

**NEW ISSUE  
BOOK-ENTRY ONLY  
NOT BANK QUALIFIED**

**RATINGS: Moody's: Aa1  
S&P Global Ratings: AA+  
See "RATINGS" herein.**

*In the opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, under existing law and subject to certain qualifications described herein, the interest on the Bonds is excludable from gross income for federal income tax purposes. In addition, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, interest on the Bonds may affect the federal alternative minimum tax applicable to certain corporations. See "TAX MATTERS."*



**CITY OF TACOMA, WASHINGTON  
\$63,800,000  
WATER SYSTEM REVENUE REFUNDING BONDS,  
SERIES 2024 (GREEN BONDS)**

**Dated: Date of Delivery**

**Due: December 1, as shown on the inside cover**

The City of Tacoma, Washington (the "City" or "Tacoma"), Water System Revenue Refunding Bonds, Series 2024 (Green Bonds) (the "Bonds") will be issued in fully registered form under a book-entry system. When issued, the Bonds initially will be registered to Cede & Co., as bond owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in the principal amount of \$5,000 or integral multiples thereof within a maturity. Purchasers of the Bonds (the "Beneficial Owners") will not receive certificates representing their beneficial ownership interest in the Bonds purchased. The fiscal agent of the state of Washington (the "State"), currently U.S. Bank Trust Company, National Association, will act as the registrar, paying agent, transfer agent and authenticating agent for the Bonds (the "Bond Registrar").

The Bonds will bear interest payable semiannually on each June 1, and December 1, commencing June 1, 2024, to the maturity or prior redemption of the Bonds, as applicable. The Bonds will mature on the dates and in the amounts and bear interest at the rates set forth on the inside cover. For so long as the Bonds are held in book-entry only form, the principal of and interest on the Bonds will be paid by the Bond Registrar to DTC, which in turn is obligated to remit such payments to its broker-dealer participants for subsequent disbursement to the Beneficial Owners. See Appendix B—"BOOK-ENTRY SYSTEM."

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

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The Bonds are subject to redemption by the City prior to their stated maturities as described herein. See "DESCRIPTION OF THE BONDS—Redemption of the Bonds."

Proceeds of the Bonds will be used to refund, on a current basis, all of the outstanding Water System Revenue and Refunding Bonds, 2013, and to pay costs of issuing the Bonds. See "PURPOSE AND APPLICATION OF BOND PROCEEDS."

The Bonds are limited obligations of the City payable from and secured by a pledge of gross revenue ("Gross Revenue") of the City's water system (the "Water System"), subject only to the prior payment of Operation and Maintenance Expenses (as defined herein) of the Water System, on a parity of lien with the outstanding Water System revenue bonds and other Water System revenue bonds hereafter issued on a parity therewith. Operation and Maintenance Expenses include amounts due under Contract Resource Obligations (as defined herein), including costs associated with the City's Regional Water Supply System (the "Regional System"). The City has established the Regional System as a separate system within the Water Division, which is financed separately from the Water System. Costs of the Regional System include debt service on Regional System revenue bonds, operating expenses, and capital and other costs of the Regional System. The obligation of Tacoma Water to pay the costs of the Regional System is offset in part to the extent of contractual payments made by the other participants in the Regional System. See "THE WATER SYSTEM AND THE REGIONAL SYSTEM—The Regional System" and "SECURITY FOR THE BONDS" herein.



The Bonds have been designated as "Green Bonds." Kestrel has provided an independent external review and opinion that the Bonds conform with the four core components of the International Capital Market Association Green Bond Principles, and therefore qualify for Green Bonds designation. See "BONDS DESIGNATED AS GREEN BONDS" and Appendix I—"GREEN BOND SECOND PARTY OPINION."

**THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, OR THE STATE OF WASHINGTON, OR A CHARGE UPON ANY GENERAL FUND OR OTHER PROPERTY OF THE CITY OR THE STATE OF WASHINGTON NOT SPECIFICALLY PLEDGED THERETO BY THE BOND ORDINANCE, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR OF THE STATE OF WASHINGTON, NOR ANY REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE WATER SYSTEM, ARE PLEDGED TO THE PAYMENT THEREOF. SEE "SECURITY FOR THE BONDS."**

The City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended.

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

*The Bonds are offered when, as, and if issued and delivered, subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. A form of Bond Counsel's opinion is attached hereto as Appendix G. Certain matters will be passed upon for the Underwriters by their counsel, Foster Garvey PC, Seattle, Washington. It is anticipated that the Bonds in definitive book-entry form will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about on or about January 25, 2024.*

**Wells Fargo Securities**

**KeyBanc Capital Markets**

Official Statement Dated: January 9, 2024

**CITY OF TACOMA, WASHINGTON**

**\$63,800,000  
WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2024  
(GREEN BONDS)**

<b>Due (December 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP** Number (873547)</b>
2028	\$ 1,230,000	5.00%	2.39%	111.882	JJ3
2029	2,365,000	5.00	2.32	114.578	JK0
2030	2,815,000	5.00	2.34	116.742	JL8
2031	3,275,000	5.00	2.36	118.813	JM6
2032	4,710,000	5.00	2.37	120.882	JN4
2035	1,505,000	5.00	2.58*	121.855	JP9
2036	4,670,000	5.00	2.69*	120.744	JQ7
2037	5,195,000	5.00	2.81*	119.546	JR5
2038	5,750,000	5.00	2.91*	118.558	JS3
2039	6,335,000	5.00	2.98*	117.872	JT1
2040	6,945,000	5.00	3.13*	116.419	JU8
2041	19,005,000	5.00	3.20*	115.748	JV6

\* Calculated to the par call date of June 1, 2034.

\*\* CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for convenience of reference only. None of the City, the Underwriters or their agents or counsel assumes responsibility for the accuracy of such numbers.

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

The information within this Official Statement has been compiled from sources the City considers reliable and, while not guaranteed as to accuracy, the City believes to be correct as of its date. The City makes no representation regarding the accuracy or completeness of the information regarding The Depository Trust Company ("DTC") and its book-entry-only system, the City's municipal advisor, the form of opinion provided by Bond Counsel, or the Underwriters. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or in the other matters described herein since the dates as of which such information is provided.

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

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

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

Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. The achievement of certain results or other expectations contained in forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, changes in regional, domestic and international political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, technological change, seismic events, infectious disease including the coronavirus pandemic, and various other events, conditions and circumstances, many of which are beyond the control of the City. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The City does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based occur and specifically disclaims any such obligation.

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

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Ordinance has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such Acts. No federal or state securities commission or regulatory authority has passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this final Official Statement for purposes of, and as that term is defined in Rule 15c2-12, promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

## **TACOMA PUBLIC UTILITIES**

3628 South 35<sup>th</sup> Street  
Tacoma, Washington 98409  
(253) 502-8600  
mytpu.org<sup>(1)</sup>

### **MAYOR AND TACOMA CITY COUNCIL**

---

Victoria Woodards	Mayor
John Hines <sup>(2)</sup>	Deputy Mayor and Council Member
Joe Bushnell	Council Member
Kiara Daniels	Council Member
Olgy Diaz	Council Member
Sarah Rumbaugh	Council Member
Jamika Scott	Council Member
Catherine Ushka	Council Member
Kristina Walker	Council Member

### **PUBLIC UTILITY BOARD**

---

Carlos M. Watson	Chair
John O'Loughlin	Vice-Chair
William Bridges	Secretary
Elly Claus-McGahan	Member
Anita Gallagher	Member

### **DEPARTMENT OF PUBLIC UTILITIES, TACOMA WATER**

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Jackie Flowers	Director of Utilities, Chief Executive Officer
Scott Dewhirst	Water Superintendent and Chief Operating Officer
Heather Pennington	Deputy Superintendent, Customer/Employee Experience Manager
Sean Senescall	Business Services Manager
Jodi Collins	Financial Stewardship Manager
Jessica Knickerbocker	Planning & Engineering Manager
Jerrod Davis	Source Water and Treatment Operations Manager
Stuart Vaughan	Maintenance and Construction Manager

### **CERTAIN CITY ADMINISTRATIVE STAFF**

---

Elizabeth Pauli	City Manager
Andy Cherullo	Finance Director
Susan Calderon	Assistant Finance Director/Controller
Michael San Soucie	City Treasurer
Chris Bacha	City Attorney
Nicole Emery	City Clerk

### **BOND AND DISCLOSURE COUNSEL**

Pacifica Law Group LLP  
Seattle, Washington

### **MUNICIPAL ADVISOR**

Montague DeRose and Associates, LLC  
Walnut Creek, California

### **INDEPENDENT AUDITORS**

Moss Adams LLP  
Portland, Oregon

<sup>(1)</sup> The City's website is not part of this Official Statement, and investors should not rely on information presented in the City's website in determining whether to purchase the Bonds. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website by reference.

<sup>(2)</sup> On December 9, 2023, the Tacoma City Council appointed Council Member John Hines to serve as the City's Deputy Mayor in 2024.

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**OFFICIAL STATEMENT**  
**CITY OF TACOMA, WASHINGTON**

**\$63,800,000**  
**WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2024**  
**(GREEN BONDS)**

**INTRODUCTION**

**General**

The City of Tacoma, Washington (the “City” or “Tacoma”), acting by or through its Department of Public Utilities (the “Department”), furnishes this Official Statement in connection with the offering of \$63,800,000 principal amount of its Water System Revenue Refunding Bonds, Series 2024 (Green Bonds) (the “Bonds”). The Bonds are being issued pursuant to Ordinance No. 28899, passed by the City Council on August 1, 2023 (the “Bond Ordinance”), and under the authority of chapters 35.41, 39.46 and 39.53 of the Revised Code of Washington (“RCW”) and the City Charter. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Bond Ordinance. A copy of the Bond Ordinance is attached hereto as Appendix A.

The City is a municipal corporation organized and existing under the Constitution and laws of the state of Washington (the “State”). The City Charter provides for the Department, which is governed by a five-member Public Utility Board (the “Board”). The Board is responsible for general utility policy, and its members are appointed by the City Mayor and confirmed by the City Council, the legislative authority of the City. See “THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA WATER.”

The Department consists of the Water Division (“Tacoma Water”), the Light Division (“Tacoma Power”), and the Belt Line Railroad Division (“Tacoma Rail”). The Water Division consists of two separate systems: the Water System and the Regional Water Supply System (the “Regional System”). The Board serves as the sole policy board for the approval of most Department business. In the case of budgets, rates, bond issues, and system expansions, actions approved by the Board must also be approved by the City Council. Tacoma Water is one of the largest publicly-owned water utilities in the Pacific Northwest and had approximately 103,644 customers as of September 30, 2023. See “THE WATER SYSTEM AND THE REGIONAL SYSTEM.”

As of the date of this Official Statement, the Water System has the following parity lien obligations outstanding in the following amounts:

- Water System Revenue and Refunding Bonds, 2005 (the “2005 Bonds”), outstanding in the aggregate principal amount of \$5,000, all of which will be defeased with available funds of the City simultaneously with the issuance of the Bonds;
- Water System Revenue Bonds, 2009 (Taxable Build America Bonds – Direct Payment) (the “2009 Bonds”), outstanding in the aggregate principal amount of \$76,775,000;
- Water System Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment) (the “2010 Bonds”), outstanding in the aggregate principal amount of \$74,985,000;
- Water System Revenue and Refunding Bonds, 2013 (the “2013 Bonds”), outstanding in the aggregate principal amount of \$74,355,000, all of which will be refunded with proceeds of the Bonds; and
- Water System Revenue Refunding Bonds, Series 2015A (the “2015 Bonds”), outstanding in the aggregate principal amount of \$3,960,000.

The outstanding 2005 Bonds (so long as any are outstanding), 2009 Bonds, 2010 Bonds, 2013 Bonds (so long as any are outstanding after the refunding contemplated herein), and 2015 Bonds are referred to herein as the “Outstanding Parity Bonds.”

Proceeds of the Bonds will be used to refund, on a current basis, all of the outstanding 2013 Bonds and to pay costs of issuance for the Bonds. See “PURPOSE AND APPLICATION OF BOND PROCEEDS.” The Bonds will be

issued on parity of lien with the Outstanding Parity Bonds. The Bonds, the Outstanding Parity Bonds and any additional bonds issued on a parity of lien with the Bonds (“Future Parity Bonds”) are referred to collectively as the “Parity Bonds.”

### **Regional System, Participants and Project Agreement**

The Regional System is a City utility that, by contract among the City, the City of Kent (“Kent”), Covington Water District (“CWD”), and Lakehaven Water and Sewer District, formerly known as Lakehaven Utility District (“Lakehaven”), each a municipal corporation of the State, was formed to finance, construct, operate and maintain certain property and facilities to deliver and receive water from the Second Supply Project, as described herein. The City, Kent, CWD, and Lakehaven are referred to herein as the “Participants.”

The Regional System provides water from Tacoma’s Second Diversion Water Right to the Water System and to the other Participants under the terms of the Agreement for the Second Supply Project entered into by and among the Participants effective December 19, 2002, as amended (the “Project Agreement” or “Second Supply Project Agreement”). Under the terms of the Project Agreement, each Participant is responsible for its “Participant Share” of the costs associated with the Second Supply Project (including operations and maintenance and capital costs) and each Participant is entitled to its “Project Capacity Share” defined as the right of each Participant to use its Participant Share of the Project available under varying operating conditions to move Second Diversion Water to their respective delivery points and such other uses as authorized under the Project Agreement. Under the Project Agreement, the Participant Shares are assigned as follows: Tacoma Water has a 15/36 Participant Share and each of Kent, CWD and Lakehaven has a 7/36 Participant Share.

Revenues of the Regional System consist of all income, revenues, receipts and loan proceeds derived by the City through the ownership and operation of the Regional System, including amounts due to the City from the Participants under the Project Agreement and certain repayment agreements entered into in connection with the issuance of bonds by the City to finance capital costs of the Regional System. Payments made by the Participants under the Project Agreement and the repayment agreements are referred to as “Participants’ Payments.”

The obligation of each Participant, including Tacoma Water, to make its Participants’ Payments with respect to the Regional System is a contract resource obligation of that Participants’ water system, and therefore all Participants’ Payments under the contract resource obligation are treated as an operation and maintenance expense of the respective water system. The Regional System has been designated by the City as a “Contract Resource Obligation” of the Water System; as such, costs associated with the Regional System are included as Operation and Maintenance Expenses of the Water System. *Costs of the Regional System are therefore payable prior to debt service on the Parity Bonds of the Water System.*

If a Participant other than Tacoma Water defaults in its payment obligation with respect to the Regional System and the default includes any amounts necessary to make payment on the Regional System Revenue Bonds (as defined below), Tacoma Water is obligated to increase its proportional share, including paying debt service on Regional System Revenue Bonds, and other obligations of the Regional System. *Tacoma Water thus effectively guarantees the payment of substantially all of the debt service and other obligations of the Regional System.* See “SECURITY FOR THE BONDS.”

As of the date of this Official Statement, the City has issued and there is currently outstanding \$94,535,000 aggregate principal amount of Regional System revenue bonds (“Regional System Revenue Bonds”), and the City has reserved the right to issue additional parity lien bonds of the Regional System from time to time. The City expects to issue its Regional Water Supply System Revenue Refunding Bonds, Series 2024 (Green Bonds) (the “2024 Regional System Revenue Bonds”) on or around February 14, 2024, in the aggregate principal amount of \$32,075,000 (preliminary, subject to change) as Regional System Revenue Bonds to provide funds to refund all or a portion, on a current basis, \$49,935,000 of the outstanding Regional System Revenue Bonds, and to pay costs of issuance for such bonds. See Table 3. The issuance of the proposed 2024 Regional System Revenue Bonds and associated refunding is dependent on market conditions, preliminary and subject to change. *The 2024 Regional System Revenue Bonds are not being offered for sale by this Official Statement, and this Official Statement should not be relied on by investors when making an investment decision to purchase such bonds.* See “THE WATER SYSTEM AND THE REGIONAL SYSTEM—The Regional System” and “SECURITY FOR THE BONDS—Regional System Revenue Bonds.”

## **Limited Obligations**

The Parity Bonds are special limited obligations of the City, payable from and secured solely by Gross Revenue of the Water System, subject only to the payment of Operation and Maintenance Expenses of the Water System (which includes costs of the Regional System, as described above), and certain funds and accounts held under the Bond Ordinance (except for money or investments held for the purpose of compliance with rebate requirements under the Internal Revenue Code of 1986, as amended (the “Code”)).

The City has covenanted in the Bond Ordinance and in the ordinances authorizing the issuance of the Outstanding Parity Bonds (collectively, the “Parity Bond Authorizing Ordinances”) that it will not issue any additional indebtedness of the Water System which is secured by a pledge of and lien on the Gross Revenue of the Water System that is superior to the pledge and lien of the Parity Bonds. The City reserved the right, however, under certain conditions to enter into additional Contract Resource Obligations for which amounts due are payable as Operation and Maintenance Expenses of the Water System prior to the payment of debt service on the Parity Bonds. The City’s obligation with respect to the Regional System is a Contract Resource Obligation of the City. See “SECURITY FOR THE BONDS—Additional Obligations—*Contract Resource Obligations*” and “THE WATER SYSTEM AND THE REGIONAL SYSTEM.”

## **Documents and Summaries; Investor Considerations**

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument. All references herein to the Bonds and the Bond Ordinance are qualified in their entirety to the actual documents. See Appendix A for a copy of the Bond Ordinance.

The City regularly prepares a variety of publicly-available reports, including audits, budgets and related documents. Such reports are not incorporated herein by this reference. An investor may obtain a copy of any such report, as available from the City.

In the preparation of the projections in this Official Statement, the City has made certain assumptions with respect to conditions that may occur in the future. Although the City believes these assumptions are reasonable for the purpose of the projections, they are dependent upon future events, and actual conditions may differ from those assumed. To the extent actual future events or conditions differ from those assumed by the City or provided to the City by others, the actual results will vary from those projected. The City has not committed itself to provide investors with updated forecasts or projections.

The Bonds may not be suitable for all investors. Prospective purchasers of the Bonds should give careful consideration to the information set forth in this Official Statement and confer with their own tax and financial advisors before deciding whether to purchase the Bonds.

This introduction is qualified in its entirety by reference to the entire Official Statement, and a full review of the Official Statement should be made by potential investors. This Official Statement speaks only as of its date, and the information contained in it is subject to change.

## **DESCRIPTION OF THE BONDS**

### **General**

The Bonds will be dated their date of delivery and will be issued in fully registered form in denominations of \$5,000 each or integral multiples thereof within a maturity. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover of this Official Statement and will bear interest from their date, payable on June 1, 2024 and semiannually thereafter on December 1 and June 1 of each year until maturity or prior redemption, at the rates set forth on the inside cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a year of 360 days and twelve 30-day months.

The Bonds will be issued in registered form, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). Individual purchases of the Bonds will be made initially in book entry form only and purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners or bond owners will mean Cede & Co. and will not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” will mean the person for whom a DTC participant acquires an interest in the Bonds. See Appendix B—“BOOK-ENTRY SYSTEM.”

