</u>	<u>\$ 8,784,711</u>	<u>\$ -</u>	<u>\$ (5,095,132)</u>	<u>\$ 24,748,388</u>

NOTE 5 LONG-TERM DEBT - Long-term debt activities for 2016 and 2015 were as follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Revenue Bonds	\$ 312,763	\$ -	\$ 248,525	\$ 64,238	\$ 64,238
Department of Transportation State Loans	6,189,230	644,416	684,466	6,149,180	752,152
Total Long-Term Debt	<u>\$ 6,501,993</u>	<u>\$ 644,416</u>	<u>\$ 932,991</u>	<u>\$ 6,213,418</u>	<u>\$ 816,390</u>

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Revenue Bonds	\$ 548,332	\$ -	\$ 235,569	\$ 312,763	\$ 248,525
Department of Transportation State Loans	4,487,475	2,019,195	317,440	6,189,230	697,166
Total Long-Term Debt	<u>\$ 5,035,807</u>	<u>\$ 2,019,195</u>	<u>\$ 553,009</u>	<u>\$ 6,501,993</u>	<u>\$ 945,691</u>

SENIOR LIEN BOND: City Council Substitute Ordinance No. 27545, passed in November 2006, authorized the issuance of a Senior Lien Revenue Bond 2006 in the amount of \$2,000,000 to provide financing for capital projects included in the approved 2007-2008 Biennium budget for the Rail System. This Bond bears interest at the rate of 5.39% per annum (computed on the basis of a 360-day year of twelve 30-day months), with a maturity date of January 1, 2017. Equal installment payments of \$65,104 representing principal and interest on this Bond are payable quarterly on the first day of each January, April, July and October, commencing April 1, 2007, up to and including the Maturity Date of the Bond.

Scheduled principal maturities on bonds and interest payments are as follows:

	Principal	Interest
2017	\$ 64,238	\$ 866

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT

**Washington State Department of Transportation Loans
(WADOT)**

	2016	2015
2009 WADOT loan for locomotive idling improvement, with 0% interest, due in yearly installments of \$1,759 from 2010 through 2024.	\$14,072	\$15,831
2009 WADOT loan for locomotive servicing facility upgrades, with 0% interest, due in yearly installments of \$16,630 from 2011 through 2025.	149,672	166,301
2011 WADOT loan for locomotive repower, with 0% interest, due in yearly installments of \$45,000 from 2013 through 2022.	270,000	315,000
2012 WADOT loan for Tacoma Rail Annie Tracks 1&2 Rail Relay, with 0% interest, due in yearly installments of \$61,200 from 2013 through 2022.	367,200	428,400
2012 WADOT loan for Yard Tracks 2,3 & 4, with 0% interest, due in yearly installments of \$34,859 from 2013 through 2022.	209,155	244,014
2013 WADOT loan for East 11 th Street Crossing, with 0% interest, due in yearly installments of \$34,732 from 2014 through 2023.	243,124	277,856
2013 WADOT loan for Yard Tracks 5 & 6, with 0% interest, due in yearly installments of \$36,394 from 2014 through 2023.	254,756	291,151
2013 WADOT loan for Yard Tracks 8 & 9, with 0% interest, due in yearly installments of \$61,863 from 2015 through 2024.	494,900	556,763
2013 WADOT loan for Port Pass West, with 0% interest, due in yearly installments of \$25,000 from 2015 through 2024.	199,997	224,997
2013 WADOT loan for N. Intermodal Yard lead track, with 0% interest, due in yearly installments of \$36,639 from 2016 through 2025.	329,748	366,387
2013 WADOT loan for East Loop 17 th St, with 0% interest, due in yearly installments of \$77,307 from 2016 through 2025.	695,763	773,070
2013 WADOT loan for Taylor Way Track Rehabilitation, with 0% interest, due in yearly installments of \$110,506 from 2016 through 2025.	994,552	1,105,058
2013 WADOT loan for West Loop, with 0% interest, due in yearly installments of \$51,577 from 2016 through 2025.	464,193	515,770
2014 WADOT loan for SR509 Track Improvements, with 0% interest, due in yearly installments of \$103,701 from 2016 through 2025.	819,005	908,632
2015 WADOT loan for Edwards Crossover Rehabilitation, with 0% interest, dues in yearly installments of \$40,575 from 2017 through 2026.	121,119	-

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Junior Lien Debt continued

	<u>2016</u>	<u>2015</u>
2015 WADOT loan for East Lead Low Side Rebuild, with 0% interest, due in yearly installments of \$12,112 from 2017 through 2026	405,745	-
2015 WADOT loan for Transfer Yard Connection (Phase 3), with 0% interest, due in yearly installments of \$15,000 from 2017 through 2026	<u>116,179</u>	<u>-</u>
Subtotal Junior Lien Debt	6,149,180	6,189,230
Less Current Portion of Debt	<u>(752,152)</u>	<u>(697,166)</u>
Long-term Portion of Junior Lien Debt	<u>\$ 5,397,028</u>	<u>\$ 5,492,064</u>

Scheduled principal maturities on junior lien debts and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 752,152	\$ -
2018	748,770	-
2019	748,770	-
2020	748,770	-
2021	748,769	-
2022-2026	<u>2,401,949</u>	<u>-</u>
	<u>\$ 6,149,180</u>	<u>\$ -</u>

Tacoma Rail's revenue bonds are secured by the net revenue of Tacoma Rail and all cash and investments held in the bond fund. The bonds as well as junior liens are subject to certain financial and non-financial covenants.

NOTE 6 SIGNIFICANT CUSTOMER - Tacoma Rail's predominate sources of revenue are Union Pacific (UP) and Burlington Northern Santa Fe (BNSF). Revenue from UP and BNSF represented 25% and 49% of total revenues, respectively, in 2016. Revenue in 2015 was 26% and 47%, respectively. Accounts receivable from UP and BNSF in 2016 represented 29% and 49% of total customer accounts receivable, respectively. Accounts receivable in 2015 was 23% and 48%, respectively.

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.

Tacoma Rail pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Rail in 2016 and 2015 were \$511,522 and \$543,305, respectively.

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 Rail and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Rail 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 RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Tacoma Rail is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Rail and administrative expenses of the Fund. Tacoma Rail's premium payments totaled \$100,000 in 2016 and \$100,000 in 2015. Assets in the Self-Insurance Fund total \$7.6 million which exceeds accrued and incurred but not reported (IBNR) liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Rail's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchased a \$15 million Fiduciary Liability Policy with a \$100,000 deductible that provides for wrongful acts arising out of the administration of the City's employee benefit programs and a Crime policy with a \$1 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities and property.

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 property within buildings and \$10,000 per vehicle. There is a self-insured retention of \$1.5 million for general liability. The public official liability policy has a \$200,000 deductible. The Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate. The general government general liability and public official liability policies provide \$20 million of excess coverage with \$3 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit and a self-insured retention of \$1 million per occurrence and an additional \$250,000 for each 12 month policy period.

NOTE 9 PENSION PLAN - Employees of Tacoma Rail are members of the United States Railroad Retirement System, in lieu of participating in Social Security and Tacoma Employees' Retirement System. The Railroad Retirement System is a payroll-based system. In 2016 and 2015, Tacoma Rail contributed \$2,092,517 and \$2,145,824 respectively, per structures set forth by the United States Railroad Retirement Board shown as follows:

	<u>EARNINGS BASE</u>	
	<u>2016</u>	<u>2015</u>
Employer Tier I	\$ 118,500	\$ 118,500
Employer Tier II	88,200	88,200
Employer Medicare	No Limit	No Limit

	<u>TAX RATE</u>	
	<u>2016</u>	<u>2015</u>
Employer Tier I	6.20%	6.20%
Employer Tier II	13.10%	13.10%
Employer Medicare	1.45%	1.45%

Information was unavailable to determine if an actuarial liability exists for the City, but the entire Federal system has an unfunded actuarial liability of \$51.7 billion as of December 31, 2013. There is currently no schedule to amortize the unfunded liability and the system is currently functioning on a pay-as-you-go basis. Rates are determined based on actuarial valuations, which occur every three years. The City's obligation is to pay, in full, the payroll withholdings to the system.

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. GAAP requires 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 (3.75%).

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 is 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 2016 is 21 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 non-current liability (Net OPEB Obligation) on the statements of net position. The City has a Net OPEB Obligation as of December 31, 2016 as the City has not set aside funds for OPEB.

EXCISE TAX FOR HIGH COST OR “CADILLAC” HEALTH PLANS IN 2018 AND BEYOND – An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

GASB Statement No. 45 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current “substantive” plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, the City believes that the current provisions of PPACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

SUMMARY OF CHANGES – As of the January 1, 2015 valuation the total AAL was \$208,814,312, 20% lower than expected primarily due to clarification in spouse benefits, medical costs, demographic experience and a change to the assumption for future medical trends.

The following table is a summary of valuation results with a comparison to the results from the last valuation.

	<u>January 1, 2013</u>	<u>January 1, 2015</u>
Total membership:		
Active employees	3,335	3,404
Terminated vested employees	394	442
Retired employees & dependents	846	744
Total	<u>4,575</u>	<u>4,590</u>
Annual Benefit Payments	\$ 9,887,335	\$ 8,963,089
Discount rate	3.75%	3.75%
Present Value of Benefits (PVB)	\$ 326,742,538	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 251,839,846	\$ 208,814,312
Assets	\$ -	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 251,839,846</u>	<u>\$ 208,814,312</u>
Normal Cost	\$ 5,484,587	\$ 3,832,131
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 16,966,964

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2015.

<u>Value of Subsidy at 3.75% Interest Rate</u>	<u>Total Value of Benefits</u>	<u>Member Paid Premiums</u>	<u>City Paid Benefits</u>
Present Value of Benefits (PVB)	\$ 420,832,932	\$ 158,648,737	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 291,228,295	\$ 82,413,983	\$ 208,814,312
Normal Cost	\$ 9,501,758	\$ 5,669,627	\$ 3,832,131
Annual Benefit Payments	\$ 12,325,369	\$ 3,362,280	\$ 8,963,089

TACOMA RAIL 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 the Division as of December 31, 2016.

	<u>City</u>	<u>Division</u>
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 3,803,090	\$ 285,047
Amortization of UAAL	15,665,117	128,541
Annual Required Contribution (ARC)	<u>\$ 19,468,207</u>	<u>\$ 413,588</u>
Determination of Net OPEB obligation:		
Annual Required Contribution (ARC)	\$ 19,468,207	\$ 413,588
Interest on prior year Net OPEB Obligation	2,666,468	26,086
Adjustments of ARC	<u>(3,983,647)</u>	<u>(32,334)</u>
Annual OPEB Cost	\$ 18,151,028	\$ 407,340
Actual benefits paid	<u>(8,539,402)</u>	<u>(101,080)</u>
Increase in Net OPEB Obligation	\$ 9,611,626	\$ 306,260
NET OPEB Obligation - beginning of year	<u>73,129,502</u>	<u>695,629</u>
NET OPEB Obligation - end of year	<u>\$ 82,741,128</u>	<u>\$ 1,001,889</u>

The Division has included the liability in other long-term liabilities on the statement of Net Position.

FUNDED STATUS AND FUNDING PROGRESS - The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 3.75% interest rate.

Year Ended	<u>Annual OPEB Cost</u>		<u>Benefits Paid</u>		<u>Net OPEB Obligation</u>	
	<u>City</u>	<u>Division</u>	<u>City</u>	<u>Division</u>	<u>City</u>	<u>Division</u>
12/31/2014	\$ 19,319,944	\$ 153,125	\$ 9,292,539	\$ 51,612	\$ 66,138,206	\$ 363,064
12/31/2015	15,954,387	411,114	8,963,089	78,549	73,129,502	695,629
12/31/2016	18,151,028	407,340	8,539,402	101,080	82,741,128	1,001,889

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 the 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 UAAL. In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and the remaining is now 21 years.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2015
Census Date	January 1, 2015
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	21 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	3.75% for pay-as-you-go funding	
Medical Cost Trend	2015	6.9%
	2016	6.6%
	2017	5.9%
	2020	5.5%
	2030	5.9%
	2040	5.7%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2071 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions-Discount Rate (Liabilities)

3.75%

Demographic Assumptions

Eligibility:

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

Retirement - 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
- Age 40 with 20 years of service

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 11 COMMITMENTS AND CONTINGENCIES

LINK PETROLEUM PROJECT CUSTOMER DEPOSIT AND REFUND AGREEMENT - A contractual agreement was entered in 2009 between Tacoma Rail and Link Petroleum, Inc. Link Petroleum agreed to advance Tacoma Rail \$75,000 for track improvements on Tacoma Rail's property to efficiently and safely handle shipments leading to this customer's service facility. In return, Tacoma Rail agreed to refund the advance to the customer at a rate of \$150 per carload for each of the first 500 carloads handled at the facility, or through December 31, 2015, whichever event first occurs. As of December 31, 2016, the deposit has been paid in full.

GENERAL LEGAL MATTERS - Tacoma Rail is involved in various litigations in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on Tacoma Rail's financial position beyond amounts already accrued as of December 31, 2016.

TACOMA RAIL OPERATION OF CITY OF TACOMA, DEPARTMENT OF PUBLIC WORKS ("PUBLIC WORKS"), MOUNTAIN DIVISION - Public Works owns approximately 142 miles of track, called Mountain Division, that connects to Tacoma Rail track in Tacoma, Washington. Tacoma Rail is under contract with Public Works to perform as its operator through 2017. The agreement states that Public Works would fund Tacoma Rail for any operations on the Mountain Division.

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS				
Railway Plant - Net	\$28,216,744	\$24,748,388	\$21,058,809	\$18,015,675
Other Property and Special Funds ..	64,974	64,861	65,104	65,110
Current and Accrued Assets	13,960,977	14,843,745	15,964,236	12,961,818
Other Assets	-	-	-	-
TOTAL ASSETS	<u>42,242,695</u>	<u>39,656,994</u>	<u>37,088,149</u>	<u>31,042,603</u>
LIABILITIES				
Long-Term Debt	5,397,028	5,556,302	4,482,801	2,764,959
Current and Accrued Liabilities ..	3,793,795	3,443,589	4,096,245	3,232,279
Long-Term Liabilities	<u>4,017,974</u>	<u>3,615,442</u>	<u>4,278,913</u>	<u>2,827,186</u>
Total Liabilities	<u>13,208,797</u>	<u>12,615,333</u>	<u>12,857,959</u>	<u>8,824,424</u>
NET POSITION	<u>29,033,898</u>	<u>27,041,661</u>	<u>24,230,190</u>	<u>22,218,179</u>
TOTAL LIABILITIES AND NET POSITION .	<u>\$42,242,695</u>	<u>\$39,656,994</u>	<u>\$37,088,149</u>	<u>\$31,042,603</u>
STATEMENTS OF INCOME				
OPERATING REVENUES				
Switching Revenues	\$27,417,653	\$25,690,797	\$26,495,108	\$24,570,867
Other Operating Revenues	<u>3,409,347</u>	<u>3,474,443</u>	<u>2,962,289</u>	<u>2,372,435</u>
Total Operating Revenues	<u>30,827,000</u>	<u>29,165,240</u>	<u>29,457,397</u>	<u>26,943,302</u>
OPERATING EXPENSES				
Operation and Maintenance	26,696,068	24,168,168	25,063,534	22,348,268
Taxes	439,317	417,135	429,875	437,282
Depreciation	<u>1,472,956</u>	<u>1,220,882</u>	<u>1,069,265</u>	<u>996,782</u>
Total Operating Expenses	<u>28,608,341</u>	<u>25,806,185</u>	<u>26,562,674</u>	<u>23,782,332</u>
NET OPERATING INCOME (LOSS)	<u>2,218,660</u>	<u>3,359,055</u>	<u>2,894,723</u>	<u>3,160,970</u>
NON-OPERATING REVENUES (EXPENSE)				
Net Other Income	2,287,330	1,878,109	1,830,033	1,004,957
Interest Earned on Investments ...	86,126	51,379	72,535	21,155
Interest on Unfunded Debt	<u>(8,542)</u>	<u>(21,678)</u>	<u>(34,122)</u>	<u>(45,941)</u>
Total Non-Operating Revenues ...	<u>2,364,914</u>	<u>1,907,810</u>	<u>1,868,446</u>	<u>980,171</u>
TRANSFERS OUT				
City Gross Earnings Tax	2,591,337	2,410,016	2,440,631	2,240,525
Transfers to Other Funds	<u>-</u>	<u>45,378</u>	<u>310,527</u>	<u>32,407</u>
NET INCOME (LOSS)	<u>\$1,992,237</u>	<u>\$2,811,471</u>	<u>\$2,012,011</u>	<u>\$1,868,209</u>

In accordance with Governmental Accounting Standards Board Statement No. 65 both 2012 and 2011 were restated for comparative purposes. Years prior to 2011 are shown as originally reported.

