
JUNE

TACOMA POWER

2018

**FINANCIAL
REPORT**



Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES

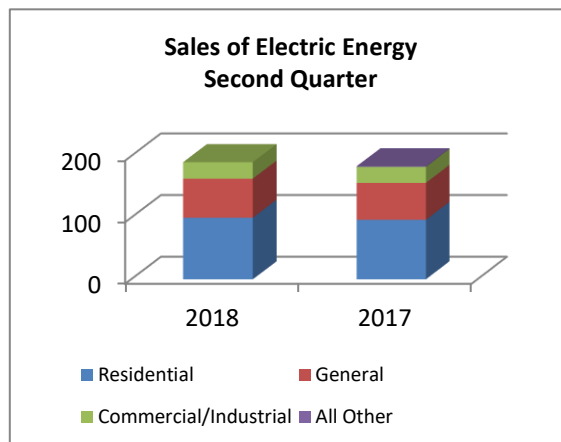
CITY OF TACOMA

Summary

Tacoma Power's operating income at the end of the second quarter of 2018 was \$46.4 million compared to \$46.5 million a year earlier. Operating revenues increased \$6.5 million (2.8%) compared to the prior year. Operating expenses increased \$6.6 million (3.5%). Non-operating expenses decreased in total \$723,000 (12.8%) resulting in net income of \$31.3 million in 2018 compared to \$35.4 million in 2017.

Revenues

In the second quarter of 2018, total electric energy sales increased \$7.0 million compared with the same period a year earlier. The following table summarizes the impacts of rate and volume changes on sales of electric energy by customer class as of June 2018. There was a 5.9% rate increase effective April 16, 2017 and an additional 5.9% rate increase effective April 1, 2018.



Changes Related To:

| Customer Class | Rate | Volume | YTD Increase |
|------------------------------------|----------------------|-----------------------|---------------------|
| Residential | \$ 6,721,400 | \$ (3,423,139) | \$ 3,298,261 |
| Commercial | 375,086 | (287,229) | 87,857 |
| General | 3,623,658 | (110,838) | 3,512,820 |
| Contract Industrial | 589,776 | 16,613 | 606,389 |
| Public Street and Highway Lighting | 20,225 | (1,239,744) | (1,219,519) |
| Sales to Other Utilities | 8,512 | 3,750 | 12,262 |
| Bulk Power Sales | 1,629,888 | (906,351) | 723,537 |
| Total | \$ 12,968,545 | \$ (5,946,938) | \$ 7,021,607 |

A new tariff rate class, schedule H-3, was created for street lighting services for utility-owned, municipally-maintained street lighting service effective April 1, 2018. The City of Tacoma is in process of converting to the new efficient LED street lights. The impact reflected in the Public Street and Highway Lighting in the above table is a result of timing issues for a billing correction. The revised bill is anticipated to be generated in August of 2018.

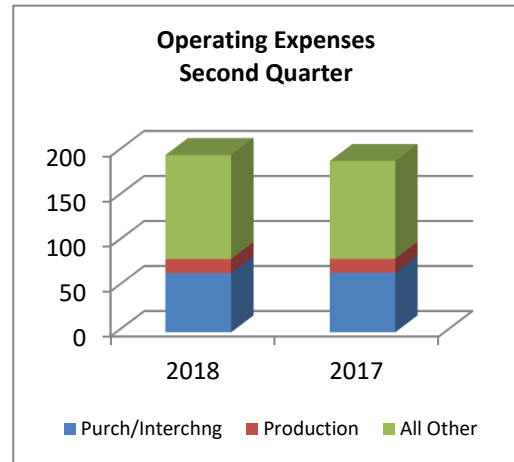
Expenses

Second quarter 2018 operating expenses were \$196.7 million, up \$6.6 million (3.5%) from 2017.

Transmission expenses increased \$1.7 million. Tacoma Power purchased 100 mWh daily from Snohomish County Public Utility during 2018 totaling \$751,000 in order to meet sales, purchases, and quotas. In 2017 Tacoma Power sold \$1.7 million in capacity to be ready to supply energy on demand while in 2018, \$519,000 has been sold.

Conservation and Other Customer Assistance increased \$803,000. Increases in assessments from market development accounted for \$408,000 of the change while \$357,000 is due to an increase of the amortization of deferred conservation costs. These costs are amortized over a 10 year period and year 9 of 10 was added to the 2018 schedule.

Administrative and General expenses increased \$4.0 million. There was a one-time contribution to the Self Insurance fund in the amount of \$1.7 million to pay out a claim. Salaries and wages increased \$1.2 million due to staffing changes. The remaining \$1.1 million is spread across multiple administrative functional accounts to include Association Dues and Subscriptions, License and Maintenance Fees, and Professional Services. The changes within each of these areas are minimal and not directly attributed to a specific event.



Capital Contributions

Cash from capital contributions decreased \$4.3 million (40.2%). In 2018, Puget Sound Energy was billed \$3.5 million for the utility installation at the Taylor substation compared to \$5.5 million in 2017. The remaining decrease of \$2.3 million is primarily due to a reduction in billable new services additions and replacements.

Donated assets increased \$162,000. This is primarily due to new easements being granted for future construction projects.

Jackie Flowers
Director of Utilities

Andrew Cherullo
Finance Director

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES, LIGHT DIVISION
Doing Business As

TACOMA POWER

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Note: These financial statements are interim, unaudited reports prepared primarily for the use of management. Not all transactions reported in these statements have been recorded on the full accrual basis of accounting or in accordance with generally accepted accounting principles.

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF NET POSITION - June 30, 2018 AND June 30, 2017

| ASSETS AND DEFERRED OUTFLOWS | <u>2018</u> | <u>2017</u> |
|--|----------------------------|----------------------------|
| UTILITY PLANT | | |
| Electric Plant in Service | \$2,063,320,291 | \$2,005,331,894 |
| Less Depreciation and Amortization | (1,075,428,856) | (1,025,299,870) |
| Total | <u>987,891,435</u> | <u>980,032,024</u> |
| Construction Work in Progress | 59,030,090 | 50,858,468 |
| Net Utility Plant | <u>1,046,921,525</u> | <u>1,030,890,492</u> |
| NON-UTILITY PROPERTY | <u>182,051</u> | <u>182,051</u> |
| RESTRICTED ASSETS | | |
| Cash and Equity in Pooled Investments: | | |
| 2013 Construction Fund | - | 3 |
| 2015 Construction Fund | - | 8,652,528 |
| Provision for Debt Service | 15,119,055 | 14,982,157 |
| Special Bond Reserves | 4,997,639 | 4,997,639 |
| Wynoochee Reserve--State of Washington | 2,613,510 | 2,579,256 |
| Total Restricted Assets | <u>22,730,204</u> | <u>31,211,583</u> |
| CURRENT ASSETS | | |
| Cash and Equity in Pooled Investments: | | |
| Current Fund | 152,097,004 | 181,849,112 |
| Customers' and Contractors' Deposits | 2,719,398 | 2,667,713 |
| Conservation Loan Fund | 3,795,331 | 3,640,804 |
| Rate Stabilization Fund | 48,000,000 | 48,000,000 |
| Receivables: | | |
| Customers | 18,861,098 | 17,928,032 |
| Accrued Unbilled Revenue | 30,701,425 | 28,587,295 |
| Others | 9,546,744 | 11,651,363 |
| Provision for Uncollectibles | (1,164,958) | (2,339,236) |
| Materials and Supplies | 7,173,736 | 6,939,698 |
| Prepayments and Other | 6,256,038 | 5,966,633 |
| Total Current Assets | <u>277,985,816</u> | <u>304,891,414</u> |
| OTHER ASSETS | | |
| Regulatory Asset - Conservation | 48,347,167 | 48,749,366 |
| Conservation Loan Fund Receivables | 2,476,429 | 2,592,268 |
| Total Other Assets | <u>50,823,596</u> | <u>51,341,634</u> |
| Total Assets | <u>1,398,643,192</u> | <u>1,418,517,174</u> |
| DEFERRED OUTFLOWS | | |
| Deferred Outflow for Pensions | 38,426,742 | 39,469,454 |
| Total Deferred Outflows | <u>38,426,742</u> | <u>39,469,454</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS..... | <u>\$1,437,069,934</u> | <u>\$1,457,986,628</u> |

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2017 Annual Report.

| NET POSITION, LIABILITIES AND DEFERRED INFLOWS | 2018 | 2017 |
|---|------------------------|------------------------|
| NET POSITION | | |
| Net Investment in Capital Assets | \$634,858,913 | \$587,865,291 |
| Restricted for: | | |
| Wynoochee Reserve - State of Washington | 2,613,510 | 2,579,256 |
| Debt Service | 5,047,500 | 5,787,502 |
| Unrestricted | 218,984,834 | 261,207,066 |
| TOTAL NET POSITION | 861,504,757 | 857,439,115 |
| LONG-TERM DEBT | | |
| 2010B Electric System Refunding Bonds | 147,070,000 | 147,070,000 |
| 2010C Electric System Refunding Bonds | 24,185,000 | 24,185,000 |
| 2013A Electric System Rev & Refunding Bonds | 105,490,000 | 139,885,000 |
| 2013B Electric System Rev & Refunding Bonds | 35,620,000 | 35,620,000 |
| 2017 Electric System Revenue Bonds | 70,575,000 | - |
| Total Bonded Indebtedness | 382,940,000 | 346,760,000 |
| Less: Unamortized Bond Premiums | 23,957,302 | 18,272,420 |
| Net Bonded Indebtedness | 406,897,302 | 365,032,420 |
| Line of Credit | 250,000 | 80,250,000 |
| Total Long-Term Debt | 407,147,302 | 445,282,420 |
| CURRENT LIABILITIES | | |
| Salaries and Wages Payable | 2,022,551 | 1,779,279 |
| Taxes and Other Payables | 13,893,132 | 10,816,268 |
| Purchases and Transmission of Power Accrued | 11,415,205 | 9,927,099 |
| Interest Payable | 10,071,555 | 9,194,655 |
| Customers' Deposits | 2,742,363 | 2,716,017 |
| Current Portion of Long-Term Debt | 10,095,000 | 11,575,000 |
| Current Accrued Compensated Absences | 1,044,235 | 1,075,771 |
| Total Current Liabilities | 51,284,041 | 47,084,089 |
| LONG TERM LIABILITIES | | |
| Long Term Accrued Compensated Absences | 9,398,115 | 9,681,941 |
| Net Pension Liability | 36,687,245 | 34,177,293 |
| Other Long Term Liabilities | 15,143,610 | 14,033,787 |
| Total Long Term Liabilities | 61,228,970 | 57,893,021 |
| TOTAL LIABILITIES | 519,660,313 | 550,259,530 |
| DEFERRED INFLOWS | | |
| Deferred Inflow for Pensions | 7,904,864 | 2,287,983 |
| Rate Stabilization | 48,000,000 | 48,000,000 |
| Total Deferred Inflows | 55,904,864 | 50,287,983 |
| TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS | \$1,437,069,934 | \$1,457,986,628 |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
June 30, 2018 AND June 30, 2017

| | June 2018 | June 2017 |
|---|--------------------|--------------------|
| OPERATING REVENUES | | |
| Sales of Electric Energy | \$31,946,194 | \$32,436,928 |
| Other Operating Revenues | 1,959,998 | 1,566,183 |
| Click! Network Operating Revenues | 2,074,610 | 2,198,543 |
| Total Operating Revenue | 35,980,802 | 36,201,654 |
| OPERATING EXPENSES | | |
| Production Expense | | |
| Hydraulic Power Production | 2,785,619 | 2,063,922 |
| Other Production Expense | 458,531 | 463,941 |
| Total Expense Power Produced | 3,244,150 | 2,527,863 |
| Purchased Power | 10,938,400 | 9,798,210 |
| Total Production Expense | 14,182,550 | 12,326,073 |
| Transmission Expense | 2,644,506 | 2,622,324 |
| Distribution Expense | 3,270,917 | 2,968,020 |
| Click! Network Commercial Operations Expense . | 2,101,646 | 2,129,015 |
| Customer Accounts Expense (CIS) | 1,338,150 | 1,176,329 |
| Conservation and Other Customer Assistance ... | 1,256,323 | 1,222,802 |
| Taxes | 2,183,390 | 2,042,272 |
| Depreciation | 4,445,650 | 4,741,098 |
| Administrative and General | 2,355,778 | 2,168,794 |
| Total Operating Expenses | 33,778,910 | 31,396,727 |
| OPERATING INCOME (LOSS) | 2,201,892 | 4,804,927 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest Income | 305,279 | 242,677 |
| Contribution to Family Need | (8,333) | (8,333) |
| Other Net Non-Op Revenues and Deductions | 94,643 | 46,245 |
| Interest on Long-Term Debt | (1,697,931) | (1,604,761) |
| Amort. of Debt Related Costs | 134,639 | 124,051 |
| Interest Charged to Construction | 245,046 | 161,686 |
| Total Non-Operating Revenues (Expenses) ... | (926,657) | (1,038,435) |
| Net Income (Loss) Before Capital Contributions and Transfers | 1,275,235 | 3,766,492 |
| Capital Contributions | | |
| Cash | 622,951 | 417,451 |
| Donated Fixed Assets | 115,226 | - |
| BABs and CREBs Interest Subsidies | 199,050 | 193,118 |
| Transfers | | |
| City Gross Earnings Tax | (2,806,690) | (2,801,922) |
| CHANGE IN NET POSITION | (\$594,228) | \$1,575,139 |
| TOTAL NET POSITION - January 1 | | |
| TOTAL NET POSITION - June 30 | | |

| YEAR TO DATE | | 2018 OVER | PERCENT CHANGE |
|-----------------------------|-----------------------------|-------------------------|-------------------|
| June 30, 2018 | June 30, 2017 | (UNDER) 2017 | |
| \$220,797,202 | \$213,775,595 | \$7,021,607 | 3.3% |
| 9,490,803 | 9,569,595 | (78,792) | -0.8% |
| 12,816,751 | 13,251,672 | (434,921) | -3.3% |
| <u>243,104,756</u> | <u>236,596,862</u> | <u>6,507,894</u> | 2.8% |
| 12,854,374 | 12,677,897 | 176,477 | 1.4% |
| <u>2,859,809</u> | <u>2,652,534</u> | <u>207,275</u> | 7.8% |
| 15,714,183 | 15,330,431 | 383,752 | 2.5% |
| <u>65,653,643</u> | <u>66,155,599</u> | <u>(501,956)</u> | -0.8% |
| 81,367,826 | 81,486,030 | (118,204) | -0.1% |
| 16,756,301 | 15,066,892 | 1,689,409 | 11.2% |
| 16,384,630 | 15,224,589 | 1,160,041 | 7.6% |
| 12,315,279 | 12,542,008 | (226,729) | -1.8% |
| 6,884,490 | 7,208,477 | (323,987) | -4.5% |
| 7,435,188 | 6,632,344 | 802,844 | 12.1% |
| 11,308,057 | 10,896,860 | 411,197 | 3.8% |
| 27,901,593 | 28,646,617 | (745,024) | -2.6% |
| 16,386,169 | 12,430,396 | 3,955,773 | 31.8% |
| <u>196,739,533</u> | <u>190,134,213</u> | <u>6,605,320</u> | 3.5% |
| <u>46,365,223</u> | <u>46,462,649</u> | <u>(97,426)</u> | -0.2% |
| 3,075,982 | 2,230,552 | 845,430 | 37.9% |
| (50,000) | (50,000) | - | 0.0% |
| 811,468 | 301,523 | 509,945 | 169.1% |
| (10,217,071) | (9,557,303) | (659,768) | 6.9% |
| 807,835 | 744,305 | 63,530 | -8.5% |
| 648,584 | 684,769 | (36,185) | -5.3% |
| <u>(4,923,202)</u> | <u>(5,646,154)</u> | <u>722,952</u> | -12.8% |
| 41,442,021 | 40,816,495 | 625,526 | 1.5% |
| 6,359,722 | 10,627,601 | (4,267,879) | -40.2% |
| 168,031 | 6,436 | 161,595 | 2510.8% |
| 1,846,816 | 1,840,884 | 5,932 | 0.3% |
| <u>(18,482,506)</u> | <u>(17,847,994)</u> | <u>(634,512)</u> | 3.6% |
| 31,334,084 | 35,443,422 | (4,109,338) | -11.6% |
| <u>830,170,673</u> | <u>821,995,693</u> | <u>8,174,980</u> | 1.0% |
| <u><u>\$861,504,757</u></u> | <u><u>\$857,439,115</u></u> | <u><u>4,065,642</u></u> | |

These statements should be read in conjunction with the Management Discussion and Analysis in the June 2018 Financial Report.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

SUMMARY OF REVENUES AND BILLINGS
June 30, 2018 AND June 30, 2017

| | <u>For the month of June 2018</u> | <u>For the month of June 2017</u> |
|---|---------------------------------------|---------------------------------------|
| OPERATING REVENUE | | |
| Sales of Electric Energy | | |
| Residential | \$12,364,964 | \$12,006,276 |
| Commercial | 2,319,885 | 2,279,720 |
| General | 11,270,227 | 10,501,157 |
| Contract Industrial | 2,042,444 | 1,958,628 |
| Public Street and Highway Lighting | 34,557 | 403,820 |
| Sales to Other Electric Utilities | 29,362 | 29,153 |
| Total Sales to Customers | <u>28,061,439</u> | <u>27,178,754</u> |
| Bulk Power Sales | <u>3,884,755</u> | <u>5,258,174</u> |
| Total Sales of Electric Energy | <u>31,946,194</u> | <u>32,436,928</u> |
| Other Operating Revenue | | |
| Rentals and Leases from Elect. Property ... | 751,984 | 262,912 |
| Wheeling | 801,262 | 827,498 |
| Service Fees and Other | 406,752 | 475,773 |
| Telecommunications Revenue | 2,074,610 | 2,198,543 |
| Total Other Operating Revenues | <u>4,034,608</u> | <u>3,764,726</u> |
| TOTAL OPERATING REVENUES | <u>\$35,980,802</u> | <u>\$36,201,654</u> |
| BILLINGS (Number of Months Billed) | | |
| Residential | 164,711 | 163,699 |
| Commercial | 15,828 | 15,992 |
| General | 2,890 | 2,836 |
| Contract Industrial | 2 | 2 |
| Public Streets and Highway Lighting | 597 | 754 |
| Sales to Other Utilities | <u>1</u> | <u>1</u> |
| TOTAL BILLINGS | <u>184,029</u> | <u>183,284</u> |

| YEAR TO DATE | | 2018 OVER (UNDER) 2017 | PERCENT CHANGE |
|----------------------|----------------------|---------------------------------|-------------------|
| June 30, 2018 | June 30, 2017 | | |
| \$99,809,207 | \$96,510,946 | \$3,298,261 | 3.4% |
| 15,498,797 | 15,410,940 | 87,857 | 0.6% |
| 63,438,213 | 59,925,393 | 3,512,820 | 5.9% |
| 11,188,693 | 10,582,304 | 606,389 | 5.7% |
| (461,049) | 758,470 | (1,219,519) | -160.8% |
| 240,342 | 228,080 | 12,262 | 5.4% |
| <u>189,714,203</u> | <u>183,416,133</u> | <u>6,298,070</u> | <u>3.4%</u> |
| <u>31,082,999</u> | <u>30,359,462</u> | <u>723,537</u> | <u>2.4%</u> |
| <u>220,797,202</u> | <u>213,775,595</u> | <u>7,021,607</u> | <u>3.3%</u> |
| 1,995,625 | 1,727,457 | 268,168 | 15.5% |
| 4,989,483 | 5,101,746 | (112,263) | -2.2% |
| 2,505,695 | 2,740,392 | (234,697) | -8.6% |
| <u>12,816,751</u> | <u>13,251,672</u> | <u>(434,921)</u> | <u>-3.3%</u> |
| <u>22,307,554</u> | <u>22,821,267</u> | <u>(513,713)</u> | <u>-2.3%</u> |
| <u>\$243,104,756</u> | <u>\$236,596,862</u> | <u>\$6,507,894</u> | <u>2.8%</u> |
| 956,080 | 948,417 | 7,663 | 0.8% |
| 95,515 | 95,270 | 245 | 0.3% |
| 15,534 | 15,469 | 65 | 0.4% |
| 12 | 12 | - | 0.0% |
| 5,388 | 5,531 | (143) | -2.6% |
| <u>6</u> | <u>6</u> | <u>-</u> | <u>0.0%</u> |
| <u>1,072,535</u> | <u>1,064,705</u> | <u>7,830</u> | <u>0.7%</u> |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