## **Registration and Payment**

The City has adopted the system of registration for the Bonds approved, from time to time, by the State Finance Committee (the “Committee”). Pursuant to chapter 43.80 RCW, the Committee designates a fiscal agent for bonds issued within the State. The State’s fiscal agent, currently U.S. Bank Trust Company, National Association (the “Bond Registrar”), will authenticate the Bonds and act as the paying agent and registrar for the purpose of paying the principal of and interest on the Bonds, recording the purchase and registration, exchange or transfer, and payment of Bonds and performing the other respective obligations of the paying agent and registrar. No resignation or removal of the Bond Registrar shall become effective until a successor has been appointed and has accepted the duties of Bond Registrar.

To pay the principal of and interest on the Bonds when due, the City will remit money from the City’s Water Revenue Bond Fund (the “Bond Fund”) to the Bond Registrar. See “SECURITY FOR THE BONDS.” The Bond Registrar is obligated to remit such payments only to DTC, which, in turn, is obligated to remit such payments to DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds as described in Appendix B—“BOOK-ENTRY SYSTEM.” For so long as the Bonds are held by a depository, payments of principal thereof and interest thereon shall be made as provided in accordance with the operational arrangements of DTC. In the event that the Bonds are no longer held by a depository, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the Record Date (as defined below), or upon the written request of a Registered Owner of more than \$1,000,000 of Bonds (received by the Bond Registrar at least by the Record Date), such payment shall be made by the Bond Registrar by wire transfer to the account within the United States designated by the Registered Owner. Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the designated office of the Bond Registrar. “Record Date” is defined in the Bond Ordinance as the Bond Registrar’s close of business on the 15th day of the month preceding an interest payment date. With respect to redemption of a Bond prior to its maturity, the Record Date means the Bond Registrar’s close of business on the date on which the Bond Registrar sends the notice of redemption.

The transfer of any Bond may be registered and Bonds may be exchanged as provided in the Bond Ordinance. Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, maturity, and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and cancelled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same date, maturity, and interest rate, in any authorized denomination. The Bond Registrar shall not be obligated to register the transfer of or to exchange any Bond during the period between the preceding Record Date and the principal payment or redemption date.

## **Redemption of the Bonds**

*Optional Redemption.* The Bonds maturing on December 1 in the years 2028 through 2032, are not subject to redemption prior to their stated maturity. The Bonds maturing on or after December 1, 2035 are subject to optional redemption, as a whole or in part (and if in part, with maturities to be selected by the City), on any date on or after June 1, 2034, at a price equal to the principal amount to be redeemed plus accrued interest, if any, to the date fixed for redemption.

*Selection of Bonds for Redemption.* For as long as the Bonds are held in book-entry only form, the selection of Bonds within a maturity to be redeemed shall be made in accordance with the operational arrangements then in effect at DTC. If the Bonds are no longer held by a depository, the selection of such Bonds to be redeemed shall be made as follows: If the City redeems at any one time fewer than all of the Bonds having the same maturity date, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the City and the Bond Registrar shall treat each such Bond as representing such number of separate Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Bond by \$5,000. In the event that only a portion of the principal sum of a Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like maturity and interest rate in any of the denominations authorized in the Bond Ordinance.

*Notice of Redemption; Conditional Redemption; Rescission.* For so long as the Bonds are held by a depository, notice of redemption shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the City nor the Bond Registrar will provide any notice of redemption to any Beneficial Owners. The notice of optional redemption may be conditional. If the Bonds are no longer held by a depository, notice of redemption will be given as follows: Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar.

On or prior to any optional redemption date, unless any condition to such redemption has not been satisfied or waived, or notice of such redemption has been rescinded or revoked, and on or prior to any mandatory redemption date, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.

The City retains the right to rescind any optional redemption notice and the related optional redemption of Bonds by giving notice of rescission to the affected Registered Owners at any time on or prior to the scheduled redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

*Effect of Call for Redemption.* If notice of redemption has been given and not rescinded or revoked, or if the conditions set forth in a conditional notice of redemption have been satisfied or waived, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and if the Bond Registrar then holds sufficient funds to pay such Bonds at the redemption price, then from and after such date such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as provided in the Bond Ordinance for payment of interest. All Bonds which have been redeemed shall be canceled by the Bond Registrar and shall not be reissued.

### **Open Market Purchase**

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

### **Defeasance**

In the event that the City, to effect the payment, retirement, or redemption of any Bond, sets aside in the Bond Fund or in another special account, cash or noncallable Government Obligations, or any combination of cash and/or noncallable Government Obligations, in amounts and maturities which, together with the known earned income therefrom, are sufficient to redeem or pay and retire such Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such cash and/or noncallable Government Obligations are

irrevocably set aside and pledged for such purpose, then no further payments need be made into such Bond Fund for the payment of the principal of and interest on such Bond. The owner of a Bond so provided for shall cease to be entitled to any benefit or security of the Bond Ordinance except the right to receive payment of principal, premium, if any, and interest from the Bond Fund or such special account, and such Bond shall be deemed to be not outstanding under the Bond Ordinance. The City shall give written notice of defeasance to the Registered Owner(s) of the Bonds and to each party entitled to receive notice in accordance with the Continuing Disclosure Certificate.

The term “Government Obligations” is defined in the Bond Ordinance to mean those obligations now or hereafter defined as such in chapter 39.53 RCW constituting direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, as such chapter may be hereafter amended or restated.

## PURPOSE AND APPLICATION OF BOND PROCEEDS

Proceeds of the Bonds will be used to refund, on a current basis, all of the outstanding 2013 Bonds (as described below under “Refunding Plan”), and to pay costs of issuing the Bonds. Proceeds of the 2013 Bonds were used to finance and refinance capital improvements to the Water System.

The Bonds have been designated as “Green Bonds.” See “BONDS DESIGNATED AS GREEN BONDS.”

### Refunding Plan

The City will use a portion of the proceeds of the Bonds to refund all of the following 2013 Bonds (as selected for redemption, the “Refunded Bonds”).

**TABLE 1:  
REFUNDED BONDS**

<b>Maturity Date (December 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Numbers</b>
2041	\$ 23,820,000	4.00%	04/23/2024	100%	873547HS5
2043 <sup>(1)</sup>	50,535,000	4.00	04/23/2024	100	873547HU0

<sup>(1)</sup> Term Bonds.

*Refunding Procedure.* The City will deposit a portion of the proceeds of the Bonds on their date of delivery to be escrowed to the redemption date for the Refunded Bonds at which time the Refunded Bonds will be redeemed at a price of par plus accrued interest to the date of redemption. To fund the escrow, the City may hold such amounts uninvested or purchase certain direct noncallable Government Obligations (the “Acquired Obligations”). Cash and any Acquired Obligations will be deposited in the custody of U.S. Bank Trust Company, National Association (the “Escrow Agent”) pursuant to the terms of an Escrow Deposit Agreement between the City and the Escrow Agent. The maturing principal of the Acquired Obligations, interest earned thereon, and necessary cash balance, if any, will provide payment of interest on the Refunded Bonds when due, up to and including the redemption date; and on the redemption date, the redemption price of the Refunded Bonds.

*Verification of Calculations.* The mathematical accuracy of the computations of the adequacy of the maturing principal amounts of and interest on the Acquired Obligations and cash on deposit to be held by the Escrow Agent to pay principal of and interest on the Refunded Bonds as described above will be verified by Robert Thomas CPA, LLC (the “Verification Agent”). The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in the schedules provided to it and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

## Sources and Uses of Funds of Bond Proceeds

The proceeds of the Bonds, together with other available funds of the City attributable to the Water System, are expected to be applied as follows (amounts in table have been rounded):

**TABLE 2:  
SOURCES AND USES OF BOND PROCEEDS**

<b>Sources of Funds</b>	<b>Amount</b>
Principal Amount of the Bonds	\$ 63,800,000
Original Issue Premium/Discount	11,207,434
City Contribution <sup>(1)</sup>	5,032
Total Sources	\$ 75,012,466
<b>Uses of Funds</b>	
Refunding Escrow Deposit	\$ 74,541,750
Costs of Issuance <sup>(2)</sup>	470,716
Total Uses	\$ 75,012,466

<sup>(1)</sup> The City contribution will be deposited with the Escrow Agent and used to defease the outstanding 2005 Bonds on the date of issuance of the Bonds.

<sup>(2)</sup> Includes underwriters' discount, legal fees, municipal advisor's fees, green bond verification report fees, rating agency fees, Escrow Agent fees, verification agent fees, and other costs incurred in connection with the issuance of the Bonds and the refunding of the Refunded Bonds.

## BONDS DESIGNATED AS GREEN BONDS

### General

The Bonds have been designated as "Green Bonds." This designation is intended to allow investors the opportunity to invest directly in bonds that finance environmentally-beneficial projects. This designation is not intended to provide or imply that the holders of the Green Bonds are entitled to any additional terms or security to those provided in the Bond Ordinance.

The City has retained Kestrel, a Climate Bonds Initiative Approved Verifier, to verify that the Green Bonds conform, in all material respects, with the International Capital Market Association ("ICMA") Green Bond Principles (June 2021) (the "Green Bond Principles").

### Green Bonds Designation

Per the ICMA, "Green Bonds" are any type of debt instrument where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible "green projects" and which are aligned with the four core components of the Green Bond Principles. The four core components are: 1. Use of Proceeds; 2. Process for Project Evaluation and Selection; 3. Management of Proceeds; and 4. Reporting.

Kestrel has determined that the Bonds are in conformance with the four core components of the Green Bond Principles, as described in Kestrel's "Second Party Opinion", which is attached hereto as Appendix I.

In the Second Party Opinion, Kestrel has agreed to provide one update report on the Bonds within 12 months of issuance. This report is expected to be produced after all proceeds have been spent and will include confirmation of continued alignment with the Green Bond Principles and relevant updates on refinanced projects including allocation of proceeds. See Appendix I. The City regularly provides operating and other information regarding its facilities as described in Appendix I.

## **Independent Second Party Opinion on Green Bond Designation and Disclaimer**

For over 20 years, Kestrel has been consulting in sustainable finance. Kestrel is an Approved Verifier accredited by the Climate Bonds Initiative and an Observer for the ICMA Green Bond Principles and Social Bond Principles. Kestrel reviews transactions in all asset classes worldwide for alignment with ICMA Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and the Climate Bonds Initiative Standards and criteria.

The Second Party Opinion issued by Kestrel does not and is not intended to make any representation or give any assurance with respect to any other matter relating to the Bonds. Second Party Opinions provided by Kestrel are not a recommendation to any person to purchase, hold, or sell the Bonds and designations do not address the market price or suitability of the Bonds for a particular investor and do not and are not in any way intended to address the likelihood of timely payment of interest or principal when due. The Second Party Opinion may be withdrawn at any time in the sole and absolute discretion of Kestrel and there is no assurance that the Second Party Opinion will not be withdrawn.

In issuing the Second Party Opinion, Kestrel has assumed and relied upon the accuracy and completeness of the information made publicly available by the City or that was otherwise made available to Kestrel.

Despite the Second Party Opinion being provided by Kestrel, it should be noted that there is currently no clearly defined regulatory definition applicable to the Bonds, as to what constitutes a “green” or equivalently labelled project. No assurance can be given that such a clear regulatory definition will develop over time, or that, if developed, it will include the projects to be refinanced with the proceeds of the Bonds. Accordingly, no assurance is or can be given to investors that any uses of the Bonds will meet investor expectations regarding such “green” or other equivalently labeled performance objectives or that any adverse environmental and other impacts will not occur during the construction or operation of projects to be refinanced with Bond proceeds.

*No representation is made by the City or the Board as to the suitability of any Bonds to fulfill Green Bond criteria required by prospective investors. Each potential purchaser of Bonds should determine for itself the relevance of the information contained or referred to herein or in the Bond Ordinance, including regarding the intended use of the Bond proceeds. Any purchase of Bonds should be based upon such investigation as the purchaser deems necessary.*

## **SECURITY FOR THE BONDS**

### **Pledge of Revenues**

Under the Bond Ordinance and subject to its terms and conditions, the Parity Bonds are special limited obligations of the City, payable from and secured solely by a pledge of and lien on Gross Revenue of the Water System and all money and investments held in the Bond Fund (including the Reserve Account or any separate reserve account to the extent such account secures the payment of a series of Parity Bonds), the Rate Stabilization Account, and any construction fund (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code).

In the Bond Ordinance and in the Parity Bond Authorizing Ordinances, the City is obligated to set aside and pay into the Bond Fund certain amounts out of the Gross Revenue of the Water System sufficient to pay the principal of and interest on the Parity Bonds.

The Bond Ordinance defines “Gross Revenue” or “Gross Revenue of the Water System” to mean in any Fiscal Year of the Water System all of the revenues of the Water System, including, but not limited to, revenue from the sale or transmission of water; the sale, lease, or furnishing of other commodities, services, properties or facilities; the imposition of connection, capital improvement or other charges; utility local improvement district assessments that are pledged to Parity Bonds; and earnings from the investment of money in the Water Division Fund. However, Gross Revenue does not include earnings of a separate utility system (including the Regional System); principal proceeds of Parity Bonds or other borrowing; grants or other capital contributions to the Water System which by their terms are restricted to specific projects or purposes; or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund Water System obligations (until commingled with other

earnings and revenues of the Water System defined as Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States government under the Code.

Currently, there are no utility local improvement district assessments pledged to the Parity Bonds.

The Bond Ordinance defines “Operation and Maintenance Expenses” of the Water System to mean all expenses incurred by the City in causing the Water System to be operated and maintained in good repair, working order and condition, including, without limitation: deposits, premiums, assessments, or other payments for insurance, if any, on the Water System; payments into pension funds; State-imposed taxes; amounts due under Contract Resource Obligations, including Regional System Costs, but only at the times described in the Bond Ordinance; payments made to any other person or entity for the receipt of water supply or transmission or other right, commodity or service; payments made to any other person or entity that are required in connection with the operation of the Water System or the acquisition or transmission of water and that are not subordinate to the lien of the Parity Bonds; and payments with respect to any other expenses of the Water System that are properly treated as operation and maintenance expenses under generally accepted accounting principles applicable to municipal corporations. Operation and Maintenance Expenses do not include any depreciation or taxes levied or imposed by the City, Payment Agreement Payments, or payments to the City in lieu of taxes, any rebate amount, or capital additions or capital replacements to the Water System.

The Regional System is a Contract Resource Obligation of the City’s Water System. *As such, costs of the Regional System, including the payment of operating expenses of the Regional System and debt service on obligations of the Regional System, are payable as Operation and Maintenance Expenses of the Water System.* See “Regional System Revenue Bonds” below. See also Figure 1 for an illustration of the flow of funds for the Water System and the Regional System.

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY OR THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR OTHER PROPERTY OF THE CITY OR THE STATE NOT SPECIFICALLY PLEDGED THERETO BY THE BOND ORDINANCE, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, OR OF THE STATE, NOR ANY REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE WATER SYSTEM, ARE PLEDGED TO THE PAYMENT THEREOF.

Under the Bond Ordinance, the Gross Revenue of the Water System and other money and securities pledged are immediately subject to the statutory lien of the pledge of Gross Revenue, subject only to the prior payment of Operation and Maintenance Expenses of the Water System, without any physical delivery or further act, and the statutory lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the City. All Parity Bonds hereafter outstanding will be equally and ratably payable and secured without priority by reason of date of adoption of the ordinance providing for their issuance or by reason of their number or date of sale, issuance, execution or delivery, or by the liens, pledges, charges, trusts, assignments and covenants made in the Bond Ordinance or in any ordinance authorizing Future Parity Bonds, except as otherwise expressly provided or permitted in the Bond Ordinance and except as to insurance which may be obtained by the City to insure the repayment of one or more series or maturities within a series.

State law provides that the owner of a bond, such as the Bonds, the payment of which is pledged from a special fund, has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under State law, any bond owner may bring a mandamus action to compel a city to set aside and pay into the special fund, such as the Bond Fund, the amount that a city is obligated to set aside and pay therein if funds are sufficient and it has otherwise failed to do so.

### **Regional System Revenue Bonds**

The City has the authority under State law and the Bond Ordinance to establish additional “systems” within the Water Division, each of which is financed separately from the Water System. See “Separate Utility Systems” below. The Water Division currently includes one such additional system: the Regional System. The Regional System was established to construct and operate the Second Supply Project and the City has transferred facilities of the Second Supply Project from the Water System to the Regional System. The Second Supply Project, is owned, operated and maintained by the Water Division. The Regional System is comprised of certain property and facilities

to deliver and receive water for the Participants from the exercise by the City of its Second Diversion Water Right, as described under “THE WATER SYSTEM AND THE REGIONAL SYSTEM.” The Regional System does not include the Water System of the City or any other separate system of the City or of any other Participant.

The Regional System delivers water to the Water System and to three other Participants. See “THE WATER SYSTEM AND THE REGIONAL SYSTEM—The Regional System.” The costs of the Regional System, including the payment of operating expenses of the Regional System and debt service on Regional System Revenue Bonds, are Contract Resource Obligations of the Water System and thus an Operation and Maintenance Expense of the Water System. See “Additional Obligations—Contract Resource Obligations.” *As such, costs of the Regional System are payable prior to debt service on the Parity Bonds.*

The City, acting by and through the Department, has previously issued and there is currently outstanding the Regional System Revenue Bonds set forth in Table 3. The City has reserved the right to issue additional Regional System parity bonds and subordinate lien obligations of the Regional System. The City expects to issue its 2024 Regional System Revenue Bonds on or about February 14, 2024 (preliminary, subject to change), to refund, on a current basis, all or a portion of the outstanding Regional System Revenue Bonds issued in 2013. See Appendix D for a copy of the bond ordinance authorizing the issuance of such refunding bonds. *The 2024 Regional System Revenue Bonds are not being offered for sale by this Official Statement, and this Official Statement should not be relied on by investors when making an investment decision to purchase such 2024 Regional System Revenue Bonds.*

**TABLE 3:  
OUTSTANDING REGIONAL SYSTEM REVENUE BONDS**

<b>Regional System Revenue Bonds</b>	<b>Maturity Date (Dec. 1)</b>	<b>Original Principal Amount</b>	<b>Outstanding Principal Amount</b>
Regional Water Supply System Revenue Bonds, 2010A ("2010A Regional System Revenue Bonds")	2024	\$ 3,595,000	\$ 355,000
Regional Water Supply System Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment) ("2010B Regional System Revenue Bonds")	2040	44,245,000	44,245,000
Regional Water Supply System Revenue Refunding Bonds, 2013 <sup>(1)</sup> ("2013 Regional System Revenue Bonds")	2032	64,795,000	49,935,000
Total		\$ 112,635,000	\$ 94,535,000

<sup>(1)</sup> Pursuant to Ordinance No. 28898 passed by the City Council on August 1, 2023, City expects to issue its 2024 Regional System Revenue Bonds on or around February 14, 2024 in the estimated aggregate principal amount of \$32,075,000 (preliminary, subject to change), to provide funds to refund, on a current basis, the City's 2013 Regional System Revenue Bonds for aggregate debt service savings and/or to restructure such debt. See Appendix D for a copy of the bond ordinance authorizing the issuance of such refunding bonds. The issuance of such 2024 Regional System Revenue Bonds is dependent on market conditions, is preliminary and is subject to change.