2012	2011	2010	2009	2008	2007
\$16,258,926	\$13,958,818	\$9,446,780	\$9,813,322	\$9,422,038	\$7,931,353
397,381	399,607	400,792	406,268	414,059	2,199,564
11,397,915	8,867,794	8,686,413	8,474,144	8,912,688	7,691,279
-	-	6,103	7,121	8,138	9,155
<u>28,054,222</u>	<u>23,226,219</u>	<u>18,540,088</u>	<u>18,700,855</u>	<u>18,756,923</u>	<u>17,831,351</u>
2,166,751	2,001,568	2,101,571	2,641,116	2,878,279	3,711,125
3,920,067	1,762,532	1,602,400	1,569,847	1,768,188	1,403,086
<u>1,617,434</u>	<u>1,315,320</u>	<u>1,226,721</u>	<u>1,634,512</u>	<u>1,245,906</u>	<u>643,203</u>
7,704,252	5,079,420	4,930,692	5,845,475	5,892,373	5,757,414
<u>20,349,970</u>	<u>18,146,799</u>	<u>13,609,396</u>	<u>12,855,380</u>	<u>12,864,550</u>	<u>12,073,937</u>
\$28,054,222	\$23,226,219	\$18,540,088	\$18,700,855	\$18,756,923	\$17,831,351
\$20,793,364	\$17,250,227	\$14,580,858	\$13,365,092	\$14,690,148	\$15,632,973
2,250,434	2,153,392	898,739	1,212,804	3,718,926	2,980,855
<u>23,043,798</u>	<u>19,403,619</u>	<u>15,479,597</u>	<u>14,577,896</u>	<u>18,409,074</u>	<u>18,613,828</u>
18,962,149	16,117,560	13,942,626	14,235,461	16,126,814	14,940,364
404,105	339,525	261,854	214,935	270,106	265,425
<u>824,549</u>	<u>641,315</u>	<u>706,323</u>	<u>577,643</u>	<u>611,148</u>	<u>739,485</u>
20,190,803	17,098,400	14,910,803	15,028,039	17,008,068	15,945,274
2,852,995	2,305,219	568,794	(450,143)	1,401,006	2,668,554
1,282,274	3,836,348	1,524,627	1,678,847	860,497	1,298,744
81,907	132,196	74,327	139,662	264,272	251,757
<u>(62,090)</u>	<u>(80,959)</u>	<u>(102,293)</u>	<u>(133,177)</u>	<u>(174,994)</u>	<u>(205,174)</u>
1,302,091	3,887,585	1,496,661	1,685,332	949,775	1,345,327
1,931,338	1,632,180	1,311,439	1,244,359	1,525,080	1,568,134
<u>20,577</u>	<u>13,049</u>	<u>-</u>	<u>-</u>	<u>35,088</u>	<u>-</u>
<u>\$2,203,171</u>	<u>\$4,547,575</u>	<u>\$754,016</u>	<u>(\$9,170)</u>	<u>\$790,613</u>	<u>\$2,445,747</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR SWITCHING STATISTICS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
SWITCHING REVENUES				
Line Hauls	\$25,683,614	\$24,334,649	\$24,933,732	\$23,358,089
Local and Miscellaneous	<u>1,734,039</u>	<u>1,356,148</u>	<u>1,561,376</u>	<u>1,212,778</u>
TOTAL SWITCHING REVENUES	\$27,417,653	\$25,690,797	\$26,495,108	\$24,570,867
NUMBER OF CARS SWITCHED				
Line Hauls	107,059	99,277	105,079	97,536
Local and Miscellaneous	<u>3,863</u>	<u>2,896</u>	<u>3,058</u>	<u>1,830</u>
TOTAL NUMBER OF CARS SWITCHED..	110,922	102,173	108,137	99,366
SWITCHING STATISTICS (AVERAGE)				
Revenue/Line Haul Car	\$239.90	\$245.12	\$237.29	\$239.48
Revenue/Local & Miscellaneous Car	\$448.88	\$468.28	\$510.59	\$662.72

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$19,913,410	\$16,395,640	\$13,744,377	\$12,735,114	\$14,277,743	\$15,303,787
<u>879,954</u>	<u>854,587</u>	<u>836,481</u>	<u>629,978</u>	<u>412,405</u>	<u>329,186</u>
\$20,793,364	\$17,250,227	\$14,580,858	\$13,365,092	\$14,690,148	\$15,632,973
89,554	66,440	70,574	58,892	74,940	81,366
<u>2,563</u>	<u>2,513</u>	<u>2,601</u>	<u>2,032</u>	<u>2,254</u>	<u>2,050</u>
92,117	68,953	73,175	60,924	77,194	83,416
\$222.36	\$246.77	\$194.75	\$216.25	\$190.52	\$188.09
\$343.33	\$340.07	\$321.60	\$310.03	\$182.97	\$160.58

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

COMPARISON OF CARS SWITCHED AND SWITCHING REVENUES

	December 2016	December 2015	YEAR ENDED DECEMBER 31,	
			December 31, 2016	December 31, 2015
SWITCHING REVENUES				
LINE HAULS--INTERMODAL	\$1,139,707	\$941,345	\$12,717,977	\$11,439,766
LINE HAULS--COMMERCIAL	1,004,350	1,122,625	12,643,110	\$12,146,807
LINE HAULS--CAPITAL DIVISION	15,040	65,378	322,527	\$748,076
MISCELLANEOUS SWITCHES	154,917	146,439	1,734,039	\$1,356,148
TOTAL SWITCHING REVENUES	<u>\$2,314,014</u>	<u>\$2,275,787</u>	<u>\$27,417,653</u>	<u>\$25,690,797</u>
 SWITCHING ACTIVITIES (CARS)				
LINE HAULS--INTERMODAL	7,017	5,711	76,714	68,453
LINE HAULS--COMMERCIAL	2,218	2,581	29,583	29,091
LINE HAULS--CAPITAL DIVISION	36	153	762	1,733
MISCELLANEOUS SWITCHES	406	294	3,863	2,896
TOTAL CARS SWITCHED	<u>9,677</u>	<u>8,739</u>	<u>110,922</u>	<u>102,173</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Income	\$ 32,260,821	\$ 30,248,665	\$ 30,482,258	\$ 27,923,473	\$ 24,089,416
Less: Operating Exp	<u>27,135,385</u>	<u>24,585,303</u>	<u>25,493,409</u>	<u>22,785,550</u>	<u>19,366,254</u>
Income Available for Debt Service	<u>\$ 5,125,436</u>	<u>\$ 5,663,362</u>	<u>\$ 4,988,849</u>	<u>\$ 5,137,923</u>	<u>\$ 4,723,162</u>
 Bond Redemption	 \$ 248,525	 \$ 235,569	 \$ 223,288	 \$ 211,648	 \$ 200,614
Bond Interest	11,891	24,847	37,127	48,768	59,802
Debt Service Payable	<u>\$ 260,416</u>	<u>\$ 260,416</u>	<u>\$ 260,415</u>	<u>\$ 260,416</u>	<u>\$ 260,416</u>
 Time Debt Service Covered	 19.68	 21.75	 19.16	 19.73	 18.14

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2016

FEDERAL

Railroad Retirement	\$2,092,518	
Railroad Unemployment Insurance	42,874	
Total		\$2,135,392

STATE OF WASHINGTON

Retail Sales & Use Tax	405,667	
Utility and Business Occupation Tax	439,317	
Total		844,984

CITY OF TACOMA

Gross Earnings Tax		2,591,337
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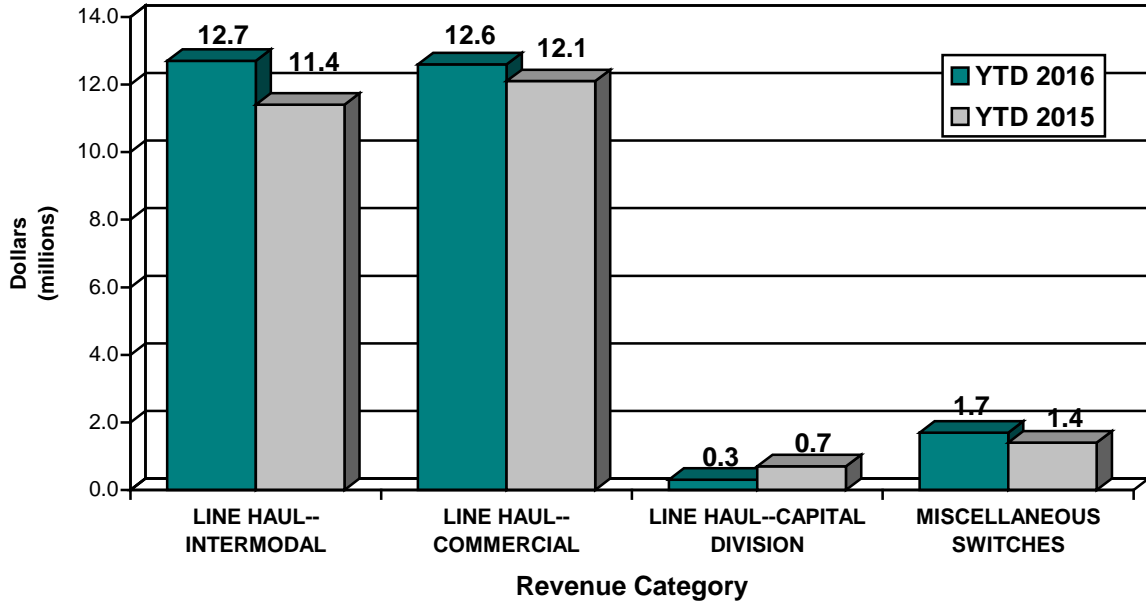
TOTAL TAXES		\$5,571,713
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Taxes as a % of Total Operating Revenues of \$30,827,000 18.07%

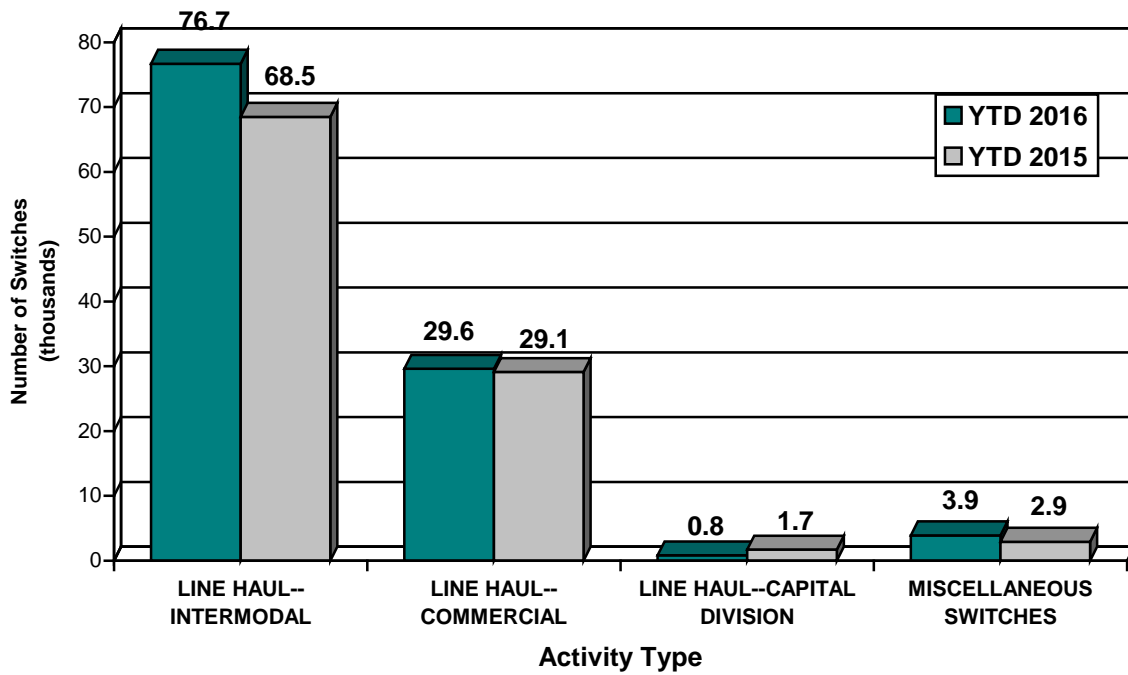
EMPLOYEE WELFARE CONTRIBUTIONS

Pierce County Medical Bureau	\$2,092,518	
Washington Dental Service	161,736	
Other Contributions	410,292	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$2,664,546

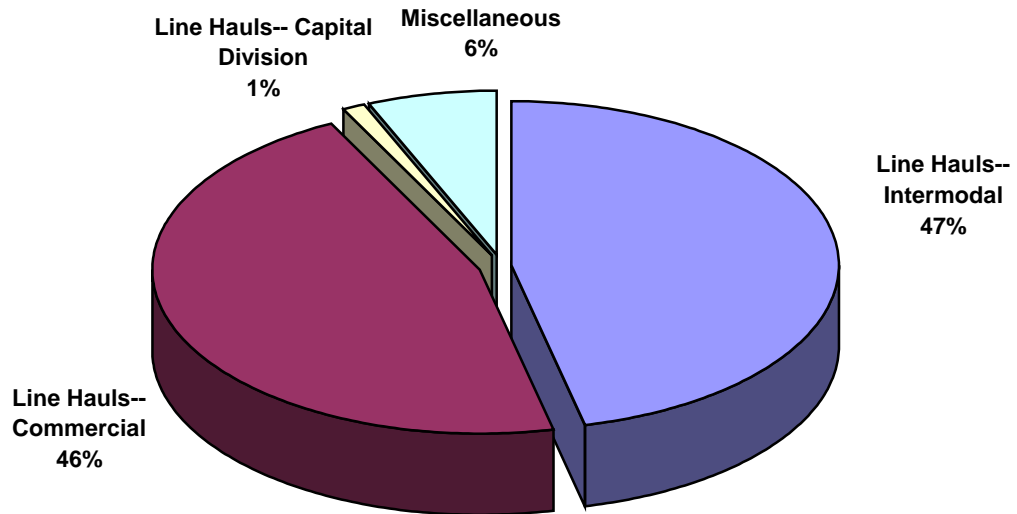
SWITCHING REVENUES
Year to Date - December 2016 & 2015