GROSS GENERATION REPORT - June 30, 2018 AND June 30, 2017

| | For the month of June 2018 | For the month of June 2017 |
|--|-------------------------------|-------------------------------|
| KWH GENERATED, PURCHASED AND INTERCHANGED - Gross | | |
| Generated - LaGrande | 22,399,000 | 29,722,000 |
| Generated - Alder | 13,029,000 | 14,999,000 |
| TOTAL NISQUALLY | 35,428,000 | 44,721,000 |
| Generated - Cushman No. 1 | 4,014,000 | 11,585,000 |
| Generated - Cushman No. 2 | 3,946,000 | 17,516,000 |
| TOTAL CUSHMAN | 7,960,000 | 29,101,000 |
| Generated - Mossyrock | 87,131,000 | 135,378,000 |
| Generated - Mayfield | 50,011,000 | 80,822,000 |
| TOTAL COWLITZ | 137,142,000 | 216,200,000 |
| Generated - Wynoochee | - | - |
| Generated - Hood Street | - | 306,192 |
| Tacoma's Share of Priest Rapids | 2,673,000 | 2,859,000 |
| Tacoma's Share of GCPHA | 41,211,000 | 42,284,000 |
| TOTAL KWH GENERATED - TACOMA SYSTEM | 224,414,000 | 335,471,192 |
| Purchased Power | | |
| BPA Slice Contract | 244,254,000 | 263,251,000 |
| BPA Block Contract | 103,337,000 | 105,973,000 |
| Interchange Net | (232,075,750) | (362,451,000) |
| TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED .. | 339,929,250 | 342,244,192 |
| Losses | 4,577,593 | 4,004,032 |
| Baldi Replacement | 176,357 | 17,781 |
| Ketron | 13,006 | 15,924 |
| NT PC Mutuals Schedules | (2,057,000) | (1,780,000) |
| PC Mutual Inadvertent | 444,996 | (141,896) |
| TACOMA SYSTEM FIRM LOAD | 343,084,202 | 344,360,033 |
| Maximum Kilowatts (System Firm Load) | 647,964 | 587,318 |
| Average Kilowatts (System Firm Load) | 476,506 | 478,278 |
| PIERCE COUNTY MUTUAL LOAD | 93,045,000 | 92,955,000 |
| KWH BILLED | | |
| Residential Sales | 121,505,001 | 127,700,721 |
| Commercial Sales | 25,146,258 | 25,267,031 |
| General | 169,180,612 | 164,106,937 |
| Contract Industrial | 44,114,580 | 44,750,220 |
| Public Street and Highway Lighting | 437,039 | 8,978,870 |
| Sales to Other Electric Utilities | 503,100 | 521,100 |
| TOTAL FIRM | 360,886,590 | 371,324,879 |
| Bulk Power Sales | 261,745,000 | 376,820,000 |
| TOTAL KWH BILLED | 622,631,590 | 748,144,879 |

| YEAR TO DATE | | 2018 OVER (UNDER) | PERCENT CHANGE |
|------------------------|------------------------|-------------------------|-------------------|
| June 30 2018 | June 30 2017 | 2017 | |
| 211,692,000 | 228,466,000 | (16,774,000) | -7.3% |
| 137,555,000 | 123,326,000 | 14,229,000 | 11.5% |
| <u>349,247,000</u> | <u>351,792,000</u> | <u>(2,545,000)</u> | -0.7% |
| 51,382,000 | 70,678,000 | (19,296,000) | -27.3% |
| 79,088,000 | 110,662,000 | (31,574,000) | -28.5% |
| <u>130,470,000</u> | <u>181,340,000</u> | <u>(50,870,000)</u> | -28.1% |
| 609,990,000 | 788,089,000 | (178,099,000) | -22.6% |
| 437,480,000 | 552,217,000 | (114,737,000) | -20.8% |
| <u>1,047,470,000</u> | <u>1,340,306,000</u> | <u>(292,836,000)</u> | -21.8% |
| 12,918,000 | 18,293,000 | (5,375,000) | -29.4% |
| 1,298,500 | 1,692,727 | (394,227) | -23.3% |
| 16,162,000 | 16,646,000 | (484,000) | -2.9% |
| 116,382,000 | 98,569,000 | 17,813,000 | 18.1% |
| 1,673,947,500 | 2,008,638,727 | (334,691,227) | -16.7% |
| 1,501,072,000 | 1,498,160,000 | 2,912,000 | 0.2% |
| 791,743,000 | 811,938,000 | (20,195,000) | -2.5% |
| <u>(1,490,112,583)</u> | <u>(1,755,109,000)</u> | <u>264,996,417</u> | -15.1% |
| 2,476,649,917 | 2,563,627,727 | (86,977,810) | -3.4% |
| 25,591,210 | 20,870,173 | 4,721,037 | 22.6% |
| 932,948 | 507,614 | 425,334 | 83.8% |
| 174,333 | 165,890 | 8,443 | 5.1% |
| (16,838,000) | (17,159,000) | 321,000 | -1.9% |
| 880,283 | 23,849,722 | (22,969,439) | -96.3% |
| <u>2,487,390,691</u> | <u>2,591,862,126</u> | <u>(104,471,435)</u> | -4.0% |
| 760,938,000 | 799,625,000 | (38,687,000) | -4.8% |
| 1,113,647,283 | 1,154,599,690 | (40,952,407) | -3.5% |
| 172,721,287 | 176,001,603 | (3,280,316) | -1.9% |
| 994,940,854 | 996,784,506 | (1,843,652) | -0.2% |
| 245,337,360 | 244,952,820 | 384,540 | 0.2% |
| (10,566,258) | 16,652,031 | (27,218,289) | -163.5% |
| 4,284,000 | 4,214,700 | 69,300 | 1.6% |
| <u>2,520,364,526</u> | <u>2,593,205,350</u> | <u>(72,840,824)</u> | -2.8% |
| <u>1,889,403,000</u> | <u>1,947,545,000</u> | <u>(58,142,000)</u> | -3.0% |
| <u>4,409,767,526</u> | <u>4,540,750,350</u> | <u>(130,982,824)</u> | -2.9% |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

| | YEAR TO DATE | |
|---|---------------------------|-----------------------------|
| | June 30, 2018 | June 30, 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash from Customers | \$250,854,945 | \$239,378,128 |
| Cash Paid to Suppliers | (110,663,507) | (109,484,301) |
| Cash Paid to Employees | (58,811,262) | (57,548,712) |
| Taxes Paid | (11,979,015) | (11,568,374) |
| Conservation Loans | 148,839 | (49,798) |
| Net Cash from Operating Activities | <u>69,550,000</u> | <u>60,726,943</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfer Out for Gross Earnings Tax | (18,482,506) | (17,847,994) |
| Transfer to Family Need Fund | (50,000) | (50,000) |
| Net Cash from Non-Capital Financing Activities .. | <u>(18,532,506)</u> | <u>(17,897,994)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Expenditures | (36,230,473) | (25,436,837) |
| Principal Payments on Long-Term Debt | (11,575,000) | (12,730,000) |
| Interest Paid | (9,900,774) | (9,875,553) |
| BABs and CREBs Interest Subsidies | 1,846,816 | 1,840,884 |
| Contributions in Aid of Construction | 6,359,722 | 10,627,601 |
| Net Cash from Capital and Related Financing Activities | <u>(49,499,709)</u> | <u>(35,573,905)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received | 3,075,982 | 2,230,552 |
| Other Net Non-Op Revenues and Deductions | 811,468 | 301,523 |
| Net Cash from Investing Activities | <u>3,887,450</u> | <u>2,532,075</u> |
| Net Increase Change in Cash and | | |
| Equity in Pooled Investments | 5,405,235 | 9,787,119 |
| Cash and Equity in Pooled Investments at January 1 .. | <u>223,936,702</u> | <u>257,582,093</u> |
| Cash and Equity in Pooled Investments at June 30..... | <u><u>229,341,937</u></u> | <u><u>\$267,369,212</u></u> |

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2017 Annual Report.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

| | June 30, 2018 | June 30, 2017 |
|--|------------------|------------------|
| Reconciliation of Net Operating Income to Net Cash From Operating Activities: | | |
| Net Operating Income | \$46,365,223 | \$46,462,649 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | |
| Depreciation | 27,901,593 | 28,646,617 |
| Amortization of Regulatory Assets | 4,116,524 | 3,759,641 |
| Cash provided from changes in operating assets and liabilities: | | |
| Accounts Receivable and Unbilled Revenue | 7,750,188 | 2,781,268 |
| Conservation Loans Receivable | 148,839 | (49,798) |
| Interfund Receivables | 1,820,401 | 2,226,220 |
| Inventory, Materials and Supplies, and Other | 365,409 | 946,759 |
| Taxes and Other Payables | (14,254,285) | (16,641,418) |
| Purchased Power Payable | (1,803,871) | (2,712,043) |
| Salaries and Wages Payable | 30,388 | (57,663) |
| Customers' Deposits | (48,643) | (56,378) |
| Regulatory Assets - Conservation | (2,774,305) | (2,438,002) |
| Interfund Payables | (67,461) | (2,140,909) |
| Total Adjustments | 23,184,777 | 14,264,294 |
| Net Cash from Operating Activities | \$69,550,000 | \$60,726,943 |
| Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet: | | |
| Cash and Equity in Pooled Investments in Special Funds | \$22,730,204 | \$31,211,583 |
| Cash and Equity in Pooled Investments in Operating Funds..... | 206,611,733 | 236,157,629 |
| Cash and Equity in Pooled Investments at June 30 | \$229,341,937 | \$267,369,212 |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
CLICK! NETWORK
COMMERCIAL OPERATIONS

OPERATIONAL SUMMARY - June 30, 2018

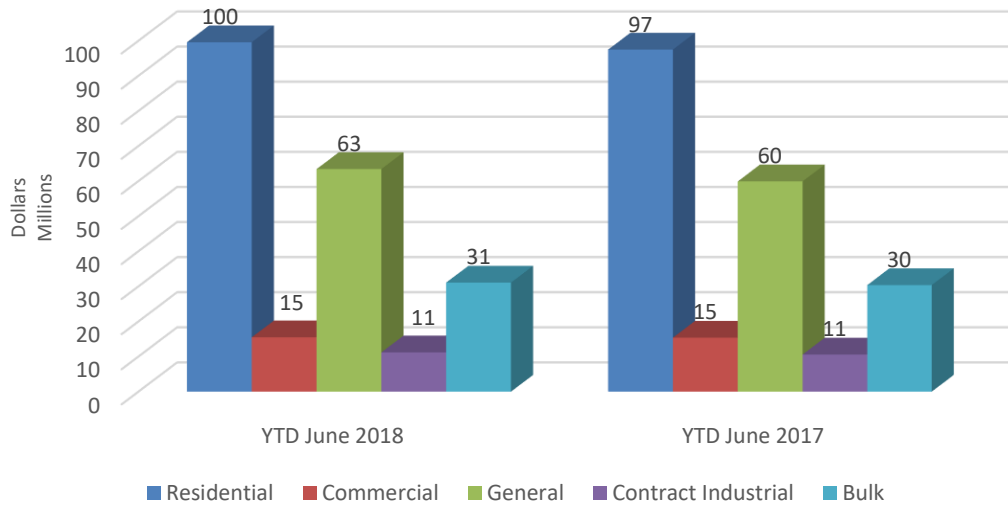
| | June 2018 | June 2017 |
|--|--------------|--------------|
| TELECOMMUNICATIONS REVENUE | | |
| CATV | \$1,348,236 | \$1,477,145 |
| Broadband | 93,614 | 73,850 |
| ISP | 610,052 | 625,827 |
| Interdepartmental | 22,708 | 21,721 |
| Total Operating Revenue | 2,074,610 | 2,198,543 |
| TELECOMMUNICATIONS EXPENSE-COMMERCIAL | | |
| Administration & Sales Expense | | |
| Salaries & Wages Expense | 261,448 | 271,113 |
| General Expense | 36,549 | 38,092 |
| Contract Services | 1,171,496 | 1,116,631 |
| IS & Intergovernmental Services | 131,479 | 139,383 |
| Fleet Services | 1,000 | 803 |
| Capitalized A & G Expense | (1,605) | (174) |
| Total Admin. & Sales Expense | 1,600,367 | 1,565,848 |
| Operations & Maintenance Expense ... | | |
| Salaries & Wages Expense | 399,329 | 446,996 |
| General Expense | 30,903 | 19,331 |
| Contract Services | 58,018 | 57,292 |
| IS & Intergovernmental Services | 1,231 | 2,698 |
| Fleet Services | 18,815 | 45,403 |
| New Connect Capital | (7,017) | (8,553) |
| Total Oper. & Maint. Expense | 501,279 | 563,167 |
| Total Telecommunications Expense . | 2,101,646 | 2,129,015 |
| Net Revenues (Expenses) Before Taxes and Depreciation and Amortization | (27,036) | 69,528 |
| Taxes | 283,807 | 306,112 |
| Depreciation and Amortization | 188,467 | 204,430 |
| | 472,274 | 510,542 |
| NET OPERATING REVENUES (EXPENSES) | (499,310) | (441,014) |

| YEAR TO DATE | | | |
|--------------------|--------------------|-----------------------|-------------------|
| June 30 2018 | June 30 2017 | 2018/2017 VARIANCE | PERCENT CHANGE |
| \$8,473,734 | \$8,896,768 | (\$423,034) | -4.8% |
| 534,140 | 546,307 | (12,167) | -2.2% |
| 3,672,699 | 3,678,129 | (5,430) | -0.1% |
| 136,178 | 130,468 | 5,710 | 4.4% |
| <u>12,816,751</u> | <u>13,251,672</u> | <u>(434,921)</u> | -3.3% |
| 1,572,371 | 1,612,297 | (39,926) | -2.5% |
| 213,282 | 211,801 | 1,481 | 0.7% |
| 6,701,023 | 6,620,584 | 80,439 | 1.2% |
| 814,837 | 791,897 | 22,940 | 2.9% |
| 3,136 | 3,577 | (441) | -12.3% |
| (20,321) | (18,276) | (2,045) | -11.2% |
| <u>9,284,328</u> | <u>9,221,880</u> | <u>62,448</u> | 0.7% |
| 2,402,071 | 2,731,953 | (329,882) | -12.1% |
| 161,855 | 189,211 | (27,356) | -14.5% |
| 377,336 | 279,533 | 97,803 | 35.0% |
| 15,871 | 25,209 | (9,338) | -37.0% |
| 119,718 | 144,277 | (24,559) | -17.0% |
| (45,900) | (50,055) | 4,155 | 8.3% |
| <u>3,030,951</u> | <u>3,320,128</u> | <u>(289,177)</u> | -8.7% |
| 12,315,279 | 12,542,008 | (226,729) | -1.8% |
| 501,472 | 709,664 | (208,192) | -29.3% |
| 1,763,629 | 1,835,938 | (72,309) | -3.9% |
| 1,144,099 | 1,232,839 | (88,740) | -7.2% |
| <u>2,907,728</u> | <u>3,068,777</u> | <u>(161,049)</u> | |
| <u>(2,406,256)</u> | <u>(2,359,113)</u> | <u>(47,143)</u> | -2.0% |

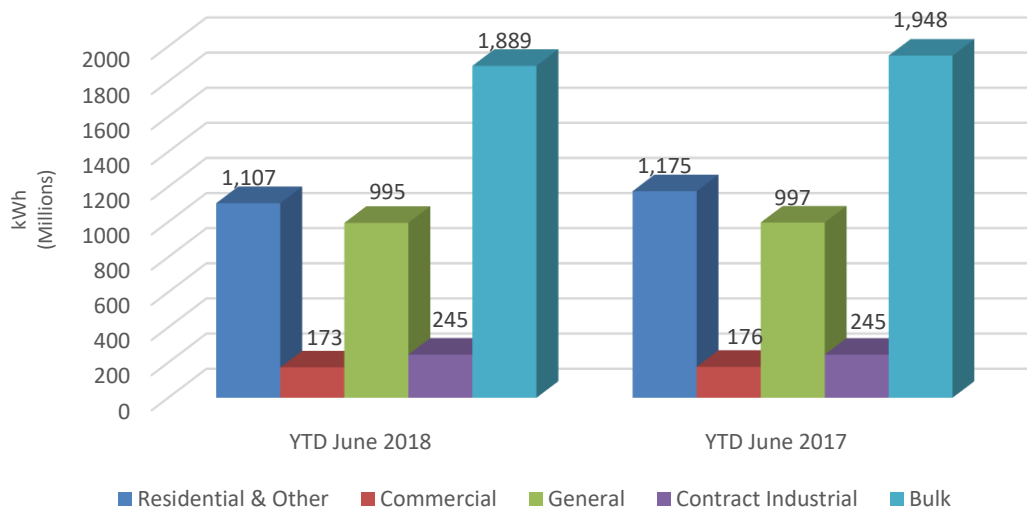
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Supplemental Data

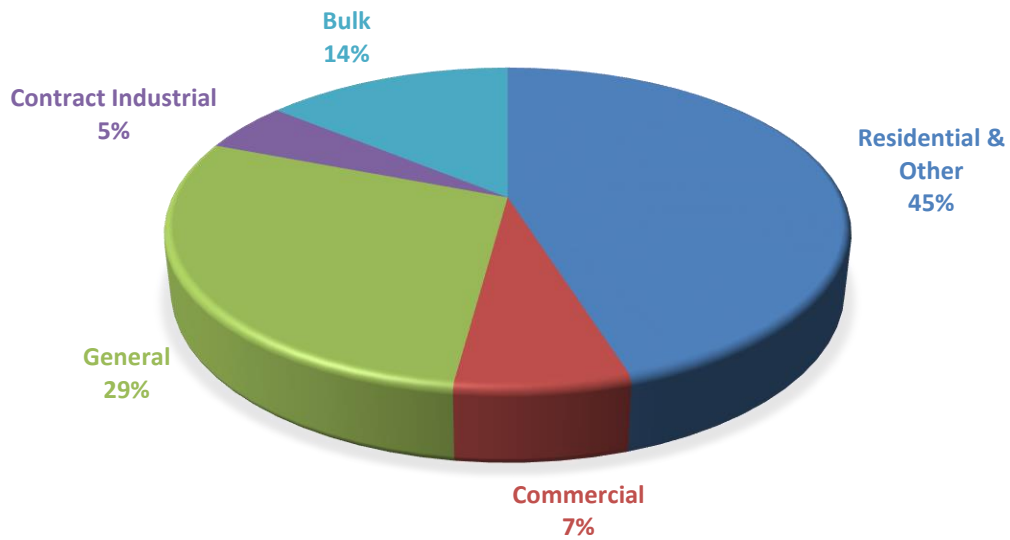
Sales of Electric Energy Year to Date - June 2018 & 2017



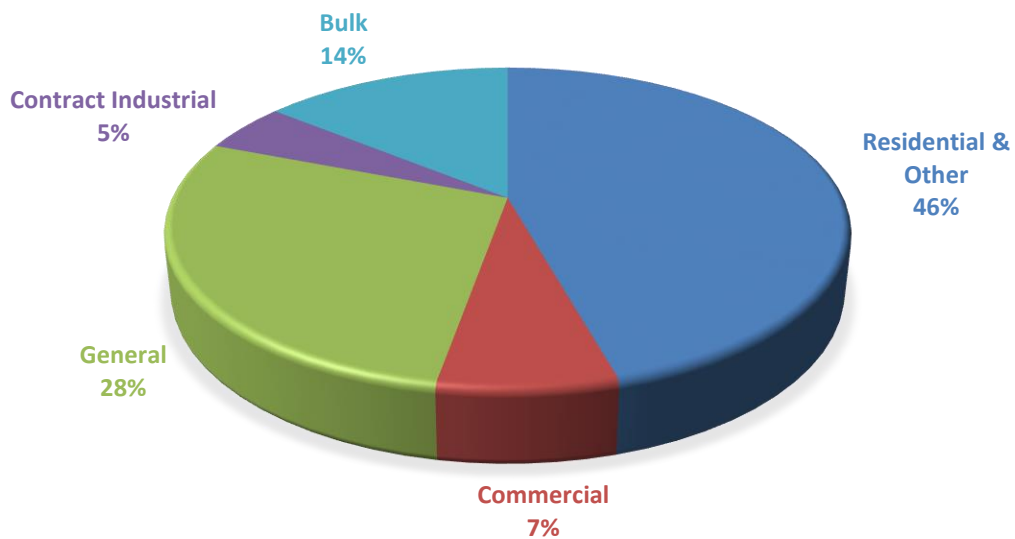
Total Power Billed Year to Date - June 2018 & 2017



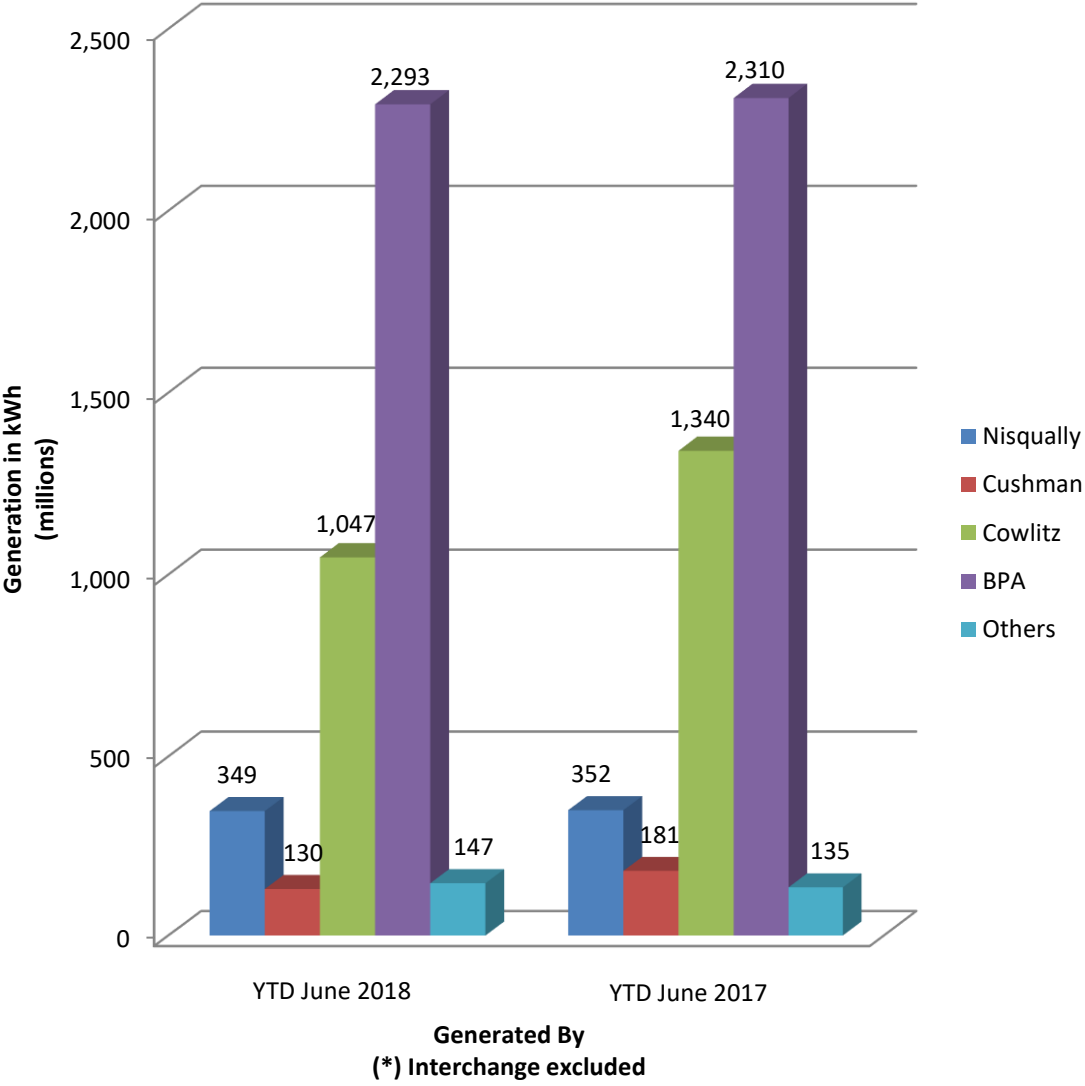
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - JUNE 2018 (\$220,797,202)**



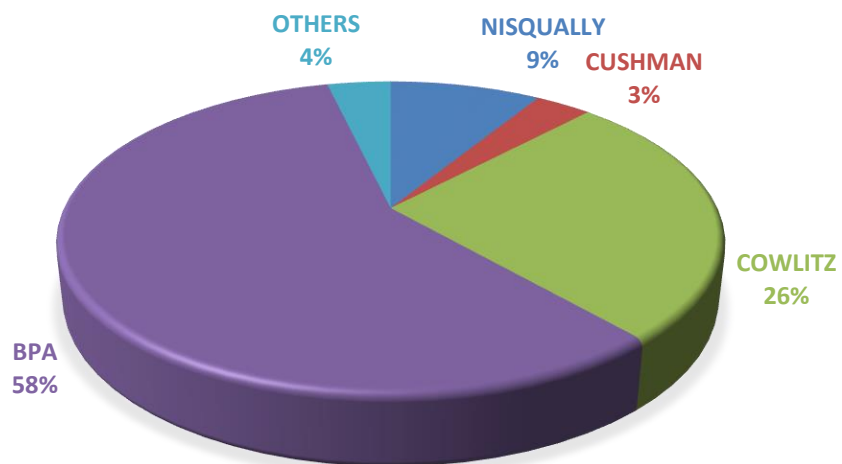
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - JUNE 2017 (\$213,775,595)**



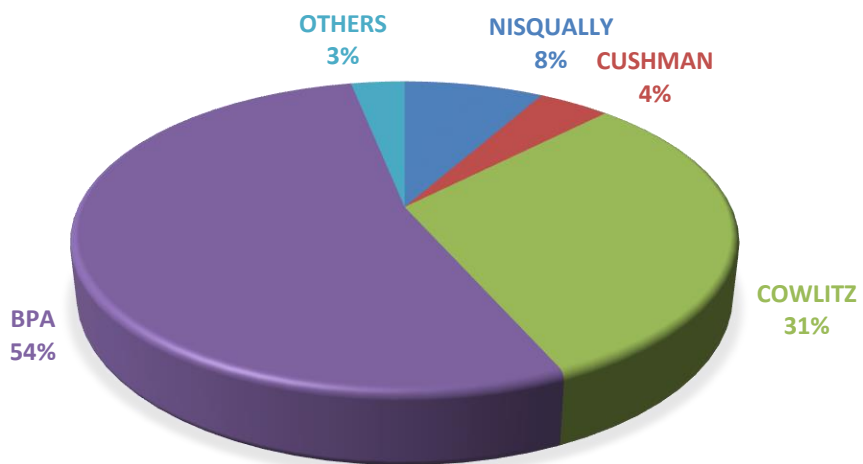
Power Sources (*) Year to Date June 2018 & 2017