*Source: City of Tacoma.*

The Water System currently is responsible for payment of approximately 41.7% of operating expenses, capital and other costs of the Regional System, and its share of debt service on the Regional System Revenue Bonds. If a Participant other than Tacoma Water defaults in its payment obligation with respect to the Regional System and the default includes any amounts necessary to make payment on the Regional System Revenue Bonds, Tacoma Water is obligated to increase its Participant Share of the payment to the extent another Participant does not, including paying debt service on the Regional System Revenue Bonds. *Tacoma Water thus effectively guarantees the payment of substantially all of the debt service on the Regional System Revenue Bonds.* See “THE WATER SYSTEM AND THE REGIONAL SYSTEM.”

## Flow of Funds

The City has established a special fund known as the “Water Division Fund” into which all Gross Revenue of the Water System is paid. The Bond Ordinance provides that the Gross Revenue of the Water System shall be used for the following purposes only and shall be applied in the following order of priority:

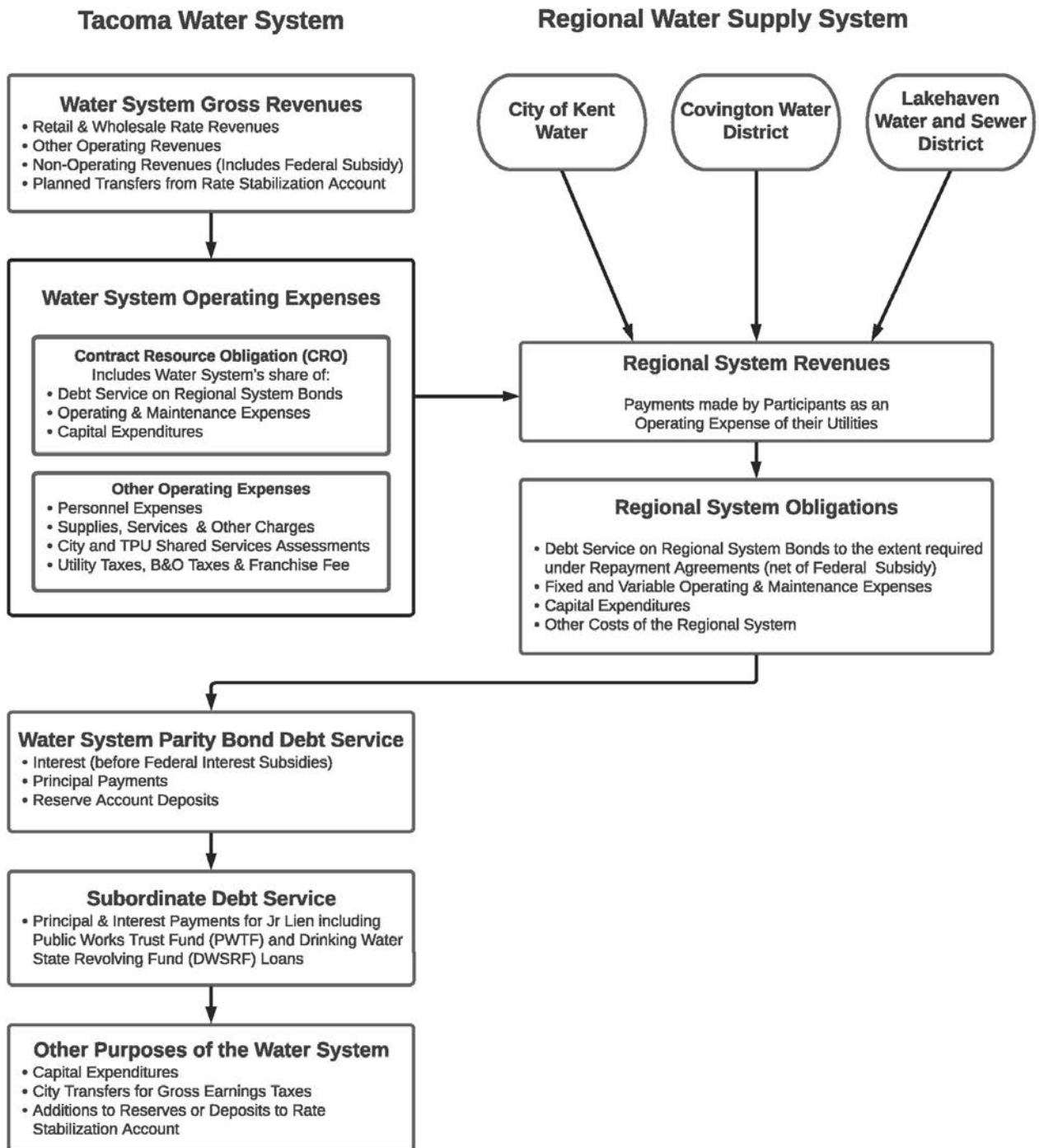
- (1) To pay Operation and Maintenance Expenses, including payments for Contract Resource Obligations (including operating expenses and debt service obligations associated with the Regional System);
- (2) To pay interest on Parity Bonds and net payments on Parity Payment Agreements when due;
- (3) To pay the principal of Parity Bonds as it comes due at maturity or as the principal is required to be paid pursuant to mandatory redemption requirements applicable to Term Bonds, and to make payments due under any reimbursement agreement with a Bond Insurer, which agreement requires those payments to be treated on a parity of lien with the Parity Bonds;
- (4) To make all payments required to be made into the Reserve Account and into any separate reserve account, all payments required to be made under any agreement relating to the provision of Reserve Insurance, and payments due under any reimbursement agreement with a Bond Insurer, which agreement requires those payments to be treated on a parity of lien with the payments required to be made into the Reserve Account or any separate reserve account then securing the payment of Parity Bonds;
- (5) To make all payments required to be made into any revenue bond, note, warrant, or other revenue obligation redemption fund, debt service account, or reserve account created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants, or other obligations of the City having a lien upon the revenue of the Water System junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds, including any junior lien State loans that are obligations of the Water System; and
- (6) To retire by redemption or purchase in the open market any outstanding revenue bonds or other revenue obligations of the Water System, to make necessary additional betterments, improvements, and repairs to or extensions and replacements of the Water System, to make deposits into the Rate Stabilization Account, or for any other lawful Water System purposes, including payment of gross earnings taxes to the City’s General Fund.

The City may transfer any money from any funds or accounts of the Water System legally available therefor, except bond redemption funds, refunding escrow funds, or defeasance funds, to meet the required payments to be made into the Bond Fund.

The flow chart on the following page shows the flow of funds for the Water System and the Regional System.

*[remainder of page intentionally left blank]*

**FIGURE 1: WATER SYSTEM AND REGIONAL SYSTEM  
SUMMARY OF FLOW OF FUNDS**



## **Rate Covenant**

The City has covenanted in the Bond Ordinance that it will establish, maintain, and collect rates and charges for services and facilities provided by the Water System which will be fair and equitable, and will adjust those rates and charges from time to time so that:

- (1) The Gross Revenue will be sufficient to (i) pay all Operation and Maintenance Expenses, (ii) pay when due all amounts that the City is obligated to pay into the Bond Fund and the accounts therein, and (iii) pay all taxes, assessments, or other governmental charges lawfully imposed on the Water System or the revenue therefrom or payments in lieu thereof and any and all other amounts that the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and
- (2) The Net Revenue of the Water System in each fiscal year will be at least equal to 1.25 times the Annual Debt Service that year on all Parity Bonds (the "Coverage Requirement").

The Bond Ordinance provides that the City's failure to comply with the rate covenant as described in (1) and (2) above will not be an Event of Default as defined in the Bond Ordinance if the City promptly retains an Independent Consulting Engineer or, once the 2005 Bonds and the 2009 Bonds are no longer outstanding, an independent certified public accountant, to recommend to the City Council adjustments in the rates of the Water System necessary to meet such requirements and if the City Council adopts the recommended modifications within 180 days of the date the failure became known to the City Council.

## **No Reserve Account for the Bonds; Reserve Account for Certain Outstanding Parity Bonds**

**The Bonds are not secured by funds on deposit in the Reserve Account or any other reserve account.** The Reserve Account Requirement for the Bonds is zero (\$0).

The 2015 Bonds are not secured by funds on deposit in the Reserve Account or any other reserve account. The City reserved the right to change the Reserve Account Requirement with respect to the 2015 Bonds once the 2005 Bonds were no longer outstanding. On the date of issuance of the Bonds, the City will use available funds to defease the remaining 2005 Bonds. At that time the City will elect to set the Reserve Account Requirement for the 2015 Bonds at zero (\$0).

A Reserve Account has been created in the Bond Fund for the purpose of securing the payment of the principal of and interest on certain Parity Bonds that have been specifically declared to be secured by the Reserve Account. The 2009 Bonds and 2010 Bonds are secured by the Reserve Account, but the Bonds are not. The Reserve Account Requirement for the 2009 Bonds and the 2010 Bonds, as of any date, is an amount equal to the lesser of Maximum Annual Debt Service or 125% of Average Annual Debt Service on the outstanding Parity Bonds secured by the Reserve Account. The additional Reserve Requirement in connection with a series of Parity Bonds secured by the Reserve Account, however, may not exceed 10% of the original net proceeds of such series of Parity Bonds. The Bond Ordinance provides that the additional Reserve Account Requirement in connection with the issuance of a series of Parity Bonds may be funded from proceeds, from other available moneys, or from an accumulation of such amount from equal annual deposits from the Net Revenue over a period of not more than five years.

The City previously satisfied the Reserve Account Requirement for the Outstanding Parity Bonds with a combination of cash and Reserve Insurance in the form of a reserve account surety policy (the "Reserve Policy") provided by Financial Guaranty Insurance Company, which was subsequently reinsured by National Public Finance Guarantee Corporation, a wholly-owned subsidiary of MBIA Inc. The Reserve Policy is scheduled to terminate on the earlier to occur of December 1, 2025 (the scheduled final maturity date of the 2005 Bonds) or the date on which no 2005 Bonds are outstanding. Simultaneously with the issuance of the Bonds, the City will use available funds to defease the remaining 2005 Bonds, and at that time the Reserve Policy will terminate. The cash balance in the Reserve Account as of December 31, 2023 was \$13,227,327. The City expects to make approximately equal monthly installments of funds into the Reserve Account to satisfy the Reserve Account Requirement with respect to the 2009 Bonds and the 2010 Bonds within three years of the date of issuance of the Bonds. As detailed above, once

the 2005 Bonds are no longer outstanding, the City will elect to set the Reserve Account Requirement for the 2015 Bonds at zero (\$0). The City has also elected to set the Reserve Account Requirement for the Bonds at zero (\$0).

The Reserve Account is held by the City Treasurer for the benefit of the owners of the Parity Bonds secured thereby, rather than by a third-party fiduciary. *In the event of the bankruptcy or insolvency of the City, a bankruptcy court may be able to direct the application of money in the Reserve Account to other purposes.* See “CERTAIN INVESTMENT CONSIDERATIONS—Municipal Bankruptcies.”

See Appendix A for additional terms and definitions related to the Reserve Account and the Reserve Account Requirement.

### **Rate Stabilization Account**

The City has established a Rate Stabilization Account in the Water Division Fund. As of December 31, 2023, the balance of the account was approximately \$35,575,447. For purposes of calculating the Coverage Requirement described under “Rate Covenant” above, Net Revenue in any Fiscal Year excludes deposits into the Rate Stabilization Account and includes withdrawals from the Rate Stabilization Account. The City is not obligated to deposit or maintain any stated amount in the Rate Stabilization Account. Amounts in the Rate Stabilization Account can be used for any lawful purpose of the Water System. See Appendix A—“COPY OF THE BOND ORDINANCE.”

### **Additional Obligations**

*Future Parity Bonds.* Pursuant to the Bond Ordinance, the City has reserved the right to issue Future Parity Bonds for purposes of the Water System or to refund all or a portion of the Parity Bonds upon satisfaction of certain conditions set forth in the Bond Ordinance, including, among other things, filing with the City either:

- (1) A certificate of the Finance Director demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months, Net Revenue was at least equal to 1.25 times the projected Maximum Annual Debt Service for all Parity Bonds, including the Future Parity Bonds proposed to be issued; or
- (2) A certificate of an Independent Consulting Engineer or, once the 2005 Bonds and 2009 Bonds are no longer outstanding, an independent certified public accountant that, in such individual’s opinion, the Net Revenue will be at least equal to 1.25 times the projected Average Annual Debt Service for all Parity Bonds, including the Future Parity Bonds proposed to be issued. In providing that certificate, the Independent Consulting Engineer or independent certified public accountant may take into account certain adjustments to Net Revenue as permitted by the Bond Ordinance.

Pursuant to the Bond Ordinance, if the Future Parity Bonds proposed to be issued are for the sole purpose of refunding outstanding bonds payable from the Bond Fund, no such coverage certification shall be required if the Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which Parity Bonds are outstanding, more than \$5,000 over the Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds. See Appendix A—“COPY OF THE BOND ORDINANCE.”

At or prior to the issuance of the Bonds, the City will have satisfied the Future Parity Bond requirements summarized above.

*Parity Payment Agreements.* The Bond Ordinance permits the City to enter into a Payment Agreement for the purpose of managing or reducing the City’s exposure to fluctuations or levels of interest rates, currencies or commodities or other interest rate, investment, asset or liability management purposes. The Bond Ordinance provides that, upon satisfaction of the requirements for the issuance of Future Parity Bonds, a Payment Agreement may constitute Parity Payment Agreement pursuant to which the City’s payment obligations are expressly stated to constitute a charge and lien on the Net Revenue of the Water System equal in rank with the charge and the lien of

the Parity Bonds. The City has not entered into any such Parity Payment Agreements and currently has no plans to do so. See Appendix A—“COPY OF THE BOND ORDINANCE.”

*Reimbursement Obligations.* The Bond Ordinance provides that if the City elects to meet the Reserve Requirement or any portion thereof through the use of Reserve Insurance or elects to secure any issue of Parity Bonds with bond insurance, the City may contract with the entity providing such insurance to provide that payments to reimburse the provider shall be on a parity of lien with the Parity Bonds. The reimbursement obligations for the debt service reserve fund policy in the Reserve Account are on a parity with the City’s obligation to make payments into the Reserve Account.

*Contract Resource Obligations.* Pursuant to the Bond Ordinance, the City may at any time enter into one or more obligations for the acquisition, from facilities to be constructed, of water supply, transmission, treatment, or other commodity or service relating to the Water System. Upon compliance with certain requirements of the Bond Ordinance, the City may determine that such contract or obligation is a Contract Resource Obligation and may provide that all payments under that Contract Resource Obligation (including payments prior to the time that water supply, transmission, treatment, or other commodity or service is being provided, or during a suspension or after termination of supply or service) shall be Operation and Maintenance Expenses. The City’s obligation with respect to the Regional System is a Contract Resource Obligation.

Before the City may enter into a Contract Resource Obligation, among other things, there must be on file a certificate of an Independent Consulting Engineer or, once the 2005 Bonds, 2009 Bonds and 2010 Bonds are no longer outstanding, an independent certified public accountant, stating that (i) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the supply, transmission, treatment, or other service rendered; (ii) the source of any new supply, and any facilities to be constructed to provide the supply, transmission, treatment, or other service, are sound from a water or other commodity supply or transmission planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide supply or transmission or other service no later than a date set forth in the Independent Consulting Engineer’s, or independent certified public accountant’s certification; and (iii) the Net Revenue (further adjusted by the Independent Consulting Engineer’s, or independent certified public accountant’s estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Net Revenue is estimated by the Independent Consulting Engineer, or independent certified public accountant (with such estimate based on such factors as he or she considers reasonable), will be at least equal to the Coverage Requirement.

The Bond Ordinance provides that payments required to be made under Contract Resource Obligations shall not be subject to acceleration. See Appendix A—“COPY OF THE BOND ORDINANCE.”

*Junior Lien Obligations.* Nothing in the Bond Ordinance prohibits the City from issuing or incurring obligations of the Water System with a lien on Gross Revenue junior to the lien of the Parity Bonds. The City has no plans to issue junior lien obligations of the Regional System. See “DEBT SERVICE REQUIREMENTS AND ADDITIONAL BORROWING—Junior Lien Obligations.”

### **Additional Covenants**

The Bond Ordinance also contains covenants regarding, among other things, operation and maintenance of the Water System, sale, transfer, or disposition of the Water System, no free service, liens upon the Water System, books and accounts, collection of delinquent accounts, maintenance of insurance and condemnation awards and insurance proceeds. See Appendix A—“COPY OF THE BOND ORDINANCE.”

### **Permitted Investments**

Money held in the Bond Fund (and the accounts therein) may be invested in any legal investments, and any earnings may be retained in such fund or account for the purpose of that fund or transferred to the Water Division Fund. For a description of the funds and accounts created by the Bond Ordinance, see Appendix A—“COPY OF THE BOND ORDINANCE.”

### **Additional Terms of the Bond Ordinance**

The Bond Ordinance defines certain Events of Default with respect to Parity Bonds, including but not limited to, failure to make bond payments punctually and failure to observe or perform any of the covenants included in the Bond Ordinance. The Bond Ordinance provides for the opportunity to cure certain defaults and the appointment of a Bondowners' Trustee to take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the owners of Parity Bonds. The Bond Ordinance also sets forth provisions related to amending the Bond Ordinance, with and without the consent (including deemed consent) of owners of Parity Bonds. See Appendix A—"COPY OF THE BOND ORDINANCE" for provisions related to Events of Default, remedies, amendments, and other terms of the Bonds and other Parity Bonds.

### **Separate Utility Systems**

The Bond Ordinance permits the City to create, acquire, construct, finance, own and operate one or more additional systems within the Water Division for water supply, transmission, treatment or other commodity or service. The Regional System is such a system. The revenue of any such separate utility system is not included in the Gross Revenue of the Water System and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither the Gross Revenue nor the Net Revenue of the Water System would be permitted to be pledged by the City to the payment of any obligations of a separate utility system except (1) as a Contract Resource Obligation upon satisfaction of the requirements set forth in the Bond Ordinance and/or (2) with respect to the Gross Revenue, on a basis subordinate to the lien of the Parity Bonds on Gross Revenue. See Appendix A—"COPY OF THE BOND ORDINANCE."

### **DEBT SERVICE REQUIREMENTS AND ADDITIONAL BORROWING**

The following table shows (1) Tacoma Water's scheduled payments for its share of debt service on the Regional System Revenue Bonds, excluding the 2013 Regional System Revenue Bonds and including the proposed 2024 Regional System Revenue Bonds expected to refund such bonds, (2) debt service on the Outstanding Parity Bonds, excluding the Refunded Bonds, and (3) debt service on the Bonds. The table does not include debt service on junior lien obligations. See "Junior Lien Obligations" below.