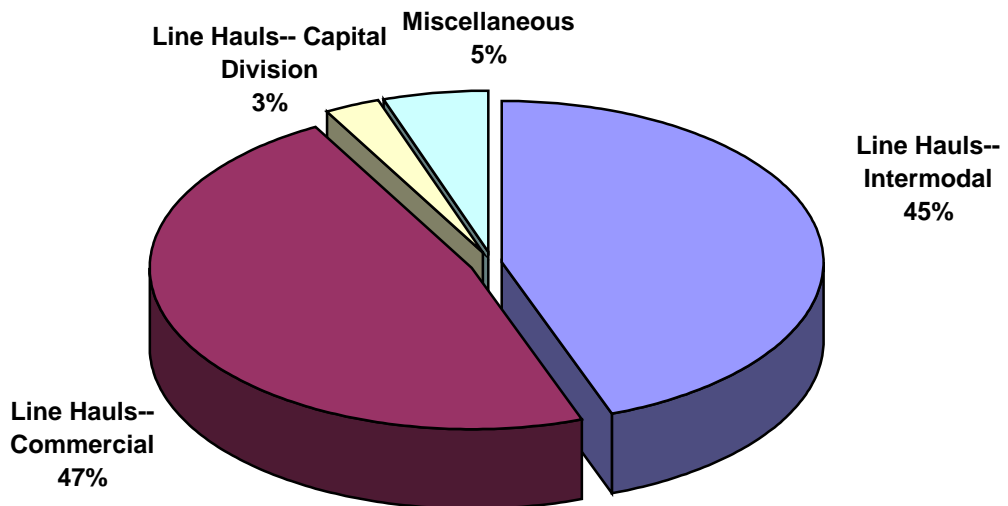
SWITCHING ACTIVITIES
Year to Date - December 2016 & 2015



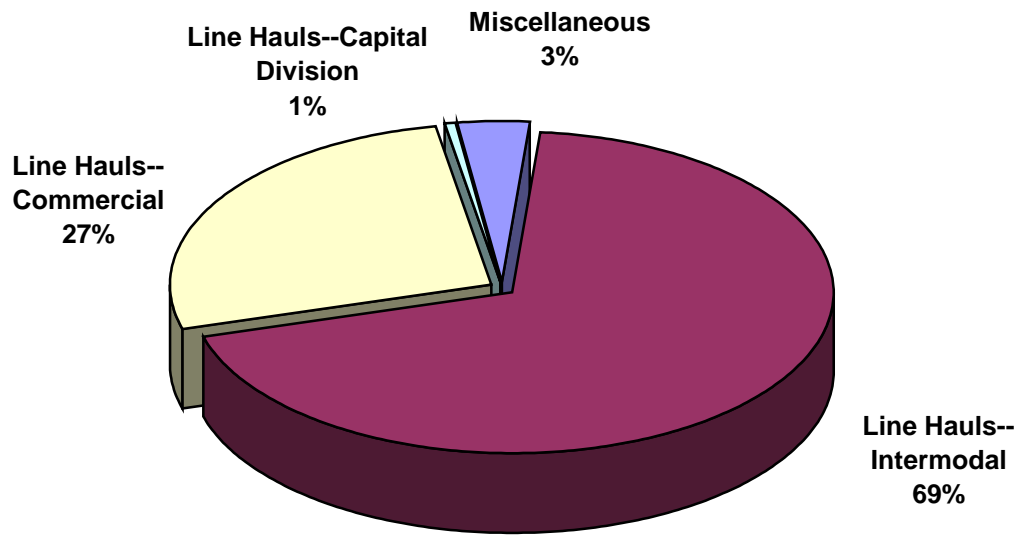
SWITCHING REVENUES
Year to Date - December 2016 (\$27,417,653)



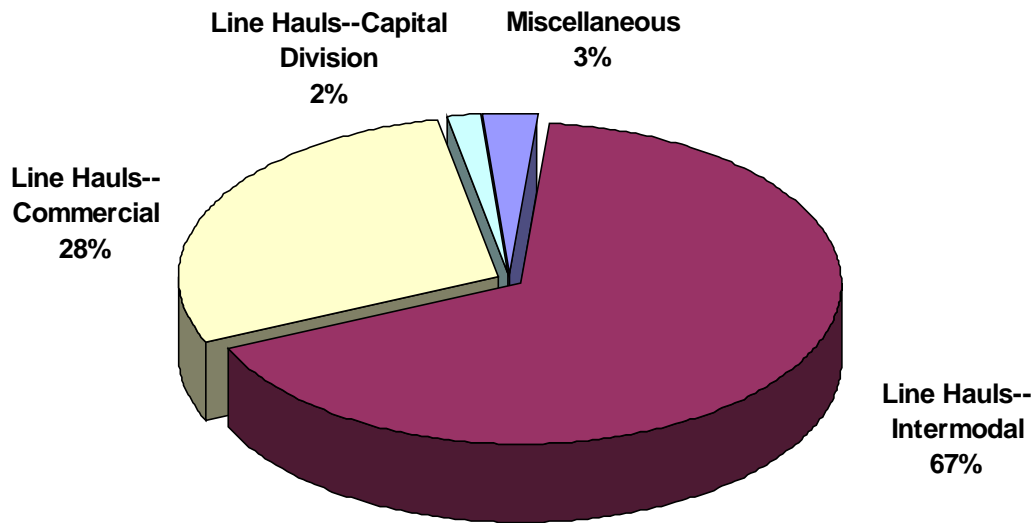
SWITCHING REVENUES
Year to Date - December 2015 (\$25,690,797)



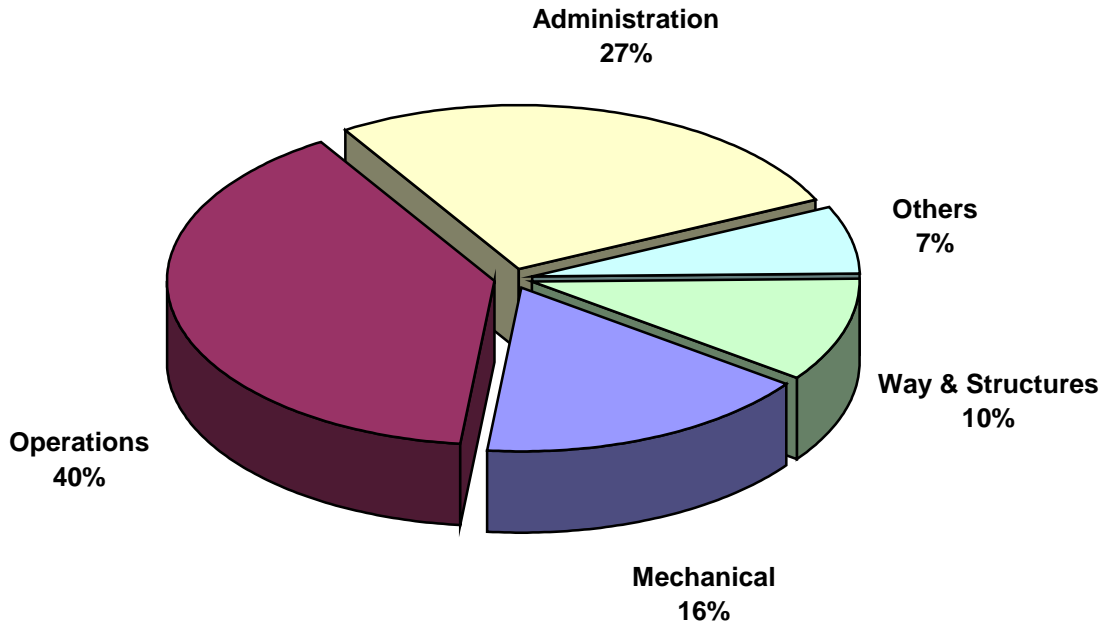
SWITCHING ACTIVITY
Year to Date - December 2016 (110,992 cars)



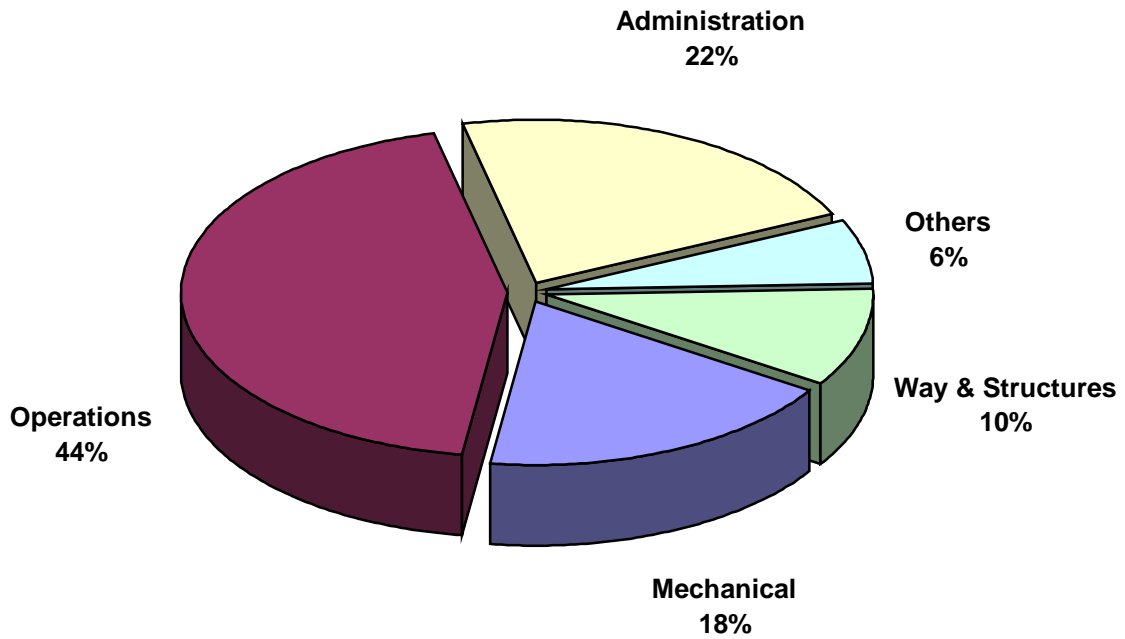
SWITCHING ACTIVITY
Year to Date - December 2015 (102,173 cars)



TOTAL OPERATING EXPENSES
Year to Date - December 2016 (\$28,608,341)



TOTAL OPERATING EXPENSES
Year to Date - December 2015 (\$25,806,185)



**2016 SUPERINTENDENT'S REPORT
TACOMA RAIL**

Tacoma Rail continued to meet its primary goal of providing efficient, cost-effective rail service to the Port of Tacoma and Tacoma's industrial areas (Tidelands Division), to Lakeview (Capital Division) and to Frederickson (Mountain Division) in 2016.

TIDELANDS DIVISION

Line haul count was up by almost 30,000 units in 2016 over 2015. The traffic mix of more intermodal platforms and fewer commercial railcars led to a corresponding increase in line haul revenue of approximately \$1.3 million. The Northwest Seaport Alliance (NWSA) of the Ports of Tacoma and Seattle celebrated its first anniversary in August. NWSA saw modest increases in their international intermodal container business as ocean shipping lines continued to consolidate their routes and realign their vessel-sharing agreements. This was done in anticipation of new shipping alliances that will be consummated early in the second quarter of 2017. A 10-year agreement between Union Pacific Railroad (UP) and BNSF Railway to share the latter's bridge over the Puyallup River expired in June. Following two months of deteriorating service, Tacoma Rail entered into an agreement to handle UP's international intermodal business into their Fife, Washington yard. Service improved immediately and UP was actually able to grow their business in the final four months of the year.

Commercial business was sluggish throughout the year, reflecting the overall decline in North American rail freight traffic of 7% in 2016. Crude oil and ethanol unit train business was steady. New Washington State environmental rules mandating the development of oil spill contingency plans will increase the expenses involved in handling unit trains in the foreseeable future.

	2016	2015	2014	2013	2012	2011
Intermodal platforms	214,156	187,827	184,451	179,673	162,297	117,656
Unit train railcars	17,410	13,800	13,838	8,759		
All others	30,844	31,142	32,509	30,904	31,454	30,887
Total line hauls	262,410	232,769	230,798	219,336	193,751	146,820

CAPITAL DIVISION

From 1,748 carloads in 2015, total traffic on the Capital Division declined 56% to 773 carloads. Most of this decline can be attributed to the expiration of our operating lease with BNSF Railway for two branch lines in Olympia and Quadlok, Washington. Tacoma

Rail chose not to renew these leases when BNSF lowered our handling charge for the final switching move from their mainline to the customers' facilities. We continue to provide service to customers in South Tacoma and Lakewood through our freight franchise on the rail line owned by Sound Transit.

MOUNTAIN DIVISION

Carloads handled grew from 1,167 in 2015 to 1,368 in 2016, aided by the relocation of Wilcox Farms' feed grain operation from the BNSF in Roy to our line in McKenna, Washington. Thirty-five miles of railroad from Yelm to Chehalis and the locomotive servicing facilities at Western Junction were sold in September to a subsidiary of Frontier Rail for \$2.8 million. This sale enabled us to retire the remaining balance on a City of Tacoma general fund loan made in 2007, setting the stage for the transfer of the Mountain Division from the Public Works Department to Tacoma Rail ownership.

Dale W. King
Superintendent/COO



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.

ANNUAL

FLEET SERVICES FUND

2016

**FINANCIAL
REPORT**



Public Utility Board

MARK PATTERSON
Chair

MONIQUE TRUDNOWSKI
Vice-Chair

WOODROW JONES
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Member

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DON ASHMORE
Utilities Fleet Manager

ANDREW CHERULLO
Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

FLEET SERVICES FUND

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FINANCIAL DATA

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MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Fleet Services Fund provides an overview of the financial activities for the years ended December 31, 2016 and 2015. The information presented here should be read in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that is provided.

Overview of the Financial Statements

The City of Tacoma Finance Department and the management of Fleet Services are responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles 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, 2016 and 2015, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position 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 operations, investing and financing activities.

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

Management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived.

The Division adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. The statement provides guidance for determining fair value to certain investments and disclosures related to all fair value measurements, and requires accounting for investments at fair value (See notes 2 and 3).

Financial Statement Analysis

During 2016, Fleet Services realized net gain of \$1.2 million compared to net gain of \$1.4 million recorded in 2015. Operating revenues increased \$222,000 in 2016 (2.8%). Operating expenses increased \$270,000 (3.7%). The overall result is a net decrease in operating income of \$47,000 from a year earlier.