POWER SOURCES (*)
YEAR TO DATE - JUNE 2018

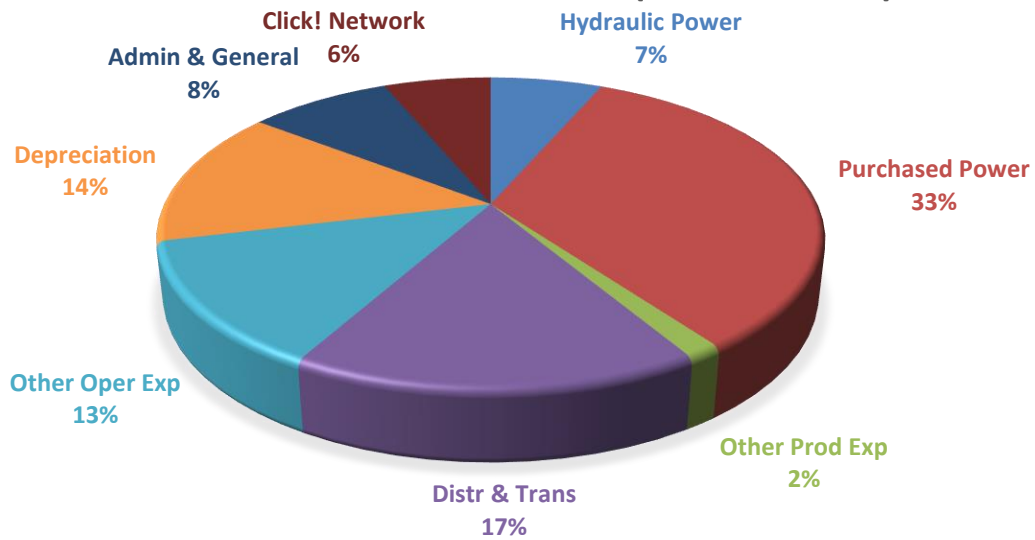


POWER SOURCES (*)
YEAR TO DATE - JUNE 2017

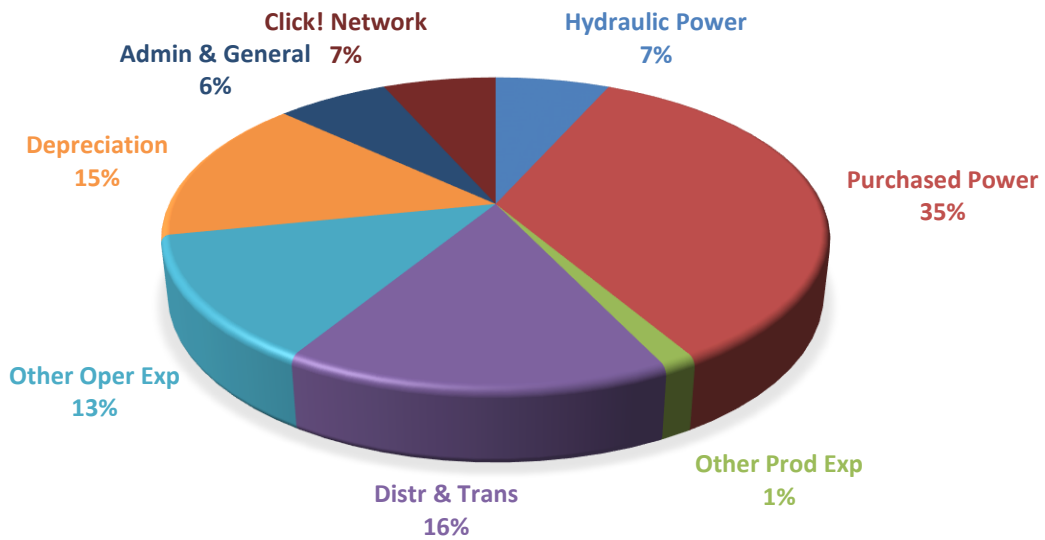


(*) Interchange excluded

TOTAL OPERATING EXPENSES *
YEAR TO DATE - JUNE 2018 (\$196,739,533)



TOTAL OPERATING EXPENSES *
YEAR TO DATE - JUNE 2017 (\$190,134,213)



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



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.

JUNE

TACOMA WATER

2018

**FINANCIAL
REPORT**



Public Utility Board

MONIQUE TRUDNOWSKI

Chair

WOODROW JONES

Vice-Chair

KAREN LARKIN

Secretary

BRYAN FLINT

Member

MARK PATTERSON

Member

JACKIE FLOWERS

Director of Utilities

SCOTT DEWHIRST

Water Superintendent

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Financial Statements

Summary

As of June 2018, Tacoma Water is reporting year-to-date operating income of \$6.2 million compared to \$4.3 million in 2017. Operating revenues increased \$4.1 million (9.8%) and operating expenses increased \$2.2 million (5.9%). The year-to-date change in net position for 2018 was \$3.9 million; for 2017 it was (\$627,000).

Revenues

Water sales revenues increased by \$3.8 million (11.0%) for the first half of 2018 compared to the same period in 2017. The following table summarizes the impacts of rate and volume changes on water sales revenue by customer class as of June 2018.

| Customer Class | Changes Related to: | | YTD Increase (Decrease) |
|---------------------------|----------------------------|---------------------|------------------------------------|
| | Rate | Volume | |
| Residential and Domestic | \$ 694,913 | \$ 1,662,750 | \$ 2,357,663 |
| Commercial and Industrial | 35,937 | 950,372 | 986,309 |
| Special Rate | 185,622 | 67,259 | 252,881 |
| Other | 213,086 | (52,306) | 160,780 |
| Total | \$ 1,129,558 | \$ 2,628,075 | \$ 3,757,633 |

Consumption as of June 2018 was 7,919 million gallons compared to 7,478 million gallons for the same period in 2017. Regional Water Supply System (RWSS) partners received 2,117 million gallons. The following table summarizes water consumption by customer class year-to-date.

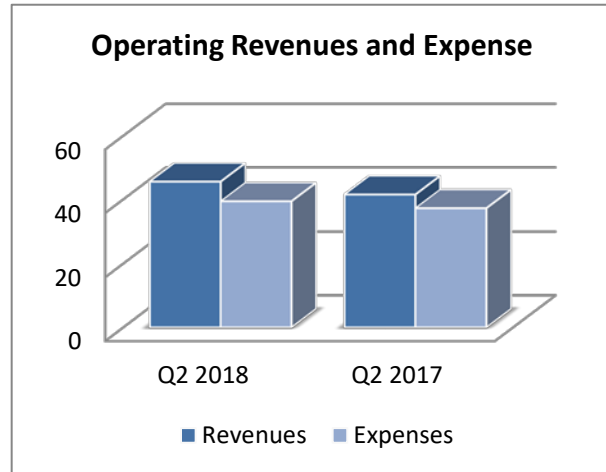
| Customer Class | Millions of Gallons | | YTD Increase (Decrease) | % |
|---------------------------|----------------------------|-----------------|------------------------------------|-----------|
| | 2018 | 2017 | | |
| Residential and Domestic | 3,465.54 | 3,230.66 | 234.88 | 7% |
| Commercial and Industrial | 1,344.15 | 1,190.09 | 154.06 | 13% |
| Special Rate | 2,777.10 | 2,707.35 | 69.75 | 3% |
| Other | 332.08 | 349.82 | (17.74) | (5%) |
| Total | 7,918.87 | 7,477.92 | 440.95 | 6% |

Expenses

Operating expenses were \$39.4 million for the first six months of 2018, an increase of \$2.2 million compared to 2017. Depreciation expense represents \$1.7 million of the total increase year-to-date which is due to the capitalization of \$26.7 million in depreciable assets in 2017.

Non-Operating Revenues and Expenses

Miscellaneous revenue includes proceeds received from sales of assets, timber and surplus scrap. As of June 2018, Tacoma Water is reporting a decrease of \$828,000 compared to last year primarily because there have been no sales of assets.



For the same reporting period in 2017, Miscellaneous revenue included proceeds for sales of land for approximately \$857,000.

Capital Contributions

Capital Contributions come in two forms: cash and donated assets. As the distribution division continues to meet the developer demand for construction, Tacoma Water is experiencing increases in both cash and donated assets compared to the same period last year, \$1.4 million and \$1.0 million respectively. Also of note, as new projects are begun, Tacoma Water receives payment in advance to begin the work. These advance payments are held as deposits until such time as the work is completed. As of June 2018, Customer Advances for Construction increased by \$2.5 million compared to the same period in 2017.

Proceeds Held from Sale of Land

In December 2017, Tacoma Water entered into an agreement to sell approximately 106 acres of land located east of the McMillin Reservoirs to Pierce County Department of Parks and Recreation for a negotiated price of \$2.8 million which was received in 2018. Certain hazardous materials were found during an environmental assessment of the subject property and remediation is currently in process by Tacoma Water. Upon discovery of the environmental liability, both parties entered into a rescission agreement. Therefore, the sale proceeds will be held in a liability account until the remediation work is complete. These proceeds are presented in the Other Current Liabilities portion of the Statements of Net Position.

Jackie Flowers
Director of Utilities

Andrew Cherullo
Finance Director

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES, WATER DIVISION
Doing Business As

TACOMA WATER

TABLE OF CONTENTS

Note: These financial statements are interim, unaudited reports prepared primarily for the use of management. Not all transactions reported in these statements have been recorded on the full accrual basis of accounting or in accordance with generally accepted accounting principles.

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| STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | 3 - 4 |
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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION - JUNE 30, 2018 AND JUNE 30, 2017

| ASSETS AND DEFERRED OUTFLOWS | <u>2018</u> | <u>2017</u> |
|---|-------------------------------|-------------------------------|
| UTILITY PLANT | | |
| Water Plant in Service | \$1,102,042,203 | \$1,075,495,771 |
| Less Depreciation and Amortization | (250,527,882) | (227,024,227) |
| Total | <u>851,514,321</u> | <u>848,471,544</u> |
| Construction Work in Progress | 17,797,540 | 26,298,348 |
| Net Utility Plant | <u>869,311,861</u> | <u>874,769,892</u> |
| NON-UTILITY PROPERTY | 492,963 | 492,963 |
| RESTRICTED ASSETS | | |
| Cash and Equity in Pooled Investments: | | |
| 2010 Construction Fund | 14,755,399 | 20,924,248 |
| 2013 Construction Fund | 16,212,542 | 15,840,357 |
| Regional Water Supply System Operating Fund | 1,091,541 | 1,032,025 |
| Provision for Debt Payment | 10,855,225 | 10,801,509 |
| Customer Water Main Deposits | 3,311,626 | 3,231,459 |
| Water Supply Forum Fund | 363,097 | 422,933 |
| Special Bond Reserves | 22,106,060 | 22,102,107 |
| Water Customer Contribution Fund | 503,507 | 11,660 |
| Water Capital Reserves | 36,062,881 | 29,794,504 |
| Water System Development Charge | 65,162,731 | 60,495,971 |
| Total Restricted Assets | <u>170,424,609</u> | <u>164,656,773</u> |
| CURRENT ASSETS | | |
| Cash and Equity in Pooled Investments: | | |
| Current Fund | 55,056,942 | 52,078,227 |
| Customers' Deposits | 315,573 | 325,958 |
| Receivables: | | |
| Customers | 6,159,432 | 4,909,806 |
| Accrued Unbilled Revenues | 5,457,221 | 4,797,144 |
| Others | 768,521 | 715,806 |
| BABs Interest Subsidies | 320,064 | 320,064 |
| Provision for Uncollectible Accounts | (403,505) | (470,632) |
| Materials and Supplies | 2,478,842 | 2,329,966 |
| Prepayments | 996,061 | 905,654 |
| Total Current Assets | <u>71,149,151</u> | <u>65,911,993</u> |
| TOTAL ASSETS | <u><u>1,111,378,584</u></u> | <u><u>1,105,831,621</u></u> |
| OTHER ASSETS | | |
| Regulatory Assets - Public Fire Protection Fees | 78,705 | 919,071 |
| Regulatory Assets - Surcharges | 947,106 | 1,508,069 |
| Total Other Assets | <u>1,025,811</u> | <u>2,427,140</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Unamortized Losses on Refunding Bonds | 1,269,806 | 1,488,410 |
| Deferred Outflows for Pensions | 8,671,039 | 8,994,103 |
| Total Deferred Outflows | <u>9,940,845</u> | <u>10,482,513</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | <u><u>\$1,122,345,240</u></u> | <u><u>\$1,118,741,274</u></u> |

These statements should be read in conjunction with the Notes to Financial statements contained in the 2017 Annual Report.

| NET POSITION, LIABILITIES AND DEFERRED INFLOWS | <u>2018</u> | <u>2017</u> |
|--|------------------------|------------------------|
| NET POSITION | | |
| Net Investment in Capital Assets | \$441,703,658 | \$438,269,459 |
| Restricted for: | | |
| Water Capital Reserves | 30,953,489 | 24,206,106 |
| Water System Development Charge | 29,587,284 | 24,920,524 |
| Debt Service Funds | 8,493,113 | 8,366,980 |
| Unrestricted | <u>49,840,916</u> | <u>53,262,422</u> |
| TOTAL NET POSITION | 560,578,460 | 549,025,491 |
| LONG-TERM DEBT | | |
| Revenue Bonds Outstanding: | | |
| 2005 Water Revenue Bonds Refunding | 5,000 | 5,000 |
| 2009 Water Revenue Bonds | 76,775,000 | 76,775,000 |
| 2010 Water Revenue Bonds Refunding | 21,890,000 | 25,825,000 |
| 2010 Water Revenue Bonds | 74,985,000 | 74,985,000 |
| 2013 Water Revenue Bonds Refunding | 74,355,000 | 74,355,000 |
| 2015 Water Refunding Bonds, Series A | 12,340,000 | 13,800,000 |
| 2010 RWSS Revenue Bonds, Series A | 1,955,000 | 2,245,000 |
| 2010 RWSS Revenue Bonds, Series B | 44,245,000 | 44,245,000 |
| 2013 RWSS Refunding Bonds | <u>59,400,000</u> | <u>60,165,000</u> |
| Total Outstanding Revenue Bonds | 365,950,000 | 372,400,000 |
| Plus: Unamortized Bond Premium | <u>11,286,025</u> | <u>12,855,197</u> |
| Net Outstanding Revenue Bonds | 377,236,025 | 385,255,197 |
| PWTF Pre-Construction Loans | 640,609 | 800,783 |
| PWTF Construction Loans | 18,815,071 | 21,351,668 |
| State Drinking Water Loans | <u>65,612,800</u> | <u>69,844,047</u> |
| Total Long-Term Debt | 462,304,505 | 477,251,695 |
| CURRENT LIABILITIES | | |
| Salaries and Wages Payable | 441,332 | 380,595 |
| Purchases and Contracts Payable | 1,027,903 | 777,600 |
| Interest Expense Accrued | 2,362,112 | 2,434,529 |
| Taxes Accrued | 1,866,355 | 1,616,326 |
| Customers' and Contractors' Deposits | 344,623 | 502,995 |
| Current Portion of Long-Term Debt | 13,554,949 | 13,334,372 |
| Other Current Liabilities | 5,535,300 | 2,706,083 |
| Current Accrued Compensated Absences | <u>229,834</u> | <u>269,819</u> |
| Total Current Liabilities | 25,362,408 | 22,022,319 |
| LONG-TERM LIABILITIES | | |
| Muckleshoot Agreements | 6,585,519 | 6,762,451 |
| Customer Advances for Construction | 7,701,522 | 5,233,207 |
| Unearned Revenue | 7,352,431 | 7,589,557 |
| Other Long-Term Liabilities | 4,754,181 | 4,543,207 |
| Pension Liability | 8,278,522 | 7,788,151 |
| Long-Term Accrued Compensated Absences | <u>2,068,503</u> | <u>2,428,375</u> |
| Total Long-Term Liabilities | <u>36,740,678</u> | <u>34,344,948</u> |
| TOTAL LIABILITIES | <u>524,407,591</u> | <u>533,618,962</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Rate Stabilization | 35,575,447 | 35,575,447 |
| Deferred Inflows for Pensions | <u>1,783,742</u> | <u>521,374</u> |
| Total Deferred Inflows | 37,359,189 | 36,096,821 |
| TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS . | <u>\$1,122,345,240</u> | <u>\$1,118,741,274</u> |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
JUNE 30, 2018 AND JUNE 30, 2017

| | JUNE 2018 | JUNE 2017 |
|---|--------------|--------------|
| OPERATING REVENUES | | |
| Sales of Water | \$8,279,353 | \$7,104,251 |
| Other Operating Revenues | 931,972 | 897,169 |
| Contract Resource Obligation Revenue | 365,620 | 338,035 |
| Total Operating Revenues | 9,576,945 | 8,339,455 |
| OPERATING EXPENSES | | |
| Production Expense: | | |
| Source of Supply | 657,363 | 682,300 |
| Water Treatment | 598,191 | 678,124 |
| Total Production Expense | 1,255,554 | 1,360,424 |
| Power Pumping Expense | 28,871 | 53,286 |
| Transmission and Storage Expense | 209,829 | 244,491 |
| Distribution Expense | 1,145,792 | 1,262,545 |
| Customer Accounting and Consumer Service ... | 430,373 | 411,795 |
| Taxes | 583,080 | 519,404 |
| Depreciation | 2,061,484 | 2,000,312 |
| Administrative and General | 854,149 | 898,442 |
| Total Operating Expenses | 6,569,132 | 6,750,699 |
| OPERATING INCOME (LOSS) | 3,007,813 | 1,588,756 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest Income | 303,431 | 202,096 |
| Miscellaneous | 45,113 | (1,011) |
| Interest on Long-Term Debt | (1,345,534) | (1,369,247) |
| Interest on Long-Term Debt BABs Sub | (303,716) | (302,973) |
| Amortization Of Debt Premium | 110,934 | 111,548 |
| Interest Charged to Construction | 52,931 | 45,338 |
| Total Non-Operating Revenues (Expenses) | (1,136,841) | (1,314,249) |
| Net Income (Loss) Before Capital Contributions and Transfers | 1,870,972 | 274,507 |
| Capital Contributions: | | |
| Cash | 393,699 | 344,186 |
| Donated Fixed Assets | (21,892) | - |
| Federal BABs Subsidies | 320,062 | 320,064 |
| Transfers: | | |
| City Gross Earnings Tax | (727,475) | (617,115) |
| CHANGE IN NET POSITION | \$1,835,366 | \$321,642 |
| NET POSITION - JANUARY 1 | | |
| TOTAL NET POSITION - JUNE 30 | | |

| YEAR TO DATE | | 2018 OVER (UNDER) | PERCENT CHANGE |
|----------------------|----------------------|-------------------------|-------------------|
| JUNE 30, 2018 | JUNE 30, 2017 | 2017 | |
| \$ 37,835,233 | \$ 34,077,600 | \$3,757,633 | 11.0% |
| 5,513,202 | 5,188,858 | 324,344 | 6.3% |
| 2,225,161 | 2,242,370 | (17,209) | -0.8% |
| <u>45,573,596</u> | <u>41,508,828</u> | <u>4,064,768</u> | 9.8% |
| 3,690,993 | 3,540,201 | 150,792 | 4.3% |
| <u>3,369,281</u> | <u>3,146,498</u> | <u>222,783</u> | 7.1% |
| 7,060,274 | 6,686,699 | 373,575 | 5.6% |
| 238,569 | 284,825 | (46,256) | -16.2% |
| 1,139,206 | 1,254,653 | (115,447) | -9.2% |
| 6,763,951 | 7,092,194 | (328,243) | -4.6% |
| 2,584,672 | 2,468,430 | 116,242 | 4.7% |
| 2,369,976 | 2,151,214 | 218,762 | 10.2% |
| 13,757,089 | 12,026,601 | 1,730,488 | 14.4% |
| 5,479,399 | 5,244,637 | 234,762 | 4.5% |
| <u>39,393,136</u> | <u>37,209,253</u> | <u>2,183,883</u> | 5.9% |
| 6,180,460 | 4,299,575 | 1,880,885 | 43.7% |
| 3,018,827 | 1,819,135 | 1,199,692 | 65.9% |
| 41,592 | 869,318 | (827,726) | -95.2% |
| (8,090,374) | (8,232,908) | 142,534 | -1.7% |
| (1,798,414) | (1,792,870) | (5,544) | 0.3% |
| 665,603 | 669,288 | (3,685) | -0.6% |
| 165,621 | 225,636 | (60,015) | -26.6% |
| <u>(5,997,145)</u> | <u>(6,442,401)</u> | <u>445,256</u> | -6.9% |
| 183,315 | (2,142,826) | 2,326,141 | -108.6% |
| 4,180,151 | 2,735,211 | 1,444,940 | 52.8% |
| 1,086,176 | 105,308 | 980,868 | 931.4% |
| 1,814,762 | 1,809,961 | 4,801 | 0.3% |
| <u>(3,402,579)</u> | <u>(3,134,389)</u> | <u>(268,190)</u> | 8.6% |
| 3,861,825 | (626,735) | 4,488,560 | -716.2% |
| 556,716,635 | 549,652,226 | 7,064,409 | |
| <u>\$560,578,460</u> | <u>\$549,025,491</u> | <u>\$11,552,969</u> | 2.1% |

These statements should be read in conjunction with the Management Discussion and Analysis in the June 2018 Financial Report.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF REVENUES AND BILLINGS
JUNE 30, 2018 AND JUNE 30, 2017

| | <u>JUNE 2018</u> | <u>JUNE 2017</u> |
|---------------------------------|---------------------------|---------------------------|
| SALES OF WATER | | |
| Residential and Domestic | \$5,609,486 | \$4,812,752 |
| Commercial and Industrial | 1,863,294 | 1,532,493 |
| Special Rate | 593,922 | 554,372 |
| Sales to Other Utilities | <u>212,651</u> | <u>204,634</u> |
| Total | <u><u>\$8,279,353</u></u> | <u><u>\$7,104,251</u></u> |

BILLINGS (NUMBER OF MONTHS BILLED)

| | | |
|---------------------------------|-----------------------|-----------------------|
| Residential and Domestic | 108,370 | 107,464 |
| Commercial and Industrial | 7,356 | 7,254 |
| Sales to Other Utilities | <u>15</u> | <u>17</u> |
| Total | <u><u>115,741</u></u> | <u><u>114,735</u></u> |

| YEAR TO DATE | | 2018 OVER (UNDER) 2017 | PERCENT CHANGE |
|---------------------|---------------------|---------------------------------|-------------------|
| JUNE 30, 2018 | JUNE 30, 2017 | | |
| \$25,022,531 | \$22,664,868 | \$2,357,663 | 10.4% |
| 8,351,737 | 7,365,428 | 986,309 | 13.4% |
| 3,227,460 | 2,974,579 | 252,881 | 8.5% |
| 1,233,505 | 1,072,725 | 160,780 | 15.0% |
| <u>\$37,835,233</u> | <u>\$34,077,600</u> | <u>\$3,757,633</u> | 11.0% |
| 584,265 | 576,544 | 7,721 | 1.3% |
| 39,889 | 39,545 | 344 | 0.9% |
| 90 | 102 | (12) | -11.8% |
| <u>624,244</u> | <u>616,191</u> | <u>8,053</u> | 1.3% |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER BILLED
JUNE 30, 2018 AND JUNE 30, 2017

| | MILLION GALLONS, TOTAL | | | |
|------------------------------------|------------------------|-----------------|------------------|------------------|
| | JUNE 2018 | JUNE 2017 | YEAR TO DATE | |
| | | | JUNE 30, 2018 | JUNE 30, 2017 |
| WATER BILLED | | | | |
| Residential and Domestic | 897.25 | 724.79 | 3,465.54 | 3,230.66 |
| Commercial and Industrial | 331.91 | 263.15 | 1,344.15 | 1,190.09 |
| Special Rate | 512.63 | 499.34 | 2,777.10 | 2,707.35 |
| Sales to Other Utilities | 68.67 | 63.06 | 332.08 | 349.82 |
| | <u>1,810.46</u> | <u>1,550.34</u> | <u>7,918.87</u> | <u>7,477.92</u> |