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**TABLE 4:  
DEBT SERVICE REQUIREMENTS**

Fiscal Year	Regional System Revenue Bonds <sup>(1)</sup>	Outstanding Parity Bonds <sup>(2)(3)</sup>	The Bonds		Total Parity Bond Debt Service	Total Regional System Revenue Bond and Parity Bond Debt Service <sup>(4)</sup>
			Principal	Interest		
2024	\$ 5,059,634	\$ 12,990,683	--	\$ 2,711,500	\$ 15,702,183	\$ 20,761,817
2025	4,948,214	12,945,592	--	3,190,000	16,135,592	21,083,806
2026	4,932,964	13,200,360	--	3,190,000	16,390,360	21,323,324
2027	4,943,214	13,114,726	--	3,190,000	16,304,726	21,247,941
2028	4,942,464	13,021,611	\$ 1,230,000	3,190,000	17,441,611	22,384,075
2029	4,960,964	12,918,828	2,365,000	3,128,500	18,412,328	23,373,292
2030	4,952,464	12,821,377	2,815,000	3,010,250	18,646,627	23,599,091
2031	4,962,964	12,713,452	3,275,000	2,869,500	18,857,952	23,820,917
2032	4,696,214	12,600,467	4,710,000	2,705,750	20,016,217	24,712,431
2033	5,470,714	18,125,397	--	2,470,250	20,595,647	26,066,361
2034	5,397,234	17,887,914	--	2,470,250	20,358,164	25,755,399
2035	5,326,447	17,639,944	1,505,000	2,470,250	21,615,194	26,941,641
2036	5,247,790	17,380,624	4,670,000	2,395,000	24,445,624	29,693,413
2037	5,166,263	17,114,090	5,195,000	2,161,500	24,470,590	29,636,853
2038	5,081,587	16,839,205	5,750,000	1,901,750	24,490,955	29,572,542
2039	4,998,478	16,549,820	6,335,000	1,614,250	24,499,070	29,497,549
2040	4,911,377	16,255,072	6,945,000	1,297,500	24,497,572	29,408,948
2041	--	--	19,005,000	950,250	19,955,250	19,955,250
Total <sup>(4)</sup>	\$ 85,998,988	\$ 254,119,162	\$ 63,800,000	\$ 44,916,500	\$ 362,835,662	\$ 448,834,649

<sup>(1)</sup> Includes Tacoma Water's allocable share of debt service on the outstanding Regional System Revenue Bonds and the proposed 2024 Regional System Revenue Bonds. Does not include the City's allocable share of the 2013 Regional System Revenue Bonds expected to be refunded with proceeds of the proposed 2024 Regional System Revenue Bonds. See Table 3. Tacoma Water's allocable share of the debt service on the Regional System Revenue Bonds and of the operating expenses and capital and other costs of the Regional System are payable primarily from Gross Revenue of the Water System as Operating and Maintenance Expenses prior to the Parity Bonds. Upon a default by any of the other Participants, the Water System also would be responsible, at least for some period, for that Participant's share of the costs of the Regional System, including debt service on the Regional System Revenue Bonds. Amounts in table reflect the total interest due on the 2010B Regional System Revenue Bonds, and do not take into account the federal credit payments expected to be received by the City with respect to such bonds.

<sup>(2)</sup> Amounts in table reflect the total interest due on the 2009 Bonds and the 2010 Bonds, and do not take into account the federal credit payments expected to be received by the City with respect to such bonds.

<sup>(3)</sup> Excludes all of the 2005 Bonds and the Refunded Bonds.

<sup>(4)</sup> Totals may not add due to rounding.

Source: City of Tacoma and Municipal Advisor.

## **Additional Borrowing**

The City does not plan to issue Future Parity Bonds for the Water System in the next 24 months.

The City expects to issue approximately \$32,075,000 aggregate principal amount 2024 Regional System Revenue Bonds on or about February 14, 2024 (preliminary, subject to change) to refund certain outstanding bonds of the Regional System. See Table 3 and Table 4. The City does not otherwise expect to issue any bonds of the Regional System in the next 24 months.

The City routinely monitors the environment to identify opportunities to save its customers money through low interest cost capital financing. Tacoma Water's capital improvement programs for the Water System and the Regional System includes several projects that could potentially qualify for financing, if and when such financing is consistent with Tacoma Water's long-range planning.

The City periodically reviews its outstanding bonds for refunding opportunities, however, and may issue Future Parity Bonds or obligations of the Regional System for refunding purposes if market conditions warrant.

## **Junior Lien Obligations**

As of December 1, 2023, the City has outstanding four low-interest loans from the State Public Works Trust Fund loan program totaling \$8,338,921 and ten low-interest loans from the State Revolving Fund loan program totaling \$44,778,675, which are junior to the Parity Bonds in their lien on the Gross Revenue of the Water System. The final maturity for the currently outstanding junior lien obligations is October 1, 2035. See Note 7 in Appendix H—"CITY OF TACOMA WATER SYSTEM 2022 FINANCIAL STATEMENTS" to see the annual debt service on the junior lien obligations.

The City retains the right to issue revenue obligations with a junior lien on Gross Revenue of the Water System.

The City retains the right to issue revenue obligations with a junior lien on revenues of the Regional System. The City does not currently have any junior obligations payable from revenues of the Regional System outstanding. The City has no plans to issue junior lien obligations of the Regional System.

## **Debt Payment Record**

The City has promptly met all debt service payments on outstanding obligations. No refunding bonds have been issued to avoid an impending default.

## **THE CITY**

### **General**

The City was incorporated in 1884 and operates under the council-manager form of government, which is administered by a City Council under the Constitution and laws of the State and the City Charter. The City Council is composed of nine members: a Mayor and eight Council Members, five of whom are elected from districts which have been apportioned according to population. The three remaining positions are "at large" positions, nominated and elected City-wide. The Council Member positions are four-year terms with overlapping terms to allow for the election of four Council Members every two years. The Mayor is elected City-wide for a four-year term and is the presiding officer of the City Council. The Deputy Mayor, who exercises the powers and duties of the Mayor in the absence or disability of the Mayor, is elected by the Council Members for a one-year term. Council Members, including the Mayor, can serve no more than 10 consecutive years as a member of the City Council, Mayor or combination thereof.

In addition to the Department, various departments within the City provide a full range of services to the citizens of the City including police and fire protection, electric production and distribution, wastewater and surface water services, solid waste services, public works (which includes street operations, engineering, facility management and

fleet operations), planning and development services, community and economic development, neighborhood and community services, and many others.

### **City Administration**

The City Council appoints a City Manager who is the chief executive officer of the City. The City Manager is responsible to the City Council for the administration of all departments of the City with the exception of the Department of Public Utilities. Pursuant to an amendment to the City Charter approved by the voters in 2014, the City Manager's appointments of department heads require confirmation by the City Council.

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

The City Manager appoints the City Treasurer, who is responsible for the receipt, custody and disbursement of City funds. The City Treasurer receives all money due and belonging to the City, and keeps a detailed account of the same in the manner prescribed by the Finance Director. The Government Performance and Finance Committee, composed of four council members, is responsible for the financial management and policies of the City.

*Elizabeth Pauli, City Manager.* Ms. Pauli was appointed City Manager in May 2017. Prior to her appointment, she served as Interim City Manager. She joined the City in May 1998 as Chief Assistant City Attorney and was appointed City Attorney in 2004. Prior to her work with the City, she was a partner at McGavick Graves. Ms. Pauli is a graduate of the University of Wisconsin-Madison Law School. She also holds a Bachelor of Science degree in education and social work from University of Wisconsin-Madison. Ms. Pauli is a member of the Washington State Bar Association and the Washington State Association of Municipal Attorneys.

*Andrew ("Andy") Cherullo, Finance Director.* Andrew Cherullo joined the City in February 2013. Prior to joining the City, he most recently served as the Chief Financial Officer for the Washington State Health Care Authority. Prior to that, Mr. Cherullo served as the Chief Financial Officer for the Massachusetts School Building Authority. He started his career in public finance at the Massachusetts House Ways and Means Committee, where within four years he became the Budget Director. As Finance Director for the City, Mr. Cherullo serves as the Chief Financial Officer for the City Manager and the City Council. He is responsible for overseeing the City's financial affairs, including accounting, debt and investment management, procurement and purchasing, and financial reporting. Mr. Cherullo has Bachelor's degrees in Economics and Political Science from the University of Montana and a Master's degree in Economics from Tufts University.

*Michael San Soucie, City Treasurer.* Mr. San Soucie joined the City in April 2013. He served in the role of Treasury Manager until his appointment to City Treasurer in March 2023. He has over 28 years of governmental experience at both the state and local levels. Mr. San Soucie has a Bachelor of Science degree in Accounting from Central Washington University and maintains a current CPA license.

*Chris Bacha, City Attorney.* Mr. Bacha has been a municipal practitioner since 1987 with an emphasis on the following practice areas: transactional law; common carrier regulations – telecommunications, cable and rail; municipal finance and taxation; municipal legislation; land use and planning; municipal utilities; labor and employment law; public works contracting and construction law; criminal justice; constitutional law, administrative law; real property; environmental law; elections; and public administration. He was named Interim City Attorney on October 2, 2023 and City Attorney on December 19, 2023. Previously, he served as Deputy City Attorney and Chief Deputy City Attorney for the City (2015 to 2023), as outside city attorney for various cities in Washington (2006 to 2015), as an Assistant City Attorney for the City (1988 to 2006), and as a Lewis County Deputy Prosecuting Attorney (1987 to 1988).

*Nicole Emery, City Clerk.* Ms. Emery was appointed as City Clerk effective August 14, 2023. For nearly four years, Ms. Emery previously served as an office administrator in the City Manager’s Office providing direct support to the Office of the Mayor with duties related to public records and public meeting administration and support. Prior to that position, she spent six years in the City Clerk’s Office where she acquired first-hand experience supporting the City’s Charter Review process, onboarding new staff, and finalizing the City Council’s agenda and meeting.

## **THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA WATER**

### **Overview**

The City Charter provides for the Department, which is governed by a five-member Board. The Board is responsible for general utility policy, and its members are appointed by the Mayor and confirmed by the City Council. The Department’s budget is presented to the Board for review and approval and then forwarded to the City Council for approval and inclusion in the City’s budget. The Board meets twice monthly.

The Department consists of Tacoma Power, Tacoma Water, and Tacoma Rail. The Water Division consists of two separate systems: the Water System and the Regional System. The Board serves as the sole policy board for the approval of most Department business. In the case of budgets, rates, bond issues, and system expansions, actions approved by the Board must also be approved by the City Council.

The Director of Utilities, who is chief executive officer of the Department, is appointed by the Board and confirmed by the City Council. The Board must evaluate the performance of the Director annually and reappoint the Director every two years subject to confirmation by the City Council. The current Director, Jackie Flowers, was appointed Director in 2018 and reappointed in 2020 and 2022. The Director, with the concurrence of the Board, has the power to appoint division superintendents.

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

The City Charter provides that, except for a reasonable gross earnings tax imposed by the City Council for the benefit of the City’s general fund not to exceed 8.0%, the revenues of utilities owned and operated by the City may not be used for any purposes other than the ongoing operations of the utilities and payment of debt service on utility debt. The funds of any utility may not be used to make loans to or purchase the bonds of any other utility, department, or agency of the City.

### **Management**

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

*Jackie Flowers, P.E.*, Director of Utilities, was appointed Department Director in 2018. Ms. Flowers has over 30 years professional experience, with 15 of those managing public utilities, including hydropower generation, power supply, power transmission and distribution, energy efficiency, engineering, operations technology, fiber optic networks, and traffic signalization. She serves on the Board of Directors for the Tacoma-Pierce County Chamber of Commerce, the Economic Development Board for Tacoma-Pierce County, the Large Public Power Council and GridForward. She is also a member of the American Public Power Association CEO Climate Change Taskforce.

*Scott Dewhirst, P.E.*, Superintendent, Water Division, was named superintendent and chief operating officer of Tacoma Water in 2017. Mr. Dewhirst’s experience includes 17 years at Newport News Waterworks including roles as the assistant director and the interim director. He holds degrees in both civil and environmental engineering and was the chair of the Virginia Section of the American Water Works Association in 2016. Mr. Dewhirst currently serves on the Board of the Association of Metropolitan Water Agencies and the Water Information and Sharing Center Board as Treasurer.

*Heather Pennington, P.E.*, Deputy Superintendent/Customer and Employee Experience Manager, joined Tacoma Water in 1994 and served as an engineer in Water Quality and Distribution Engineering. She later managed the Distribution Engineering section and in 2011 was named deputy water superintendent. Ms. Pennington is a licensed

civil engineer, holds an MBA from Pacific Lutheran University and a B.S. in environmental engineering from Northwestern University. Ms. Pennington's professional affiliations include serving on the PNWS-AWWA's Washington Water Utility Council Executive Committee, Education and Training board, and Philanthropic Advisory Council.

*Sean Senescall*, Business Services Manager, joined Tacoma Water in 2010 as the Rates and Financial Planning assistant division manager. He became the Rates and Financial Planning manager in 2013. Mr. Senescall has many years of experience in government finance and rate development, having worked for the financial consulting firm FCS Group before coming to Tacoma Water. He studied economics at the U.S. Air Force Academy and has a B.S. in economics from the University of Washington.

*Jessica Knickerbocker, P.E.*, Planning and Engineering Manager, joined the City in 2010 as an Engineer and has worked in both Environmental Services and Tacoma Power before joining Tacoma Water. Ms. Knickerbocker was appointed Planning and Engineering Manager in June 2023 and has over two decades of municipal and utility experience.

*Jerrod Davis, P.E.*, Source Water and Treatment Operations Manager, joined Tacoma Water in 2023. His experience includes international development work, private engineering consulting, and over 22 years at the State Department of Health serving in several leadership roles. He is a licensed engineer and holds a Bachelors and Masters degree in civil and environmental engineering.

*Stuart Vaughan, P.E.*, Maintenance and Construction Manager, joined Tacoma Water in 2007 as part of the engineering team within the Water Distribution Engineering section. Since starting he has worked on both the supply and distribution systems in many different capacities, most recently leading the supply system maintenance group. Mr. Vaughan started in his current role as the Maintenance and Construction Manager in 2019. He holds a B.S. in Mechanical Engineering from Washington State University and a Professional Engineering license in civil engineering.

*Jodi Collins*, Financial Stewardship Manager, joined the City in 2004 as a Fund Accountant in the Finance Department and moved to Tacoma Water in 2008 as the budget and financial analyst in the Water Resource Planning section. She is currently an Assistant Water Division Manager and is committed to developing and leading the team in support of financial strength for the utility on behalf of its ratepayers. She holds a B.S. in Accounting from Central Washington University and an M.B.A. from the University of Washington.

## **Budgetary Policies**

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

## **Auditing**

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

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

Tacoma Water's financial statements are audited by an independent accounting firm. The financial statements of Tacoma Water for fiscal years 2021 and 2022 were prepared by the City Finance Office and audited by Moss Adams LLP, Tacoma Water's independent auditor. Tacoma Water's audited financial statements for such years, including the audit letter, have been included in Tacoma Water's 2022 Annual Financial Report, a copy of which is attached in Appendix H.

The audited financial statements of Tacoma Water are public documents. Tacoma Water has not requested that Moss Adams LLP provide consent for inclusion of its audited financial statements in this Official Statement, and Moss Adams LLP has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Moss Adams LLP also has not performed any procedures related to this Official Statement.

### **Labor Relations**

As of September 30, 2023, Tacoma Water had approximately 293 employees, many of whom are represented by Local 483-International Brotherhood of Electrical Workers ("IBEW"), one of the 12 labor organizations that represent City employees. Other units representing Tacoma Water employees include Local 117-Teamsters, Local 17-Professional and Technical Engineers, and Local 120-AFSCME. Negotiations with unions are conducted by a team selected by City leadership and chaired by a Labor Relations staff member (negotiator). Management of Tacoma Water strives to promote sound labor relations policies that are beneficial both to its operations and to its employees. This cooperative effort has precluded a significant work stoppage among utility employees for more than three decades.

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

### **Tacoma Water Operations**

The Division, doing business as Tacoma Water, is a division of the Department and is included as an enterprise fund in the Annual Comprehensive Financial Report of the City. See "Overview" and "Management" above. See also "THE WATER SYSTEM AND THE REGIONAL SYSTEM—Tacoma Water—General."

Tacoma Water owns and operates the City's Water System, which includes a surface water supply source; several extensive well fields; a water transmission system consisting of several pipelines, water treatment and quality facilities; various reservoirs, standpipes and pump stations; and an extensive distribution system. Tacoma Water supplied water to approximately 103,644 customer accounts as of September 30, 2023. Tacoma Water's service area includes Tacoma and urbanized areas of Pierce and South King Counties. Water service outside the City limits is provided under franchises granted by both Pierce and King Counties and multiple other cities.

Tacoma Water's water transmission and distribution system consists of approximately 150 miles of transmission pipelines ranging in size from 28 to 96 inches in diameter, 29 booster pump stations, 141 million gallons of reservoir storage, and 1,292 miles of distribution pipeline ranging in size from two to 24 inches in diameter. The distribution system includes a number of pressure zones; most are supplied by reducing the pressure gradient from the McMillin Reservoir and the remainder require additional pumping of water to serve higher areas.

The storage available in the Water System is capable of supplying approximately three days at the average daily usage rate. To maintain better water quality within the Water System and as a result of other system changes, such as the construction of the Second Supply Project, storage was reduced by approximately 143 million gallons in 2012 from the historic storage amount to approximately 141 million gallons in 2023.

Tacoma Water also has approximately 22 interties with 11 wholesale purveyor systems. Some of these interties are used to supply wholesale water to the systems on a regular basis and others are available for peak or emergency

demands of these systems. Several of these interties are capable of providing Tacoma Water with a limited amount of emergency water supply.

Prior to 2020, Tacoma Water was organized as Water Distribution Engineering, Water Distribution Operations, Water Quality, Water Supply, Water Asset and Information Management, and Water Finance and Analytics. In 2020, Tacoma Water reorganized to combine groups by functions in support of a 2020-2025 strategic plan. An overview of the functions included in each of the new sections follows:

*Superintendent Office.* The Superintendent Office is responsible for all utility operations, and includes the Enterprise Safety Team and Strategy Manager. Safety is a high priority for Tacoma Water. The Safety Team is focused on the development, delivery, and administration of all safety program elements supporting Tacoma Water employees with safe work practices and compliance with all applicable regulations. The Strategy Manager oversees the development and management of the Tacoma Water Strategic Plan. Water System operations are managed from the Water Control Center, located in the Tacoma Water Distribution Center, which is staffed 24 hours a day.

*Customer and Employee Experience.* Customer and Employee Experience is responsible for supporting new and existing Tacoma Water customers, including development in its service area, facilitating services received, enterprise communications, education, and conservation activities. This section supports employee workforce development, workforce management, payroll administration, and knowledge management.