In 2015, Fleet Services realized net gain of \$1.4 million compared to net gain of \$1.6 million recorded in 2014. Operating revenues increased \$20,000 in 2015 (0.2%). Operating expenses decreased \$392,000 (5.2%). The overall result is a net increase in operating income of \$412,000 from a year earlier.

Selected Financial Information

(in thousands)

Category	2014	2015	2016
Operating Revenues	8,054	8,074	8,297
Operating Expenses	7,603	7,211	7,481
Operating Income (Loss)	451	863	816
Other Income	530	169	397
Transfers In	653	339	2
Change in Net Position	\$ 1,634	\$ 1,371	\$ 1,215
Current Assets	\$ 23,472	\$ 23,334	\$ 20,351
Other Assets	-	101	-
Deferred Outflows	-	240	965
Capital Assets (Net)	21,386	22,275	26,250
Total Assets	44,858	45,950	47,566
Total Liabilities	1,987	1,476	1,928
Deferred Inflows	-	107	56
Net Investment in Capital Assets	21,386	22,275	26,250
Restricted	25,946	26,387	26,276
Unrestricted	(4,461)	(4,295)	(6,945)
Total Net Position	\$ 42,871	\$ 44,367	\$ 45,581

Revenues

Fleet Services operating revenue is comprised of five categories: Maintenance, Capital Recovery, Administrative Overhead, Fuel and Fuel Loading and Pool Car Rentals. Operating revenues were \$8.3 in 2016 and \$8.1 in 2015 and 2014.

Maintenance revenues are mainly related to staff labor and were \$2.2 million in both 2016 and 2015 and \$2.1 million 2014.

Capital recovery revenues are collected on each vehicle and piece of equipment based on anticipated equipment replacement needs for each business unit. Capital recovery revenues were \$5.1, \$4.8, and \$4.7 million in 2016, 2015, and 2014 respectively. Capital recovery revenue increased \$296,000 in 2016 compared to 2015, which had increased \$136,000 compared to 2014.

Administrative Overhead revenue is the fee charged for each vehicle that is in service. The number of vehicles in service varies from month to month and the rate can vary based on type of vehicle. Administrative Overhead revenue was \$828,000, \$853,000 and \$1.1 million in 2016, 2015, and 2014 respectively.

Fuel and fuel loading revenues are affected by year to year changes in vehicle usage and fluctuations in fuel prices. Fuel related revenues were \$47,000, \$61,000, and \$86,000 for 2016, 2015 and 2014 respectively.

Pool car revenues are based on usage and were \$123,000, \$137,000 and \$125,000 for 2016, 2015 and 2014 respectively.

Expenses

Fleet Services operating expense is comprised of four major categories: Repairs and service, stores operations, administration and depreciation. Fleet services expenses were \$7.5, \$7.2 and \$7.6 million in 2016, 2015 and 2014 respectively.

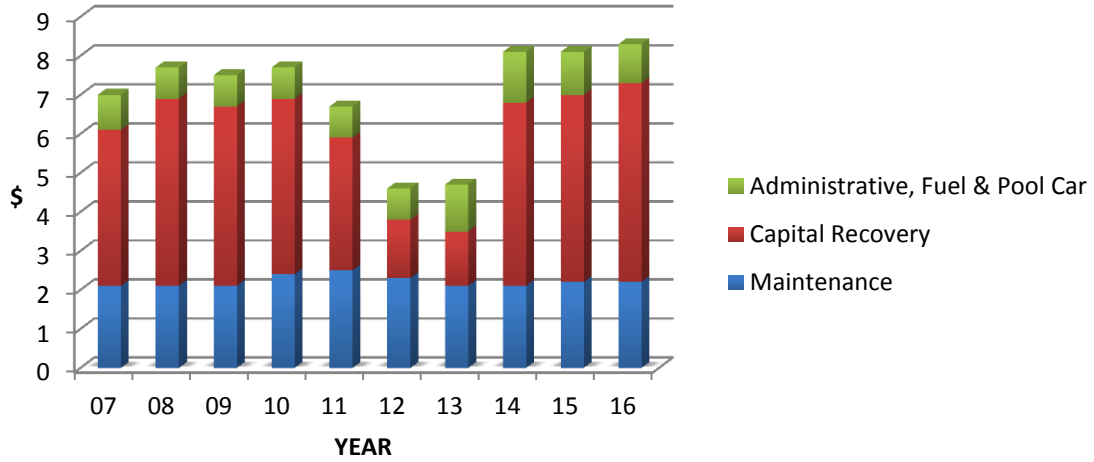
Repairs and service expense relates to shop operations which provide preventive and corrective maintenance and repairs to vehicles and pieces of equipment for Tacoma Public Utilities and other service groups. Repair and service expenses were \$2.7, \$2.6 and \$2.8 million in 2016, 2015 and 2014 respectively.

Stores operation is a parts warehouse maintained by Fleet which had expenses of \$329,000, \$309,000 and \$398,000 in 2016, 2015 and 2014 respectively.

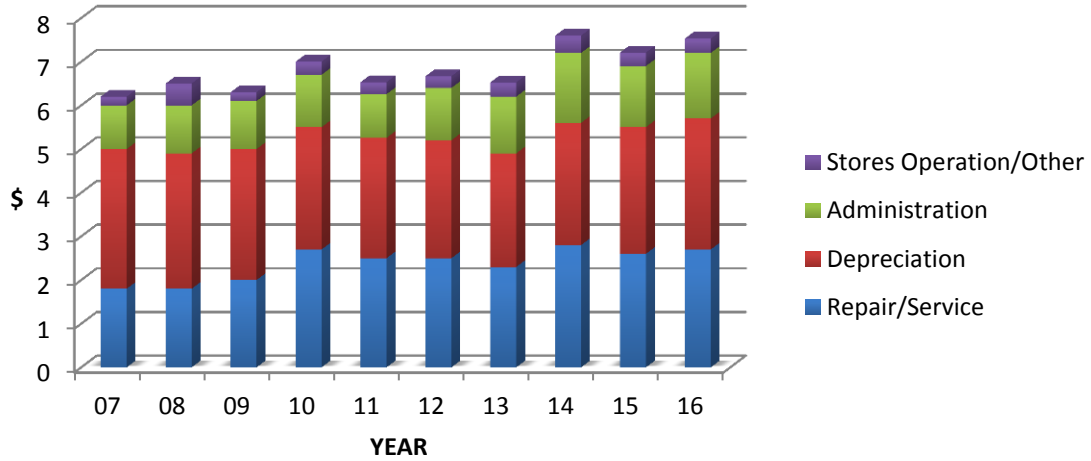
Administration expenses were \$1.5, \$1.4 and \$1.6 million in 2016, 2015 and 2014 respectively.

Depreciation expense was \$3.0, \$2.9 and \$2.8 million in 2016, 2015 and 2014 respectively. Fluctuations in depreciation expense are the result of timing in equipment retirements, capitalization of replacements and changes in fleet size.

OPERATING REVENUES (in millions)

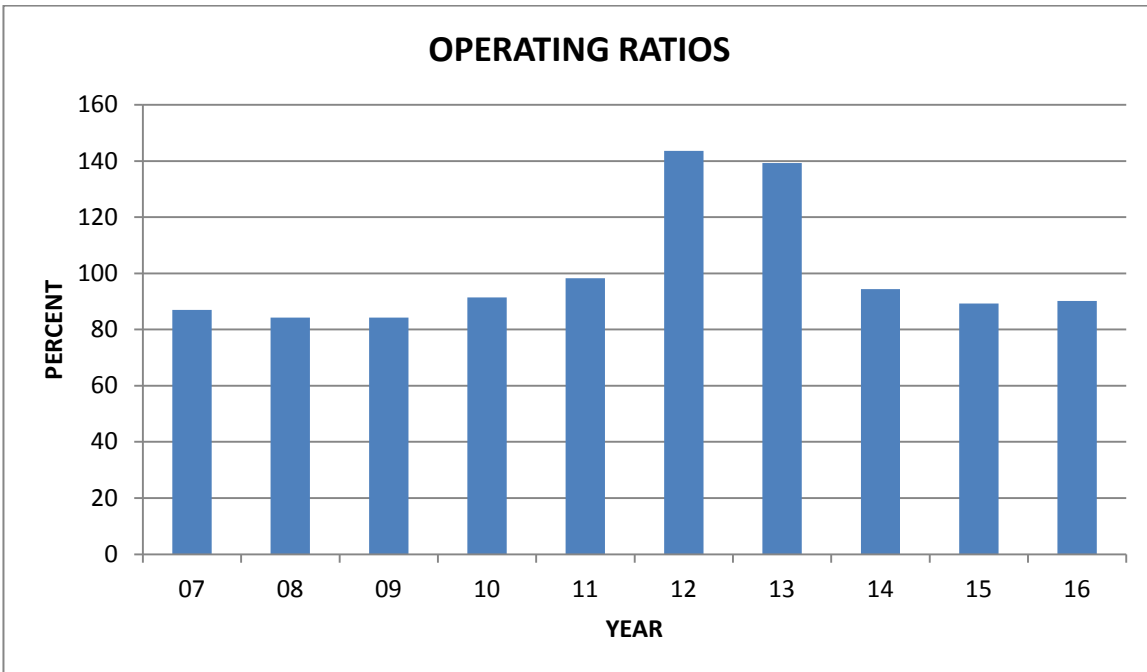


OPERATING EXPENSES (in millions)



Operating Ratio

The Fund's operating ratios, a common measure of efficiency and defined as operating expenses as a percentage of revenue, for 2016, 2015 and 2014 are 90.2%, 89.3%, and 94.4%. The Fund needs to maintain a low operating ratio in order to generate the funds necessary for its extensive capital outlay program. The graph shows how that percentage has fluctuated over the years.



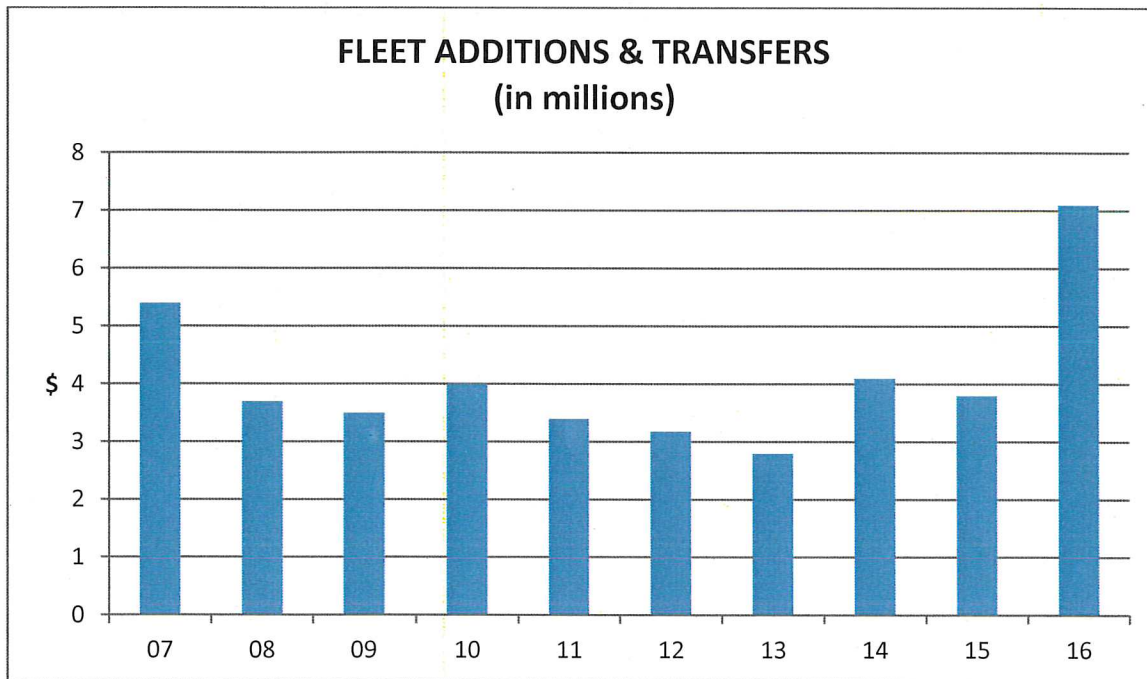
Non-Operating Revenues (Expenses)

Interest income increased \$73,000 from (\$24,000) in 2015 to \$49,000 in 2016. Interest income in 2016 increased due to more interest earned on the revenue pool and 2015 decreased primarily due to the GASB 31 mark to market adjustment over 2014.

It is the practice of Fleet Services to arrange for public auction sale of vehicles and equipment that are declared surplus by the assigned sections. Sixty-four vehicles and pieces of equipment were retired in 2016 for a net gain of \$348,000, an increase of \$155,000 compared to 2015. Fleet Services reported a net gain of \$193,000 in 2015, a decrease of \$281,000 compared to 2014.

Fixed Asset Additions

Purchases of fleet vehicles and equipment in 2016 were \$7.1 million with sixty-three vehicles and pieces of equipment placed into service compared with \$3.8 million in 2015 with forty-seven vehicles and pieces of equipment placed into service. Purchases of fleet vehicles and equipment in 2014 were \$4.1 million with sixty-one vehicles and pieces of equipment placed into service.



Summary

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Fleet Services fund's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Division Manager of Utilities Accounting, 3628 South 35th Street, Tacoma, Washington, 98409.