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

MILLION GALLONS, AVERAGE DAILY

| <u>JUNE</u> <u>2018</u> | <u>JUNE</u> <u>2017</u> |
|----------------------------|----------------------------|
| 29.91 | 24.16 |
| 11.06 | 8.77 |
| 17.09 | 16.64 |
| <u>2.29</u> | <u>2.10</u> |
| <u><u>60.35</u></u> | <u><u>51.67</u></u> |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF CASH FLOWS

| | YEAR TO DATE | |
|---|----------------------|----------------------|
| | JUNE 30, 2018 | JUNE 30, 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash from Customers | \$47,893,961 | \$45,148,880 |
| Cash Paid to Suppliers | (11,628,106) | (12,035,162) |
| Cash Paid to Employees | (12,893,394) | (13,143,628) |
| Taxes Paid | (2,059,959) | (2,027,364) |
| Net Cash From Operating Activities | 21,312,502 | 17,942,726 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfer Out for Gross Earnings Tax | (3,402,579) | (3,134,389) |
| Net Cash From Non-Capital Financing Activities | (3,402,579) | (3,134,389) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Expenditures, net..... | (8,298,380) | (6,917,899) |
| Principal Payments on Long-Term Debt | (555,556) | (555,556) |
| Principal Payments on Muckleshoot LT Liability ... | (181,355) | (185,889) |
| Interest Paid | (9,386,563) | (9,489,543) |
| BABs Federal Interest Subsidies | 1,793,638 | 1,787,877 |
| Contributions in Aid of Construction | 4,180,151 | 2,735,211 |
| Proceeds Held from Sale of Land | 2,775,100 | - |
| System Development Charges & Other LT Liabilities. | 1,460,828 | 593,886 |
| Net Cash From Capital and Related Financing Activities | (8,212,137) | (12,031,913) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received on Investments | 3,018,827 | 1,819,135 |
| Other Net Non-Op Revenues and Expenses | 41,593 | 869,318 |
| Net Cash From Investing Activities | 3,060,420 | 2,688,453 |
| Net Change in Cash and Equity in Pooled Investments | 12,758,206 | 5,464,877 |
| Cash & Equity in Pooled Investments at January 1 ... | 213,038,918 | 211,596,081 |
| Cash & Equity in Pooled Investments at June 30 | <u>\$225,797,124</u> | <u>\$217,060,958</u> |

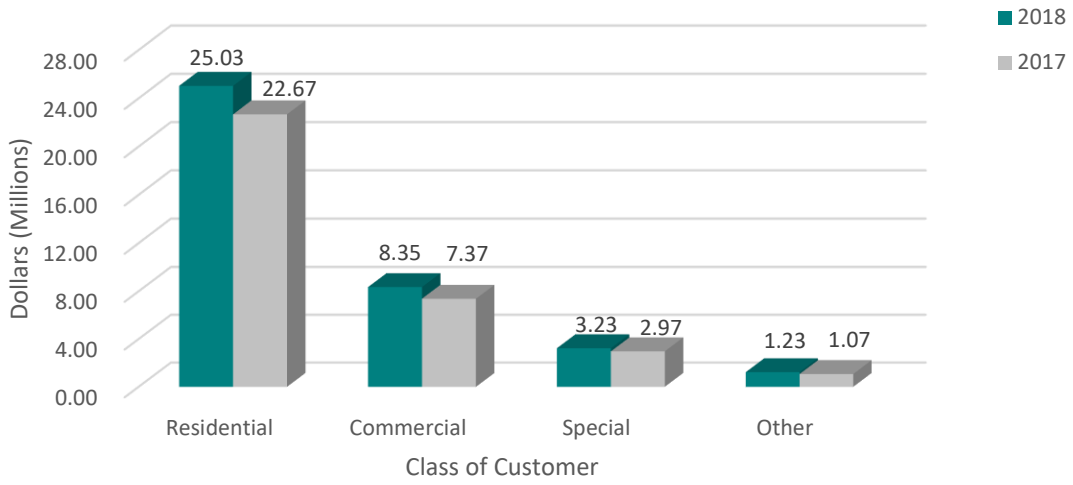
These statements should be read in conjunction with the Notes to Financial statements contained in the 2017 Annual Report.

| | YEAR TO DATE | |
|--|----------------------|----------------------|
| | JUNE 30, 2018 | JUNE 30, 2017 |
| Reconciliation of Net Operating Income to Net Cash From Operating Activities: | | |
| Net Operating Income | \$6,180,460 | \$4,299,575 |
| Adjustments to reconcile net operating income to net cash from operating activities: | | |
| Depreciation | 13,757,089 | 12,026,601 |
| Cash from changes in operating assets and liabilities: | | |
| Accounts Receivable and Unbilled Revenue | (1,212,148) | 341,361 |
| Interfund Receivables | 69,262 | 107,970 |
| Regulatory Asset-Public Fire Protection Fees | 377,930 | 377,930 |
| Regulatory Asset-Surcharges..... | 406,689 | 61,408 |
| Materials and Supplies | (75,537) | 11,582 |
| Prepayments | 243,615 | 212,408 |
| Unearned Revenues | 2,760,200 | 2,706,083 |
| Accrued Taxes | 310,017 | 123,850 |
| Salaries, Wages and Fringe Benefits Payable | (54,609) | (30,233) |
| Customers' Deposits | (12,306) | 153,270 |
| Accrued Expenses and Contracts Payable | (341,331) | (770,190) |
| Interfund Payables | (1,096,829) | (1,678,889) |
| Total Adjustments | 15,132,042 | 13,643,151 |
| Net Cash From Operating Activities | <u>\$21,312,502</u> | <u>\$17,942,726</u> |
| Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet: | | |
| Cash and Equity in Pooled Investments in Special Funds | \$170,424,609 | \$164,656,773 |
| Cash and Equity in Pooled Investments in Operating Funds | 55,372,515 | 52,404,185 |
| Cash and Equity in Pooled Investments at June 30 | <u>\$225,797,124</u> | <u>\$217,060,958</u> |
| Non-cash Investing, Capital, and Financing Activities: | | |
| Donated Assets | \$ 1,086,176 | \$ 105,308 |

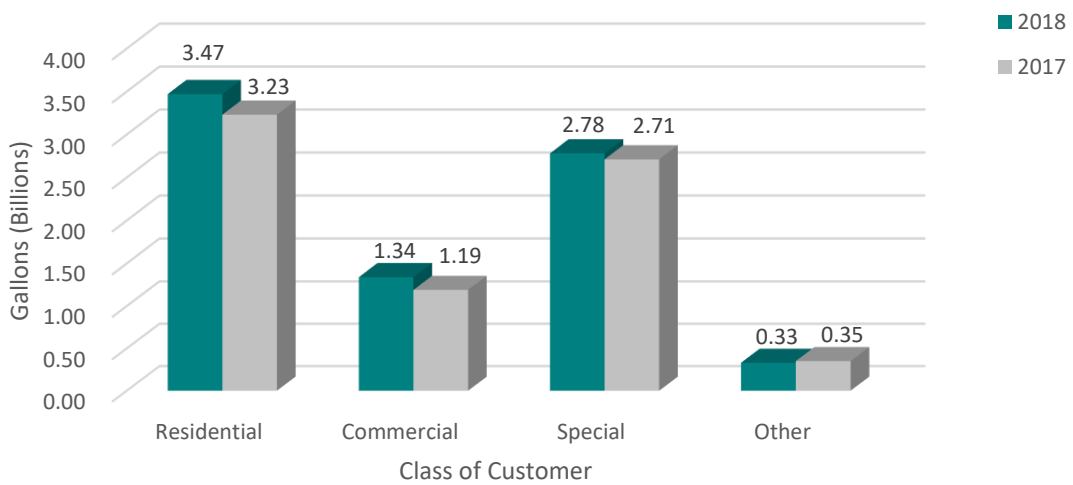
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Supplemental Data

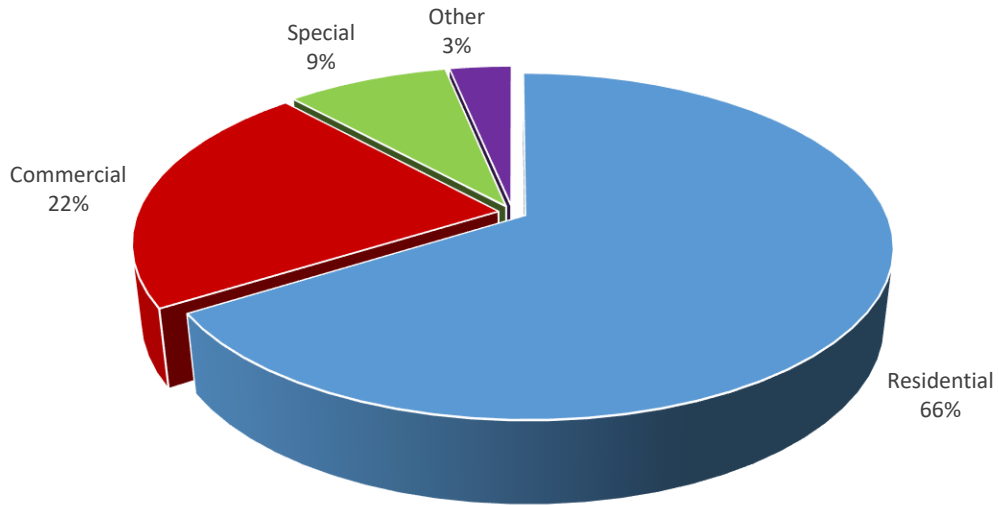
WATER SALES Year to Date - June 2018 & 2017



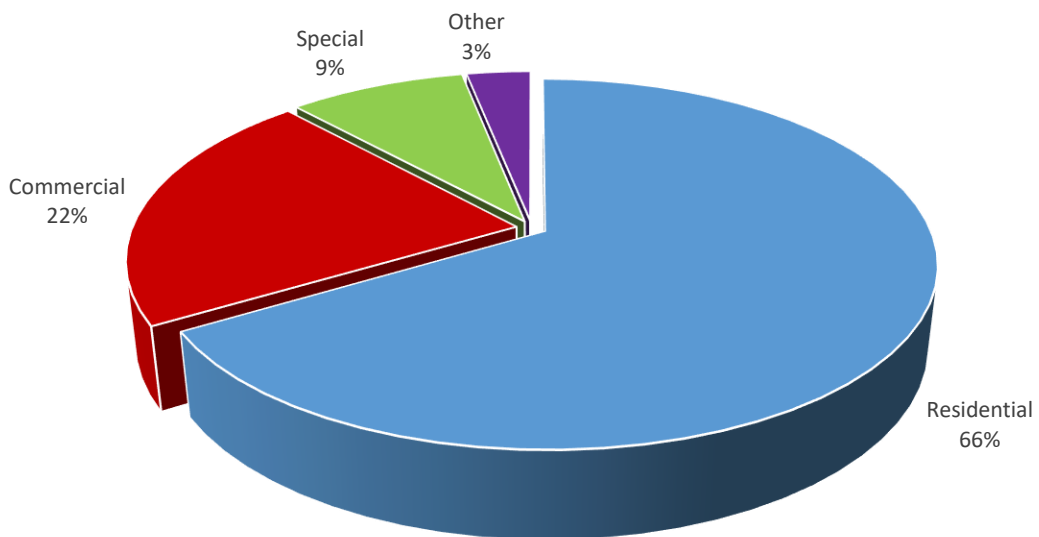
WATER CONSUMPTION Year to Date - June 2018 & 2017



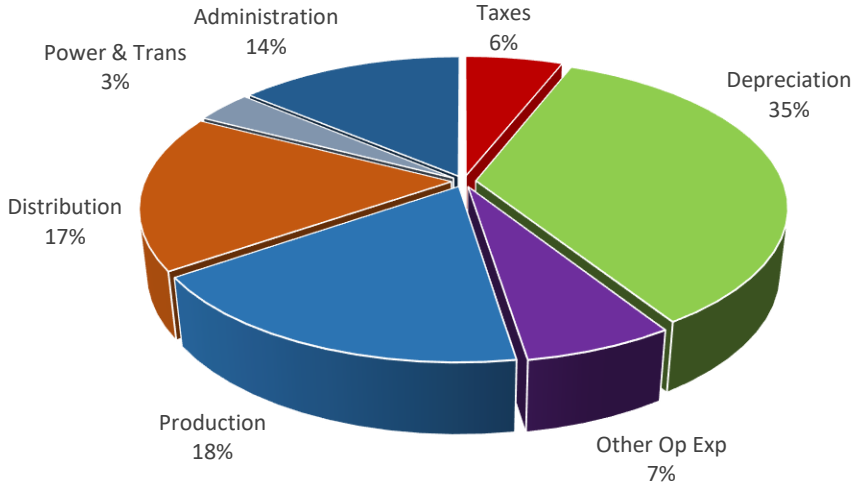
WATER SALES
Year to Date - June 2018
(\$37,835,233)



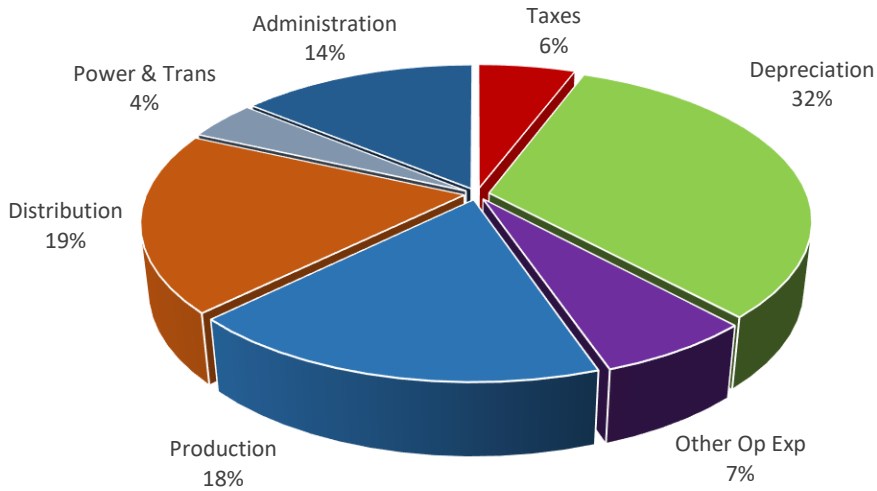
WATER SALES
Year to Date - June 2017
(\$34,077,600)



TOTAL OPERATING EXPENSES
 Year to Date - June 2018
 (\$39,393,136)



TOTAL OPERATING EXPENSES
 Year to Date - June 2017
 (\$37,209,253)





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.

JUNE

TACOMA RAIL

2018

**FINANCIAL
REPORT**



Public Utility Board

MONIQUE TRUDNOWSKI

Chair

WOODROW JONES

Vice-Chair

KAREN LARKIN

Secretary

BRYAN FLINT

Member

MARK PATTERSON

Member

JACKIE FLOWERS

Director of Utilities

DALE KING

Rail Superintendent

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

MANAGEMENT DISCUSSION AND ANALYSIS

Tacoma Rail Beltline Division (Tacoma Rail) is reporting 2018 year to date net operating income of \$2.1 million compared to \$1.8 million in 2017. Operating revenues decreased \$109,000 (0.7%), and operating expenses decreased \$500,000 (3.1%) year to date in 2018 compared to 2017.

Operating revenues were \$16.1 million at the end of second quarter 2018, compared to \$16.2 million in 2017. Total switching revenues decreased \$493,000 primarily due to decreases as shown in the table below.

| Activity Types | Rail Cars | | | | Switching Revenues | | | |
|-------------------------|-----------|--------|---------|--------|--------------------|-----------|----------|--------|
| | 2018 | 2017 | Var | %Chg | 2018 | 2017 | Var | %Chg |
| Intermodal Line Hauls | 30,713 | 35,096 | (4,383) | -12.5% | \$ 5,230 | \$ 5,963 | \$ (733) | -12.3% |
| Commercial Line Hauls | 13,946 | 14,542 | (596) | -4.1% | 7,004 | 6,674 | 330 | 4.9% |
| Capital Div. Line Hauls | 402 | 328 | 74 | 22.6% | 219 | 137 | 82 | 59.9% |
| Miscellaneous Switches | 7,133 | 8,565 | (1,432) | -16.7% | 1,234 | 1,406 | (172) | -12.2% |
| Total Line Hauls | 52,194 | 58,531 | (6,337) | -10.8% | \$ 13,687 | \$ 14,180 | \$ (493) | -3.5% |

Demurrage and other operating revenues increased \$384,000 primarily due to increased railcar dwell and locomotive services.

Total operating expenses were \$14.0 million year to date in 2018, compared to \$14.4 million in 2017.

Salaries and wages were \$191,000 lower primarily due to intermodal services demand being lower in 2018. This is causing reduced Operations' overtime relative to 2017.

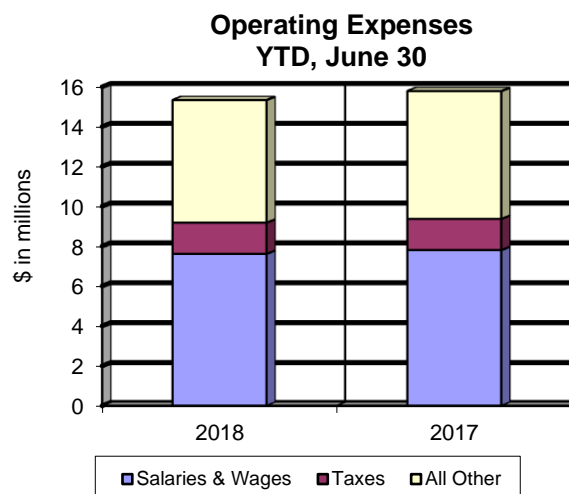
Supplies and expenses decreased \$309,000 primarily due to no intermodal volume incentives and fewer supplies needed with the reduced intermodal volumes.

Depreciation increased \$50,000 due to an increase in depreciable assets of \$513,000 compared to the same period in 2017.

Tacoma Rail's working capital ratios year to date of 2018 and 2017 were 8.2 and 3.6, respectively.

Jackie Flowers
Director of Utilities

Andrew Cherullo
Finance Director



CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES, BELT LINE DIVISION
Doing Business As

TACOMA RAIL

TABLE OF CONTENTS

Note: These financial statements are interim, unaudited reports prepared primarily for the use of management. Not all transactions reported in these statements have been recorded on the full accrual basis of accounting or in accordance with generally accepted accounting principles.

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| STATEMENTS OF NET POSITION | 1 - 2 |
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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF NET POSITION

| ASSETS | JUNE 30, | |
|---|---------------------|---------------------|
| | 2018 | 2017 |
| CAPITAL ASSETS | | |
| Road and Equipment Property | \$46,585,758 | \$44,810,611 |
| Less Accumulated Depreciation | (20,927,255) | (19,665,559) |
| Total | 25,658,503 | 25,145,052 |
| Construction Work in Progress | 398,705 | 2,848,098 |
| Net Capital Assets | 26,057,208 | 27,993,150 |
| CURRENT ASSETS | | |
| Cash & Equity in Pooled Investments | 10,223,334 | 10,404,348 |
| Customer Accounts Receivable | 3,635,260 | 2,886,841 |
| Grants Receivable | 112,306 | - |
| Prepayments | 430,531 | 1,553,547 |
| Materials and Supplies Inventory..... | 1,056,173 | 1,037,364 |
| Total Current Assets | 15,457,604 | 15,882,100 |
| TOTAL ASSETS | \$41,514,812 | \$43,875,250 |

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2017 Annual Report.

| NET POSITION AND LIABILITIES | <u>JUNE 30,</u> 2018 | <u>JUNE 30,</u> 2017 |
|--|-------------------------|-------------------------|
| NET POSITION | | |
| Net Investment in Capital Assets..... | \$20,397,177 | \$21,824,327 |
| Unrestricted | <u>9,339,999</u> | <u>8,278,934</u> |
| TOTAL NET POSITION | 29,737,176 | 30,103,261 |
| LONG-TERM DEBT, NET OF CURRENT MATURITIES | | |
| State Loans..... | <u>4,839,782</u> | <u>5,379,719</u> |
| Total Long-Term Liabilities | 4,839,782 | 5,379,719 |
| CURRENT LIABILITIES | | |
| Accounts Payable | 437,004 | 563,545 |
| Wages Payable | 200,973 | 159,519 |
| Unemployment and other Tax Payables | 315,548 | 244,758 |
| Volume Incentive Payable | - | 2,500,001 |
| Current Portion of Long Term Debt | 820,250 | 789,104 |
| Current Portion of Compensated Absences | <u>112,418</u> | <u>111,516</u> |
| Total Current Liabilities | 1,886,193 | 4,368,443 |
| LONG-TERM LIABILITIES | | |
| On the Job Injury Reserve | 842,494 | 779,260 |
| Long Term Portion of Compensated Absences | 1,011,762 | 1,003,644 |
| Other Long-Term Liabilities | <u>3,197,405</u> | <u>2,240,923</u> |
| Total Long-Term Liabilities | 5,051,661 | 4,023,827 |
| TOTAL LIABILITIES | <u>11,777,636</u> | <u>13,771,989</u> |
| TOTAL NET POSITION AND LIABILITIES | <u>\$41,514,812</u> | <u>\$43,875,250</u> |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

| | <u>JUNE</u> 2018 | <u>JUNE</u> 2017 |
|--|---------------------|---------------------|
| OPERATING REVENUES | | |
| Switching Revenues | \$2,453,353 | \$1,901,387 |
| Demurrage and Other Operating Revenues | 412,733 | 282,038 |
| Total Operating Revenues | 2,866,086 | 2,183,425 |
| OPERATING EXPENSES | | |
| Maintenance of Way and Structures | | |
| Salaries and Wages | 86,605 | 70,508 |
| Supplies and Expense | 102,320 | 101,564 |
| Mechanical | | |
| Salaries and Wages | 187,846 | 168,629 |
| Supplies and Expense | 296,727 | 215,809 |
| Operations | | |
| Salaries and Wages | 880,321 | 789,825 |
| Supplies and Expense | 153,824 | 163,179 |
| Administration | | |
| Salaries and Wages | 209,910 | 188,564 |
| Supplies and Expense | 493,384 | 228,120 |
| Taxes - State | 40,463 | 32,047 |
| Depreciation | 144,789 | 136,277 |
| Total Operating Expenses | 2,596,189 | 2,094,522 |
| Net Operating Income | 269,897 | 88,903 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest Income | 12,577 | 8,846 |
| Miscellaneous | 77,364 | 153,083 |
| Interest Expense | - | - |
| Total Non-Operating Revenues | 89,941 | 161,929 |
| Contributions - Grants | 112,306 | - |
| Total Contributions | 112,306 | - |
| Transfers | | |
| City of Tacoma Gross Earnings Tax | (236,482) | (202,716) |
| CHANGE IN NET POSITION | \$235,662 | \$48,116 |
| TOTAL NET POSITION - JANUARY 1 | | |
| TOTAL NET POSITION - JUNE 30 | | |

These statements should be read in conjunction with the Management Discussion and Analysis in the June 2018 Financial Report.