*Business Services.* Business Services delivers customer value through integrated, strategic capabilities across the domains of finance, operational technology, project and portfolio management, data management and analytics. This section is responsible for Tacoma Water's long-range financial planning strategy, cost of service ratemaking, special pricing development, debt management, financial reporting, and internal controls. It is responsible for managing Tacoma Water's data through governance and stewardship, deploying advanced analytics tools and associated training, process development, and data/technology/analytics project delivery. It is also responsible for Tacoma Water's technology strategy and for application development, support, and solution architecture.

Project and Portfolio Management is a new area of deliberate focus for Business Services, and this capability is responsible for connecting its project portfolio to Tacoma Water's strategy, and enabling portfolio-level capabilities such as prioritization, portfolio health visibility, and enterprise resource management.

*Source Water and Treatment Operations.* Source Water and Treatment Operations produces, delivers, and balances potable water across transmission and distribution systems to meet seasonal and short-term demand while protecting source water and providing natural resource stewardship. This section also ensures water quality and treatment meet all regulatory requirements through monitoring and reporting and cross-connection control.

*Maintenance and Construction.* Maintenance and Construction maintains and repairs all parts of the Water System through effective logistics (including fleet and warehouse) and planning. This section supports economic development through the installation of new service connections and water quality by performing system flushing.

*Planning and Engineering.* Planning and Engineering is responsible for all aspects of comprehensive strategic development and engineering planning across all technical and operational functions of Tacoma Water. This section provides technical support for Water System operations and maintenance and manages the planning, design, and construction of projects to improve the Water System.

## **Guiding Principles**

In 2019, the Department launched policy development of Government Process, Board-Director Linkage, and Guiding Principles (formerly Strategic Directives). The Government Process policies are processes for how the Board governs itself. The Board-Director Linkage policies clarify how the Board expects the Director to carry out the work of the Department. The Guiding Principles establish the performance standards for which the Board will hold the Department accountable on behalf of its ratepayers. Guiding Principles adopted by the Board include equity and inclusion, financial sustainability, rates, stakeholder engagement, environmental sustainability, innovation,

reliability and resiliency, telecom, economic development, government relations, employee relations, customer service, and resource planning.

### **Strategic Plan**

The Department developed its first comprehensive strategic plan in 2023, providing a shared mission and vision for Tacoma Power, Tacoma Water and Tacoma Rail. The Department's vision is to be a "trusted community partner, where employees are proud to deliver equitable, affordable utility services" and its mission is to "deliver clean, reliable services essential to quality of life."

Tacoma Water operates under the guidance of its divisional strategic plan to contribute to the mission of providing clean, reliable water. The focus is on three key objectives: providing customer increased value; preparing the workforce for the future; and improving systems, processes, and use of resources. Strategic initiatives and annual goals have been developed to contribute to the success of those initiatives. Performance related to these initiatives and goals is reported to the executive leadership quarterly.

### **Retirement System**

Substantially all City employees, including employees of the Department, are covered by a contributory retirement plan administered by the City's Employee Retirement System ("TERS"), an actuarially funded system administered by the City. Law enforcement officers and firefighters are covered by the Law Enforcement Officer and Firefighter Retirement System ("LEOFF"), which is operated by the State for law enforcement officers and firefighters throughout the State. Additionally, the City administers two single-employer pension funds as required by State statute: a Police Relief and Pension Fund and a Firemen's Relief and Pension Fund.

*Tacoma Employees' Retirement System.* The following information regarding TERS is provided on a City-wide basis. The most recent actuarial valuation of TERS was completed as of January 1, 2023 by Milliman (the "Milliman Report") and reported a funding ratio of 99.9%. Additional information, including the Milliman Report, is available on the TERS website (which website is not incorporated herein by this reference) at: [www.cityoftacoma.org/retirement](http://www.cityoftacoma.org/retirement).

TERS is a cost-sharing multiple-employer, defined benefit retirement plan covering substantially all employees of the City, with the exception of police officers, firefighters, Tacoma Rail, and employees who are covered by other retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of Pierce Transit and South Sound 911 (formerly known as the Law Enforcement Support Agency) who established membership in TERS when these agencies were still City departments, are also members. As of January 1, 2023, there were 2,765 retirees and beneficiaries currently receiving benefits, 638 vested terminated members entitled to future benefits and 3,201 active members in TERS.

The Board of Administration of TERS (the "TERS Board") administers the plan, and benefit provisions are established in accordance with chapter 41.28 RCW and Chapter 1.30 of the Tacoma Municipal Code. The TERS Board consists of nine members, including the City Mayor, who serves as chair, Finance Director, City Manager (or designee), Public Utilities Director (or designee), three employees, one retiree and one City resident (not employed by the City) elected by the other eight members. The TERS Board is required by the City's municipal code to make annual reports to the City Council on the financial condition of TERS. The TERS Board, subject to City Council approval, appoints the Director, who is responsible for managing the daily operations of TERS.

Contributions City-wide totaled \$58.0 million in 2022 (\$31.3 million in employer contributions and \$26.7 million in employee contributions) and \$55.0 million in 2021 (\$29.7 million in employer contributions and \$25.3 million in employee contributions). The contribution rate for the City's covered payroll is currently set at 21.00% of pensionable wages for 2023, with 11.34% paid by the City and 9.66% paid by employees.

The City, including Tacoma Water, is current in all payments to TERS. Further details about the plan are included in Appendix H.

In addition to TERS, City employees participate in the federal social security program. The City withholds the employee contribution from City employee's wages.

*Law Enforcement Officer and Firefighter Retirement System.* LEOFF is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes all full-time, fully compensated local law enforcement officers and fire fighters. The LEOFF system includes two plans. Participants who joined the system by September 30, 1977, are LEOFF Plan 1 members. Those joining thereafter are enrolled in LEOFF Plan 2. Retirement benefits are financed from employee and employer contributions, investment earnings, and State contributions. LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

For the years ending December 31, 2021 and December 31, 2022, the City contributed approximately \$4.9 million and \$5.8 million, respectively, to LEOFF Plan 2.

Information regarding LEOFF is presented in annual financial report of the State Department of Retirement Systems ("DRS"), which may be obtained from [www.drs.wa.gov](http://www.drs.wa.gov) (which website is not incorporated herein by reference).

While the City's contributions in 2022 represented its full statutorily required contribution to LEOFF, any unfunded pension benefit obligations within the systems could be reflected in future years as higher contribution rates. The website of the Office of the State Actuary (which is not incorporated into this Official Statement by reference) includes information regarding the values and funding levels of LEOFF and other State-administered pension plans. The DRS Comprehensive Annual Financial Report for the year ended June 30, 2023, reported that LEOFF Plan 1 and Plan 2 each has a funded ratio in excess of 100% and a net pension asset.

*Police Relief and Fire Relief and Pension Fund.* The Police Relief and Pension Fund and the Fire Relief and Pension Fund are single-employer, defined benefit pension funds established and administered by the City in accordance with the requirements of State law. Membership is limited to firefighters employed prior to March 1, 1970. Since the effective date of the LEOFF on March 1, 1970, no payroll deductions for active employees have been taken under these pension plans.

*GASB 67/68 Reporting Rules.* GASB Statement 68, Accounting and Financial Reporting for Pensions ("GASB 68") became effective for the City for the year ended December 31, 2015. Among the changes imposed by GASB 68 are that lower discount rates are required to be used for underfunded plans in certain cases and the difference between expected and actual investment returns each year will be recognized over a closed five-year smoothing period. GASB 68 also requires employers that participate in the State sponsored plans to report their proportionate share of Net Pension Liability, Deferred Inflows of Resources, Deferred Outflows of Resources, and Pension Expense for the State plans. DRS determines each participating employer's proportionate share of overall plan liability and the State Actuary determines each plan's accounting valuation. GASB 68 affects the accounting for pensions, but does not change the funding status of the plans calculated by State Actuary or pension contribution rates that are set based on statutory assumptions.

In 2022, the City reported a pension asset of \$146,649,370 and Tacoma Water's proportionate share was 9.65% of that asset, or \$14,152,644, which was based on total actual contributions for the year.

### **Other Post-Employment Benefits**

In addition to pensions, many state and local governmental employers provide other post-employment benefits ("OPEB") as part of total compensation to attract and retain the services of qualified employees. OPEB includes post-employment health care as well as other forms of post-employment benefits that are provided separately from pension plan benefits. The City allows retirees to participate in medical, dental and vision programs from the time retirement begins until they qualify for Federal funded programs. The City uses pay as you go funding, and upon retirement the retiree is responsible for paying a blended premium, which prior to retirement was paid by the City. The benefit is an implicit subsidy to the retiree. As of December 31, 2022, the City's net OPEB obligation was \$227,442,102, of which \$5,350,651 was related to Tacoma Water. Further details about OPEB are provided in Note 13 in Appendix H.

## **Deferred Compensation**

The City offers its employees a deferred compensation plan through a third party created in accordance with Internal Revenue Code Section 457. The plan, available to all City permanent full-time and part-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable emergency, but the plan offers a loan provision. An employee may defer 100% of their salary net of employee pension contributions and any Section 125 deductions.

## **Taxes Imposed on Tacoma Water**

State law and the City Charter allow the City to impose a gross earnings tax not exceeding 8% upon the revenues of Tacoma Water, unless approved by a vote of the citizens. Payment of the gross earnings tax to the City is subordinate to the payments required to be made by Tacoma Water into any fund or funds previously or subsequently created for the payment of the principal of, and interest on, Tacoma Water's water revenue bonds. The City Charter provides that the tax on City-operated utilities shall not be disproportionate to the taxes the utility would pay if it were privately owned.

Tacoma Water pays a public utility tax imposed by the State presently at the rate of 5.029% of gross revenues, with certain exceptions. This tax is passed through to applicable ratepayers and reflected in their rates.

Tacoma Water also pays utility tax on a percentage of the utility's gross earnings in the City of University Place. The current tax rate is 6.0%. This tax is assessed directly to University Place customers through their rates.

Tacoma Water also pays miscellaneous fees, licenses, business and occupation ("B&O"), sales, and use taxes. Certain of these taxes and payments are Operation and Maintenance Expenses of the Water System and operating expenses of the Regional System.

## **Fleet Services**

The Department has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of Department vehicles and related equipment. Tacoma Water pays into the Fleet Services Fund to cover fleet operating expenses. Per Ordinance No. 28688, passed in 2020, the Fleet Services Fund transferred operating division fleet assets to Tacoma Power, Tacoma Rail, and Tacoma Water for funding flexibility. The Fleet Services Fund maintains the purchasing and maintenance responsibilities. Starting January 1, 2021, Tacoma Water no longer pays capital replacement fees to the Fleet Services Fund, but still pays capital replacement fees for fleet equipment necessary for utility operations. Tacoma Water also pays the Fleet Services Fund for maintenance, administrative overhead, fuel and fuel loading, and pool car rentals. Payments made by Tacoma Water in 2022 and 2021 were \$2,273,442 and \$2,093,971, respectively.

## **Program of Insurance**

The Department maintains a self-insurance program and insurance policies. The Department has established a Self-Insurance Fund (the "Self-Insurance Fund") to insure Tacoma Water and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Water are flooding, wind damage, chemical spills, wildfires, and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

Tacoma Water is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Water and administrative expenses of the Self-Insurance Fund. Tacoma Water's premium payments were \$240,000 in 2022 and 2021. As of September 30, 2023, assets in the Self-Insurance Fund total \$8.7 million, and Tacoma Water's portion is \$6 million, which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Water's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchased a Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. A separate deductible of \$1.0 million applies to Excessive Fees Claims. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee benefit programs. The coverage also provides a Government Crime policy with a \$5.0 million limit and \$200,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.25 million per occurrence. Coverage also includes a Cybersecurity policy and an Excess Cyber policy.

Separate from General Government, the Department maintains Property insurance and Excess liability insurance. The Property insurance policy has a deductible of \$250,000 per occurrence that applies to the buildings and contents while a deductible of \$10,000 per vehicle applies to motor vehicles. Coverage also provides a Wrongful Acts liability policy with a limit of \$2.25 million for each wrongful act and a \$2.25 million aggregate. Excess liability policies provide coverage in excess of the previously noted Wrongful Acts liability policy and include General liability and Automobile liability coverage. These policies have a limit of \$52.5 million each occurrence with a \$52.5 million aggregate in excess of a \$2.5 million retention. Coverage also includes Aviation liability - Unmanned aircraft liability for drones with a limit of \$1.0 million.

### **Strategic Planning and Financial Planning and Reporting**

Tacoma Water has formally adopted certain policies that serve as a guide to financial management and rate setting. These are included in the "Water Rate and Financial Policy," which has been reviewed and adopted as a City Resolution by the Board and City Council. These policies require that the utility set rates based on the cost of service to each customer class, adhere to restrictions on the term of debt, and maintain a minimum of 60 days of budgeted operating expenses in the Current Fund, 1% of original cost plant-in-service in the Capital Reserve Fund, and \$2,000,000 in the System Development Charge Fund. These policies also specify debt service coverage minimums that are higher than those that are required by the Bond Ordinance, including an "All In Debt Service Coverage" minimum of 1.25 times or 1.00 times during planned reserve spend down, and a "Senior Debt Service Coverage" minimum of 1.50 times. The policies also require that water rates be designed to adequately fund acquisitions of new resources and conservation and allow the utility to recover up to 65% of rate revenues from fixed components of the rate. The Board and City Council approved the amended Water Rate and Financial Policy in 2022, which now highlights certain areas of focus including long-term financial planning, gradualism, equity, affordability and climate change.

State law and City policies permit City utilities to borrow on a short-term basis from the General Fund. Tacoma Water has never borrowed from the General Fund and does not currently expect to do so.

Financial reports are provided to the Board, and budget performance reports are published for staff and policymaker review on a quarterly basis.

### **Investment Practices**

The City Investment Policy permits legal investments as authorized by State law. Among the investments permitted by State law and the Investment Committee's policy are banker's acceptances of the top 50 world banks as published by American Banker, U.S. Treasury bills, certificates, notes and bonds, certain U.S. Government agency securities, commercial paper with the highest rating by at least two nationally recognized rating agencies, repurchase agreements with the market value of collateral exceeding the dollar amount of the repurchase agreement by two percent over the term of the agreement, reverse repurchase agreements, the State Local Government Investment Pool (the "LGIP") (described below), municipal securities, certificates of deposit, corporate notes and supranational agency bonds. Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City Treasurer's Tacoma Investment Pool ("TIP") in the LGIP.

As of December 31, 2022, the City's cash and investments on a fair value basis, totaled approximately \$1.46 billion, not including City pension funds. As of December 31, 2022, the majority of the portfolio was invested in government agencies (39.7%) and U.S. Treasuries (51.3%).

*State Local Government Investment Pool.* The State Treasurer’s Office administers the Washington State Local Government Investment Pool (the “LGIP”), an optional investment tool that in fiscal year 2023 held an average balance of \$21.9 billion on behalf of 631 participants. In its management of LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public funds. These principles are, in order of priority, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) the attainment of the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to benefit from the economies of scale inherent in pooling. It is also intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than would otherwise be available to them. Although not regulated by the U.S. Securities and Exchange Commission (the “SEC”), the LGIP is invested in a manner generally consistent with the SEC guidelines for Rule 2a-7 money market funds; for example, currently it has a maximum weighted average maturity of 60 days and a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating and variable-rate securities and securities that are used for repurchase agreements. The weighted average maturity of the LGIP generally ranges from 30 to 60 days. Investments permitted under the pool’s guidelines include U.S. government and agency securities, bankers’ acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, motor vehicle fund warrants, and certificates of deposit issued by qualified State depositories. The City may withdraw funds in their entirety on less than 24 hours’ notice.

## **THE WATER SYSTEM AND THE REGIONAL SYSTEM**

### **Tacoma Water—General**

Tacoma Water was formed in 1893 when the City purchased the water and light utility properties of the former Tacoma Water and Light Company. The City acquired rights for up to 73 million gallons per day (“MGD”) of water from the Green River and in 1910 began construction of the Green River gravity system, which includes the Headworks dam facilities, 150 miles of transmission pipelines and 141 million gallons (“MG”) of storage. Water from the Green River was first delivered to the City in 1913. The City was awarded a second water right on the Green River in 1986 for 64.6 MGD, with an opportunity to store that right for peak summer usage.

As the City grew, a system of wells was developed in South Tacoma (and in other areas adjacent to the City) to meet summer peak use periods, and on the North Fork of the Green River to meet the City’s needs during periods of turbidity in the Green River. Today, the system of wells used for peaking has an installed pumping capacity of approximately 40 MGD, and the North Fork wells can produce up to 72 MGD as a replacement for Green River water. Tacoma Water’s use of service area well water on an annual basis is approximately 8% of the City’s water needs.

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Tacoma Water is one of the largest publicly owned water utilities in the State. Tacoma Water's customer base is largely residential. Residential customers accounted for approximately 68% of water sales revenue and represented approximately 47% of water billed in 2022. See "Customers and Water Sales; Loss of Major Customer" below. The following table displays selected operating data regarding Tacoma Water as of December 31, 2022 and 2021.

**TABLE 5:  
SELECTED OPERATING AND FINANCIAL DATA  
CALENDAR YEARS 2022 AND 2021**

	<b>2022</b>	<b>2021</b>
Average Number of Metered Customer Accounts	108,897	108,165
Operating Revenue	\$ 115,217,698	\$ 111,365,886
Total Water Billed (MG)	18,214	19,542
Average Daily Delivery (MG)	53.85	55.70
Maximum Daily Delivery (MG)	87.90	97.44
First Water Right (MGD)	73.0	73.0
Second Water Right (MGD)	64.6	64.6
Total Water Rights (MGD)	137.6	137.6

*Source: Water Division, 2021 and 2022 Financial Reports (consolidated).*

### **Service Area**

Tacoma Water's current service area consists of the City and areas of Pierce and south King Counties. The area extends from the northerly boundary of Lakewood Water District and Parkland Light and Water Company in the south, northward to the City of Federal Way in King County. The eastern boundary is the foothills of the Cascade Mountains. The western boundary is Puget Sound. Approximately 40% of Tacoma Water's residential customer accounts are outside of the City limits.

Tacoma Water's service outside of the City limits began in 1912 when customers adjacent to the first transmission pipeline from the Green River were served from the transmission line and from distribution extensions from the pipeline. As a result, the Water System serves customers as far away as Palmer and Cumberland in King County.

Tacoma Water is the exclusive retail provider of water service within the City and is designated as a key provider of water service within Pierce County under the Pierce County Coordinated Water System Plan. Tacoma Water presently provides direct service to some customers within the city limits of several municipalities, including the cities of Federal Way, Puyallup, and University Place.