William A. Gaines
Director of Utilities/CEO


Andrew Cherullo
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND DECEMBER 31, 2015

	2016	2015
ASSETS		
FIXED		
Office Furniture and Equipment	\$616,901	\$540,905
Stores and Shop Equipment	719,380	692,125
Transportation Equipment	44,284,166	37,977,162
Power-Operated Equipment	20,151,133	19,291,995
Accumulated Depreciation	(39,776,755)	(37,594,946)
Total Fixed Assets	25,994,825	20,907,241
Construction Work in Progress	255,405	1,367,980
Net Fixed Assets	26,250,230	22,275,221
CURRENT		
Current Fund Cash & Equity in Pooled Investments	19,808,702	22,238,453
Accounts Receivable	213,759	43,820
Interdivision Receivable	32,392	766,391
Materials and Supplies	296,038	284,424
Total Current Assets	20,350,890	23,333,088
OTHER ASSETS		
Net Pension Asset	-	101,261
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for Pensions	964,710	240,412
TOTAL ASSETS AND DEFERRED OUTFLOWS.....	\$47,565,830	\$45,949,982

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

NET POSITION AND LIABILITIES	2016	2015
NET POSITION		
Net Investment in Capital Assets	\$26,250,230	\$22,275,221
Restricted for:		
Tacoma Power	18,095,346	18,104,265
Tacoma Water	7,199,933	7,199,933
Tacoma Rail	981,147	981,147
Net Pension Asset	-	101,261
Unrestricted	(6,944,959)	(4,295,086)
TOTAL NET POSITION	45,581,697	44,366,741
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable & Other	685,016	409,092
Wages Payable	73,607	62,077
Interdivision Payable	103,224	785,250
Total Current Liabilities	861,847	1,256,419
LONG-TERM LIABILITIES		
Employee Vacation and Sick Leave Accrual	231,004	219,922
Net Pension Liability	835,359	-
Total Long-term Liabilities	1,066,363	219,922
TOTAL LIABILITIES	1,928,210	1,476,341
DEFERRED INFLOW OF RESOURCES		
Deferred Inflows for Pensions	55,923	106,900
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS	\$47,565,830	\$45,949,982

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2016 AND DECEMBER 31, 2015

	DECEMBER 2016	DECEMBER 2015
OPERATING REVENUE		
Maintenance Revenue	196,423	\$195,605
Capital Recovery	448,862	388,233
Administrative Overhead	69,014	69,704
Fuel and Fuel Loading	4,208	4,315
Pool Car Rental	8,624	8,179
Total Operating Revenue	727,131	666,036
OPERATING EXPENSES		
Repairs and Servicing		
Shop Operations	345,650	153,561
Outside Services	21,781	6,294
Total Repairs and Servicing	367,431	159,855
Stores Operations	47,247	9,606
Administration	218,799	121,813
Depreciation	247,714	242,871
Total Operating Expenses	881,191	534,145
OPERATING INCOME	(154,060)	131,891
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	(58,742)	(57,315)
Gain (Loss) on Disposition of Equipment	138,374	43,187
Sale of Scrap	7,576	15
Total Non-Operating Revenues (Expenses)	87,208	(14,113)
Net Gain/Loss Before Transfers	(66,852)	117,778
Transfers In	-	232,064
CHANGE IN NET POSITION	(\$66,852)	\$349,842
TOTAL NET POSITION - BEGINNING OF YEAR		
ACCUMULATED ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE		
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED		
TOTAL NET POSITION - END OF YEAR		

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

<u>YEAR TO DATE</u>	<u>YEAR TO DATE</u>		
<u>DECEMBER</u>	<u>DECEMBER</u>	<u>2016/2015</u>	<u>PERCENT</u>
<u>2016</u>	<u>2015</u>	<u>VARIANCE</u>	<u>CHANGE</u>
\$2,176,445	\$2,196,833	(\$20,388)	-0.9%
5,122,589	4,826,427	296,162	6.1%
827,834	853,415	(25,581)	-3.0%
46,533	60,963	(14,430)	-23.7%
123,377	136,685	(13,308)	-9.7%
<u>8,296,778</u>	<u>8,074,323</u>	<u>222,455</u>	<u>2.8%</u>
2,664,324	2,490,044	174,280	7.0%
47,930	88,768	(40,838)	-46.0%
<u>2,712,254</u>	<u>2,578,812</u>	<u>133,442</u>	<u>5.2%</u>
329,268	308,946	20,322	6.6%
1,451,298	1,386,437	64,861	4.7%
2,988,385	2,937,475	50,910	1.7%
<u>7,481,205</u>	<u>7,211,670</u>	<u>269,535</u>	<u>3.7%</u>
815,573	862,653	(47,080)	-5.5%
48,726	(24,043)	72,769	302.7%
323,198	187,638	135,560	72.2%
25,278	5,855	19,423	331.7%
<u>397,202</u>	<u>169,450</u>	<u>227,752</u>	<u>134.4%</u>
1,212,775	1,032,103	180,672	17.5%
<u>2,181</u>	<u>338,904</u>	<u>(336,723)</u>	<u>-99.4%</u>
1,214,956	1,371,007	(\$156,051)	-11.4%
44,366,741	42,871,215		
	<u>124,519</u>		
	42,995,734		
<u>45,581,697</u>	<u>\$44,366,741</u>		

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENT OF NET POSITION
DECEMBER 31, 2016

Invested in Capital Assets:		
Balance January 1, 2016	\$22,275,221	
Capital Additions	6,156,817	
Depreciation	<u>(2,181,808)</u>	
 Total Invested in Capital Assets		 \$26,250,230
 Restricted Net Position:		
Balance January 1, 2016	26,375,506	
Net Reductions through December 31, 2016	<u>(99,080)</u>	
 Total Restricted Net Position December 31, 2016 ..		 26,276,426
 Unrestricted Net Position:		
Balance January 1, 2016	(4,295,086)	
Net Reductions through December 31, 2016	<u>(2,649,873)</u>	
 Total Unrestricted Net Position December 31, 2016 ..		 <u>(6,944,959)</u>
 TOTAL NET POSITION DECEMBER 31, 2016		 <u><u>\$45,581,697</u></u>

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

EQUITY DISTRIBUTION AS OF DECEMBER 31, 2016

	TACOMA POWER	TACOMA WATER	TACOMA RAIL	TOTAL
Balance January 1, 2016	\$29,921,073	\$12,978,329	\$1,467,339	\$44,366,741
Contributions During Year	2,181	-	-	2,181
Equity Contrib. at Dec 31, 2016 ..	29,923,254	12,978,329	1,467,339	44,368,922
Current Year Operations:				
Total Operating Revenue *	5,595,507	2,426,886	274,385	8,296,778
Less: Repairs & Servicing Expense *	1,829,196	793,360	89,698	2,712,254
Administration Expense ** ...	1,329,010	389,980	61,576	1,780,566
Depreciation Expense	2,282,388	627,154	78,843	2,988,385
Total Expenses	5,440,594	1,810,494	230,117	7,481,205
Net Operating Revenue	154,913	616,392	44,268	815,573
Add: Other Income ***	265,172	118,724	13,306	397,202
Net Operating Results	420,085	735,116	57,574	1,212,775
Total Equity	<u>\$30,343,339</u>	<u>\$13,713,445</u>	<u>\$1,524,913</u>	<u>\$45,581,697</u>

* Allocated to each division based on total receipts from the divisions.

** Allocated to each division based on vehicle count.

*** Allocated to each division based on total equity in the Fund.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	DEC 31, 2016	DEC 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash From Customers	\$8,860,839	\$8,688,092
Cash Paid to Suppliers	(1,648,808)	(1,804,439)
Cash Paid to Employees	(3,077,771)	(3,049,031)
	4,134,260	3,834,622
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, Net	(6,961,213)	(3,487,455)
Disposition of Equipment/Scrap.....	348,476	193,493
	(6,612,737)	(3,293,962)
Net Cash Used in Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	48,726	(24,043)
	48,726	(24,043)
Net Cash Provided By Investing Activities		
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(2,429,751)	516,617
Cash and Equity in Pooled Investments at January 1	22,238,453	21,721,836
Cash and Equity in Pooled Investments at December 31	\$19,808,702	\$22,238,453

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2016 Annual Report.

	YEAR TO DATE	
	DEC 31, 2016	DEC 31, 2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$815,573	\$862,653
Pension (Credits) Expenses	161,345	(110,254)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,988,385	2,937,475
Accounts Receivable	(169,939)	(43,820)
Interdivision Receivable	733,999	657,589
Materials and Supplies	(11,614)	41,847
Accounts Payable and Other	275,924	(192,982)
Interdivision Payable	(682,026)	(261,424)
Wages Payable	11,530	(65,049)
Employee Vacation and Sick Leave Accrual.....	11,083	8,587
Total Adjustments	<u>3,157,342</u>	<u>3,082,223</u>
Net Cash Provided by Operating Activities	<u>\$4,134,260</u>	<u>\$3,834,622</u>

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fleet Services Fund was established in 1984 by City of Tacoma Ordinance No. 23295. On January 1, 1985, most vehicles owned by the Tacoma Power, Tacoma Water and Tacoma Rail were transferred to this Fund. The purpose of the Fund is to provide for scheduled maintenance, repair, and replacement of Department vehicles.

Basis of Financial Statements - The Fleet Service Fund is an Internal Service Fund of the City of Tacoma used for the operation of the Department of Public Utilities consolidated fleet management program with responsibilities for all vehicle administration under a fleet manager.

The Fund accounts for its financial operation by using a self-balancing set of accounts established primarily for handling transactions of a nature peculiar to Fleet Service operations. A description of the Fund's principal accounting policies follows.

Fixed Assets - Fixed assets are stated at cost and are depreciated primarily using a straight-line method over the estimated useful life of the asset.

Inventory - The inventory is valued on the moving average cost method.

Revenues - Revenues are based on services rendered through the end of the year.

Cash and Equity in Pooled Investments and Investments - The Fund's cash balances are a deposit with the City Treasurer's Tacoma Investment Pool (TIP) for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the TIP 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 daily to the participating funds based on each fund's daily equity in the TIP.

The TIP operates like a demand deposit account in that all City departments, including the Fund, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and in certificates of deposit with East West Bank and Opus Bank.

The Fund's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2016 and 2015 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. The City of Tacoma investment policy allows for

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the FDIC insurance up to \$250,000.

All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

NOTE 2 INVESTMENTS MEASURED AT FAIR VALUE

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 – Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.
- Level 2 – Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- Level 3– Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations are provided by Interactive Data. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, Interactive Data's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, Interactive Data uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and development payment scenarios. Their models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

Source: Interactive Data "Summary of Inputs by Asset Class Fixed Income Evaluations, Fair Value Information Service and Valuations of Certain Other Instruments" dated January 2016

FLEET SERVICES FUND
 NOTES TO FINANCIAL STATEMENTS
 (continued)

Cash and cash equivalents include highly liquid investments including short-term investment funds. Cash and cash equivalents are valued at cost and, therefore, excluded from the fair value schedule.

Data regarding the City's investments, valued and categorized according to the above outlined levels, is below:

Debt Securities	As of			
	12/31/2016	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 146,824,628	\$ -	\$ 146,824,628	\$ -
U.S. Agency Securities	544,579,831	-	544,579,831	-
Municipal Bonds	61,450,051	-	61,450,051	-
Total	\$ 752,854,510	\$ -	\$ 752,854,510	\$ -

Debt Securities	As of			
	12/31/2015	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 108,647,159	\$ -	\$ 108,647,159	\$ -
U.S. Agency Securities	541,730,185	-	541,730,185	-
Municipal Bonds	119,200,942	-	119,200,942	-
Total	\$ 769,578,286	\$ -	\$ 769,578,286	\$ -

Fleet's share of the City Investments shown in the table above is 2.47% and 2.76% for 2016 and 2015.

NOTE 3 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)

The Tacoma Employees' Retirement System (TERS), a pension trust fund of the City of Tacoma, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information may be obtained by writing to:

Tacoma Employee's Retirement System
 3628 South 35th Street
 Tacoma, WA 98409

Or the TERS CAFR may be downloaded from the TERS website at www.cityoftacoma.org/retirement.

FLEET SERVICES FUND
 NOTES TO FINANCIAL STATEMENTS
 (continued)

Administration of The System - The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and Law Enforcement Support Agency who established membership in the System when these agencies were still City of Tacoma departments, are also members. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

At the direction of the City Council, the System is administered by the Board of Administration (the Board) consisting of nine regular members and one alternate member. The members of the Board are: the Mayor, who serves as Chair; the Director of Finance; the City Manager (or designee); the Public Utilities Director (or designee); three elected employee representatives; one elected retired representative; and one City resident (not employed by the City) elected by the other eight members. The nine Board members appoint a TERS member, either active or retired, as an alternate Board member. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of the Retirement System. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of the System.

The breakdown of membership as of December 31, 2015 is as follows:

Retirees and beneficiaries currently receiving benefits	2,234	
Terminated vested and other terminated participants	644	
Active members:		
City of Tacoma	2,654	
South Sound 911	4	
Pierce Transit	7	
Tacoma-Pierce County Health Department	262	
Total active members	2,927	
Total membership	5,805	

Membership - Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighter, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments.

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

Benefits - There are two formulas to calculate the retirement benefits. The benefit paid will be issued on the formula which provides the higher benefit. The most commonly applied formula, "service retirement", is a product of the member's average monthly salary for the highest, consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is based on the member's age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred retirement.

Additionally, the System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the Consumer Price Index (Seattle Area – all items) over the preceding calendar year.

Any active member who has not retired, and has five or more years of service as a member may purchase up to five additional years of service at the time of retirement. Total service including service purchased cannot exceed 30 years.

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 4154 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

Contributions - The participating employers are responsible for funding the System at a level sufficient to pay obligations and ensure the actuarial and financial soundness of the System. Contribution rates for the employer and the employee are recommended by the Board of Administration and final approval rests with the Tacoma City Council. Currently, the required contribution rate for employees is 9.20% of their regular gross pay; the employer contributes 10.80%, for a combined total of 20.00% which is sufficient to amortize the UAAL of the System if future experience follows all actuarial assumptions. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

FLEET SERVICES FUND
 NOTES TO FINANCIAL STATEMENTS
 (continued)

Significant Assumptions - The following actuarial methods were used in the funding valuation.

Measurement Date	December 31, 2015
Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal Funding is based on statutory contributions rate.
Amortization Method	This amount is compared to a 30-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows: <ul style="list-style-type: none"> • Level percent • Open periods • 30 year amortization period at 01/01/2016 • 4% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	3%
Salary Increases	4% general wage increase assumption
Investment Rate of Return	7.25%
Cost of Living Adjustment	2.13%
Retirement Age	Varies by age, gender, eligibility
Turnover	Varies by age, gender, eligibility
Mortality	RP-2000 mortality for healthy and disabled annuitants, with age adjustments

Benefit and Assumption Changes - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. Between January 1, 2015 and January 1, 2016 no assumptions were changed.

Target Allocations - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation.

The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2015. The target asset allocation is based on TERS Investment Policy Statement dated February 2014.

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

Asset Class	Target Allocation	Long-term Expected
		Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	2.00%
US Inflation-Indexed Bonds	5.0	1.41
High Yield Bonds	9.0	4.22
Emerging Market Debt	5.0	5.06
Global Equity	41.5	5.72
Public Real Estate	2.0	6.07
Private Real Estate	2.5	3.60
Private Equity	10.0	9.29
Master Limited Partnerships	4.0	3.98
Timber	2.0	3.73
Infrastructure	2.0	5.14
Agriculture	2.0	4.30
Assumed Inflation - Mean		3.00
Assumed Inflation - Standard Deviation		1.89
Portfolio Arithmetic Real Mean Return		4.94
Portfolio Median Nominal Geometric Return		7.06
Portfolio Standard Deviation		11.84
Long-Term Expected Rate of Return, net of investment expenses		7.25

Sensitivity Analysis - The following presents the net pension liability of the System, calculated using the discount rate of 7.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate.

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net pension liability (asset)	\$ 2,590,590	\$ 835,359	\$ (642,742)

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	\$ (55,912)	\$ -
Net difference between projected and actual earnings	-	736,257
Changes in Employer Proportion	(11)	605
Contributions Made Subsequent to the Measurement Date	-	227,848
Total	\$ (55,923)	\$ 964,710

The net amount of deferred inflows and outflows, other than contributions made subsequent to the measurement date, will be recognized as pension expense in each of the next four years. Contributions made subsequent to the measurement date will offset net pension liability in the following year.

Year-ended December 31,	
2016	\$164,657
2017	164,657
2018	164,657
2019	189,169
2020	<u>(2,201)</u>
	<u><u>\$680,939</u></u>

The proportionate share of the Fleet Division is 0.96%. The proportionate share was based on the actual contributions for the year.