| YEAR TO DATE | | | |
|---------------------|---------------------|-----------------------|-------------------|
| JUNE 30, 2018 | JUNE 30, 2017 | 2018/2017 VARIANCE | PERCENT CHANGE |
| 13,687,426 | 14,180,814 | (\$493,388) | -3.5% |
| 2,419,842 | 2,035,872 | 383,970 | 18.9% |
| <u>16,107,268</u> | <u>16,216,686</u> | <u>(109,418)</u> | -0.7% |
| 463,754 | 499,749 | (35,995) | -7.2% |
| 795,613 | 534,282 | 261,331 | 48.9% |
| 959,542 | 993,274 | (33,732) | -3.4% |
| 1,830,528 | 1,573,669 | 256,859 | 16.3% |
| 4,856,477 | 5,120,508 | (264,031) | -5.2% |
| 728,045 | 862,775 | (134,730) | -15.6% |
| 1,331,907 | 1,188,669 | 143,238 | 12.1% |
| 1,931,308 | 2,623,552 | (692,244) | -26.4% |
| 226,789 | 227,947 | (1,158) | -0.5% |
| 868,731 | 818,265 | 50,466 | 6.2% |
| <u>13,992,694</u> | <u>14,442,690</u> | <u>(449,996)</u> | -3.1% |
| 2,114,574 | 1,773,996 | 340,578 | 19.2% |
| 117,198 | 69,688 | 47,510 | 68.2% |
| 564,532 | 527,490 | 37,042 | 7.0% |
| - | (6) | 6 | -100.0% |
| <u>681,730</u> | <u>597,172</u> | <u>84,558</u> | 14.2% |
| <u>112,306</u> | <u>36,254</u> | <u>76,052</u> | 100.0% |
| 112,306 | 36,254 | 76,052 | 100.0% |
| (1,338,809) | (1,338,059) | (750) | 0.1% |
| 1,569,801 | 1,069,363 | \$500,438 | 46.8% |
| <u>28,167,375</u> | <u>29,033,898</u> | | |
| <u>\$29,737,176</u> | <u>\$30,103,261</u> | | |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

SUMMARY OF SWITCHING REVENUES AND SWITCHING ACTIVITIES
JUNE 30, 2018 AND JUNE 30, 2017

| | <u>June 2018</u> | <u>June 2017</u> |
|--|---------------------------|---------------------------|
| SWITCHING REVENUES | | |
| LINE HAULS--INTERMODAL | \$991,420 | \$715,337 |
| LINE HAULS--COMMERCIAL | 1,212,320 | 973,735 |
| LINE HAULS--CAPITAL DIVISION | 33,630 | 12,521 |
| MISCELLANEOUS SWITCHES | <u>215,983</u> | <u>199,794</u> |
| TOTAL SWITCHING REVENUES | <u><u>\$2,453,353</u></u> | <u><u>\$1,901,387</u></u> |
| SWITCHING ACTIVITIES (CARS) | | |
| LINE HAULS--INTERMODAL | 5,635 | 4,508 |
| LINE HAULS--COMMERCIAL | 2,578 | 2,141 |
| LINE HAULS--CAPITAL DIVISION | 59 | 30 |
| MISCELLANEOUS SWITCHES | <u>854</u> | <u>1,352</u> |
| TOTAL CARS SWITCHED | <u><u>9,126</u></u> | <u><u>8,031</u></u> |

| YEAR TO DATE | | | |
|---------------------|---------------------|-----------------------|-------------------|
| June 30, 2018 | June 30, 2017 | 2018/2017 VARIANCE | PERCENT CHANGE |
| \$5,230,282 | \$5,963,397 | (\$733,115) | -12.3% |
| 7,004,535 | 6,674,370 | 330,165 | 4.9% |
| 219,060 | 136,894 | 82,166 | 60.0% |
| <u>1,233,549</u> | <u>1,406,153</u> | <u>(172,604)</u> | <u>-12.3%</u> |
| <u>\$13,687,426</u> | <u>\$14,180,814</u> | <u>(\$493,388)</u> | <u>-3.5%</u> |
| 30,713 | 35,096 | (4,383) | -12.5% |
| 13,946 | 14,542 | (596) | -4.1% |
| 402 | 328 | 74 | 22.6% |
| <u>7,133</u> | <u>8,565</u> | <u>(1,432)</u> | <u>-16.7%</u> |
| <u>52,194</u> | <u>58,531</u> | <u>(6,337)</u> | <u>-10.8%</u> |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF CASH FLOWS

| | YEAR TO DATE | |
|--|------------------|------------------|
| | JUNE 30, 2018 | JUNE 30, 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash from Customers | \$15,739,679 | \$16,462,452 |
| Cash Paid to Suppliers | (5,294,516) | (4,686,306) |
| Cash Paid to Employees | (7,601,297) | (7,805,135) |
| Taxes Paid | (201,099) | (273,199) |
| Net Cash From Operating Activities | 2,642,767 | 3,697,812 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfers to Other Funds | (1,338,809) | (1,338,059) |
| Net Cash From Financing Activities | (1,338,809) | (1,338,059) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Expenditures, Net | (220,229) | (594,671) |
| Principal Payments on Long-Term Debt | (383,694) | (447,935) |
| Interest Paid | - | (872) |
| Proceeds from Capital Contributions | 112,306 | 36,254 |
| Proceeds from Long-Term Debt | - | 403,339 |
| Gain from Disposition of Property | - | (4,045) |
| Proceeds from Other Non-Operating Revenues | 564,532 | 531,535 |
| Net Cash Used in Capital and Related Financing Activities | 72,915 | (76,395) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on Investments | 117,198 | 69,687 |
| Net Cash From Investing Activities | 117,198 | 69,687 |
| Net Increase (Decrease) in Cash and Equity in Pooled Investments | 1,494,071 | 2,353,045 |
| Cash & Equity in Pooled Investments at January 1 | 8,729,263 | 8,051,303 |
| Cash & Equity in Pooled Investments at June 30 | \$10,223,334 | \$10,404,348 |

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2017 Annual Report.

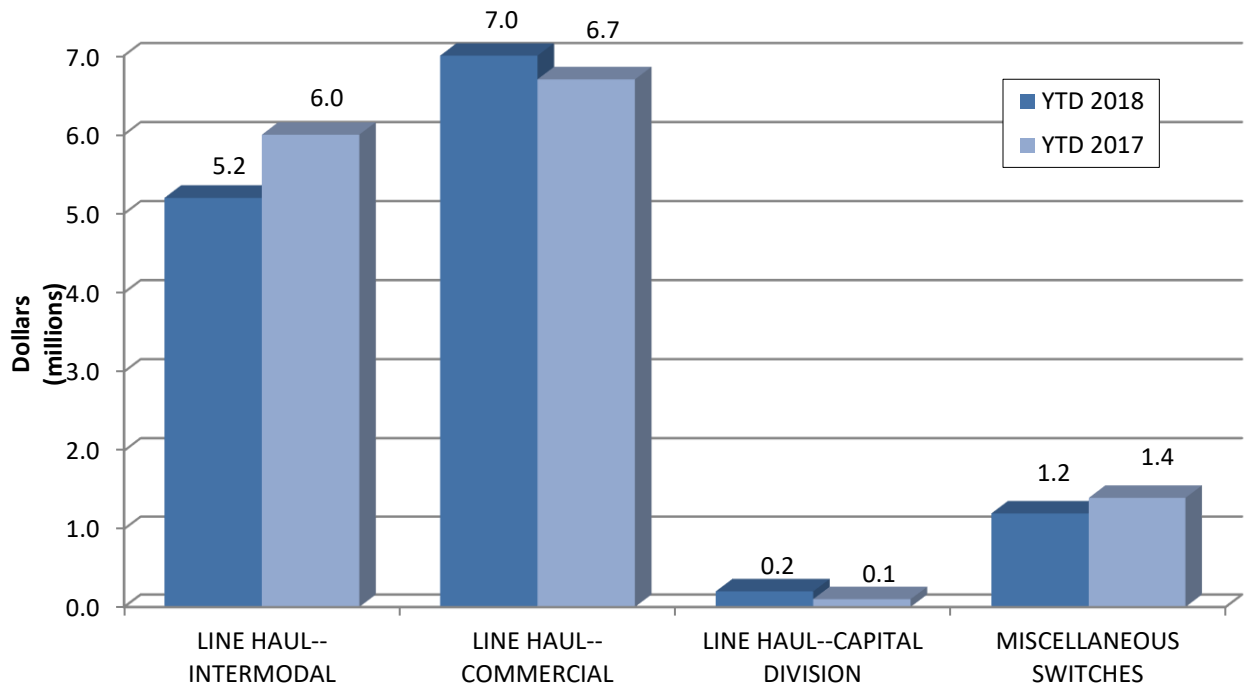
| | YEAR TO DATE JUNE 30, 2018 | YEAR TO DATE JUNE 30, 2017 |
|---|----------------------------------|----------------------------------|
| Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities: | | |
| Operating Income | \$2,114,574 | \$1,773,996 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities: | | |
| Depreciation | 868,731 | 818,265 |
| Cash provided from changes in operating assets and liabilities: | | |
| Accounts Receivable | (525,547) | 246,438 |
| Interfund Receivable | 157,958 | 9,827 |
| Materials and Supplies Inventory | 110,599 | (13,032) |
| Prepayments | 257,782 | 253,664 |
| Accounts Payable | (316,670) | (322,144) |
| Customer Deposits | - | (10,500) |
| Unemployment and other Tax Payables | 25,690 | (45,252) |
| Wages Payable and Compensated Absences | (2,350) | (8,787) |
| Volume Incentive Payable | - | 1,250,002 |
| Interfund Payable | (60,733) | (260,518) |
| Other Long-Term Liabilities & OJI Reserve..... | 12,733 | 5,853 |
| Total Adjustments | 528,193 | 1,923,816 |
| Net Cash From Operating Activities | <u>\$2,642,767</u> | <u>\$3,697,812</u> |
| Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet: | | |
| Cash and Equity in Pooled Investments in Special Funds | - | - |
| Cash and Equity in Pooled Investments in Operating Funds | 10,223,334 | 10,404,348 |
| Cash and Equity in Pooled Investments at June 30 | <u>\$10,223,334</u> | <u>\$10,404,348</u> |

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Supplemental Data

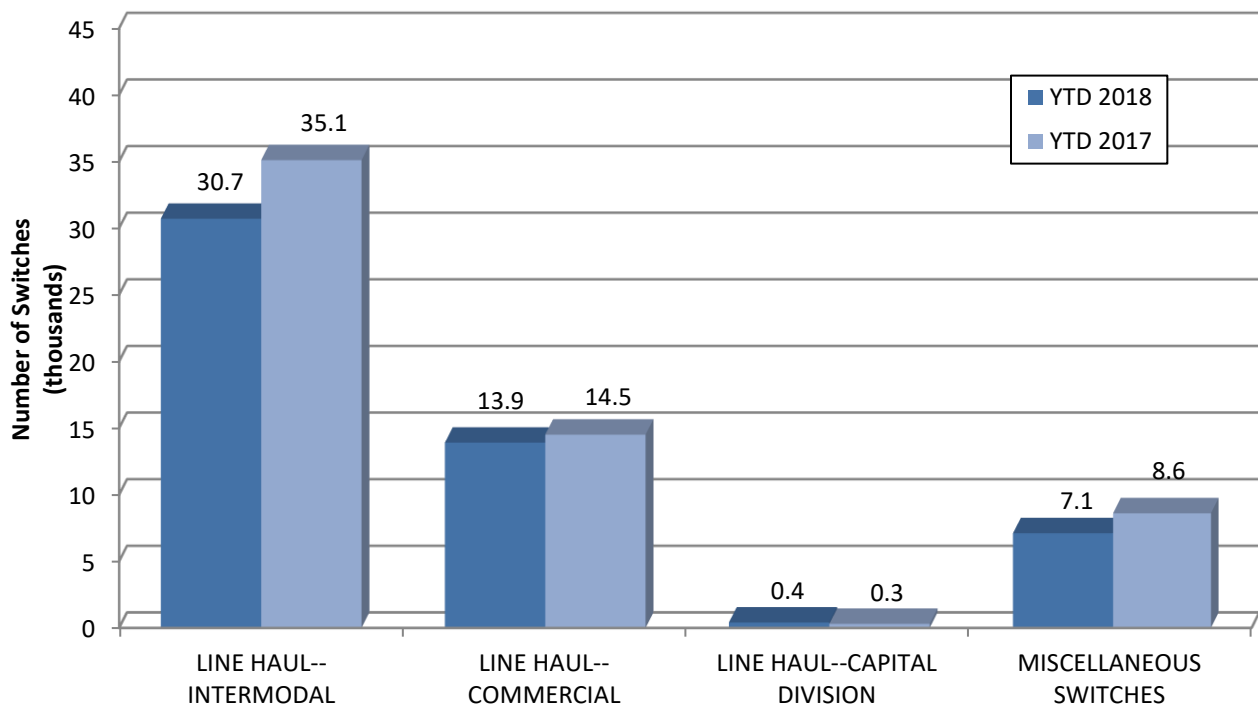
SWITCHING REVENUES

Year to Date - June 2018 & 2017

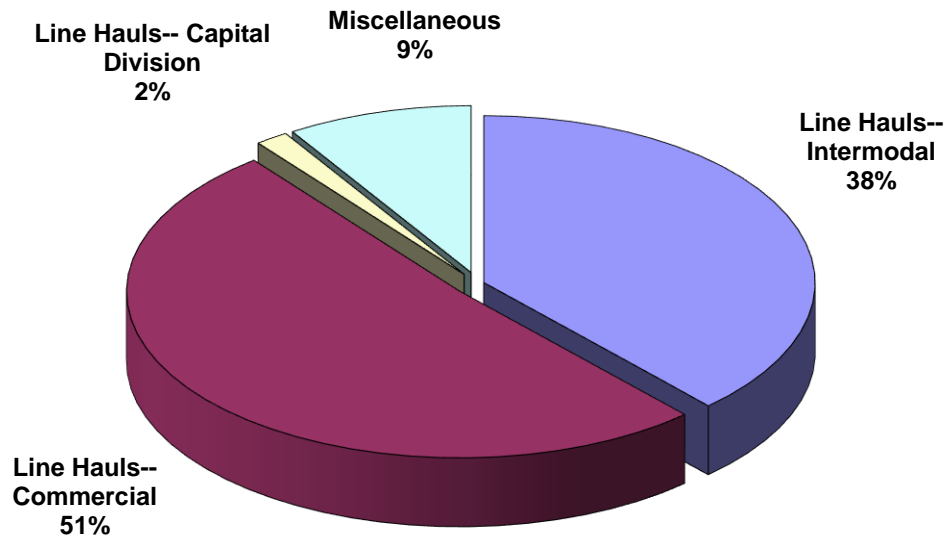


SWITCHING ACTIVITIES

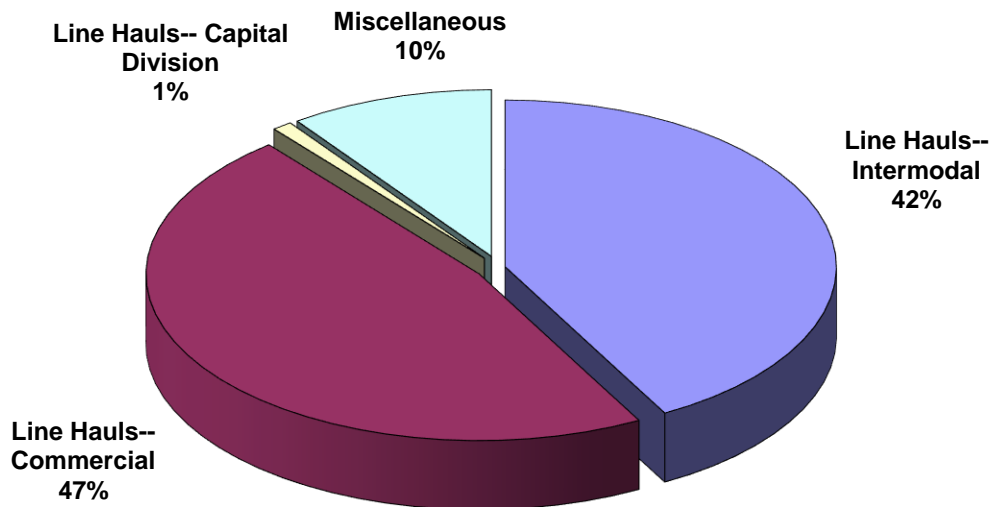
Year to Date - June 2018 & 2017



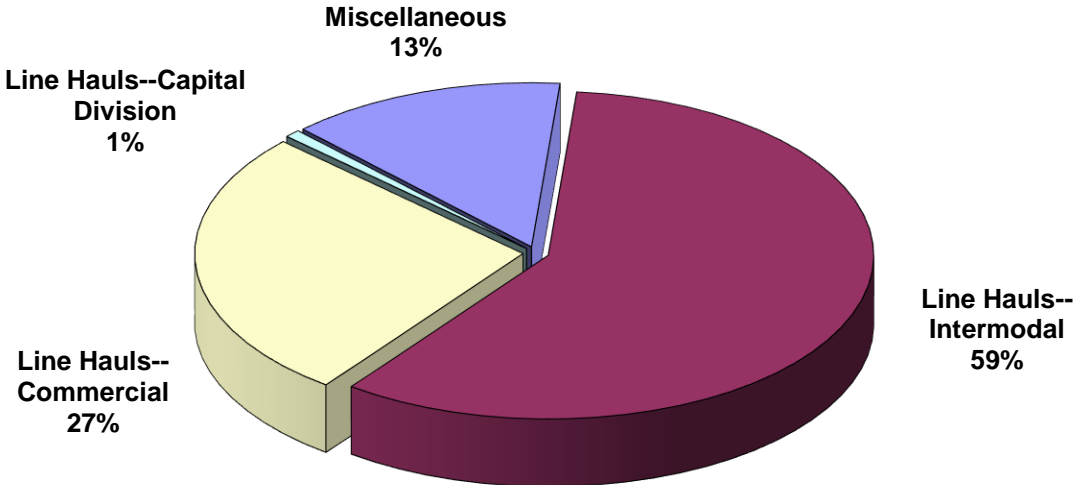
SWITCHING REVENUES
Year to Date - June 2018 (\$13,687,426)



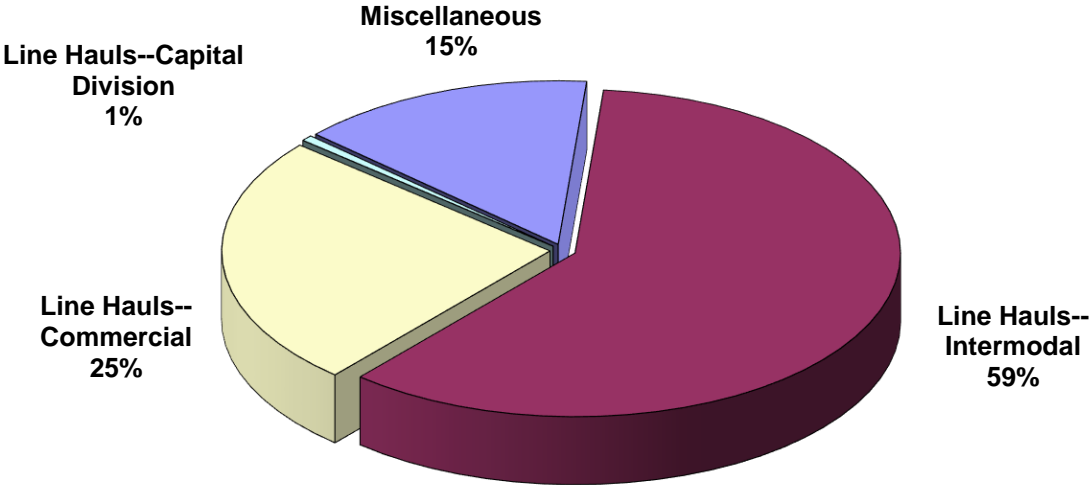
SWITCHING REVENUES
Year to Date - June 2017 (\$14,180,814)



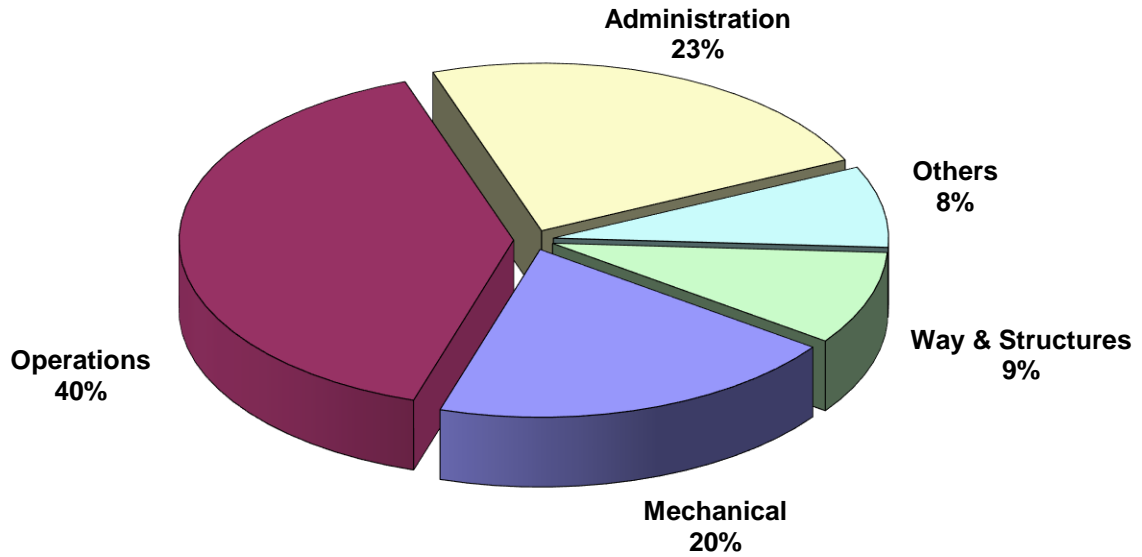
SWITCHING ACTIVITY
Year to Date - June 2018 (52,194 cars)



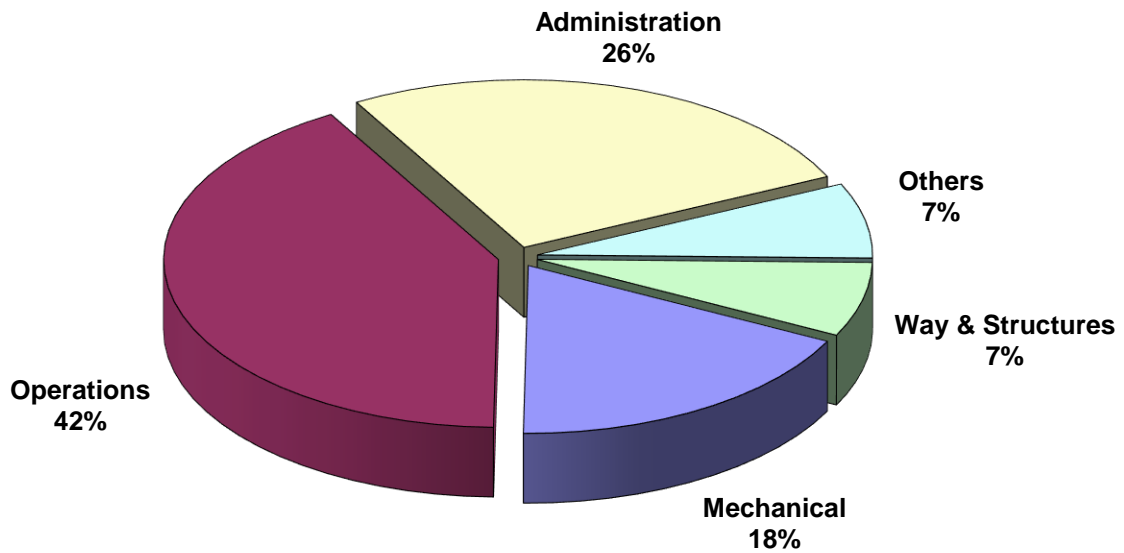
SWITCHING ACTIVITY
Year to Date - June 2017 (58,531 cars)



TOTAL OPERATING EXPENSES
Year to Date - June 2018 (\$13,992,694)



TOTAL OPERATING EXPENSES
Year to Date - June 2017 (\$14,442,690)





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JUNE

SELF-INSURANCE CLAIM FUND

2018

**FINANCIAL
REPORT**



Public Utility Board

MONIQUE TRUDNOWSKI
Chair

WOODROW JONES
Vice-Chair

KAREN LARKIN
Secretary

BRYAN FLINT
Member

MARK PATTERSON
Member

JACKIE FLOWERS
Director of Utilities

CHRIS ROBINSON
Power Superintendent/COO

ANDREW CHERULLO
Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

MANAGEMENT ANALYSIS

The Self-Insurance fund is reporting a net gain of \$234,000 year-to-date 2018 compared to a net loss of \$2.7 million recorded for the same time period in 2017. Total revenues increased \$2.0 million while total expenses decreased \$946,000 year-to-date.