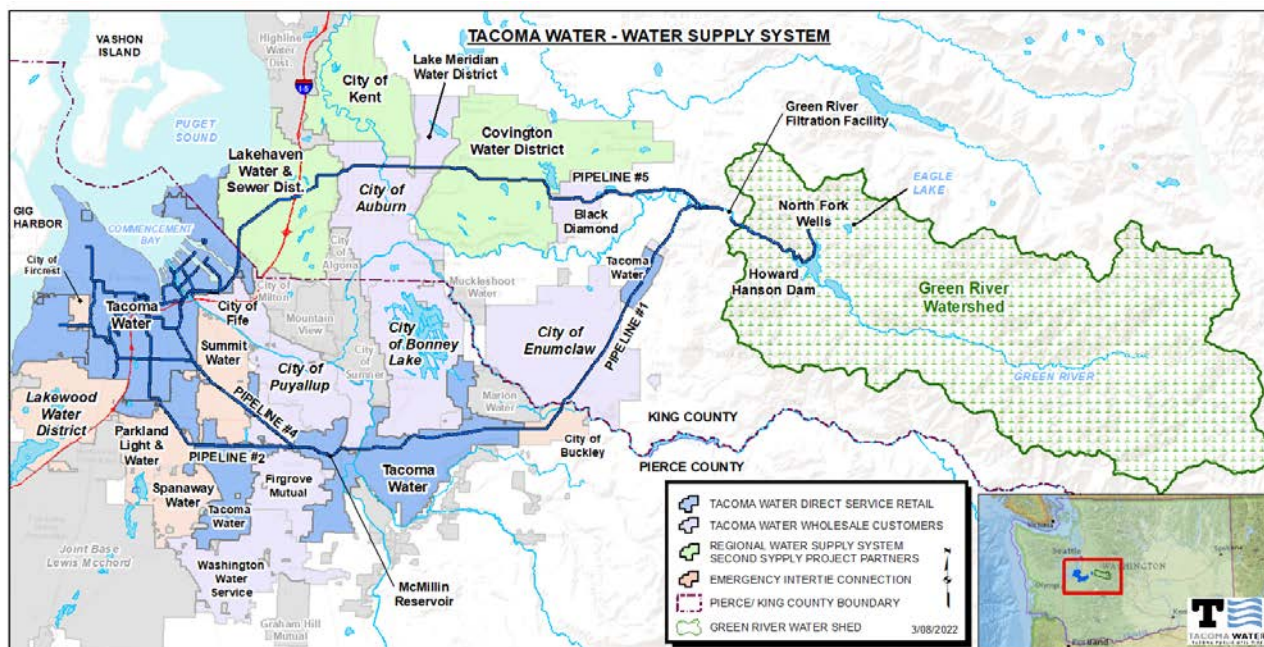
Historically, the Water System has expanded in order to meet City growth and to supply surrounding communities and water utilities. Over the years, the City has acquired water districts, water companies, and cooperatives as well as individual services outside the City limits. The City will continue such an acquisition program when requested, provided it is economically sound and consistent with growth management policy.

Recent population trends for the retail service area indicate slow account growth inside the City, while growth outside the City, particularly in unincorporated Pierce County, continues at a moderate pace due to greater available buildable land.

Currently, wholesale service is a small part of Tacoma Water's operations, constituting approximately 2.4% of water service revenues. Wholesale purchases under standard cost of service pricing are expected to remain stable. Tacoma Water has begun to offer market-priced wholesale offerings that could result in near-term demand and service revenue growth that is not currently reflected in plans and projections contained herein.

The following map shows Tacoma Water’s service area.

**FIGURE 2: TACOMA WATER SERVICE AREA**



## Sources of Supply

The primary source of supply for the Water System is a Headworks diversion on the Green River approximately 30 miles east of the City, which is capable of supplying up to approximately 150 MGD to Tacoma Water and the other Participants. Water withdrawn at the Headworks is treated with ozone, filtered, chlorinated, fluoridated, and pH adjusted before being introduced into Pipeline No. 1 and the Second Supply Pipeline. Pipeline No. 1 transports up to 68 MGD through or near the cities of Enumclaw, Buckley, Bonney Lake, Puyallup, and other urbanized areas before discharging into McMillin Reservoir. The Second Supply Pipeline transports up to 95 MGD through the cities of Black Diamond, Auburn, Federal Way, and Tacoma before discharging into Pipeline No. 4. The Green River diversion and Pipeline No. 1 were originally constructed in 1913. Over the years, all of the original Pipeline No. 1 has been replaced and improvements to the diversion dam have been made as components of the Second Supply Project. The Second Supply Pipeline itself began delivering water in October 2005. The City completed construction of the Green River Filtration Facility in 2015 as a component of the Regional System.

The watershed, located above the diversion, consists of approximately 230 square miles of timbered and mountainous terrain. The U.S. Army Corps of Engineers (the “Army Corps”) constructed Howard Hanson Dam and Reservoir in 1961, forming the Eagle Gorge Reservoir, approximately three miles upstream from Tacoma Water’s Headworks Diversion Dam. The primary authorized purpose of the dam is to provide flood control for the Green River valley during the winter. Secondary authorized purposes include augmentation of low summer flows downstream of the dam, irrigation and storing water for municipal water supply purposes by Tacoma Water and the Participants. In 2012, the Army Corps completed a dam safety rehabilitation project on the Howard Hanson Dam to mitigate damages from a January 2009 storm event and insure reliability of the dam in the future. Since the completion of the repairs and improvements to the Howard Hanson Dam in 2012, the Howard Hanson Dam has operated normally per its Water Control Manual without issue through numerous winter high flow events, including a significant flood in February of 2020. The Howard Hanson Dam operations staff continue to monitor the integrity of the structure in real-time through a seepage monitoring tunnel and large network of monitoring wells. The Army Corps was responsible for all dam safety costs. Projects implemented by the Army Corps include a substantial grout curtain, vertical and horizontal short path seepage dewatering wells, rock armoring and additional log booms.

In the 1970s, Tacoma Water drilled seven wells on the North Fork of the Green River (the “North Fork Wells”) approximately six miles upstream from the Headworks. The North Fork Wells have been effective in maintaining the quality of Tacoma Water’s main water supply during high turbidity in the Green River source. The well water is either blended with the river water or replaces the river water depending on the level of turbidity. This blending system was used principally between 1978 and 2014 as an alternative to filtration. Tacoma Water continues to use the blending system to reduce turbidity seasonally to optimize filtration and minimize waste leaving the Green River Filtration Facility.

In addition to the North Fork Wells, Tacoma Water has a number of wells within its service area that can be used to augment supply during peak summer demands, or in the event of emergency interruption of the Green River supply. During a typical year, approximately 92% of the Water System’s water supply is from the Green River and 8% is from these wells.

The following table summarizes the water supplied by source from 2017 to 2022 to meet the peak and average water requirements for Tacoma Water retail and wholesale deliveries (excluding Regional System water use by Kent, CWD and Lakehaven). The table does not include capacity or production values for the Participants.

**TABLE 6:  
TACOMA WATER  
SOURCES OF SUPPLY OF THE WATER SYSTEM (MGD)**

<b>Year</b>	<b>Total Production (All Sources)</b>		<b>Surface Water Sources (Green River)<sup>(1)</sup></b>		<b>Ground Water Sources (Wells)<sup>(2)</sup></b>	
	<b>Peak Day Production</b>	<b>Average Production</b>	<b>Peak Day Production</b>	<b>Average Production</b>	<b>Peak Day Production</b>	<b>Average Production</b>
2022	89.39	53.83	84.67	52.87	25.25	0.96
2021	97.06	55.53	76.68	51.83	33.53	3.71
2020	95.83	52.53	84.99	52.17	11.00	0.37
2019	82.30	53.20	76.30	52.08	15.00	1.12
2018	88.16	54.56	70.41	49.45	29.00	5.11
2017	91.97	53.48	85.34	51.29	14.00	2.19

<sup>(1)</sup> As of 2022, Tacoma’s peak Green River capacity is limited by filtration plant capacity (see “Water Rights” discussion below), which is 150 MGD.

<sup>(2)</sup> As of 2022, Tacoma’s wells have a peak capacity of 40 MGD.

*Source: City of Tacoma.*

Tacoma Water’s long-term demand forecast, updated in 2023, indicates that the Water System has sufficient water supply to meet projected demands for at least the next 50 years.

## **Water Rights**

Tacoma Water has water rights on the Green River in excess of its current needs, which include a water right claim for 73 MGD plus a water permit for up 64.6 MGD (the “Second Diversion Water Right”) that is the source of supply for the Regional System. Second Diversion Water is conditional based on Green River flow and is, therefore, only available approximately 60% of the time on an annual basis. However, Second Diversion Water may be stored behind Howard Hanson Dam in the spring, and as the water is being stored at a rate not to exceed the Second Diversion Water Right Rate, it may be withdrawn at a later date, at any rate. Therefore, when needed in the peak season, water from the Green River source may be used at a rate that is limited only by pipe/plant capacity.

Water rights for the Water System’s 24 wells, most of which are located within its service area, total 110 MGD, with an installed pumping capacity of 40 MGD.

During the last decade it has become increasingly difficult for water systems to obtain new water rights because of uncertainties in the administration of these rights. Major concerns include legal challenges to the State Department

of Ecology's ("Ecology") authority to administer water rights and concern that the additional appropriation of water in many areas might deplete limited resources. At this time, there is no foreseeable near-term resolution of this issue. Some water systems in King and Pierce counties have had a water moratorium in the recent past, restricting development. These circumstances make the Second Diversion Water Right on the Green River particularly valuable and attractive to the Participants in the Second Supply Project as well as potentially to other systems in the vicinity of Tacoma Water's existing transmission pipelines. These other systems have experienced occasional water shortages due to increased demands resulting from customer growth.

## **The Regional System**

The City has the authority under State law and the Bond Ordinance to establish additional "systems" within the Water Division, which are financed separately from the Water System. See "SECURITY FOR THE BONDS—Separate Utility Systems." As discussed herein, the Water Division currently includes one such additional system: the Regional System. Although separately financed, the Regional System is owned, operated and maintained by the City as an integral part of the Water Division. Therefore, the Regional System is accounted for from a financial reporting standpoint as part of the Water Division.

The Regional System provides water supply and transmission services to Tacoma Water and to the other Participants. The Regional System was formed by the Participants under the Project Agreement to obtain permits for and to design, finance, construct, operate, maintain and receive delivery of water from the Second Supply Project.

*Description of the Second Supply Project.* To meet its own future water supply requirements as well as to increase regional supply, in 1968 Tacoma Water began developing the Second Supply Project, which includes a second supply pipeline from Tacoma Water's Green River resource (the "Second Supply Pipeline"). The Second Supply Project is the major source of Tacoma Water's water supply for its Water System.

The Second Supply Project consists of the following components: (1) a Main Branch pipeline to the City with a 72 MGD nominal capacity; (2) headworks diversion dam and intake improvements; (3) related fisheries and environmental enhancements; (4) improvements and additions to the Howard Hanson Dam to raise the summer storage pool to elevation 1,167 to provide an additional 20,000 acre feet of water storage, together with improvements and additions related to accommodating fish passage; and (5) treatment facilities including the Filtration Treatment Project completed in 2015, now known as the Green River Filtration Facility; and as the same will be added to, improved and extended for as long as any of the Regional System Revenue Bonds are outstanding.

The Second Supply Pipeline is approximately 34 miles long and varies from 48 to 90 inches in diameter. Its route follows a more northerly route than Tacoma Water's Pipeline No. 1, traversing south King County and thereby making water available to the urbanized areas north and east of Tacoma. In addition to increasing water supply, the Second Supply Project increases flexibility and reliability of water delivery in both Tacoma Water's and the other Participants' service areas. The Second Supply Project became operational in October 2005.

*Second Supply Project Agreement.* Tacoma Water is the holder of the Second Diversion Water Right and is the owner/operator of the Second Supply Project assets on behalf of the Regional System. The Second Supply Project is separate from the Water System. Tacoma, Kent, CWD, and Lakehaven participate in the Second Supply Project under the terms of the Project Agreement, which defines their rights and obligations with regard to the Second Supply Project. Tacoma has a 15/36 Participant Share and each of Kent, CWD, and Lakehaven has a 7/36 Participant Share in the Second Supply Project. Generally, a Participant Share represents a Participant's proportional right to receive and obligation to pay for water delivered by the Second Supply Project.

As owner/operator of the Second Supply Project on behalf of the Regional System, Tacoma Water directly pays all operating, capital and debt service obligations on behalf of the Participants and in turn invoices Kent, CWD and Lakehaven for their contracted share of the expenses. Operating expenses are billed monthly on a reimbursement basis, capital expenditures are billed each quarter on a reimbursement basis and debt service is accrued monthly and paid when due.

The term of the Project Agreement extends through the operating life of the Second Supply Project, including all renewals and replacements thereof and additions thereto. The Project Agreement provides that all obligations incurred during its term will survive its termination or expiration, and will survive until such obligations are satisfied.

*Green River Filtration Facility.* The Project Agreement envisioned that future State or federal regulations may require additional or different treatment facilities in order for Project Water to remain in compliance with water quality regulations. The Project Agreement defines the costs associated with additional or different Treatment Facilities to be Project Costs, apportioned to each of the Participants on the basis of their Participant Share. Further, the Project Agreement requires the Project Committee (as described under “Project Agreement and Repayment Agreements” below) to make a determination of what Treatment Facilities should be added to the Second Supply Project.

Until 2015, the Green River was one of the few remaining major unfiltered surface water supplies in the country. In 2006, the U.S. Environmental Protection Agency (“U.S. EPA”) issued the Long Term 2 Enhanced Surface Water Treatment Rule (“LT2”), establishing new requirements for all water utilities providing water from lakes or rivers to provide treatment for inactivation or removal of Cryptosporidium. Cryptosporidium is a naturally-occurring micro-organism that can be found in open surface water sources such as the Green River, and has been responsible for waterborne disease outbreaks in some public water systems. While years of monthly testing from the Green River indicates that the presence of this organism is extremely rare, the LT2 regulation required Tacoma Water to install additional treatment for Cryptosporidium by 2014. The Participants worked with a consulting team to analyze potential strategies for LT2 compliance. Following substantial analysis, significant public outreach and communication, the filtration option was selected as the best solution for the long-term benefit of the utility customers. Representatives from Kent, CWD and Lakehaven participated in the treatment plant decision process conducted by Tacoma Water. In 2010, the Tacoma Public Utility Board, the Tacoma City Council, the CWD and Lakehaven Boards and the Kent City Council each adopted a resolution approving the installation of the Filtration Treatment Project (now known as the Green River Filtration Facility) for the Second Supply Project in order to address public health, supply reliability and regulatory compliance issues associated with the Second Supply Project Water. The Project Agreement defines the costs associated with additional or different treatments facilities to be Project Costs, apportioned to each of the Participants on the basis of their Participant Share.

The Green River Filtration Facility was completed in 2015. Funding for the project was provided, in part, from proceeds of the 2010 Bonds. The Green River Filtration Facility has the capacity to filter 150 MGD, above the 110 MGD typically required in peak summer season.

*Project Agreement and Repayment Agreements.* The term of the Project Agreement extends through the operating life of the Second Supply Project (which extends beyond the term of the Bonds), including all renewals and replacements thereof and additions thereto. Consistent with the Project Agreement, the Participants expect that the Second Supply Project will have an operating life of no less than 100 years. The Project Agreement provides that all obligations incurred during its term will survive its termination or expiration, and such obligations will survive until satisfied.

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

As Project Operator, Tacoma Water is responsible for the day-to-day operation of the Second Supply Project and is obligated, consistent with the approved annual budget (“Project Annual Budget”) then in effect, to operate and maintain the Second Supply Project in a manner that is consistent with Prudent Utility Practice. Tacoma Water also is responsible as Project Operator for, among other things, (i) monitoring the delivery of water from the Second

Supply Project to each Participant and (ii) calibrating and testing for accuracy the master meter and all delivery meters.

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

Decisions are made by a project committee consisting of one representative of each Participant (the “Project Committee”). For the Project Committee to take action, a quorum of not less than three Participants is required, with Tacoma’s presence mandatory. For approval of certain matters, including approval of capital expenditures contained in an annual budget and approval or revision of any financing plan, an affirmative vote of 29/36ths of the Project Committee votes and three of the Participants is required. Further, in order to vote on a financing plan, the representative of each Participant must present to the Project Committee a resolution by its governing body indicating the nature of the vote to be cast by the representative. A financing plan sets forth the purpose, amount, repayment schedule and timing of any proposed Regional System bond issuances.

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

Tacoma Water is required to submit to the Project Committee by no later than each July 1 a proposed Project Annual Budget for the next calendar year. By no later than October 15, the Project Committee must approve the Project Annual Budget as submitted by Tacoma Water or approve a Project Annual Budget as revised by the Project Committee. If the Project Committee has not approved a Project Annual Budget by January 1, Tacoma Water may operate the Second Supply Project and expend funds in accordance with the Project Annual Budget from the immediately preceding calendar year. The City has established a Second Supply Project operating reserve account equal to two months of its annual operating budget.

*Annual Operating Plans.* Detailed provisions of the Project Agreement govern, among other things, (i) the scheduling, withdrawal and use of Second Diversion Water from storage, (ii) the metering of water, (iii) the introduction into the Second Supply Project of additional water, (iv) the storage of Second Diversion Water upon completion of Phase I of the Howard Hanson Additional Storage Project, (v) the uses of project capacity and excess project capacity, and (vi) the effects of Uncontrollable Force affecting the water systems of the Participants on the obligations of the Participants under the Project Agreement.

*Payment of Project Costs.* The Project Agreement governs the City’s billing of Participants, no more frequently than once in each calendar month, for costs set forth in the Project Annual Budget then in effect. The Project Agreement requires disputed invoices to be paid in full, and provides a procedure for resolving invoice disputes and reconciling disputed payments. Payments will be considered past due and will accrue a late payment charge if not received on or before the due date. Tacoma Water may elect to suspend deliveries of scheduled water to any Participant for which an invoice or portion thereof remains unpaid for a period of 30 days after the due date, such suspension to apply until the Participant has paid in full all amounts due and owing.

*Payment of Bonds: Defaults in Payment.* Under the Project Agreement, the Participant Share of a Participant that has been in default for a period of 60 days or more on any payment obligation under the Project Agreement (if that payment obligation includes amounts necessary for the City to make payments on any Project Bonds such as the Bonds) will be offered for assignment to the non-defaulting Participants. In the event that other non-defaulting Participants decline any or all of the defaulting Participant’s Participant Share, Tacoma Water will increase its Participant Share in an amount equal to the defaulting Participant’s Participant Share then remaining unassigned. Historically, Participants’ Payments have been made timely and have not resulted in a default.

*Financing of the Regional System.* The Project Agreement allows each Participant to pay all or part of its Participant Share of the Second Supply Project capital costs either in cash or over time. The total original project cost was approximately \$232 million, including financing costs. Tacoma issued its Regional System Revenue Bonds in 2002 (the “2002 Regional System Revenue Bonds”) to finance a portion of the construction of the Second Supply Project. Lakehaven used cash to finance its share of the initial project. In 2002, the Participants entered into a repayment agreement and Financing Plan governing the payment of Second Supply Project costs and the obligation of Tacoma, CWD and Kent to pay debt service on the 2002 Regional System Revenue Bonds.