NOTE 4 FLEET SERVICES REFUND

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 two budget cycles and to return any excess funds to customers based on their scheduled monthly payments. In 2016 and 2015, Fleet Services returned 75% of the interest earned on the capital replacement reserve to the appropriate users. The amounts refunded in 2016 and 2015 were \$148,818 and \$151,322 respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Net Pension Liability Last 10 Years*

	Fiscal Year Ended December 31st,	
	2016	2015
Employer's proportion of the net pension liability (asset) as a percentage	0.96%	1.05%
Employer's proportion share of net pension liability (asset)	\$835,359	(\$101,261)
Employer's covered payroll	\$2,152,532	\$2,244,782
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	38.81%	-4.51%
Plan fiduciary net position as a percentage the total pension liability	93.94%	100.71%

**The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.*

Schedule of Contributions Last 10 Fiscal Years

	Fiscal Year Ended December 31st,	
	2016	2015
Contractually required employer contribution	\$227,848	\$239,770
Contributions in relation to the contractually required employer contribution	(227,848)	(239,770)
Employer contribution deficiency (excess)	-	-
Employer's covered employee payroll	\$2,152,532	\$2,244,782
Employer contribution as a percentage of covered-employee payroll	10.59%	10.68%

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STATISTICAL DATA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2007	2008	2009	2010
ASSETS				
Fixed - Net	\$17,162,675	\$17,666,394	\$18,100,171	\$19,164,435
Current	20,805,271	23,370,520	23,665,442	26,034,139
Other	-	-	-	-
Total Assets	<u>37,967,946</u>	<u>41,036,914</u>	<u>41,765,613</u>	<u>45,198,574</u>
Deferred Outflows	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>37,967,946</u>	<u>41,036,914</u>	<u>41,765,613</u>	<u>45,198,574</u>
LIABILITIES				
Current	1,049,064	1,802,197	753,706	2,728,220
Deferred Inflows	-	-	-	-
NET POSITION	<u>36,918,882</u>	<u>39,234,717</u>	<u>41,011,907</u>	<u>42,470,354</u>
TOTAL LIABILITIES, NET POSITION AND DEFERRED INFLOWS	<u>\$37,967,946</u>	<u>\$41,036,914</u>	<u>\$41,765,613</u>	<u>\$45,198,574</u>
STATEMENTS OF INCOME				
OPERATING REVENUES				
Maintenance Revenue	\$2,110,494	\$2,128,335	\$2,096,838	\$2,369,705
Capital Recovery	4,048,384	4,831,680	4,568,298	4,462,261
Pool Car Rental	69,371	98,226	93,436	86,625
Administrative and Fuel	868,384	756,571	723,748	731,116
Total Operating Revenues	<u>7,096,633</u>	<u>7,814,812</u>	<u>7,482,320</u>	<u>7,649,707</u>
OPERATING EXPENSES				
Repairs and Servicing	1,781,438	1,793,119	2,004,911	2,713,546
Stores Operations	165,065	546,055	202,206	257,075
Administration	997,401	1,143,615	1,092,601	1,181,369
Depreciation	<u>3,230,966</u>	<u>3,100,034</u>	<u>2,999,842</u>	<u>2,838,774</u>
Total Operating Expenses	<u>6,174,870</u>	<u>6,582,823</u>	<u>6,299,560</u>	<u>6,990,764</u>
OPERATING INCOME (LOSS)	921,763	1,231,989	1,182,760	658,943
NON-OPERATING INCOME (EXPENSE)				
Interest Income	420,599	222,535	148,018	(5,943)
Net Other Income (Expense)	<u>63,918</u>	<u>14,828</u>	<u>112,895</u>	<u>230,375</u>
Total Non-Operating Income (Expense)	<u>484,517</u>	<u>237,363</u>	<u>260,913</u>	<u>224,432</u>
Net Income (Loss) Before Contributions & Transfers ...	1,406,280	1,469,352	1,443,673	883,375
Total Capital Contributions	-	-	-	4,000.00
Transfers In *	<u>428,922</u>	<u>846,483</u>	<u>333,517</u>	<u>571,072</u>
NET INCOME (LOSS)	<u>\$1,835,202</u>	<u>\$2,315,835</u>	<u>\$1,777,190</u>	<u>\$1,458,447</u>

2011	2012	2013	2014	2015	2016
\$19,631,756	\$20,043,909	\$20,270,054	\$21,386,337	\$22,275,221	\$26,250,230
24,425,237	26,873,162	22,007,068	23,472,087	23,333,088	20,350,890
-	-	-	-	101,261	-
44,056,993	46,917,071	42,277,122	44,858,424	45,709,570	46,601,120
-	-	-	-	240,412	964,710
44,056,993	46,917,071	42,277,122	44,858,424	45,949,982	47,565,830
431,649	4,558,862	1,039,418	1,987,209	1,476,341	1,928,210
-	-	-	-	106,900	55,923
43,625,344	42,358,209	41,237,704	42,871,215	44,366,741	45,581,697
\$44,056,993	\$46,917,071	\$42,277,122	\$44,858,424	\$45,949,982	\$47,565,830
\$2,499,589	\$2,333,084	\$2,101,367	\$2,097,335	\$2,196,833	\$2,176,445
3,382,819	1,497,410	1,372,888	4,689,984	4,826,427	5,122,589
68,411	82,423	73,772	125,367	136,685	123,377
730,871	727,395	1,115,860	1,141,785	914,378	874,367
6,681,690	4,640,312	4,663,887	8,054,471	8,074,323	8,296,778
2,488,151	2,451,583	2,274,301	2,844,024	2,578,812	2,712,254
274,399	267,989	326,773	398,011	308,946	329,268
1,047,029	1,228,920	1,323,636	1,592,691	1,386,437	1,451,298
2,756,785	2,716,103	2,570,362	2,768,745	2,937,475	2,988,385
6,566,364	6,664,595	6,495,072	7,603,471	7,211,670	7,481,205
115,326	(2,024,283)	(1,831,185)	451,000	862,653	815,573
360,639	92,913	(99,756)	54,921	(24,043)	48,726
253,627	247,292	165,334	474,892	193,493	348,476
614,266	340,205	65,578	529,813	169,450	397,202
729,592	(1,684,078)	(1,765,607)	980,813	1,032,103	1,212,775
174,815	46,877	-	-	-	-
250,583	370,066	645,102	652,698	338,904	2,181
\$1,154,990	(\$1,267,135)	(\$1,120,505)	\$1,633,511	\$1,371,007	\$1,214,956

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

FLEET PLANT IN SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2016

FIXED ASSET ACCOUNTS

	Book Cost 1/1/16	Additions 2016
Office Furniture and Equipment	\$540,905	(\$1,333)
Stores and Shop Equipment	692,125	27,255
Transportation Equipment	37,977,162	5,772,768
Power-Operated Equipment	19,291,995	1,005,552
Construction Work in Progress.....	<u>1,367,980</u>	<u>255,198</u>
TOTAL FIXED ASSETS	<u><u>\$59,870,167</u></u>	<u><u>\$7,059,440</u></u>

ACCUMULATED DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/16
Office Furniture and Equipment	Various	\$540,905
Stores and Shop Equipment	Various	568,847
Transportation Equipment	Various	21,947,889
Power-Operated Equipment	Various	<u>14,537,305</u>
TOTAL ACCUMULATED DEPRECIATION		<u><u>\$37,594,946</u></u>

<u>Retirements 2016</u>	<u>Transfers & Adjustments</u>	<u>Book Cost 12/31/16</u>
\$ -	\$31,362	\$570,934
-	-	719,380
(470,733)	1,077,894	44,357,091
(357,020)	210,606	20,151,133
<u>-</u>	<u>(1,367,773)</u>	<u>255,405</u>
<u><u>(\$827,753)</u></u>	<u><u>(\$47,911)</u></u>	<u><u>\$66,053,943</u></u>

<u>Annual Accrual Cr.</u>	<u>Transfers & Adjustments</u>	<u>Accumulated Depreciation 12/31/16</u>
\$ -	\$ -	\$540,905
18,082	-	586,929
2,354,859	(449,556)	23,853,192
<u>615,444</u>	<u>(357,020)</u>	<u>14,795,729</u>
<u><u>\$2,988,385</u></u>	<u><u>(\$806,576)</u></u>	<u><u>\$39,776,755</u></u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2016

FEDERAL

Social Security (FICA)		\$159,669
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STATE OF WASHINGTON

Retail Sales Tax	517,390	
State Employment Security	2,296	
Total		519,686

TOTAL TAXES		\$679,355
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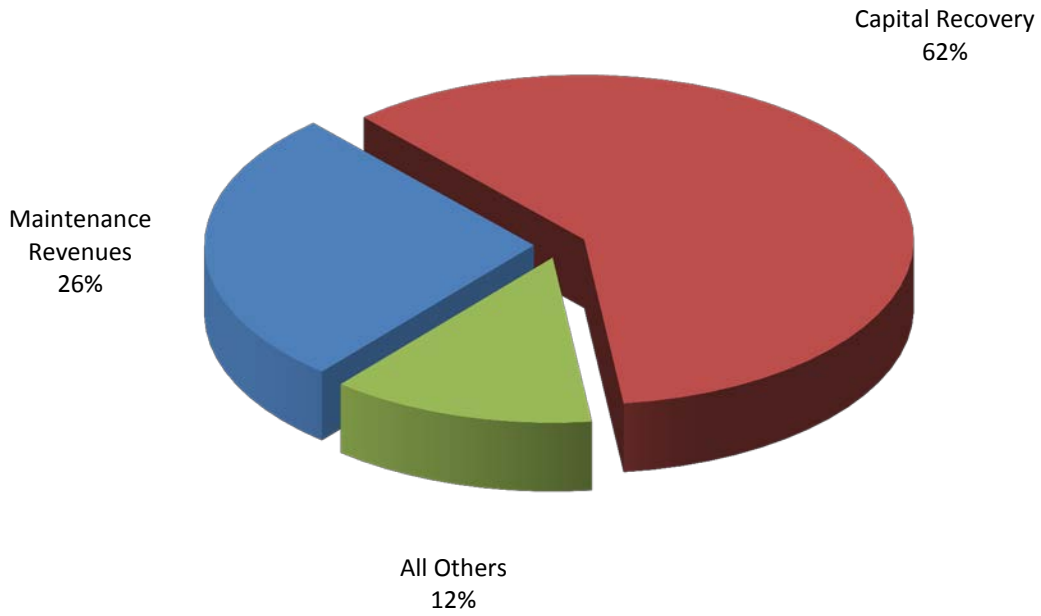
Taxes as a % of Total Revenues of \$8,296,778.....		8.19%
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EMPLOYEE WELFARE CONTRIBUTIONS

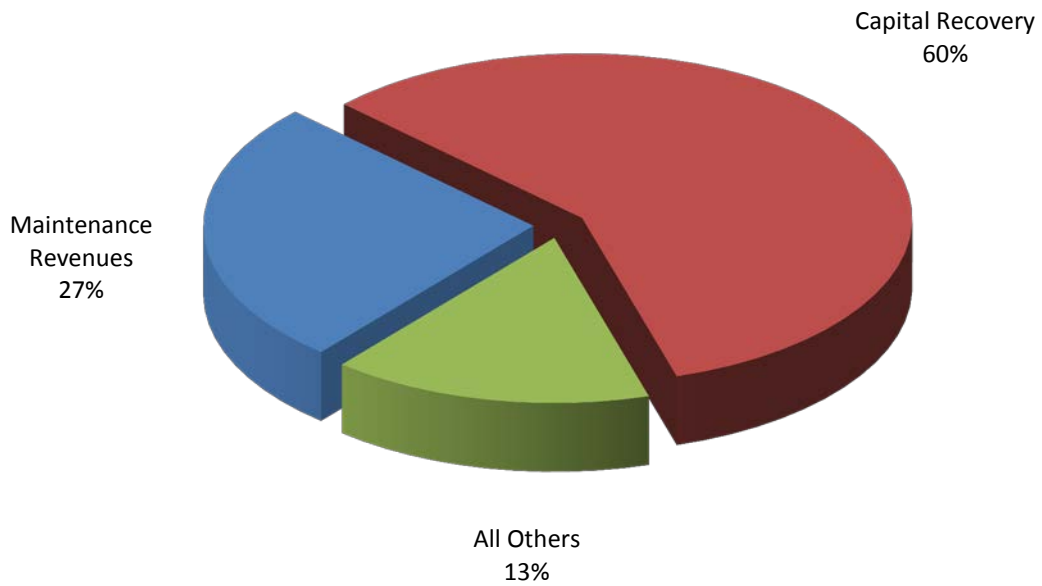
Industrial Insurance and Medical Aid	\$56,763	
City of Tacoma Pension Fund	221,255	
Washington Dental Service	39,671	
Pierce County Medical Bureau	460,177	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$777,866
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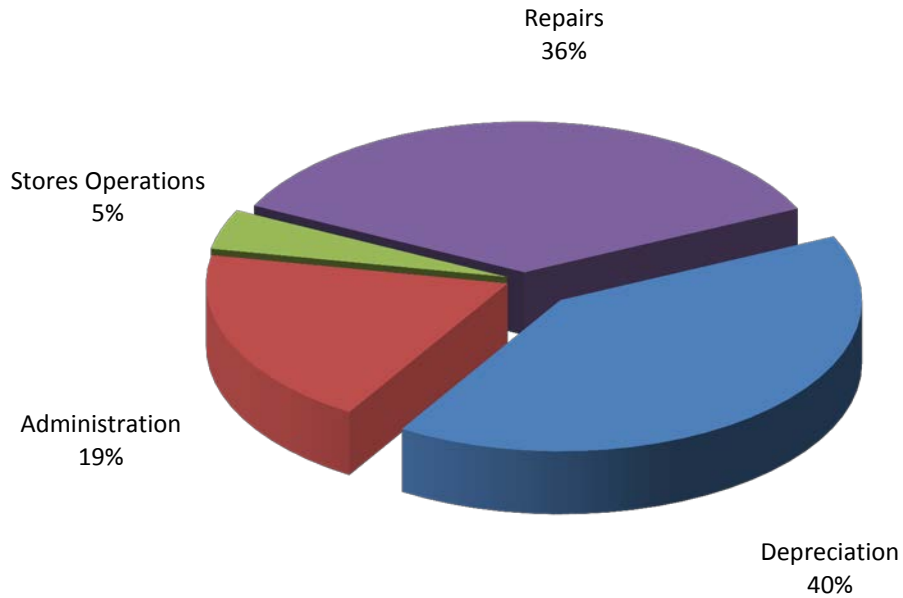
TOTAL OPERATING REVENUES
Year to Date - December 2016 (\$8,296,778)



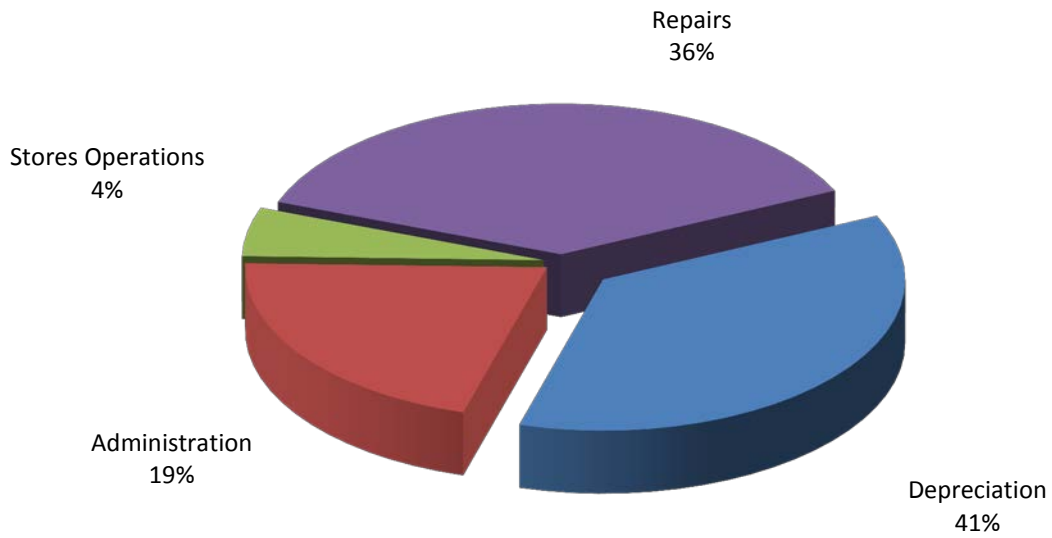
TOTAL OPERATING REVENUES
Year to Date - December 2015 (\$8,074,323)



TOTAL OPERATING EXPENSES
Year to Date - December 2016 (\$7,481,205)



TOTAL OPERATING EXPENSES
Year to Date - December 2015 (\$7,211,670)



FLEET MANAGER'S REPORT

Fleet Services completed a successful year providing vehicle and equipment maintenance and management services to our customers.