Revenues

Self-Insurance fund revenues are contributions from the Power, Water and Rail divisions and the interest earned. Total revenues at the end of the second quarter of 2018 and 2017 were \$2.6 million and \$584,000 respectively. The increase of \$2.0 million is primarily due to additional contributions of \$1.7 million from Power and \$250,000 from Rail.

Expenses

Self-Insurance fund expenses include claims and handling expenses paid during the quarter, 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 expenses for the year to date. Administrative expenses are allocated to Power, Water and Rail funds based on each fund's percentage of total claims incurred.

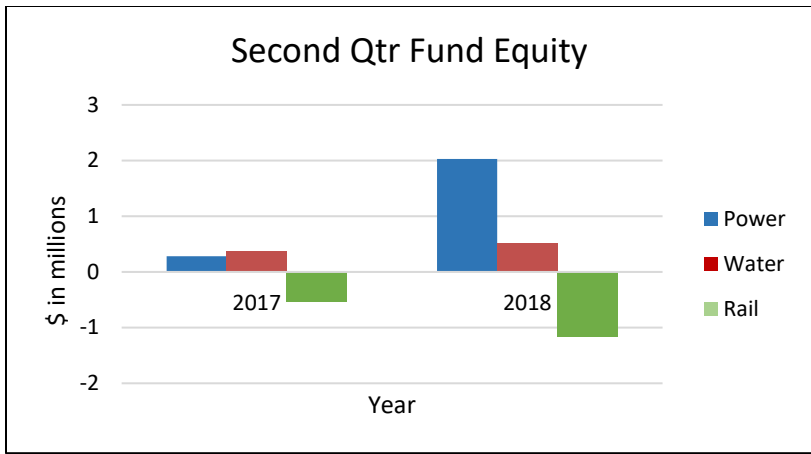
Total expenses at the end of the second quarter of 2018 and 2017 were \$2.3 million and \$3.3 million respectively. The change in expenses from year to year is primarily due to adjustments in expected future claims and developments accrued by the Fund. Negative claims expense is generally the result of adjustments to the liability where expected claims were accrued in one quarter and subsequently denied or revised the next quarter.

Claims expense was \$2.2 million in the second quarter of 2018, a decrease of \$784,000 (26.5%) compared to the second quarter of 2017. This is due to a net increase in claims of \$1.0 million offset by a reimbursement from insurance of \$1.7 million. The insurance reimbursement was received from a \$3.4 million claim, of which \$1.7 million was contributed by Power leading to the increase in Revenues.

Litigation Expense and Settlements decreased by \$190,000 primarily due to the decrease in handling expenses for Rail.

Incidental and Administrative Expense increased by \$27,000 primarily due to the purchase of new software. The cost of which was shared between General Government and the Self-Insurance fund.

The Fund's equity was \$1.4 million and \$116,000 through June of 2018 and 2017 respectively. The following graph provides a visual presentation as to how the Fund's equity is shared.



Jackie Flowers
 Director of Utilities

Andrew Cherullo
 Finance Director

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

SELF-INSURANCE CLAIM FUND

TABLE OF CONTENTS

Note: These financial statements are interim, unaudited reports prepared primarily for the use of management. Not all transactions reported in these statements have been recorded on the full accrual basis of accounting or in accordance with generally accepted accounting principles.

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

STATEMENTS OF NET POSITION - JUNE 30, 2018 AND JUNE 30, 2017

| | 2018 | 2017 |
|---|--------------------|--------------------|
| ASSETS | | |
| CURRENT | | |
| Cash and Equity in Pooled Investments | \$7,527,701 | \$6,925,749 |
| TOTAL ASSETS | \$7,527,701 | \$6,925,749 |
| NET POSITION AND LIABILITIES | | |
| NET POSITION | | |
| Restricted: | | |
| Interfund Contributions | \$1,384,426 | \$115,925 |
| TOTAL NET POSITION | 1,384,426 | 115,925 |
| CURRENT LIABILITIES | | |
| Accounts Payable Claims | 6,103,587 | 6,803,250 |
| Accounts Payable Claims Handling | 39,688 | 6,574 |
| TOTAL LIABILITIES | 6,143,275 | 6,809,824 |
| TOTAL NET POSITION AND LIABILITIES | \$7,527,701 | \$6,925,749 |

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2017 Annual Report.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
JUNE 30, 2018 AND JUNE 30, 2017

| | <u>JUNE</u> <u>2018</u> | <u>JUNE</u> <u>2017</u> |
|---|----------------------------|----------------------------|
| INCOME | | |
| Premiums | \$128,333 | \$86,667 |
| Interest | <u>10,065</u> | <u>6,729</u> |
| TOTAL INCOME | 138,398 | 93,396 |
| EXPENSES | | |
| Claims | 852,006 | 2,502,208 |
| Litigation Expense and Settlements | 38,861 | 31,371 |
| Incidental and Administrative Expense | <u>12,385</u> | <u>11,564</u> |
| TOTAL EXPENSES | <u>903,252</u> | <u>2,545,143</u> |
| CHANGE IN NET POSITION | <u>(\$764,854)</u> | <u>(\$2,451,747)</u> |
| TOTAL NET POSITION - JANUARY 1 | | |
| TOTAL NET POSITION - JUNE 30 | | |

These statements should be read in conjunction with the Management Discussion and Analysis in the June 2018 Financial Report.

| YEAR-TO-DATE | | | |
|--------------------|------------------|-----------------------|-------------------|
| JUNE 2018 | JUNE 2017 | 2018/2017 VARIANCE | PERCENT CHANGE |
| \$2,470,000 | \$520,000 | \$ 1,950,000 | 375.0% |
| 92,311 | 64,071 | 28,240 | 44.1% |
| <u>2,562,311</u> | <u>584,071</u> | <u>1,978,240</u> | <u>338.7%</u> |
| 2,170,285 | 2,954,338 | (784,053) | -26.5% |
| 58,967 | 248,617 | (189,650) | -76.3% |
| 99,041 | 71,642 | 27,399 | 38.2% |
| <u>2,328,293</u> | <u>3,274,597</u> | <u>(946,304)</u> | <u>-28.9%</u> |
| 234,018 | (2,690,526) | 2,924,544 | -108.7% |
| <u>1,150,408</u> | <u>2,806,451</u> | <u>(1,656,043)</u> | |
| <u>\$1,384,426</u> | <u>\$115,925</u> | <u>\$1,268,501</u> | |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

STATEMENTS OF CASH FLOWS

| | YEAR TO DATE | |
|--|------------------|------------------|
| | JUNE 30, 2018 | JUNE 30, 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Premiums Received | \$2,470,000 | \$520,000 |
| Claims Paid | (1,915,588) | (941,110) |
| Administrative and Other Expenses | (147,580) | (350,341) |
| Net Cash From Operating Activities | 406,832 | (771,451) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Interest Received | 92,311 | 64,071 |
| Net Cash From Financing Activities | 92,311 | 64,071 |
| Net Change in Cash and Equity in Pooled Investments | 499,143 | (707,380) |
| Cash and Equity in Pooled Investments at January 1 | 7,028,558 | 7,633,129 |
| Cash and Equity in Pooled Investments at June 30 | \$7,527,701 | \$6,925,749 |

| | YEAR TO DATE | |
|---|-------------------------|---------------------------|
| | JUNE 30, 2018 | JUNE 30, 2017 |
| Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities: | | |
| Net Income (Loss) | \$234,018 | (\$2,690,526) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities: | | |
| Interest Income | (92,311) | (64,071) |
| Adjustments to Reconcile Net Income (Loss) to Net Cash From Operating Activities: | | |
| Interdivision Payable | (8,910) | (12,222) |
| Accounts Payable Claims | 246,395 | 1,993,227 |
| Accounts Payable Claims Handling | 27,640 | 2,141 |
| Total Adjustments | <u>172,814</u> | <u>1,919,075</u> |
| Net Cash From Operating Activities | <u><u>\$406,832</u></u> | <u><u>(\$771,451)</u></u> |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

EQUITY DISTRIBUTION AS OF JUNE 30, 2018

| | <u>TACOMA POWER</u> | <u>TACOMA WATER</u> | <u>TACOMA RAIL</u> | <u>TOTAL</u> |
|--------------------------------|---------------------------|-------------------------|-----------------------------|---------------------------|
| Balance January 1, 2018 | \$2,104,983 | \$384,479 | (\$1,339,054) | \$1,150,408 |
| Contributions (Premiums) | 2,050,000 | 120,000 | 300,000 | \$2,470,000 |
| Claims | (2,061,020) | 6,866 | (115,596) | (\$2,169,750) |
| Claims Handling Expense | (45,297) | (11,413) | (2,257) | (\$58,967) |
| Administrative Expenses | (94,136) | (203) | (5,237) | (\$99,576) |
| Interest Income (1) | <u>75,395</u> | <u>10,560</u> | <u>6,356</u> | <u>\$92,311</u> |
| Balance June 30, 2018 | <u><u>\$2,029,925</u></u> | <u><u>\$510,289</u></u> | <u><u>(\$1,155,788)</u></u> | <u><u>\$1,384,426</u></u> |

(1) Effective 2017, interest income has been allocated to each division based on the allocated cash balance as of the date of this statement.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

CLAIMS STATISTICS SUMMARY - JUNE 30, 2018

NUMBER OF CLAIMS PAID (JANUARY 1 - JUNE 30, 2018)

| | <u>Tacoma Power</u> | <u>Tacoma Water</u> | <u>Tacoma Rail</u> | <u>Svc. Divs.</u> | <u>Total</u> |
|---|-------------------------|-------------------------|------------------------|-----------------------|--------------|
| Over \$5,000 | 8 | 4 | - | - | 12 |
| \$1,001 - 5,000 | 7 | 8 | - | - | 15 |
| \$501 - 1,000 | 2 | 1 | - | - | 3 |
| \$100 - 500 | 2 | 1 | - | 2 | 5 |
| Less than \$100 | 2 | 4 | - | - | 6 |
| | <u>21</u> | <u>18</u> | <u>-</u> | <u>2</u> | <u>41</u> |
| Total Dollar Amount of Claims Paid | \$1,831,982 | \$83,072 | \$ - | \$534 | \$1,915,588 |

NUMBER OF CLAIMS ACCRUED AT JUNE 30, 2018

| | | | | | |
|--|---------------------------|-------------------------|---------------------------|-----------------------|---------------------------|
| Over \$50,000 | 14 | - | 2 | - | 16 |
| \$10,000 - 50,000 | 14 | 2 | 7 | - | 23 |
| Less than \$10,000 | 276 | 89 | 4 | 4 | 373 |
| | <u>304</u> | <u>91</u> | <u>13</u> | <u>4</u> | <u>412</u> |
| Total Dollar Amount Accrued for Known Claims | \$3,596,726 | \$164,145 | \$493,096 | \$1,156 | \$4,255,123 |
| Total Dollar Amount Accrued for Unknown Claims | <u>\$483,963</u> | <u>\$181,413</u> | <u>\$1,177,856</u> | <u>\$5,232</u> | <u>\$1,848,464</u> |
| Total Dollar Amount Accrued for All Claims | <u><u>\$4,080,689</u></u> | <u><u>\$345,558</u></u> | <u><u>\$1,670,952</u></u> | <u><u>\$6,388</u></u> | <u><u>\$6,103,587</u></u> |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
SELF-INSURANCE CLAIM FUND

CLAIMS STATISTICS DETAIL - JUNE 30, 2018

NUMBER OF CLAIMS PAID (JANUARY 1 - JUNE 30, 2018)

| Range | Non-Vehicular Bodily Injury/Property Damage | | | |
|--|--|-----------------|----------------|---------------|
| | Tacoma Power | Tacoma Water | Tacoma Rail | Svc. Divs. |
| Over \$5,000 | 7 | 4 | - | - |
| \$1,001 - 5,000 | 5 | 6 | - | - |
| \$501 - 1,000 | 2 | 1 | - | - |
| \$100 - 500 | 2 | 1 | - | 2 |
| Less than \$100 | 2 | 4 | - | - |
| | 18 | 16 | - | 2 |
| Total Dollar Amount of Claims Paid | \$1,805,023 | \$78,858 | \$ - | \$534 |
| Median Dollar Amount of Claims Paid | \$100,279 | \$4,929 | \$ - | \$267 |

NUMBER OF CLAIMS ACCRUED AT JUNE 30, 2018

| Range | Non-Vehicular Bodily Injury/Property Damage | | | |
|--|--|-----------------|----------------|---------------|
| | Tacoma Power | Tacoma Water | Tacoma Rail | Svc. Divs. |
| Over \$50,000 | 14 | - | 2 | - |
| \$10,000 - 50,000 | 14 | 2 | 7 | - |
| Less than \$10,000 | 259 | 81 | 4 | 4 |
| | 287 | 83 | 13 | 4 |
| Total Dollar Amount Accrued for Known Claims . | \$3,574,600 | \$151,839 | \$493,096 | \$1,156 |
| Total Dollar Amount Accrued for Unknown Claims | \$483,963 | \$181,413 | \$1,177,856 | \$5,232 |
| Total Dollar Amount Accrued for All Claims ... | \$4,058,563 | \$333,252 | \$1,670,952 | \$6,388 |

| Vehicular Bodily Injury/Property Damage | | | | Hazardous Waste | | Contract/Harassment | | | |
|--|-----------------|----------------|---------------|--------------------|-----------------|---------------------|-----------------|----------------|---------------|
| Tacoma Power | Tacoma Water | Tacoma Rail | Svc. Divs. | Tacoma Power | Tacoma Water | Tacoma Power | Tacoma Water | Tacoma Rail | Svc. Divs. |
| 1 | - | - | - | - | - | - | - | - | - |
| 2 | 2 | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| 3 | 2 | - | - | - | - | - | - | - | - |
| \$26,959 | \$4,214 | - | - | - | - | - | - | - | - |
| \$8,986 | \$2,107 | - | - | - | - | - | - | - | - |

| Vehicular Bodily Injury/Property Damage | | | | Hazardous Waste | | Contract/Harassment | | | |
|--|-----------------|----------|----------|--------------------|----------|---------------------|----------|----------|----------|
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| 17 | 8 | - | - | - | - | - | - | - | - |
| 17 | 8 | - | - | - | - | - | - | - | - |
| \$22,126 | \$12,306 | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| <u>\$22,126</u> | <u>\$12,306</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |



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JUNE

FLEET SERVICES FUND

2018

**FINANCIAL
REPORT**



Public Utility Board

MONIQUE TRUDNOWSKI
Chair

WOODROW JONES
Vice-Chair

KAREN LARKIN
Secretary

BRYAN FLINT
Member

MARK PATTERSON
Member

JACKIE FLOWERS
Director of Utilities/CEO

DON ASHMORE
Utilities Fleet Manager

ANDREW CHERULLO
Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

MANAGEMENT DISCUSSION AND ANALYSIS

Fleet Services is reporting a net operating loss of \$1.0 million year-to-date 2018 and 2017. Operating revenues increased \$89,000 and expenses increased \$45,000 respectively, resulting in a net increase in operating income of \$44,000 compared to 2017.

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 \$3.0 million and \$2.9 million at the end of the second quarter of 2018 and 2017.

Maintenance revenues are mainly related to staff labor and were \$1.0 million and \$1.2 million at the end of the second quarter of 2018 and 2017 respectively.

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 \$1.3 million and \$1.1 million in 2018 and 2017 respectively.

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. Rates were increased in 2018. Administrative Overhead revenue was \$670,000 and \$553,000 in 2018 and 2017 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 \$32,000 and \$28,000 in 2018 and 2017 respectively.

Pool car revenues are based on usage and were \$57,000 and \$59,000 for 2018 and 2017 respectively.

Expenses

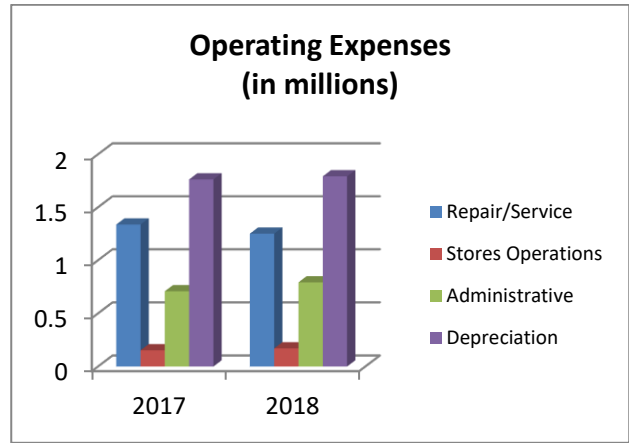
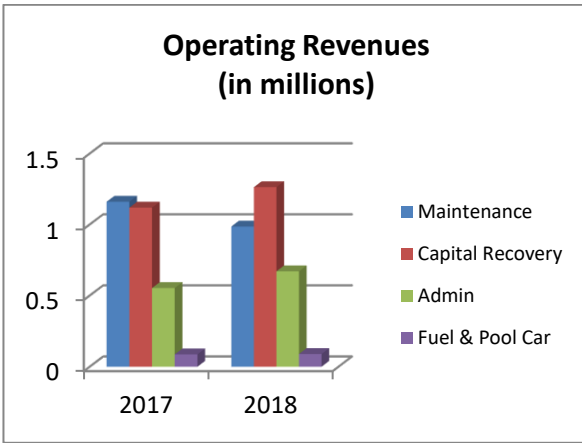
Fleet Services operating expenses are comprised of four major categories: Repairs and service, stores operations, administration and depreciation. Fleet Services expenses were \$4.0 million year-to-date through the second quarter of both 2018 and 2017.

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 \$1.3 million in both 2018 and 2017 respectively.

Stores operation is a parts warehouse maintained by Fleet which had expenses of \$170,000 and \$152,000 in 2018 and 2017.

Administration expenses were \$792,000 and \$708,000 in 2018 and 2017 respectively. This is mainly due to increases in training, travel and office supplies for employees.

Depreciation expenses were \$1.8 million in both 2018 and 2017.



Non-Operating Revenues (Expenses)

There have been no disposals of equipment or sale of scrap thus far in 2018 as compared to \$134,000 through the second quarter in 2017.

Jackie Flowers
Director of Utilities

Andrew Cherullo
Finance Director

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

FLEET SERVICES FUND

TABLE OF CONTENTS

Note: These financial statements are interim, unaudited reports prepared primarily for the use of management. Not all transactions reported in these statements have been recorded on the full accrual basis of accounting or in accordance with generally accepted accounting principles.

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| STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | 3 – 4 |
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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENTS OF NET POSITION
JUNE 30, 2018 AND JUNE 30, 2017

| | 2018 | 2017 |
|--|----------------------------|----------------------------|
| ASSETS | | |
| FIXED | | |
| Office Furniture and Equipment | \$616,901 | \$616,901 |
| Stores and Shop Equipment | 719,411 | 719,381 |
| Transportation Equipment | 44,425,903 | 42,810,288 |
| Power-Operated Equipment | 16,723,966 | 19,105,895 |
| Accumulated Depreciation | <u>(38,974,938)</u> | <u>(39,086,828)</u> |
| Total Fixed Assets | 23,511,243 | 24,165,637 |
| Construction Work in Progress | <u>2,238,098</u> | <u>1,540,265</u> |
| Net Fixed Assets | 25,749,341 | 25,705,902 |
| CURRENT | | |
| Current Fund Cash & Equity in Pooled Investments | 17,765,016 | 19,083,559 |
| Materials and Supplies | <u>330,518</u> | <u>297,929</u> |
| Total Current Assets | 18,095,534 | 19,381,488 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows for Pensions | <u>915,881</u> | <u>964,710</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS..... | <u><u>\$44,760,756</u></u> | <u><u>\$46,052,100</u></u> |

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2017 Annual Report.

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------------------|-----------------------------------|
| NET POSITION AND LIABILITIES | | |
| NET POSITION | | |
| Net Investment in Capital Assets | \$25,749,341 | \$25,705,902 |
| Restricted for: | | |
| Tacoma Power | 18,095,346 | 18,095,346 |
| Tacoma Water | 7,199,933 | 7,199,933 |
| Tacoma Rail | 981,147 | 981,147 |
| Unrestricted | <u>(8,760,447)</u> | <u>(7,221,021)</u> |
| TOTAL NET POSITION | 43,265,320 | 44,761,307 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable & Other | 152,886 | 97,301 |
| Wages Payable | <u>70,041</u> | <u>71,206</u> |
| Total Current Liabilities | 222,927 | 168,507 |
| LONG-TERM LIABILITIES | | |
| Employee Vacation and Sick Leave Accrual | 209,679 | 231,004 |
| Net Pension Liability | <u>874,422</u> | <u>835,359</u> |
| Total Long-term Liabilities | 1,084,101 | 1,066,363 |
| TOTAL LIABILITIES | <u>1,307,028</u> | <u>1,234,870</u> |
| DEFERRED INFLOW OF RESOURCES | | |
| Deferred Inflows for Pensions | <u>188,408</u> | <u>55,923</u> |
| TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS | <u><u>\$44,760,756</u></u> | <u><u>\$46,052,100</u></u> |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
JUNE 30, 2018 AND JUNE 30, 2017

| | JUNE 2018 | JUNE 2017 |
|---|--------------|--------------|
| OPERATING REVENUE | | |
| Maintenance Revenue | 179,045 | \$457,067 |
| Capital Recovery | 210,595 | 205,287 |
| Administrative Overhead | 113,400 | 114,016 |
| Fuel and Fuel Loading | 5,231 | 4,797 |
| Pool Car Rental | 10,253 | 7,441 |
| Total Operating Revenue | 518,524 | 788,608 |
| OPERATING EXPENSES | | |
| Repairs and Servicing | | |
| Shop Operations | 216,056 | 188,512 |
| Outside Services | 527 | 124 |
| Total Repairs and Servicing | 216,583 | 188,636 |
| Stores Operations | 27,669 | 28,078 |
| Administration | 124,028 | 116,850 |
| Depreciation | 298,778 | 292,841 |
| Total Operating Expenses | 667,058 | 626,405 |
| OPERATING INCOME | (148,534) | 162,203 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest Income | 6,337 | 5,673 |
| Gain (Loss) on Disposition of Equipment | - | 13,592 |
| Sale of Scrap | - | - |
| Total Non-Operating Revenues (Expenses) | 6,337 | 19,265 |
| CHANGE IN NET POSITION | (\$142,197) | \$181,468 |
| TOTAL NET POSITION - JANUARY 1 | | |
| TOTAL NET POSITION - JUNE 30 | | |

These statements should be read in conjunction with the Management Discussion and Analysis in the June 2018 Financial Report.