Tacoma issued the 2013 Regional System Revenue Bonds to refund the 2002 Regional System Revenue Bonds on April 16, 2013. Pursuant to the repayment agreement, Tacoma, CWD and Kent were obligated to pay their share of debt service on the 2013 Regional System Revenue Bonds in the same proportion as the 2002 Regional System Revenue Bonds. In connection with the issuance of the proposed 2024 Regional System Revenue Bonds and under the terms of the 2002 Repayment Agreement, as amended in connection with the issuance of the 2024 Regional System Revenue Bonds, CWD has elected to prepay its proportionate share of the 2013 Bonds and will therefore not be financially obligated to pay debt service on the proposed 2024 Regional System Revenue Bonds. As a result, Tacoma Water and Kent will be obligated to pay amounts sufficient to provide for the payment of the principal of and interest on the proposed 2024 Regional System Revenue Bonds.

In 2010, the Participants entered into a financing plan to install the Green River Treatment Facility, and Kent and CWD chose to have Tacoma issue the 2010A Regional System Revenue Bonds and 2010B Regional System Revenue Bonds (together, the “2010 Regional System Revenue Bonds”) to finance their proportionate shares. Lakehaven chose to pay its entire share of the capital cost of the Green River Treatment Facility in cash. Tacoma issued \$47,840,000 of 2010 Regional System Revenue Bonds to finance a portion of the Green River Treatment Facility. See “Green River Treatment Facility” above. Consequently, Tacoma Water, CWD and Kent are obligated to pay amounts sufficient to provide for the payment of the principal of and interest on the 2010 Regional System Revenue Bonds.

These payments by Tacoma Water, Kent and CWD are payable as operation and maintenance expenses from the gross revenues of their respective water systems. The applicable repayment agreements govern debt service payments on the Regional System Revenue Bonds and do not otherwise affect each Participant’s rights and obligations under the Project Agreement. The applicable repayment agreements take precedence over the debt repayment provisions of the Project Agreement.

The following tables show each Participant’s proportional debt service obligation with respect to the outstanding Regional System Parity Bonds and the proposed 2024 Regional System Revenue Bonds under the Payment Agreement and the applicable repayment agreement. If a Participant other than Tacoma Water defaults in its payment obligation with respect to the Regional System and the default includes any amounts necessary to make payment on the outstanding Regional System Revenue Bonds and the proposed 2024 Regional System Revenue Bonds, Tacoma Water is obligated to increase its Participant Share of the payment to the extent another Participant does not, including paying debt service on the Regional System Revenue Bonds. Because Lakehaven chose to pay its allocable share of the capital costs of the initial project and the Green River Treatment Facility with cash, it has no allocable share of the debt service on the Regional System Revenue Bonds.

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**TABLE 7:  
PARTICIPANT SHARES OF OUTSTANDING REGIONAL SYSTEM BONDS<sup>(1)</sup>**

<b>Regional System Bonds</b>	<b>Tacoma Water<sup>(2)</sup></b>		<b>CWD</b>		<b>Kent</b>		<b>Total (\$)</b>
	<b>Share (%)</b>	<b>Share (\$)</b>	<b>Share (%)</b>	<b>Share (\$)</b>	<b>Share (%)</b>	<b>Share (\$)</b>	
2010A Bonds	0.00%	--	0.00%	--	100.0%	\$ 355,000	\$ 355,000
2010B Bonds	74.42	\$32,925,000	7.94	\$ 3,515,000	17.64	7,805,000	44,245,000
2024 Bonds <sup>(3)</sup>	69.13	22,175,000	0.00	--	30.87	9,900,000	32,075,000

<sup>(1)</sup> Lakehaven elected to pay its entire share of the capital cost of the projects financed and refinanced with the proceeds of the outstanding Regional System Revenue Bonds, and therefore does not have an ongoing financial obligation with respect to such bonds or the proposed 2024 Regional System Revenue Bonds. Table 1 excludes the 2013 Regional System Revenue Bonds which are expected to be refunded with proceeds of the proposed 2024 Regional System Revenue Bonds. Prior to such refunding, Tacoma Water had a payment share of 53.36% (\$26,645,000), CWD had a payment share of 22.82% (\$11,395,000), and Kent had a payment share of 23.82% (\$11,895,000) of the 2013 Regional System Revenue Bonds.

<sup>(2)</sup> If a Participant other than Tacoma Water defaults on a Participant's Payment allocable to debt service on the Regional System Revenue Bonds, Tacoma Water is obligated to increase its Participant Share to make such payment.

<sup>(3)</sup> Preliminary, subject to change.

Source: Tacoma Water.

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**TABLE 8:  
REGIONAL SYSTEM PARITY BONDS  
PARTICIPANTS' ALLOCABLE SHARES OF ANNUAL DEBT SERVICE<sup>(1)</sup>**

<b>Year</b>	<b>Kent</b>	<b>CWD<sup>(2)</sup></b>	<b>Tacoma Water</b>	<b>Total</b>
2024	\$ 2,236,469	\$ 197,578	\$ 5,059,634	\$ 7,493,682
2025	2,185,644	197,578	4,948,214	7,331,436
2026	2,173,771	197,578	4,932,964	7,304,314
2027	2,169,093	197,578	4,943,214	7,309,885
2028	2,161,109	197,578	4,942,464	7,301,151
2029	2,159,838	197,578	4,960,964	7,318,380
2030	2,149,761	197,578	4,952,464	7,299,804
2031	2,146,129	197,578	4,962,964	7,306,671
2032	2,022,303	197,578	4,696,214	6,916,096
2033	740,135	582,578	5,470,714	6,793,427
2034	727,592	575,937	5,397,234	6,700,763
2035	719,206	568,453	5,326,447	6,614,105
2036	709,695	560,126	5,247,790	6,517,611
2037	699,061	550,956	5,166,263	6,416,280
2038	687,302	545,942	5,081,587	6,314,831
2039	674,419	534,805	4,998,478	6,207,702
2040	665,412	522,824	4,911,377	6,099,613
<b>Total</b>	<b>\$ 25,026,939</b>	<b>\$ 6,219,825</b>	<b>\$ 85,998,988</b>	<b>\$ 117,245,752</b>

Note: Totals may not foot due to rounding.

<sup>(1)</sup> Excludes the 2013 Regional System Revenue Bonds and includes the proposed 2024 Regional System Revenue Bonds. Preliminary, subject to change. Debt service shown in table does not take into account the federal interest subsidy expected to be received in connection with Regional System Revenue Bonds issued as Build America Bonds.

<sup>(2)</sup> CWD is responsible for paying its proportional share of the debt service on the 2010 Regional System Revenue Bonds and has elected to prepay its portion of the 2013 Regional System Revenue Bonds and will not be participating in the financing of the proposed 2024 Regional System Revenue Bonds.

Source: City of Tacoma and Municipal Advisor.

The average daily water of the Regional System used by the Participants for the years 2018 through 2022 is shown below. The Participants have other sources of water in addition to the Regional System. In 2022, the Regional System accounted for 42% of Tacoma's water, 87% of Kent's water, 26% of Lakehaven's water, and 73% of CWD's water.

**TABLE 9:  
SECOND SUPPLY SYSTEM  
AVERAGE DAILY TOTAL WATER USE  
(in millions of gallons per day)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Tacoma Water	22.05	24.16	23.28	22.68	22.47
Kent	1.77	1.47	2.07	1.64	2.36
Lakehaven	6.01	6.13	6.69	7.03	6.19
CWD	3.82	3.59	4.03	4.29	3.99
<b>Total Use</b>	<b>33.65</b>	<b>35.35</b>	<b>36.07</b>	<b>35.64</b>	<b>35.01</b>

Source: City of Tacoma

## **State and Federal Environmental and Water Quality Laws and Regulations**

The Water System and the Regional System are subject to regulation under several federal laws and regulations, including the Clean Water Act, the Safe Drinking Water Act and the Endangered Species Act (“ESA”), as applicable. Applicable State regulations also include the State Environmental Policy Act (“SEPA”) and State water quality standards. Tacoma Water’s management of the systems is required by State law to be consistent with the Puget Sound Water Quality Management Plan, the City’s own comprehensive plans as required by the Growth Management Act, and various other State regulations.

### **Environmental Issues**

The City’s Habitat Conservation Plan (“HCP”) for its Green River operations has been approved by the National Marine Fisheries Service (“NMFS”) and the U.S. Fish and Wildlife Service (“USFWS”), resulting in the July 2001 issuance of an Incidental Take Permit to Tacoma from each agency pursuant to the ESA. Incidental Take Permits are for a term of 50 years, which provides critical long-term certainty for Tacoma’s water supply operations on the Green River. A programmatic environmental impact statement (“EIS”) for the Second Green River Diversion and Transmission Project was prepared in 1980, and a project-specific EIS was prepared in 1987 and updated in 1994. See “Endangered Species Act Compliance” below.

To gain support from the many interested parties potentially affected by the Second Supply Project, Tacoma Water has used a consensus approach to solving various environmental issues and extension associated with completion of the Second Supply Project. Tacoma Water has been involved in long-term monitoring obligations for some of the stream and wetland crossing along the pipeline route. King County land use permitting and Washington Dept. of Fish and Wildlife hydraulic approval project permitting required a suite of mitigation projects for impacted wetlands and streams, respectively. Those projects were constructed and all required post-project monitoring has been completed.

### **Endangered Species Act Compliance**

In 1999, the NMFS listed Puget Sound Chinook salmon as a threatened species. Subsequently, the USFWS listed Puget Sound bull trout and Puget Sound steelhead as threatened species in 1999 and 2007, respectively. Pursuant to regulations, NMFS and USFWS have extended to these threatened species certain protections under the ESA. These protections include a prohibition on “take,” which includes not only harm to members of the species, but also adverse effects or destruction of habitat. This caused water utilities throughout the region to assess their potential liability under the ESA. Tacoma Water has approached these issues within a multi-faceted response strategy. First, it developed and received approval for a HCP providing ESA coverage for the three species listed above and 29 other ESA-listed or sensitive species over a 50-year period from 2001 through 2051. This significantly reduces the risk to Tacoma Water that future water supply operations may be disrupted due to ESA issues. Second, Tacoma Water has adopted a “take” avoidance strategy for its field operations on the water distribution system. Section 4(d) of the ESA allows certain categories of activities defined by federal rule to be conducted without “take” liability. In 2001, the Department obtained coverage under this provision for a wide variety of its utility maintenance activities by adopting and implementing the federally approved “Regional Road Maintenance Endangered Species Act Program Guidelines.” Tacoma Water has modified its operation to obtain coverage under this program for many of its day-to-day operations.

An essential element of the HCP is its adaptive management framework, which provides an ongoing process to evolve the strategy for managing water releases from Howard Hanson Dam to meet downstream flow needs. This involves frequent communication with the Green River Flow Management Committee, which is an interagency committee consisting of representatives from the Muckleshoot Indian Tribe, Tacoma Water, natural resource agencies, and other groups. The Army Corps considers input from the committee to adjust the refill and release regime based on a short-term planning horizon. In drought situations, the parties have historically agreed to institute consensus derived water use restrictions to make the best use of the available resource.

The HCP also calls for Tacoma Water to provide funding support to the Army Corps for a downstream fish passage facility at Howard Hanson Dam and for a monitoring and research program to support conservation of listed species and for purposes of adaptive management. The Army Corps has been planning a downstream fish passage facility at

the Howard Hanson Dam since 1999, but the project has been continuously delayed due to cost overruns and federal funding shortages. In 2019, the National Oceanic and Atmospheric Administration issued a Biological Opinion requiring the Army Corps to finish the project and have the fish passage facility operational by the end of 2030. Federal and other funding, including a 2022 award of \$220 million through the Federal Bipartisan Infrastructure Law, has now been allocated to the project. Construction of the fish passage is expected to begin in 2025 or 2026 and be completed by 2030. In addition to the positive impacts on regional salmon populations, the project is expected to increase storage for municipal and industrial drinking water to benefit Tacoma Water and the Participants and maintain dam performance to support the primary drinking water needs for customers of Tacoma Water and the Participants.

Since 2001, Tacoma Water has been implementing the habitat conservation measures, conservation monitoring measures, effectiveness monitoring measures, and research funding measures for 32 different species as required under the HCP. Every five years, Tacoma Water provides progress reports on these activities to two national regulatory agencies: National Oceanic and Atmospheric Administration (“NOAA”) Fisheries and United States Fish and Wildlife Services.

In planning future projects, the City evaluates the construction and operation of the facilities to determine if there will be any impact on endangered species through the use of site evaluations, special environmental studies, and preparation of SEPA checklists or environmental impact statements, as appropriate. Best management practices are employed during routine operation and maintenance activities to minimize impacts on the environment.

#### **State Department of Health/U.S. Environmental Protection Agency Requirements**

Tacoma Water must comply with the requirements of the rules and regulations promulgated by the U.S. EPA pursuant to the Safe Drinking Water Act. The Washington State Department of Health (“WSDOH”) is delegated by U.S. EPA to administer these regulations in the State. In addition, WSDOH has rules and regulations for the design and operation of water systems. WSDOH provides oversight of water systems including reviews, approvals, and monitoring of performance. Water supplied by Tacoma Water meets all federal and state drinking water regulations.

Tacoma Water’s 2018 Comprehensive Water Plan (the “Water System Plan”) was approved by the WSDOH in 2020. The development of the next update is planned to begin in late 2024. The Water System Plan includes projections of future water demand requirements, water quality and treatment requirements, supply development and system capital improvements. It also describes the financial plan for funding these improvements and includes other required sections such as policies and design criteria, system inventory and operations and maintenance. Because the Water System Plan as a whole is only periodically updated, Tacoma Water updates key components of the Water System Plan more frequently. These updates include Tacoma Water’s water demand forecast, capital facilities plan, strategic plan and reports of Tacoma Water’s compliance with its strategic objectives.

U.S. EPA and WSDOH continue to develop and implement additional drinking water regulations and Tacoma Water regularly monitors changing regulations and prepares for compliance with new regulations. Two key regulations that are under development by U.S. EPA include revisions to the Lead and Copper Rule and proposed maximum contaminant levels for per- and polyfluoroalkyl substances (“PFAS”).

The finalized Lead and Copper Rule revisions require all water systems to inventory and plan for replacement of lead service lines within their systems. Additional revisions to the Lead and Copper Rule are expected in 2024. With no known use of lead service lines within the water system and an established corrosion control treatment program, Tacoma Water is well-positioned to respond to the new requirements.

The U.S. EPA’s PFAS Rule is expected to be finalized in early 2024. In response to federal health advisory limits and in anticipation of future regulatory requirements for PFAS substances, Tacoma Water has tested all of its water sources that are planned for usage in meeting current and future demands. The primary water supply source at the Green River showed no detections for the proposed regulated PFAS chemicals and is not anticipated to require treatment to meet the new regulatory requirements. The groundwater supply, however, has had PFAS detections above the proposed maximum contaminant levels, and preliminary planning is underway for treatment or operational changes to ensure the groundwater supply will be in compliance with the new regulatory requirements.

## **Agreement with Muckleshoot Tribe**

In 1995, Tacoma Water entered into an agreement with the Muckleshoot Indian Tribe (the “Muckleshoots”) that settles perceived impacts from utility operations on the Muckleshoots’ treaty granted rights. The settlement package had a cost of approximately \$49 million in payments through 2044, of which \$30.3 million has been paid to date, and includes the following basic elements: (1) building a fish restoration facility and paying for annual operation and maintenance of that facility or, at the Muckleshoots’ election, making an equivalent cash payment; (2) providing for enhanced flows in the Green River; and (3) providing for limited access into the Green River watershed. With respect to item (1) above, the Muckleshoots have elected to accept an equivalent cash payment, relieving Tacoma Water of the annual operation and maintenance obligation. The Muckleshoots are planning to utilize the cash payment to construct a fish restoration facility at a future date. At that time, Tacoma Water will support the Muckleshoots in the acquisition of water rights for the facility and will develop and operate groundwater and surface water conveyance systems for the facility. The settlement resolved past damage claims by the Muckleshoots for Tacoma Water’s historical operations on the river, gained the Muckleshoots’ acceptance of the Second Supply Project and provided a basis for a long-term cooperative working relationship on the Green River.

## **Water Quality and Treatment**

Watershed monitoring and protection programs are critical to ensuring high water quality. Well managed, unpopulated watersheds minimize potential adverse effects on the water supply. Tacoma Water has a watershed control program with inspectors who patrol the watershed to protect against any unauthorized entry. Tacoma Water owns approximately 11% of the watershed area, including much of the land adjacent to the Green River and the Eagle Gorge Reservoir, located approximately three miles upstream from the Green River Headworks behind Howard Hanson Dam. Most of the land that is not owned by Tacoma Water is either U.S. Forest Service property or is owned by timber companies, the Muckleshoots, or the State Department of Natural Resources. There are no permanent residents living within the watershed boundaries. Tacoma Water, the timber companies, the Muckleshoots, and the State Department of Natural Resources work cooperatively to ensure that timber harvesting and other activities comply with watershed control best management practices, thereby minimizing any potential adverse impacts on water quality. Tacoma Water has in place agreements with the State Department of Natural Resources and the Muckleshoots to document their commitment to use these best management practices.

Tacoma Water began filtering the Green River Supply in 2015. The Green River Filtration Facility is configured for “conventional” filtration operations, including coagulation, flocculation, and sedimentation processes prior to dual media filtration, or may be operated in a “direct” filtration mode where the sedimentation process is bypassed. The facility is configured for 90 MGD capacity when operated using the conventional filtration process. Typically, this occurs in the fall, winter, and spring periods when demands are lower and the Green River water entering the plant has higher levels of turbidity and other treatment challenges. The direct filtration process, with a 150-MGD capacity, is generally used in the summer when demand is high and raw water turbidity and other treatment challenges are low.

The water from Tacoma Water’s wells is chlorinated before being introduced into the distribution system. The water quality is monitored on a regular basis in accordance with the requirements of the WSDOH and the U.S. EPA. One of Tacoma Water’s wells is equipped with an air stripping tower to remove organic compound contamination, which was discovered during the early 1980s. This treatment maintains water quality by keeping water-borne contaminants to levels that are below the detectable limits. Contaminant levels in this groundwater source have also decreased as a result of the cleanup of the pollution source and significantly more rigorous land use controls within the City to protect groundwater. In 2013, Tacoma Water completed construction of a 40-MGD groundwater treatment system at its Hood Street Reservoir to bolster compliance with regulations related to corrosiveness of water to household plumbing and to provide fluoridation of the groundwater. In 2016, the chlorination equipment at Hood Street Reservoir—which allows Tacoma Water to generate its own sodium hypochlorite onsite—was replaced, and additional upgrades to modernize the chlorination system are planned for the 2023/2024 biennium. In addition, design is underway for improvements at the 9-MGD Gravity Pipeline Wells site, which will include new pumps, motors, wellhouses, electrical systems, corrosion control treatment, and disinfection treatment for two wells. Once constructed in 2025/2026, the updated facility will improve the reliability and flexibility of Tacoma Water’s groundwater supply.

## **Drought and Climate Change Resiliency**

In the Puget Sound region, climate change models point to warmer weather year-round, drier summers, and rainier winters. However, climate change is forecasted over large time scales, and thus carries uncertainty in how it will manifest in day-to-day weather. For example, average temperature increases may be different in summer months than in winter months. Land elevation, proximity to water bodies, and vegetation also affect local conditions. Tacoma and Pierce County are diverse in these characteristics.