Fleet Finance

Fleet Services worked with customers during the year to assure they had the vehicles and equipment needed to perform their duties. Specification and purchasing procedures were completed for 63 pieces of equipment. Fleet Services arranged for public auction sale of 64 pieces of equipment that were declared surplus by the assigned sections.

Fleet Services continued to return interest earned on fund investments for the year to our customers. A total of \$148,818 was credited to individual vehicle replacement funds through December 2016, with the allocation based on the amount each had paid into the fund.

After returning these funds to customers, the Fleet Fund ended the year with a \$19,808,702 cash and investment balance.

Fleet Maintenance

Fleet Services maintenance shop performed 1,398 preventive maintenance services and inspections and 3,801 corrective work orders on Public Utilities vehicles and equipment.

Fleet Services also performed state-mandated emissions testing on 155 vehicles with passing results.

Fleet Initiatives

TPU Fleet Services efforts continued in 2016 to make improvements by working with the City of Tacoma's Information Technology department and TPU Utility Technology Services to enhance SAP for business needs. A custom report transaction was created that allows reporting of annual average lifecycle cost, fuel usage, and total cost detail for Fleet tracked equipment. In October 2016, reporting and tracking of no-cost repairs that are covered under warranty was an added feature that reports the following savings to our Fleet customers:

- Click! \$3,474.60
- UTS \$87.59
- Generation \$359.16
- T&D \$26,615.06

This does not include the reimbursements that Fleet worked to obtain for warranty repair work that we performed that totaled \$13,559.42 in 2016.

TPU Fleet Services obtained \$3,867.04 in fuel tax recovery through a Washington State program designed to reimburse for fuel road taxes paid for vehicles and equipment that were used for off road purposes. These instances include when the equipment is operated on unimproved roads, in PTO mode and for miscellaneous use such as chain saws, weed eaters, leaf blowers, etc.

Other cost saving measures TPU Fleet Services has been actively pursuing includes determining if the transfer and re-use of equipment components such as a truck dump body or service body to a new chassis is a better option rather than buying an entire new unit. In 2016, this effort resulted in a total savings of \$19,294.00 for four equipment replacements.

Fleet Parts

Fleet Services parts warehouse issued \$872,288.73 in parts in support of the maintenance shop. Of this amount, 38 percent (\$330,250.63) was issued from stock and 62 percent (\$542,038.10) was ordered non-stock from vendors. The Fleet parts warehouse accomplished 11,010 issue transactions totaling 39,170 items.

Fleet Staff Development

Fleet Services employees received an average of 28.4 hours of technical, personal development, and safety-oriented training per person.

The Fleet Services Tool and Training Committee helped specify and obtain tools and shop equipment designed to increase productivity and safety.

Don Ashmore
Fleet Manager



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.

ANNUAL

SELF-INSURANCE CLAIM FUND

2016

**FINANCIAL
REPORT**



Public Utility Board

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Power Superintendent/COO

ANDREW CHERULLO
Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

SELF-INSURANCE CLAIM FUND

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FINANCIAL DATA

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MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Self-Insurance Fund provides an overview of the financial activities for the years ended December 31, 2016 and 2015. The information presented here should be read in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that is provided.

Overview of the Financial Statements

The City of Tacoma Finance Department and the management of the Self-Insurance Fund are responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles 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, 2016 and 2015, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses, and Changes in Net Position 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 operations, investing and financing activities.

The notes to the financial statements, presented at the end of the basic 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 Fund's presentation of financial position, results of operations, and changes in cash flows.

Management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived.

The Division adopted GASB Statement No. 72, Fair Value Measurement and Application, during fiscal year 2016. The statement provides guidance for determining fair value to certain investments and disclosures related to all fair value measurements, and requires accounting for investments at fair value (See note 2).

Financial Statement Analysis

The Fund is reporting a net gain of \$658,000 in 2016 compared to a net gain of \$1.9 million recorded in 2015. Total revenues increased by \$26,000 and total expenses increased by \$1.3 million for the year.

In 2015, the Fund reported a net gain of \$1.9 million compared to a net loss of \$547,000 in 2014. Total revenues increased \$182,000 and total expenses decreased \$2.3 million for the year.

Selected Financial Information

(in thousands)

Category	2014	2015	2016
Premiums	\$1,040	\$1,240	\$1,240
Interest	<u>53</u>	<u>35</u>	<u>62</u>
Total Income	1,093	1,275	1,302
Total Expenses	<u>1,640</u>	<u>(641)</u>	<u>644</u>
Change in Net Position (Net Income)	(\$547)	\$1,916	\$658
Current Assets	\$6,227	\$6,856	\$7,633
Accounts Payable Claims	5,939	4,692	4,810
Other Liabilities	<u>55</u>	<u>16</u>	<u>17</u>
Total Liabilities (Current)	<u>5,994</u>	<u>4,708</u>	<u>4,827</u>
Total Net Position	\$233	\$2,148	\$2,806

Revenues

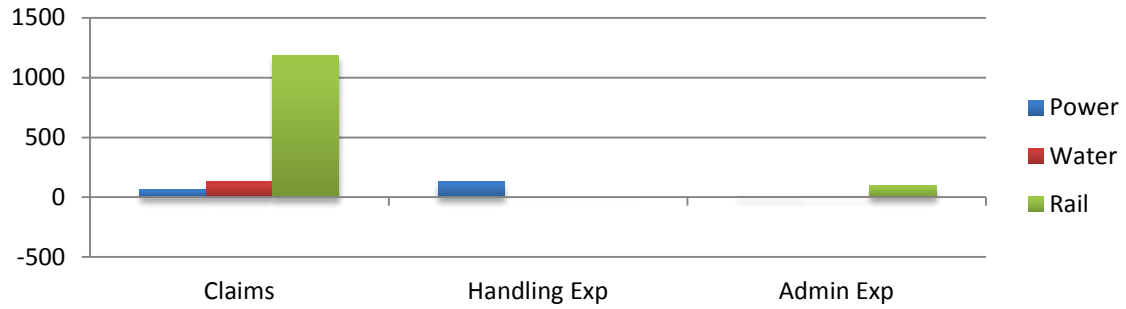
Self-Insurance fund revenues are contributions from the Power, Water and Rail funds and the interest earned. Total revenues were \$1.3 million for both 2016 and 2015 respectively.

Expenses

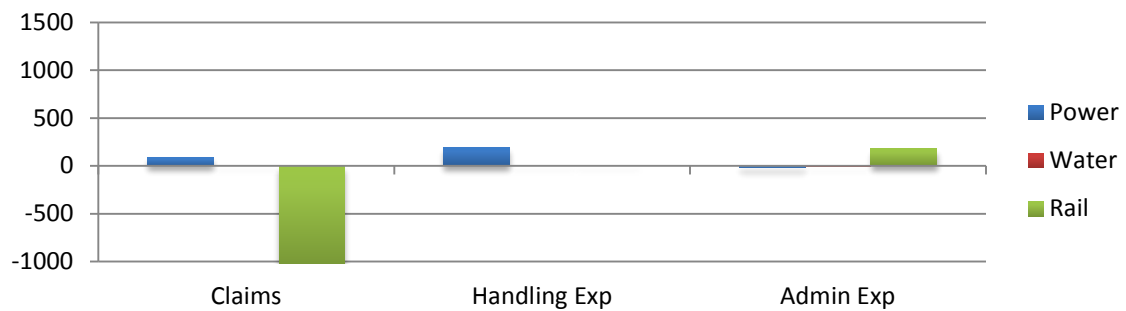
Self-Insurance fund expenses include claims and handling expenses paid during the year, adjustments to accrued claims and administrative expenses. Support Services claims and handling expenses are allocated to Power and Water only and based on each fund's percentage of combined claims and handling expense for the year. Administrative expenses are allocated to Power, Water and Rail funds based on each fund's percentage of total claims paid for the year.

Total expenses in 2016, 2015 and 2014 were \$644,000, \$(640,000), and \$1.6 million respectively. The increase or decrease in expenses from year to year is primarily due to adjustments in expected future developments accrued by the Fund. Negative claims expense is generally the result of adjustments to the liability where expected claims were accrued in one year and subsequently denied or revised the next year.

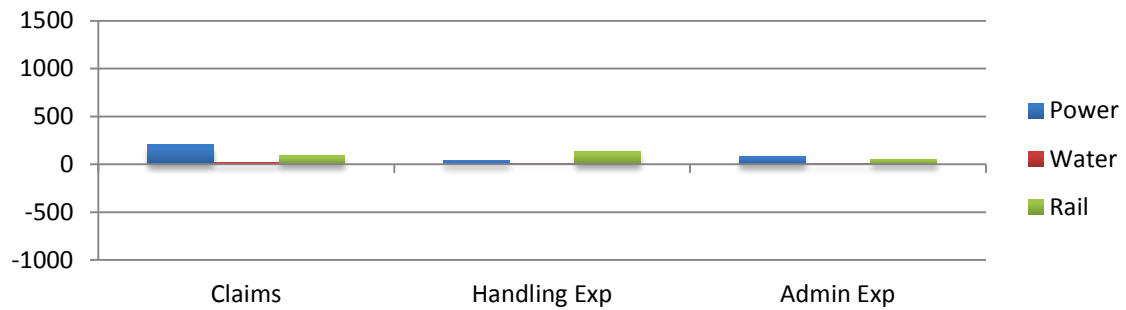
2014 Expenses (\$ in thousands)



2015 Expenses (\$ in thousands)



2016 Expenses (\$ in thousands)



Self-Insurance Claims

Claims paid by the Fund generally fall into four distinct categories. The following table illustrates the impact the various types of claims had on the Fund in 2016, 2015, and 2014.

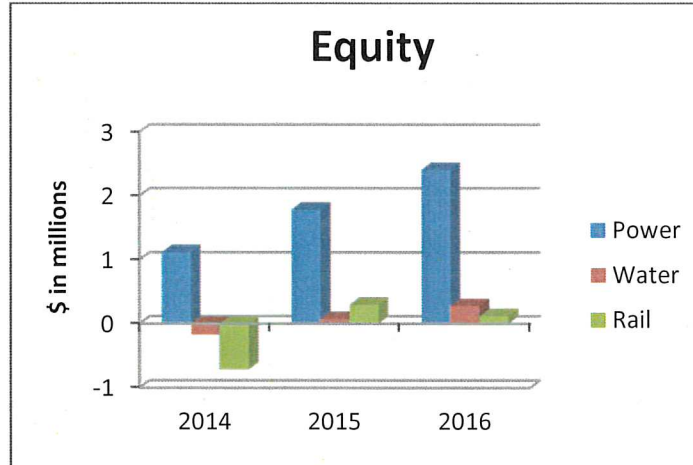
Category	2014	2015	2016
Non-Vehicular (Bodily Injury/Property Damage)	\$229,814	\$185,528	\$228,542
Vehicular (Bodily Injury/Property Damage)	65,571	92,485	13,600
Hazardous Waste (Environmental)	-	-	-
Contract/Harassment	-	-	-
Total Claims Paid	\$295,385	\$278,013	\$242,142

This table compares the balances that have been accrued as accounts payable claims at year-end 2016, 2015, and 2014 for these same four categories.

Category	2014	2015	2016
Non-Vehicular (Bodily Injury/Property Damage)	\$5,910,240	\$4,637,697	\$4,764,576
Vehicular (Bodily Injury/Property Damage)	28,981	54,532	45,307
Hazardous Waste (Environmental)	-	-	-
Contract/Harassment	-	-	140
Total Accrued Accounts Payable Claims	\$5,939,221	\$4,692,229	\$4,810,023

Equity

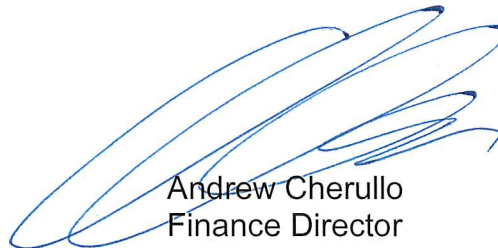
The Fund's equity at the end of 2016 is \$2.8 million compared to \$2.1 million in 2015 and \$233,000 in 2014. The following graph provides a visual presentation as to how the Fund's equity is shared.



Summary

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Self-Insurance Fund's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Division Manager of Utilities Accounting, 3628 South 35th Street, Tacoma, Washington, 98409.