YEAR TO DATE

| <u>JUNE</u> <u>2018</u> | <u>JUNE</u> <u>2017</u> | <u>2018/2017</u> <u>VARIANCE</u> | <u>PERCENT</u> <u>CHANGE</u> |
|----------------------------|----------------------------|-------------------------------------|---------------------------------|
| \$986,039 | \$1,160,558 | (\$174,519) | -15.0% |
| 1,263,506 | 1,118,945 | 144,561 | 12.9% |
| 670,277 | 553,130 | 117,147 | 21.2% |
| 32,358 | 28,441 | 3,917 | 13.8% |
| 56,929 | 58,862 | (1,933) | -3.3% |
| <u>3,009,109</u> | <u>2,919,936</u> | <u>89,173</u> | <u>3.1%</u> |
| 1,221,240 | 1,313,336 | (92,096) | -7.0% |
| 29,395 | 23,565 | 5,830 | 24.7% |
| <u>1,250,635</u> | <u>1,336,901</u> | <u>(86,266)</u> | <u>-6.5%</u> |
| 170,307 | 152,230 | 18,077 | 11.9% |
| 791,700 | 708,062 | 83,638 | 11.8% |
| <u>1,791,858</u> | <u>1,762,356</u> | <u>29,502</u> | <u>1.7%</u> |
| <u>4,004,500</u> | <u>3,959,549</u> | <u>44,951</u> | <u>1.1%</u> |
| (995,391) | (1,039,613) | 44,222 | -4.3% |
| 160,549 | 85,415 | 75,134 | 88.0% |
| 33,231 | 121,295 | (88,064) | -72.6% |
| - | 12,513 | (12,513) | -100.0% |
| <u>193,780</u> | <u>219,223</u> | <u>(25,443)</u> | <u>-11.6%</u> |
| (801,611) | (820,390) | \$18,779 | -2.3% |
| <u>44,066,931</u> | <u>45,581,697</u> | | |
| <u><u>\$43,265,320</u></u> | <u><u>\$44,761,307</u></u> | | |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENTS OF CASH FLOWS

| | YEAR TO DATE | |
|---|------------------|------------------|
| | JUNE 30, 2018 | JUNE 30, 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash From Customers | \$3,113,130 | \$3,166,086 |
| Cash Paid to Suppliers | (1,105,558) | (1,321,618) |
| Cash Paid to Employees | (1,528,362) | (1,570,806) |
| | 479,210 | 273,662 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Expenditures, Net | (1,560,468) | (1,218,028) |
| Disposition of Equipment/Scrap..... | 33,231 | 133,808 |
| | (1,527,237) | (1,084,220) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received | 160,549 | 85,415 |
| | 160,549 | 85,415 |
| Net Change in Cash and Equity in Pooled Investments | (887,478) | (725,143) |
| Cash and Equity in Pooled Investments at January 1 | 18,652,494 | 19,808,702 |
| Cash and Equity in Pooled Investments at June 30 | \$17,765,016 | \$19,083,559 |

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2017 Annual Report.

| | YEAR TO DATE | |
|--|------------------|------------------|
| | JUNE 30, 2018 | JUNE 30, 2017 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities: | | |
| Operating Income | (\$995,391) | (\$1,039,613) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 1,791,858 | 1,762,356 |
| Accounts Receivable | 98,535 | 213,758 |
| Interdivision Receivable | 5,486 | 32,392 |
| Materials and Supplies | (20,525) | (1,891) |
| Accounts Payable & Other | (389,460) | (587,715) |
| Interdivision Payable | (12,786) | (103,224) |
| Absences Payable | 1,493 | (2,401) |
| Total Adjustments | <u>1,474,601</u> | <u>1,313,275</u> |
| Net Cash Provided by Operating Activities | <u>\$479,210</u> | <u>\$273,662</u> |

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

EQUITY DISTRIBUTION AS OF JUNE 30, 2018

| | TACOMA POWER | TACOMA WATER | TACOMA RAIL | TOTAL |
|--------------------------------------|---------------------|---------------------|--------------------|---------------------|
| Balance January 1, 2018 | \$29,334,973 | \$13,257,721 | \$1,474,237 | \$44,066,931 |
| Contributions During Year | - | - | - | - |
| Equity Contrib. at June 30, 2018 ... | 29,334,973 | 13,257,721 | 1,474,237 | 44,066,931 |
| Current Year Operations: | | | | |
| Total Operating Revenue * | 2,003,138 | 905,303 | 100,668 | 3,009,109 |
| Less: Repairs & Servicing Expense * | 832,537 | 376,259 | 41,839 | 1,250,635 |
| Administration Expense ** ... | 712,123 | 216,303 | 33,581 | 962,007 |
| Depreciation Expense | 1,301,586 | 432,399 | 57,873 | 1,791,858 |
| Total Expenses | 2,846,246 | 1,024,961 | 133,293 | 4,004,500 |
| Net Operating Revenue | (843,108) | (119,658) | (32,625) | (995,391) |
| Add: Other Income *** | 128,593 | 58,715 | 6,472 | 193,780 |
| Net Operating Results | (714,515) | (60,943) | (26,153) | (801,611) |
| Total Equity | <u>\$28,620,458</u> | <u>\$13,196,778</u> | <u>\$1,448,084</u> | <u>\$43,265,320</u> |

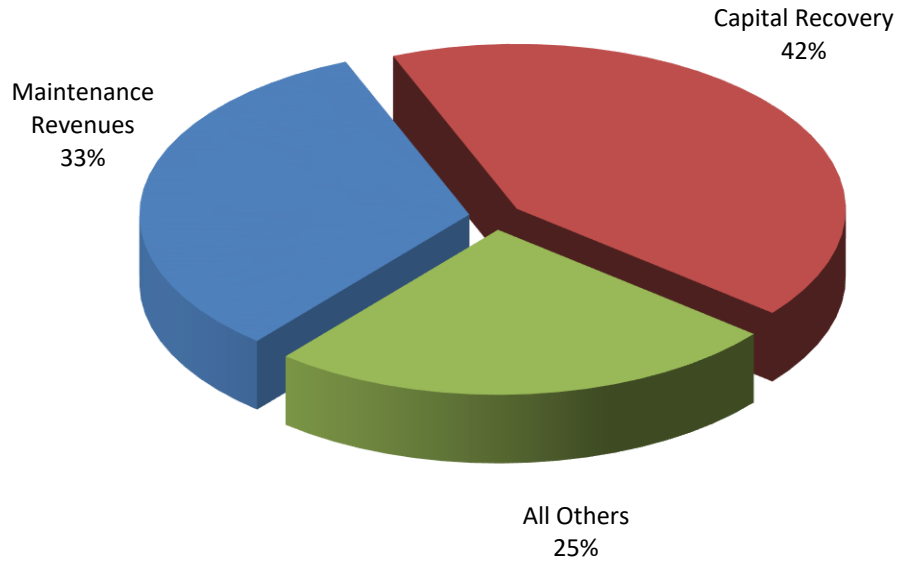
* Allocated to each division based on total receipts from the divisions.

** Allocated to each division based on vehicle count.

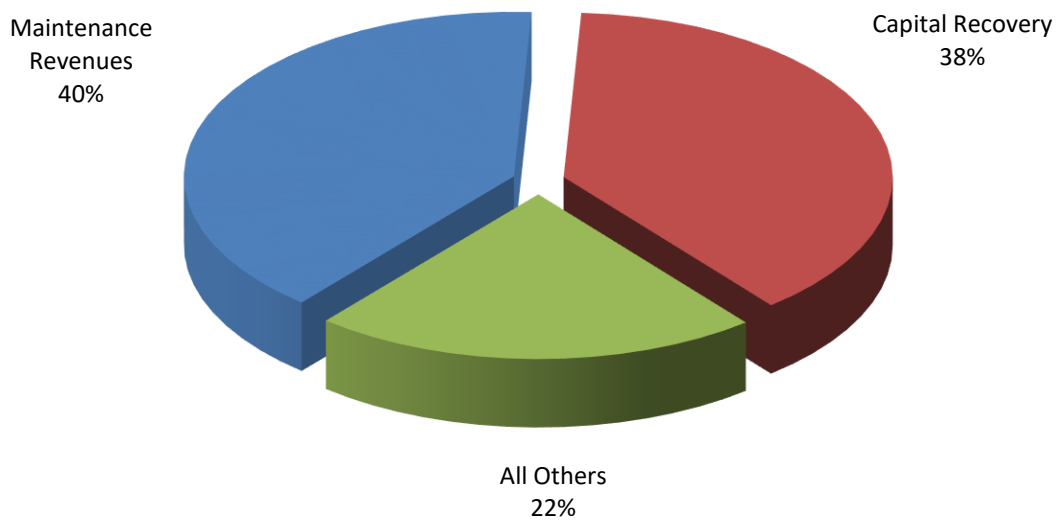
*** Allocated to each division based on total equity in the Fund.

Supplemental Data

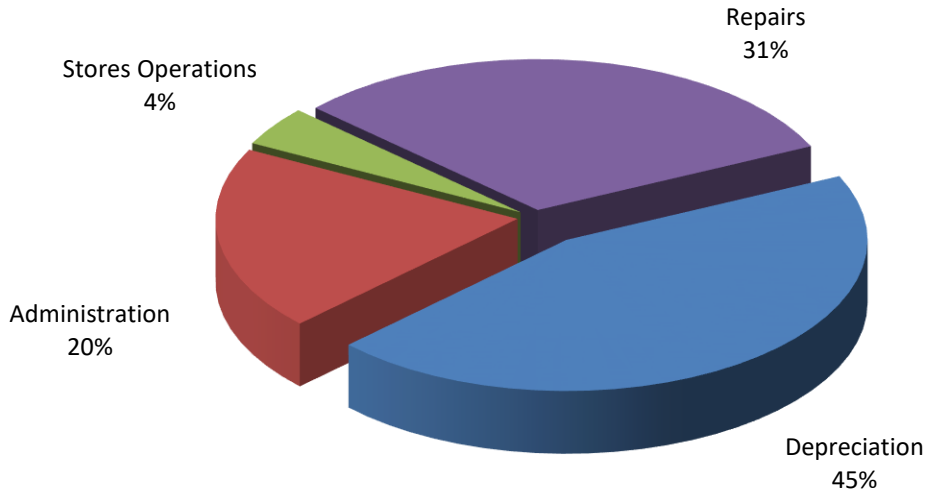
TOTAL OPERATING REVENUES
Year to Date - June 2018 (\$3,009,109)



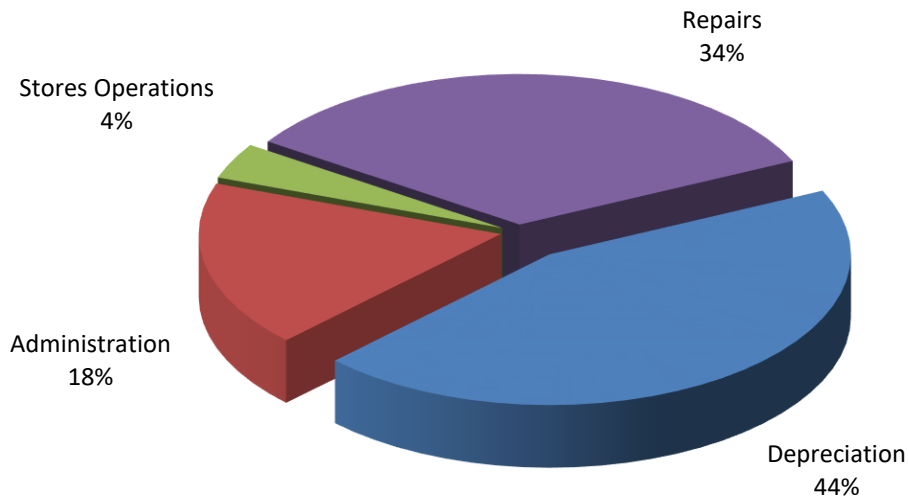
TOTAL OPERATING REVENUES
Year to Date - June 2017 (\$2,919,936)



TOTAL OPERATING EXPENSES
Year to Date - June 2018 (\$4,004,500)



TOTAL OPERATING EXPENSES
Year to Date - June 2017 (\$3,959,549)



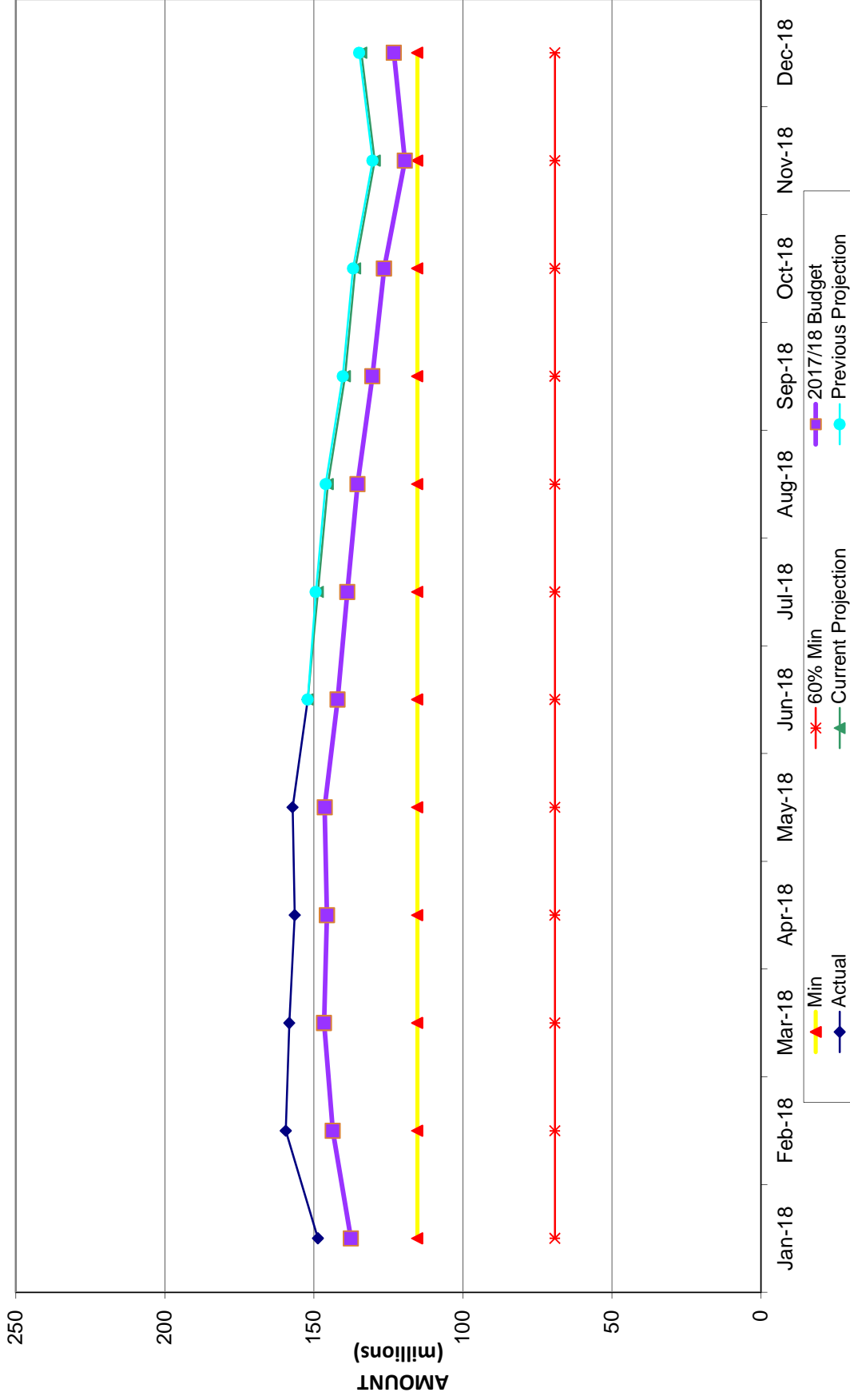


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TACOMA POWER

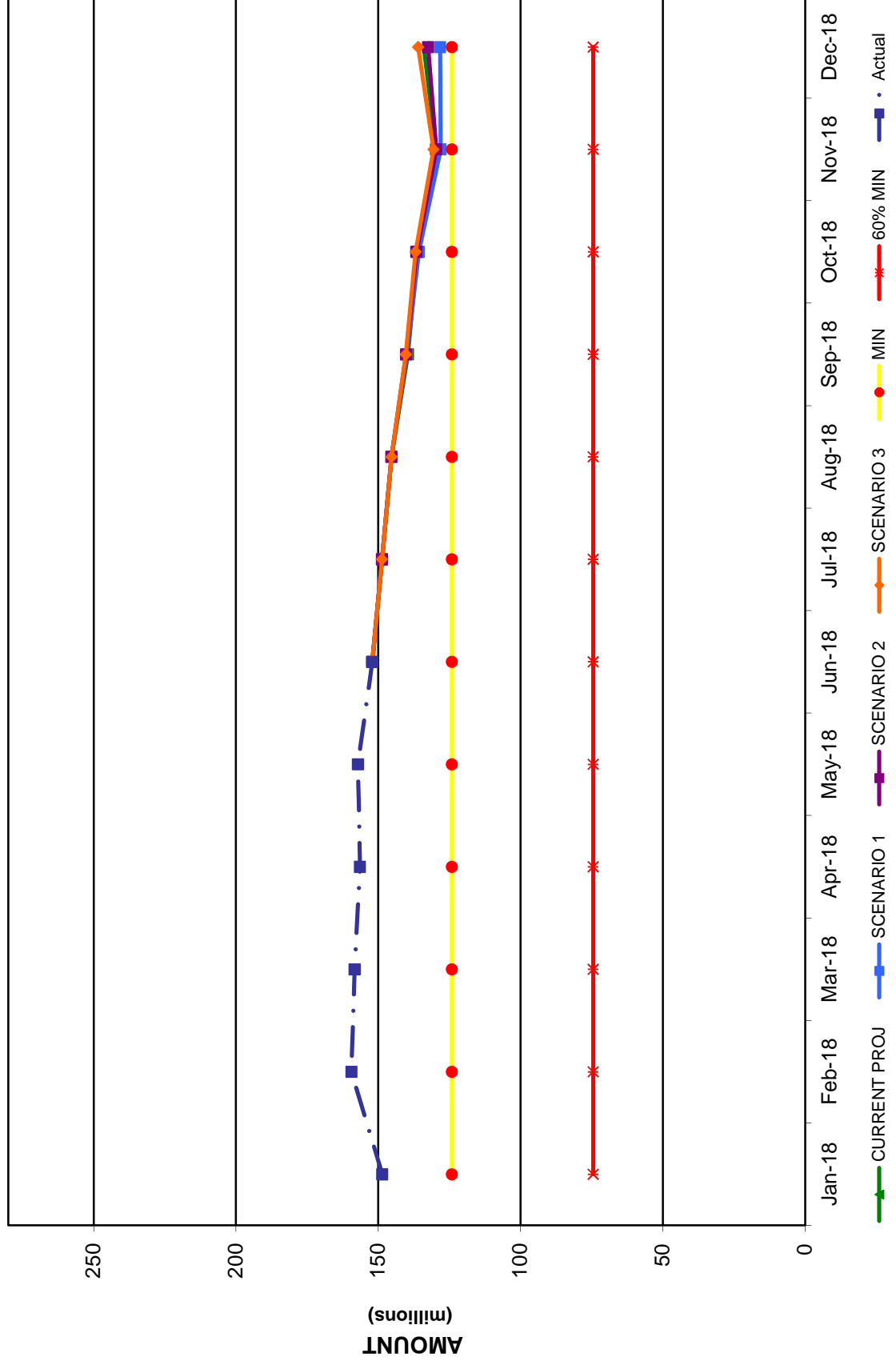
CURRENT FUND BALANCED BUDGET CASH PROJECTIONS

Estimated Cash for 2017-2018



TACOMA POWER CURRENT FUND CASH PROJECTIONS

Actual and Estimated Cash for 2017-2018



TACOMA POWER
2017-2018 BALANCED BUDGET CASH PROJECTION
(000's omitted)

| | Jun-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | Estimate | Actual | | | |
| Beginning Cash Balance (4) | 157,134 | 157,134 | 152,071 | 148,659 | 145,317 |
| Cash In | | | | | |
| Retail Sales | 27,819 | 28,061 | 25,543 | 26,184 | 25,338 |
| Wholesale Sales | 4,715 | 3,885 | 3,977 | 2,449 | 1,664 |
| Telecommunications | 2,677 | 2,075 | 2,705 | 2,845 | 2,894 |
| Other Revenue | 2,017 | 2,823 | 2,017 | 2,017 | 2,017 |
| Total Cash In | 37,228 | 36,844 | 34,242 | 33,495 | 31,913 |
| Cash Out | | | | | |
| Personnel Costs | 11,565 | 11,082 | 7,710 | 7,710 | 7,710 |
| Debt Service | 2,520 | 2,555 | 2,520 | 2,520 | 2,520 |
| Taxes | 5,395 | 4,994 | 4,508 | 4,147 | 4,909 |
| BPA Purchases | 10,691 | 11,044 | 10,378 | 10,718 | 11,171 |
| Wholesale Purchases | 2,155 | 1,452 | 2,512 | 1,716 | 1,320 |
| Supplies, Other Services & Charges | 6,616 | 6,000 | 6,616 | 6,616 | 6,616 |
| Capital Outlay | 3,410 | 8,475 | 3,410 | 3,410 | 3,410 |
| Total Cash Out | 42,352 | 45,602 | 37,654 | 36,837 | 37,656 |
| Net | (5,124) | (8,758) | (3,412) | (3,342) | (5,743) |
| Change in A/R | | 2,312 | | | |
| Change in A/P | | 1,383 | | | |
| Ending Cash Balance | 152,010 | 152,071 | 148,659 | 145,317 | 139,574 |

The accompanying notes are an integral part of these cash projections.

TACOMA POWER

2017-2018 CURRENT FUND CASH PROJECTIONS

Notes:

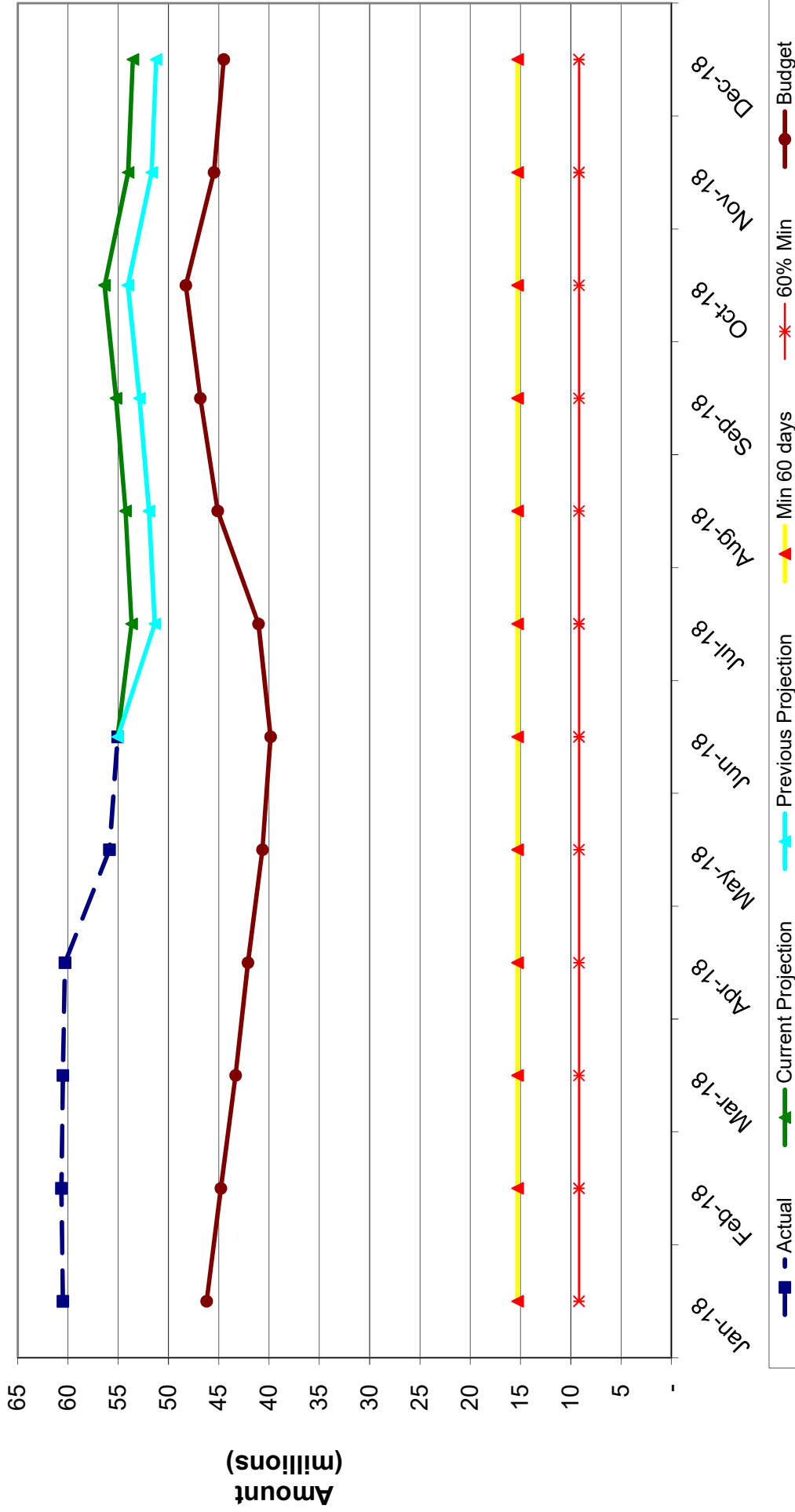
1. While this projection is based primarily on historic patterns, it is factored by actual revenue and expense elements when known or when they can reasonably be estimated.
2. Based on Public Utility Board and City Council resolutions, the Division should maintain a minimum cash working capital balance of approximately \$115.3 million (90 days) in the 2017/2018 biennium. Due to seasonal fluctuations, however, the Division may on occasion drop below this recommended level. The cash balance in any month should never be allowed to drop more than 40% below the recommended level (\$69.2 million).
3. Commitments: These projections are based on the 2017/2018 budget.
4. "Actual" cash and investment balance as of June 1st, 2018.
5. BPA Purchase information provided by Power Management March 9th, 2017. BPA billings are net of Wynoochee and LaGrande/Cushman billing credits.
6. The Capital Outlay projection is based on the 2017/2018 budget.
7. Regular debt service includes the interest and principal payments on all outstanding Electric System Revenue and Refunding bonds.
8. Retail revenue in this projection is based on the Retail Sales and Forecast provided by the Rates, Planning and Analysis division.
9. On the Current Fund Cash Projections graph the most recent projection is labeled "CURRENT PROJ." Also shown are three scenarios based on estimated wholesale power sales revenues under current forward wholesale market prices and the following streamflow conditions:
 - Scenario 1 represents critical water conditions for 12 months followed by adverse water conditions.
 - Scenario 2 represents adverse water conditions.
 - Scenario 3 represents average water conditions.
10. Wholesale Sale/Purchase information provided by Power Management on July 11th, 2018.

Significant Changes:

Capital Outlay was \$5.1 million more than estimated for the month of June. The projections are estimates and may differ from actual spending on a monthly basis

TACOMA WATER CURRENT FUND CASH PROJECTIONS

Actual & Estimated Cash for 2017/2018



TACOMA WATER
2017/2018 CURRENT FUND CASH PROJECTIONS
(000's omitted)

| | Jun-18 Estimate | Jun-18 Actual | Jul-18 Estimate | Aug-18 Estimate | Sep-18 Estimate |
|------------------------------------|--------------------|------------------|--------------------|--------------------|--------------------|
| Beginning Cash Balance | 55,874 | 55,874 | 55,057 | 53,682 | 54,268 |
| Cash In | | | | | |
| Water Sales | 6,910 | 8,279 | 7,372 | 9,871 | 7,957 |
| Public Fire Protection (collected) | 304 | 415 | 255 | 311 | 244 |
| Interest | 27 | 109 | 27 | 27 | 27 |
| Other Revenue | 292 | 340 | 301 | 326 | 305 |
| BABs Subsidies | 231 | 248 | 231 | 231 | 231 |
| Total Cash In | 7,764 | 9,391 | 8,186 | 10,766 | 8,764 |
| Cash Out | | | | | |
| Personnel Costs | 3,209 | 2,838 | 2,139 | 2,139 | 2,139 |
| Supplies, Other Services & Charges | 2,132 | 2,232 | 2,348 | 2,460 | 2,203 |
| Taxes | 1,116 | 971 | 1,037 | 1,370 | 1,263 |
| Debt Service | 2,212 | 2,177 | 2,211 | 2,211 | 2,211 |
| Capital Outlay | 2,234 | 384 | 1,826 | 2,000 | - |
| Total Cash Out | 10,903 | 8,602 | 9,561 | 10,180 | 7,816 |
| Change in A/R | - | (1,915) | - | - | - |
| Change in A/P | - | 309 | - | - | - |
| Net Change in Cash | (3,139) | (817) | (1,375) | 586 | 948 |
| Ending Cash Balance | 52,735 | 55,057 | 53,682 | 54,268 | 55,216 |

TACOMA WATER

2017/2018 CURRENT FUND CASH PROJECTIONS

Notes:

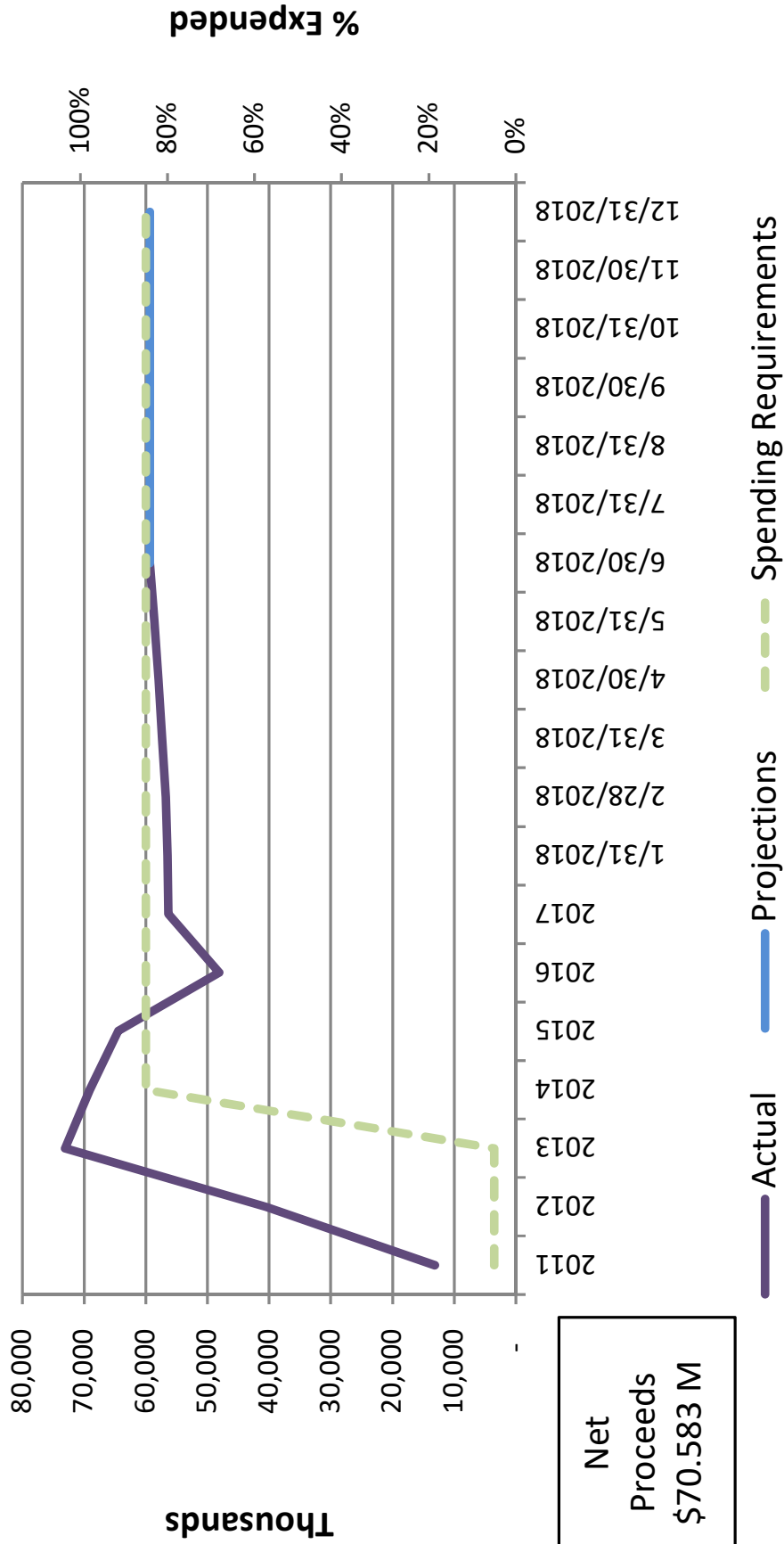
1. While this projection is based primarily on historic patterns, it is factored by actual revenue and expense elements when known or when they can reasonably be estimated.
2. Based on City Council Resolution No. 38215, adopted March 8, 2011, the Division should maintain a minimum cash balance equal to 60 days of current expenditures (\$15.964 million in 2017/2018). Due to seasonal fluctuations, however, the Division may on occasion drop below this recommended level. The cash balance in any month should never be allowed to drop more than 40% below the recommended level (\$9.578 million).
3. Projections for changes in A/P and A/R are not provided due to the variable nature of these accounts. In general, a change in A/R is a result of a change in current month billings and collections, both of which are indicators of current and future cash inflows. A change in A/P is a result of a change in current month purchases and payments, both of which are indicators of current and future cash outflows.

Explanation of Variances and/or Changes in Projections:

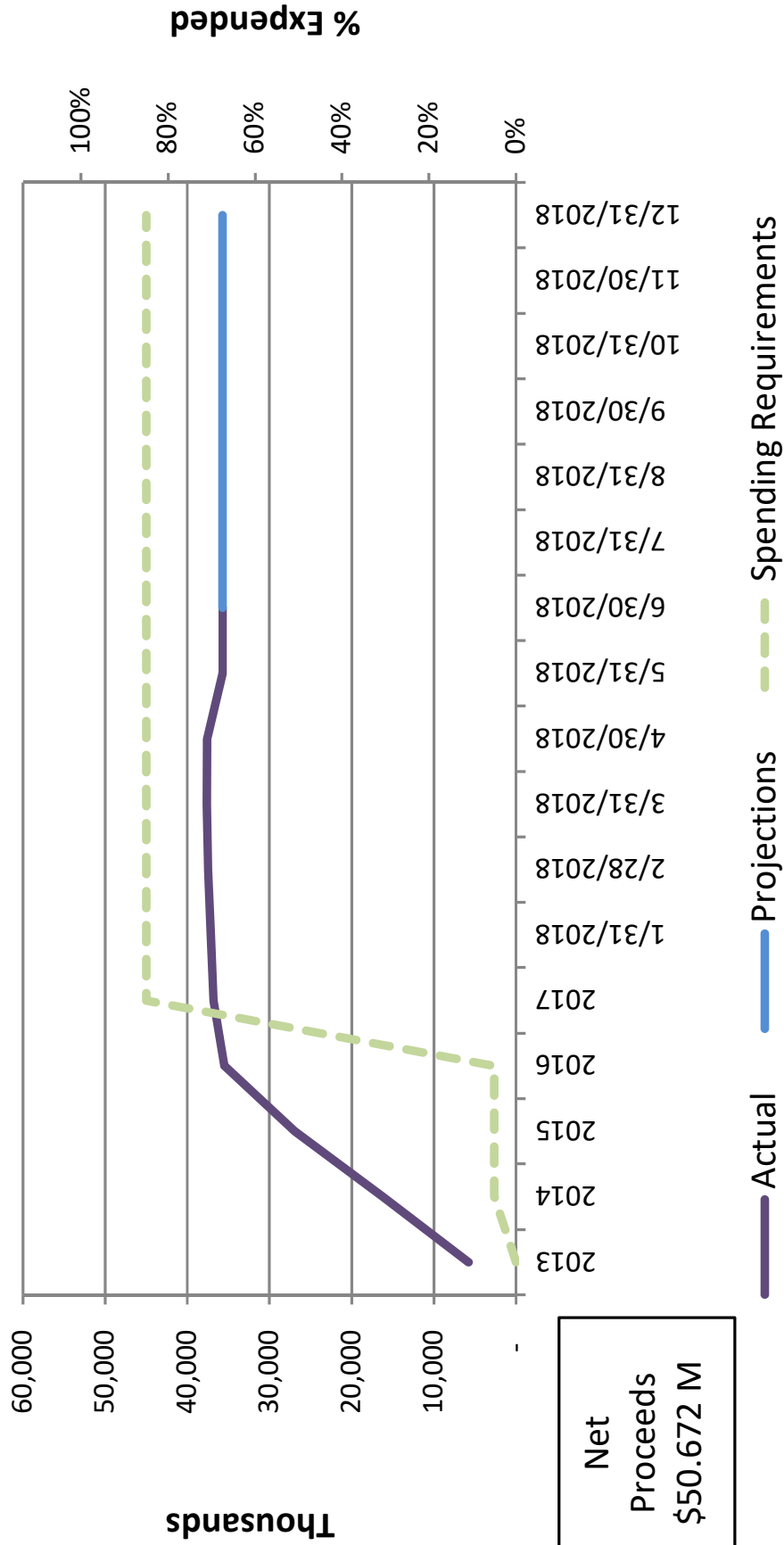
Water Sales were \$1.4 million more than projected. This was primarily due to increases in residential sales of \$1.0 million, public utility sales of \$0.1 million, commercial irrigation sales of \$0.1 million and wholesale sales of \$0.2 million.

Tacoma Water anticipated spending \$2.2 million of operating funds on capital projects for the month of June. However, the net spending on capital projects was \$1.2 million, of which \$0.4 million was funded by operating funds. The remaining \$0.8 million was funded by bond funds and contributions in aid of construction.

Water 4600-10WC Cumulative Bond Spending



Water 4600-13WC Cumulative Bond Spending



Net Proceeds \$50.672 M

**Tacoma Public Utilities
Water Bonds
As of June 30, 2018**

| | Water | |
|--------------------------|--------------------------------|--------------------------------|
| | 4600-10WC | 4600-13WC |
| Bond Type | Taxable Build America Bonds | Revenue and Refunding Bonds |
| Issue Date | 8/26/2010 | 5/7/2013 |
| Months Transpired | 95 | 62 |

| Construction Fund Proceeds | 70,583,000 | 50,672,000 |
|-----------------------------------|--------------|--------------|
| Interest Income | 3,498,673 | 1,263,169 |
| Period | | |
| 2011 | (13,126,630) | - |
| 2012 | (27,346,085) | - |
| 2013 | (32,598,851) | (5,767,218) |
| 2014 | 4,004,026 | (10,470,130) |
| 2015 | 4,610,670 | (10,684,407) |
| 2016 | 16,395,475 | (8,545,727) |
| 2017 | (8,222,040) | (1,351,277) |
| 1/31/2018 | (168,055) | (348,030) |
| 2/28/2018 | (300,346) | (333,686) |
| 3/31/2018 | (613,003) | (138,780) |
| 4/30/2018 | (571,203) | 70,011 |
| 5/31/2018 | (658,344) | 1,846,617 |
| 6/30/2018 | (731,888) | - |

| | | |
|-------------------------------|---------------------|---------------------|
| Total Spending | (59,326,274) | (35,722,627) |
| Remaining Bond Balance | 14,755,399 | 16,212,542 |
| Actual % Spent | 84% | 70% |
| Cash Balance | 14,755,399 | 16,212,542 |

4600-10WC

| PROJECT | EST \$\$ | ACT \$\$ | DIFF |
|--|----------|----------|---------|
| 15/16 Distribution Main Upgrades & Renew | - | 168,696 | 168,696 |
| Lead Gooseneck Service Renewals | - | 114,303 | 114,303 |
| 17/18 Water Service Replace & Renewals | - | 211,309 | 211,309 |
| 25 projects | - | 237,580 | 237,580 |
| | - | - | - |
| | - | - | - |

TOTAL Spending vs. Projection

| | | |
|---|---------|---------|
| - | 731,888 | 731,888 |
|---|---------|---------|

4600-13WC

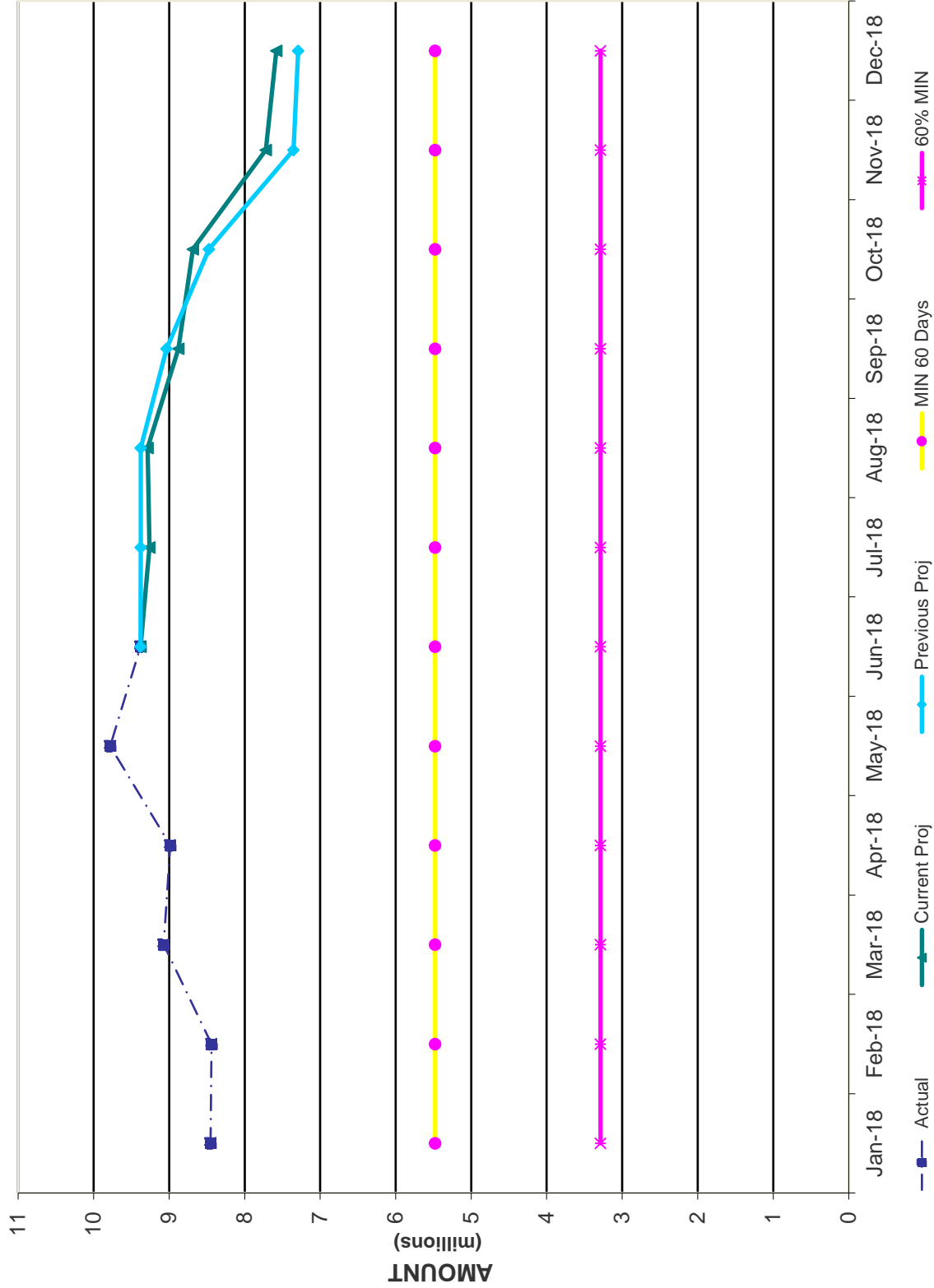
| PROJECT | EST \$\$ | ACT \$\$ | DIFF |
|---------|----------|----------|------|
| | - | - | - |
| | - | - | - |
| | - | - | - |
| | - | - | - |
| | - | - | - |
| | - | - | - |
| | - | - | - |

TOTAL Spending vs. Projection

| | | |
|---|---|---|
| - | - | - |
|---|---|---|

TACOMA RAIL 2018 CURRENT FUND CASH PROJECTIONS

Actual & Estimated Cash



TACOMA RAIL
2018 CURRENT FUND CASH PROJECTIONS
(000's omitted)

| | Jun-18 Estimate | Jun-18 Actual | Jul-18 Estimate | Aug-18 Estimate | Sep-18 Estimate |
|--|--------------------|------------------|--------------------|--------------------|--------------------|
| Beginning Cash Balance | \$9,781 | \$9,781 | \$9,380 | \$9,260 | \$9,285 |
| <u>REVENUES (Cash-In)</u> | | | | | |
| | (1) | | | | |
| Switching Revenue | 2,248 | 2,453 | 2,298 | 2,263 | 2,123 |
| Demurrage Revenue | 96 | 107 | 96 | 96 | 96 |
| Other Revenues | 22 | 16 | 22 | 22 | 22 |
| Lease Revenue | 90 | 77 | 86 | 86 | 86 |
| Interest Income | 10 | 13 | 10 | 10 | 9 |
| Service Maint/Trans Revenue | 180 | 291 | 200 | 200 | 200 |
| Reimbursement/Transfer Ins | - | 112 | - | - | - |
| Total Revenues | <u>2,646</u> | <u>3,069</u> | <u>2,712</u> | <u>2,677</u> | <u>2,536</u> |
| <u>EXPENSES (Cash-Out)</u> | | | | | |
| | (1) | | | | |
| Personnel Costs | 1,762 | 1,736 | 1,251 | 1,251 | 1,251 |
| Taxes | 248 | 277 | 255 | 252 | 238 |
| Supplies, Other Services & Charges | 691 | 688 | 625 | 636 | 610 |
| Assessments | 140 | 139 | 140 | 140 | 140 |
| Debt Service | 138 | 138 | 90 | 108 | 111 |
| Capital Outlay | 70 | 12 | 471 | 265 | 595 |
| Total Expenses | <u>3,049</u> | <u>2,990</u> | <u>2,832</u> | <u>2,652</u> | <u>2,945</u> |
| Change in AR | (3) | (396) | | | |
| Change in AP | (3) | (84) | | | |
| Net Increase (Decrease) in Cash | (403) | (401) | (120) | 25 | (409) |
| Ending Cash Balance | (2) <u>\$9,378</u> | <u>\$9,380</u> | <u>\$9,260</u> | <u>9,285</u> | <u>\$8,876</u> |

The accompanying notes are an integral part of these cash projections.

TACOMA RAIL
2018 CURRENT FUND CASH PROJECTIONS

Notes:

1. While this projection is based primarily on historic patterns, it is factored by actual revenue and expense elements when known or when they can reasonably be estimated.
2. Based on City Council Resolution No. 37101, adopted February 6, 2007, the Division should maintain a minimum cash balance equal to 60 days of current expenditures (\$5.478 million in the 2017/2018). Due to seasonal fluctuations, however, the Division may on occasion drop below this recommended level. The cash balance in any month should never be allowed to drop more than 40% below the recommended level (\$3.287 million).
3. Change in AR and Change in AP are adjustments to the current month's actual cash flows from Revenues and Expenses which factor into the actual ending cash balance. A positive number in Change in AR indicates collections from outstanding accounts receivables exceeded revenues billed in the same month. Conversely, a positive number in Change in AP indicates that payments for goods and services were less than recorded expenses for the same month. The outstanding AR and AP balances at the end of the month will impact the future cash inflows and outflows, respectively.

Significant changes since last projection:

1. The variance in Switching Revenue of \$205,000 is due to intermodal volumes being stronger than anticipated. Projected traffic increases due to the new Ocean Network Express are conservative.
2. The variance in Service Maint/Trans Revenue of \$111,000 is due to fuel costs and continued demand for locomotive servicing outpacing conservative revenue forecasts.