William A. Gaines
Director of Utilities/CEO


Andrew Cherullo
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

STATEMENTS OF NET POSITION - DECEMBER 31, 2016 AND DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT		
Cash and Equity in Pooled Investments	\$7,633,129	\$6,855,931
TOTAL ASSETS	<u>\$7,633,129</u>	<u>\$6,855,931</u>
 NET POSITION AND LIABILITIES 		
NET POSITION		
Restricted:		
Interfund Contributions	\$2,806,451	\$2,148,469
TOTAL NET POSITION	2,806,451	2,148,469
CURRENT LIABILITIES		
Accounts Payable Claims	4,810,023	4,692,229
Accounts Payable Claims Handling	4,433	3,894
Interdivision Payable	12,222	11,339
TOTAL LIABILITIES	<u>4,826,678</u>	<u>4,707,462</u>
TOTAL NET POSITION AND LIABILITIES	<u>\$7,633,129</u>	<u>\$6,855,931</u>

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2016 AND DECEMBER 31, 2015

	<u>DECEMBER</u> <u>2016</u>	<u>DECEMBER</u> <u>2015</u>
INCOME		
Premiums	\$103,333	\$103,333
Interest	(\$18,028)	(13,875)
	<hr/>	<hr/>
TOTAL INCOME	85,305	89,458
 EXPENSES		
Claims	(275,683)	106,345
Litigation Expense and Settlements	17,869	667
Incidental and Administrative Expense	12,222	11,518
	<hr/>	<hr/>
TOTAL EXPENSES	(245,592)	118,530
 CHANGE IN NET POSITION	 <u>\$330,897</u>	 <u>(\$29,072)</u>
 TOTAL NET POSITION - JANUARY 1		
 TOTAL NET POSITION - DECEMBER 31		

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

YEAR-TO-DATE			
DECEMBER 2016	DECEMBER 2015	2016/2015 VARIANCE	PERCENT CHANGE
\$1,240,000	\$1,240,000	\$ -	0.0%
<u>61,576</u>	<u>35,169</u>	<u>26,407</u>	75.1%
1,301,576	1,275,169	26,407	2.1%
350,057	(968,980)	1,319,037	136.1%
172,963	196,895	(23,932)	-12.2%
<u>120,574</u>	<u>131,732</u>	<u>(11,158)</u>	-8.5%
<u>643,594</u>	<u>(640,353)</u>	<u>1,283,947</u>	200.5%
657,982	1,915,522	(1,257,540)	-65.6%
<u>2,148,469</u>	<u>232,947</u>	<u>1,915,522</u>	
<u><u>\$2,806,451</u></u>	<u><u>\$2,148,469</u></u>	<u><u>\$657,982</u></u>	

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

EQUITY DISTRIBUTION AS OF DECEMBER 31, 2016

	TACOMA POWER	TACOMA WATER	TACOMA RAIL	TOTAL
Balance January 1, 2016	\$1,781,711	\$70,547	\$296,211	\$2,148,469
Contributions (Premiums)	900,000	240,000	100,000	1,240,000
Claims (1)	(203,058)	(24,127)	(92,766)	(319,951)
Claims Handling Expense	(37,825)	(4,000)	(131,138)	(172,963)
Administrative Expenses (2)	(85,882)	(10,028)	(54,770)	(150,680)
Interest Income (3)	52,829	6,110	2,637	61,576
Balance December 31, 2016	<u>\$2,407,775</u>	<u>\$278,502</u>	<u>\$120,174</u>	<u>\$2,806,451</u>
GASB 10 Adjustments (4)	<u>(2,407,775)</u>	<u>(278,502)</u>	<u>(120,174)</u>	<u>(2,806,451)</u>
Adj Balance, December 31, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (1) Service divisions' claims of \$30,106 have been deducted from this area.
- (2) Service divisions' claims and handling of \$30,106 have been added to Administrative expenses. These costs have been allocated to Power and Water divisions based on the ratio of claims activity to date. Service division does not provide support to Rail.
- (3) Interest income has been allocated to each division in the same ratio as its fund balance at January 1, plus contributions and expenses to date.
- (4) Tacoma Power, Water and Rail divisions have adjusted year-end balances to include their share of the equity in the Self Insurance Fund.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	DECEMBER 31, 2016	DECEMBER 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums Received	\$1,240,000	\$1,240,000
Claims Paid	(242,299)	(278,012)
Administrative and Other Expenses	(282,079)	(368,614)
Net Cash Provided by		
Operating Activities	715,622	593,374
 CASH FLOWS FROM FINANCING ACTIVITIES		
Interest Received	61,576	35,169
Net Cash Provided by		
Financing Activities	61,576	35,169
Net Increase in Cash and		
Equity in Pooled Investments	777,198	628,543
Cash and Equity in Pooled		
Investments at January 1	6,855,931	6,227,388
Cash and Equity in Pooled		
Investments at December 31	\$7,633,129	\$6,855,931

	YEAR TO DATE	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Net Income	\$657,982	\$1,915,522
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Interest Income	(61,576)	(35,169)
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Interdivision Payable	883	(1,017)
Accounts Payable Claims	117,794	(1,246,992)
Accounts Payable Claims Handling	539	(38,970)
Total Adjustments	<u>57,640</u>	<u>(1,322,148)</u>
Net Cash Provided by Operating Activities	<u>\$715,622</u>	<u>\$593,374</u>

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Self-Insurance Claim Fund was established in 1979 by City of Tacoma Ordinance No. 21863. Its purpose is to account for all monetary transactions required to carry out a self-insurance program for Tacoma Power and Tacoma Water of the City of Tacoma, Department of Public Utilities. Its first year of full operation was 1981. In November 1985, under the terms of City of Tacoma Ordinance No. 23513, Tacoma Rail became a participant in the self-insurance program.

Insurance Coverage. In 1994 with insurance prices becoming more reasonable, all divisions again elected to purchase insurance for third party liability losses to which they may be exposed. Coverage levels are \$60.0 million for Tacoma Power and Tacoma Water with a \$1.5 million retention and \$100.0 million aggregate coverage with a \$50 million limit per occurrence for Tacoma Rail with \$1.0 million retention. The policies for Tacoma Power, Tacoma Water, Tacoma Rail and Public Officials coverage are "occurrence based" type policies. Additionally, all divisions now have Public Officials Liability Insurance; coverage is \$1.3 million for each wrongful act with \$2.6 million aggregate coverage with a \$200,000 retention level for each wrongful act. The Department has also purchased "All Risk" property damage insurance. Coverage applies to select properties, vehicles and equipment.

Basis of Financial Statements. The Self-Insurance Fund is an Internal Service Fund of the City of Tacoma operated by the Department of Public Utilities.

Cash and Equity in Pooled Investments. The Fund's cash balances are a deposit with the City Treasurer's Tacoma Investment Pool (TIP) for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the TIP are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Position. Interest earned on such pooled investments is allocated daily to the participating funds based on each fund's daily equity in the TIP.

The TIP operates like a demand deposit account in that all City departments, including the Fund, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and in a certificates of deposit with East West Bank and Opus Bank.

The Fund's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2016 and 2015 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

SELF-INSURANCE CLAIM FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. The City of Tacoma investment policy allows for authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

Incurred but Not Reported (IBNR). The Fund uses accrual basis of accounting for recognizing not only claims that have been asserted where probable loss is estimable but also cases where incidents have occurred but where claims have not been reported. For incurred but not reported incidents, a reasonable estimate has been made of the potential expense where it appears probable that a claim will be asserted.

NOTE 2 INVESTMENTS MEASURED AT FAIR VALUE

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles.

The Hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 - Level 1 inputs are quoted (adjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.
- Level 2 - Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- Level 3 - Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations are provided by Interactive Data. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, Interactive Data's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, Interactive Data uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and development payment scenarios. Their models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

Source: Interactive Data "Summary of Inputs by Asset Class Fixed Income Evaluations, Fair Value Information Service and Valuations of Certain Other Instruments" dated January 2016.

SELF-INSURANCE CLAIM FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

Cash and cash equivalents include highly liquid investments including short-term investment funds. Cash and cash equivalents are valued at cost and, therefore, excluded from the fair value schedule.

Data regarding the City's investments, valued and categorized according to the above outlined levels, is below:

Debt Securities	As of			
	12/31/2016	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 146,824,628		\$ 146,824,628	\$ -
U.S. Agency Securities	544,579,831	-	544,579,831	-
Municipal Bonds	61,450,051	-	61,450,051	-
Total	\$ 752,854,510	\$ -	\$ 752,854,510	\$ -

Debt Securities	As of			
	12/31/2015	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 108,647,159		\$ 108,647,159	\$ -
U.S. Agency Securities	541,730,184	-	541,730,184	-
Municipal Bonds	119,200,942	-	119,200,942	-
Total	\$ 769,578,285	\$ -	\$ 769,578,285	\$ -

Self Insurance's share of the City Investments shown in the table above is 0.95% and 0.85% for 2016 and 2015.

NOTE 3 PENDING LEGAL ACTIONS AND CLAIMS FOR WHICH THE EXPOSURE TO LIABILITY MAY EXCEED \$300,000 PER OCCURRENCE.

Miscellaneous. Tacoma Public Utilities has received several miscellaneous claims that either do not allege significant amounts, or that the Legal Department has determined do not pose a risk of liability to the utilities.

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STATISTICAL DATA

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

CLAIMS STATISTICS SUMMARY - DECEMBER 31, 2016

NUMBER OF CLAIMS PAID (JANUARY 1 - DECEMBER 31, 2016)

	<u>Tacoma Power</u>	<u>Tacoma Water</u>	<u>Tacoma Rail</u>	<u>Svc. Divs.</u>	<u>Total</u>
Over \$5,000	5	2	1	3	11
\$1,001 - 5,000	17	8	-	1	26
\$501 - 1,000	8	3	1	-	12
\$100 - 500	7	7	-	1	15
Less than \$100	-	2	-	2	4
	<u>37</u>	<u>22</u>	<u>2</u>	<u>7</u>	<u>68</u>
Total Dollar Amount of Claims Paid	134,579	\$54,442	\$25,060	\$28,061	\$242,142

NUMBER OF CLAIMS ACCRUED AT DECEMBER 31, 2016

Over \$50,000	12	2	-	-	14
\$10,000 - 50,000	23	1	-	-	24
Less than \$10,000	289	2	-	3	294
	<u>324</u>	<u>5</u>	<u>0</u>	<u>3</u>	<u>332</u>
Total Dollar Amount Accrued for Known Claims	\$2,719,030	\$287,977	\$1,091,708	\$655	\$4,099,370
Total Dollar Amount Accrued for Unknown Claims	<u>\$412,474</u>	<u>\$155,722</u>	<u>\$136,830</u>	<u>\$5,627</u>	<u>\$710,653</u>
Total Dollar Amount Accrued for All Claims	<u><u>\$3,131,504</u></u>	<u><u>\$443,699</u></u>	<u><u>\$1,228,538</u></u>	<u><u>\$6,282</u></u>	<u><u>\$4,810,023</u></u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

CLAIMS STATISTICS DETAIL - DECEMBER 31, 2016

NUMBER OF CLAIMS PAID (JANUARY 1 - DECEMBER 31, 2016)

Range	Non-Vehicular Bodily Injury/Property Damage			
	Tacoma Power	Tacoma Water	Tacoma Rail	Svc. Divs.
Over \$5,000	5	2	1	3
\$1,001 - 5,000	14	6	-	-
\$501 - 1,000	8	2	1	-
\$100 - 500	6	7	-	1
Less than \$100	-	2	-	2
	<u>33</u>	<u>19</u>	<u>2</u>	<u>6</u>
Total Dollar Amount of Claims Paid	\$128,562	\$49,158	\$25,060	\$25,762
Average Dollar Amount of Claims Paid	\$3,896	\$2,587	\$12,530	\$4,294

NUMBER OF CLAIMS ACCRUED AT DECEMBER 31, 2016

Range	Non-Vehicular Bodily Injury/Property Damage			
	Tacoma Power	Tacoma Water	Tacoma Rail	Svc. Divs.
Over \$50,000	12	2	-	-
\$10,000 - 50,000	22	1	-	-
Less than \$10,000	281	2	-	3
	<u>315</u>	<u>5</u>	<u>-</u>	<u>3</u>
Total Dollar Amount Accrued for Known Claims .	\$2,697,375	\$276,685	\$1,079,208	\$655
Total Dollar Amount Accrued for Unknown Claims	<u>\$412,474</u>	<u>\$155,722</u>	<u>\$136,830</u>	<u>\$5,627</u>
Total Dollar Amount Accrued for All Claims ...	<u><u>\$3,109,849</u></u>	<u><u>\$432,407</u></u>	<u><u>\$1,216,038</u></u>	<u><u>\$6,282</u></u>

Vehicular Bodily Injury/Property Damage				Contract/Harassment			
Tacoma Power	Tacoma Water	Tacoma Rail	Svc. Divs.	Tacoma Power	Tacoma Water	Tacoma Rail	Svc. Divs.
-	-	-	-	-	-	-	-
3	2	-	1	-	-	-	-
-	1	-	-	-	-	-	-
1	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
4	3	-	1	-	-	-	-
\$6,017	\$5,284	-	\$2,299	-	-	-	-
\$1,504	\$1,761	-	\$2,299	-	-	-	-

Vehicular Bodily Injury/Property Damage				Contract/Harassment			
-	-	-	-	-	-	-	-
1	-	-	-	-	-	-	-
7	-	-	-	1	-	-	-
8	-	-	-	1	-	-	-
\$21,515	\$11,292	\$12,500	-	\$140	-	-	-
-	-	-	-	-	-	-	-
<u>\$21,515</u>	<u>\$11,292</u>	<u>\$12,500</u>	<u>-</u>	<u>\$140</u>	<u>-</u>	<u>-</u>	<u>-</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
ASSETS				
Current	\$4,792,573	\$4,788,153	\$4,564,534	\$4,483,283
TOTAL ASSETS	<u>4,792,573</u>	<u>4,788,153</u>	<u>4,564,534</u>	<u>4,483,283</u>
LIABILITIES				
Current	1,898,794	1,878,524	1,415,874	2,540,439
NET POSITION	<u>2,893,779</u>	<u>2,909,629</u>	<u>3,148,660</u>	<u>1,942,844</u>
TOTAL LIABILITIES AND NET POSITION	\$4,792,573	\$4,788,153	\$4,564,534	\$4,483,283
 STATEMENTS OF INCOME				
INCOME				
Premiums	\$804,000	\$804,000	\$324,000	\$324,000
Interest	262,887	197,619	121,687	71,595
Litigation Settlement Refund	95,472	-	-	-
Total	<u>1,162,359</u>	<u>1,001,619</u>	<u>445,687</u>	<u>395,595</u>
EXPENSES				
Claims	1,230,896	361,226	(148,043)	1,347,562
Claims Handling Expense	511,738	426,651	197,319	103,138
Incidental & Admin. Expense	218,935	197,892	157,380	150,711
Total	<u>1,961,569</u>	<u>985,769</u>	<u>206,656</u>	<u>1,601,411</u>
NET INCOME (LOSS)	(\$799,210)	\$15,850	\$239,031	(\$1,205,816)

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>\$3,934,405</u>	<u>\$5,359,525</u>	<u>\$5,681,826</u>	<u>\$6,227,388</u>	<u>\$6,855,931</u>	<u>\$7,633,129</u>
3,934,405	5,359,525	5,681,826	6,227,388	6,855,931	7,633,129
2,193,523	3,441,738	4,902,069	5,994,441	4,707,462	4,826,678
<u>1,740,882</u>	<u>1,917,787</u>	<u>779,757</u>	<u>232,947</u>	<u>2,148,469</u>	<u>2,806,451</u>
\$3,934,405	\$5,359,525	\$5,681,826	\$6,227,388	\$6,855,931	\$7,633,129
\$744,000	\$2,470,377	\$1,040,004	\$1,040,004	\$1,240,000	\$1,240,000
123,337	78,820	23,559	52,827	35,169	61,576
-	-	-	-	-	-
<u>867,337</u>	<u>2,549,197</u>	<u>1,063,563</u>	<u>1,092,831</u>	<u>1,275,169</u>	<u>1,301,576</u>
680,886	1,678,679	1,817,285	1,375,087	(968,980)	350,057
270,349	560,911	248,952	134,293	196,895	172,963
<u>118,064</u>	<u>132,702</u>	<u>135,356</u>	<u>130,261</u>	<u>131,732</u>	<u>120,574</u>
<u>1,069,299</u>	<u>2,372,292</u>	<u>2,201,593</u>	<u>1,639,641</u>	<u>(640,353)</u>	<u>643,594</u>
(\$201,962)	\$176,905	(\$1,138,030)	(\$546,810)	\$1,915,522	\$657,982



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.