To understand and plan for these eventualities, Tacoma Water has created and implemented an Integrated Resource Plan (“IRP”), which will assist with supply security decisions. A Water Yield, Supply, and Demand Model (“WYSDM”) was developed to use data and projections to estimate available water during the current year (or near term year). The WYSDM can also provide capacity planning, by determining the probability Tacoma Water will be supply constrained in any future year (up to approximately 60 years). The IRP and WYSDM also include groundwater system analysis, a water conservation program assessment and update and a written report with an action plan.

Climate change is expected to impact both supply and demand. From the demand perspective, increased summer temperatures will result in more water demand for lawn irrigation, absent other changes in irrigation practices. Peak season demands could be affected strongly relative to year-round demands.

Warmer winter weather in the Green River watershed may reduce the amount of water stored annually in snowpack. The winter surface water supplies may therefore be plentiful but flows from snowmelt could be reduced substantially during spring and summer. If no action is taken, the overall impact to Tacoma Water’s surface water supply system is expected to be on the order of 18 percent reduction by 2050. Flows in the Green River could dip more frequently to minimum flow levels that must be protected. This would reduce Tacoma’s ability to divert surface water for municipal supply.

Due to the diversification of Tacoma Water’s supply portfolio, which includes significant groundwater resources in the City that are used to supplement the surface water supply from the Green River, as well as a number of emergency intertie arrangements with adjacent utilities with groundwater supplies, Tacoma Water believes that it is well positioned to address future climate change and the drought conditions that might occur from year to year.

Tacoma Water has worked proactively to understand, and plan for, any declines in source water due to climate change. Several alternatives to increase supply are being explored. The following solutions were selected for ongoing and future development:

- Tacoma Water will continue to work with the Army Corps to complete Phase 1 of the Additional Water Storage Project at Eagle Gorge Reservoir, and possibly begin work on Phase 2. Phase 1 is scheduled to be completed by 2030 and is expected to double the current municipal water storage capacity in Eagle Gorge Reservoir.
- Tacoma Water is sponsoring a Forecast-Informed Reservoir Operations (“FIRO”) assessment at Howard Hanson Dam to investigate the use of real-time weather information and advanced forecasting tools to manage flood season operations. If successful, Tacoma Water may be able to store municipal water during the winter months to help offset the impacts of climate change on water supply.
- Tacoma Water will explore the feasibility and cost of enhancing its groundwater production facilities to make more use of its existing groundwater rights. This aligns with related efforts to upgrade groundwater treatment systems to improve resiliency to major earthquakes that may occur in the Puget Sound region.
- Tacoma Water plans to implement long-term “peak shaving” strategies. These are demand management actions that reduce peak summer water use, retaining water in storage as a buffer for the supply system in the fall.

Also included in the IRP is a Resource Adequacy Standard (“RAS”). The RAS is a basis for determining whether water supplies will remain sufficient to meet service area demands, including annual variations and future growth

and development. The RAS is a fixed measure of system performance that can be applied over a range of natural hydrologic conditions, assumptions on growth rates, and improvements to the supply system. The RAS recognizes that occasional curtailment of water use is one of the standard responses available within the community's "toolkit" for managing droughts. This is more practical and cost-effective than building a system that would be immune to any possibility of water shortage.

The RAS anticipates that water curtailments will be required approximately once in a 25-year period (on average). And for use in those years, Tacoma Water has developed a Water Shortage Response Plan that specifies progressive and phased curtailment measures that can be taken in the event of a drought, and includes taking the following measures in the following order:

- Implementing voluntary curtailment messaging.
- Coordinating with state and federal resource agencies, as well as tribes, identifying and repairing significant leaks, reducing system flushing, and requesting more aggressive and targeted voluntary curtailment.
- Implementing mandatory curtailment measures to eliminate discretionary use first, and essential use as necessary, implementing emergency surcharge pricing, and enforcing violations.
- Declaring an emergency and instituting formal procedures to declare a City emergency.

In 2010, Tacoma Water started replacing its fleet of 37 step vans with hybrid models. These hybrids have shown to use over 30% less fuel, produce over 30% less carbon dioxide and over 40% less nitrogen oxide from prior vehicles.

## **Water System Security**

Tacoma Water, along with many other major water utilities, is taking additional steps to protect its water supply facilities and to prevent contamination of the water supply. Tacoma Water covered the last of its open basins in 2012. The basins were replaced with smaller covered reservoirs that will provide improved water quality as well as improved system security. The water quality leaving these new reservoirs has improved to an extent that a gas-rechlorination system has been eliminated, thus providing a decreased level of risk.

Tacoma Water also has taken actions to secure the source of supply on the Green River through increased surveillance of watershed activities and closing additional areas to access. The camera security systems used to augment security capabilities continue to be expanded and improved to meet needs. Tacoma Water staff at the Green River watershed conduct regular emergency exercises and trainings using the Incident Command System to better prepare for emergencies and natural events. In 2022 Tacoma Water completed a radio system upgrade for the Headworks and Green River Watershed operating areas. This upgrade improved communications and increased the ability to meet and respond to incidents posing a risk to water quality or the water supply.

Security has been tightened regarding chemical deliveries to Tacoma Water facilities, additional monitoring of water quality has been initiated, and security provisions are reviewed on an ongoing basis to react to changes in threat status. A system wide all-hazards analysis was completed in 2015. The intent of the analysis was to identify Tacoma Water's vulnerabilities and develop remediation and resilience strategies in effort to promote the continued safety and security of the Water System's assets. The assessment included all of Tacoma Water's infrastructure assets. In general, Tacoma Water experiences low frequency and magnitude of vandalism and theft, and there has never been an act of sabotage affecting the Water System. Natural events dominate risks to the Water System. In response to that finding, a Seismic Vulnerability Assessment was also completed in 2015. This analysis of Tacoma Water facilities, pipelines and the overall Water System was completed to evaluate the impact and damage states due to seismic scenarios. Facility performance and predicted damage were determined, in part, using Hazus Program methodologies, Risk Analysis and Management for Critical Asset Protection standards, and other data to categorize damages. The assessment included specific risks as well as natural hazards such as wildfire, drought, and flood, with a major focus on seismic threats. As a result, several recommended projects, such as radio communication upgrades, reservoir retrofits, and other seismic improvements have been completed or included in the Capital Improvement Program. The analysis is expected to be updated in 2024.

## **Customers and Water Sales; Loss of Major Customer**

Tacoma Water serves residential, commercial, industrial and wholesale customers, and charges cost of service rates by customer class. Approximately 68.3% and 68.4% of total water sales were to residential and domestic customers in 2022 and 2021, respectively. Commercial and industrial sales were 21.7% and 21.0% of total water sales in 2022 and 2021, respectively. In 2022, Tacoma Water's 10 largest customers combined accounted for 12.8% of total water sales revenue.

Special rate-contracted sales to WestRock CP LLC ("WestRock"), historically Tacoma Water's largest customer, accounted for approximately 7.3% and 7.4% of Tacoma Water's total water sales in 2022 and 2021, respectively. The City and WestRock executed an annual contract amendment for industrial water supply in July 2023. The contract provided that the City would furnish 16.0 MGD to WestRock on a uniform basis, 24 hours a day. The WestRock Tacoma mill produced kraft and white top liner and bleached pulp for a combined annual capacity of 510,000 tons. WestRock had operations in Tacoma for more than 90 years, and employed approximately 400 people.

In August 2023, WestRock announced that it would cease operations at its Tacoma mill effective September 30, 2023. WestRock is expected to continue to use some reduced amount of services from the City, including Tacoma Water, while the plant ramps down toward full closure.

While the City, including Tacoma Water, manages its finances to mitigate unanticipated revenue losses while minimizing impacts on its customers and maintaining the reliability of its systems, the financial impact of the loss of this major customer is expected to be greater to Tacoma Water than other City departments. Westrock's usage accounted for approximately 1/3 of overall average daily use of Tacoma Water's total consumption, equal to the water use of approximately 100,000 homes and will require operational changes to the Water System. Further, while Tacoma Water will no longer have the large water demand that it previously had from WestRock's water usage (Tacoma Water is anticipating a reduction in system delivery by 13 MGD in 2024), the infrastructure (pipes, filtration plant, reservoirs, water resources) used to serve WestRock and all other Tacoma Water customers will continue to require care and most of the utility's costs are fixed.

Due to its financial significance, Tacoma Water has included the potential loss of this major customer as part of its Long-Range Financial Plan during each budget and rate cycle. The Tacoma Water Long-Range Financial Plan has included a scenario of the pulp mill closure as the biggest financial risk to the utility due to the significant revenue loss. The financial planning ensured that Tacoma Water would have enough cash reserves to provide financial stability in the near-term and allow time for the development and approval of the rate increase that would be needed to make up for the lost revenue and reserves. This strategic planning has also helped Tacoma Water identify uncertainties, evaluate possible impacts, and develop mitigation strategies.

Under all scenarios presented in connection with the Westrock closure, rate adjustments to offset the loss of revenue were shown to be necessary. On November 28, 2023, the City Council adopted a 5.0% system average rate increase for all customers to help compensate for the loss of the expected revenue from WestRock. See "Water Rates" below. An updated revenue requirement, Long-Range Financial Plan, and cost of service analysis will be developed in early 2024 to inform the budget and rate proposal for the 2025-2026 biennium and will recommend rates as needed to maintain financial stability and sustainability.

Tacoma Water is also pursuing opportunities to increase revenue from other sources, including potential wholesale contracts, as well as reduce expenses by potentially delaying capital projects to ease immediate cost pressures. Tacoma Water expects to refresh its demand forecast in the spring of 2024 with its 2025-2026 budget and rates process.

The full impact of the departure of WestRock on the Water System is currently uncertain and Tacoma Water will continue to monitor and take steps to mitigate the impact as needed.

## **Wholesale Agreements**

Tacoma Water has agreements with a number of regional water purveyors to provide wholesale service. In 2023, Tacoma Water successfully worked with the City of Fife to increase its peak water delivery by an additional 587,333 gallons per day.

Tacoma Water continues to look for opportunities to sell its surplus water supply. In 2024, Tacoma Water expects to reach out to existing wholesale customers, and neighboring water utilities who do not have a wholesale relationship with Tacoma Water, to explore options for expanded wholesale service.

### **Agreement with Cascade Water Alliance**

In 2005, Tacoma Water entered into an agreement with the Cascade Water Alliance (“Cascade”), a regional wholesale water supplier, that entitled Cascade to a permanent supply of four MGD of water (average daily demand) each year, and an additional guaranteed reserved supply of six MGD (average daily demand) through 2026, declining to one MGD (average daily demand) in 2030 (the “Additional Supply”), and discontinuing thereafter. Tacoma Water entered into an Amended and Restated Agreement for the Sale of Wholesale Water with Cascade effective December 31, 2012, that specifies a fixed payment stream from Cascade to Tacoma Water from 2012 through 2042. It also enabled Cascade to transfer capacity that was previously purchased from Tacoma Water to the Cities of Auburn, Bonney Lake, Buckley, and Sumner (the “Four Cities”) over a period of five years, after which Tacoma Water made such capacity available for direct purchase to the Four Cities until December 31, 2026. When such capacity transfer occurs, a wholesale water agreement will be negotiated between Tacoma Water and one or more of the Four Cities, and all water sales revenues will be received by Tacoma Water. The first such transfer occurred in 2014 with the execution of the previously mentioned agreement with the City of Auburn, which augmented the wholesale supply capacity of a prior agreement from 1.0 MGD to 3.5 MGD.

Tacoma Water will receive a fixed payment stream, totaling \$119.7 million, from Cascade in amounts ranging from \$5,000,000 to \$6,863,929 between 2012 and 2029, inclusive, and ranging from \$1,000,000 to \$1,268,242 between 2030 and 2042, inclusive. Revenues from additional wholesale sales that result from the transfer of capacity to one of the Four Cities will be in addition to these payments from Cascade.

### **Advanced Metering Program**

In 2020, the Department began upgrading and replacing its water and electric meters with Advanced Metering Infrastructure (“AMI”). The AMI project allows the Department to capture more water and electric data remotely, improve billing accuracy and provide additional services to its customers, such as outage management and leak detection. Certain customers who do not want to participate in the AMI project have the option to receive an advanced electric meter with the radio frequency transmitter disabled, for potentially an additional fee for manual billing. The Department, however, is not planning to offer an AMI opt-out option for residential water or commercial accounts. The cost of the AMI project is included in current rates, and the project is expected to be substantially completed in 2024. The Department has incorporated the City’s Equity Index into its deployment of the AMI project in an effort to bring awareness to underserved communities in the service area and where low historical infrastructure investment areas exist. Tacoma Water now offers grants and deferred loans to help customers pay for leaking water line repairs.

### **Response to COVID-19; Billing and Delinquent Accounts**

At the outset of the 2019 novel coronavirus (“COVID-19”) pandemic, the City, including Tacoma Water, modified certain of its operations in response to the public health emergency. In March 2020, the State issued a moratorium on disconnecting electric, water, and other utility services due to nonpayment, and charging fees for late payment or reconnection for certain utilities, including Tacoma Water. In March 2020, the City Mayor issued a similar proclamation. All customers were included: residential, commercial, and industrial. The state-wide moratorium on disconnections for nonpayment ended September 30, 2021, and prohibition on late fees ended October 27, 2021.

The Water System, similar to other City utilities, experienced an increase in delinquencies and outstanding accounts because of the COVID-19 pandemic and the utility shut-off moratorium. Subsequent to the moratorium end date of March 31, 2022, accounts with outstanding balances were automatically put on an automatic, interest free, 24-month installment plan. At its peak, the Department had over \$33 million in past due customer fees, including all services for commercial, industrial, and residential accounts. Throughout the pandemic, Department staff worked with customers to connect them with available funding through internal programs as well as federal and other funding available by way of community partners. In addition, the Department received over \$17 million from the Energy Division of the Washington State Department of Commerce to assist eligible residential customers who still had outstanding COVID-19 utility bill balances on installment plans. The funding came from the Coronavirus State and Local Fiscal Recovery Funds program, from the American Rescue Plan Act. Of this amount, approximately \$1.7 million was used by Tacoma Water to assist overdue utility accounts.

Delinquency rates have since returned to pre-COVID levels of approximately 0.6%. As of November 1, 2023, Tacoma Water had approximately 650 past due accounts, totaling approximately \$1.38 million. Of which, approximately \$1.3 million was past due from inactive accounts and approximately \$80,000 was past due from active accounts. The City continues to encourage customers to take advantage of any available relief assistance funding and is developing long-term payment programs, including through its payment assistance programs. The Department will continue to monitor the community impacts of COVID-19 and any other public health emergency and remain flexible on responding to community needs.

The Department and the City's Department of Environmental Services offer a Bill Credit Assistance Plan and a Discount Rate Program to qualifying customers. Beginning in 2023, qualifying customers enrolled in the Department's Bill Credit Assistance Plan receive an automatic monthly bill credit for all services, regardless of payment. Additional credits may be achieved with full and on time payments, among other requirements. The amount of the monthly bill credits depend on the services received. The automatic monthly bill credit for water service is \$4.00, plus an additional achievable credit of \$5.00 for qualifying customers. Tacoma Water estimates that approximately 19,000 residential customers are eligible for automatic credits, which may help to mitigate 2023-2024 rate impacts for qualifying customers while addressing equity needs within Tacoma Water's service area. Beginning in 2024, automatic monthly bill credits for water service will increase by \$3.00 to offset the additional rate increase addressing the financial impact of WestRock's departure. See "Customers and Water Sales; Loss of Major Customer" above.

## **Water Rates**

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

*Rate Structure.* Tacoma Water's rate structure consists of two basic components, a monthly ready-to-serve and a monthly consumption charge. The fixed charge includes a monthly hydrant fee. In addition, the City charges a one-time system development charge on new services to more equitably distribute the costs associated with growth. As described under "THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA WATER," the Board has adopted a water rate policy that, among other provisions, provides that rates be set based on cost of service within a customer class. Other charges and fees may apply, such as late fees or surcharges for water system acquisitions.

Water rates and charges are codified in chapter 12.10 in the Tacoma Municipal Code ("TMC"). Rates for 2024 were initially adopted by the City Council in 2022 (approving a system average annual rate increase of 4.0%). In response to the closure of WestRock and to help mitigate the financial impact from the loss of this major customer (see "Customers and Water Sales; Loss of Major Customer" above), on November 28, 2023 the City Council adopted an additional rate increase of 5.0%, for a total average annual rate increase beginning on January 1, 2024 of 9.0%. This additional rate increase will raise the average monthly bill for residential customers by approximately \$2.28 (for customers located inside of the City) and \$3.03 (for customers located outside of the City) each month, however, Tacoma Water simultaneously increased the credit available under its Bill Credit Assistance Program by \$3.00 per month to offset the impact of this aggregate rate increase for low-income eligible customers. See "Response to COVID-19; Billing and Delinquent Accounts" above.

Average annual rate increases since 2017 are summarized in the following table.

**TABLE 10:  
TACOMA WATER AVERAGE RATE INCREASES**

<b>Year</b>	<b>Average Annual Increase</b>
2017	4.0%
2018	4.0
2019	2.5
2020	2.5
2021	1.5
2022	2.0
2023	4.0
2024	9.0

*Source: City of Tacoma.*

Tacoma Water's current water rates for residential, commercial and large volume customers are summarized in the tables below. These rates became effective January 1, 2024.

**TABLE 11:  
TACOMA WATER  
FIXED WATER RATES AND CHARGES**

<b>Size of Meter (inches)</b>	<b>Inside City Limits</b>	<b>Outside City Limits</b>	<b>City of University Place</b>
5/8	\$ 28.95	\$ 34.94	\$ 37.53
3/4	41.92	50.51	54.24
1	67.84	81.62	87.66
1-1/2	132.65	159.38	171.19
2	210.42	252.70	271.44
3	391.89	470.47	505.33
4	651.14	781.57	839.49
6	1,299.25	1,559.30	1,674.84
8	2,076.98	2,492.58	2,677.29
10	2,984.34	3,581.41	3,846.80
12	4,377.79	5,253.55	5,642.84

*Source: City of Tacoma.*

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**TABLE 12:  
TACOMA WATER  
CONSUMPTION WATER RATES AND CHARGES**

	<b>Inside City Limits</b>	<b>Outside City Limits</b>	<b>City of University Place</b>
<b>Consumption Up to and Including:</b>	<b>1/1/2024</b>	<b>1/1/2024</b>	<b>1/1/2024</b>
<b>Residential</b>			
Each 100 cubic feet of consumption October through May	\$ 2.575	\$ 3.089	\$ 3.318
First 500 cubic feet of consumption June through September	2.575	3.089	3.318
Each 100 cubic feet of consumption over 500 cubic feet June through September	3.218	3.862	4.148
<b>Commercial and Industrial</b>			
General	2.606	3.127	3.359
<b>Large Volume</b> (over 65,000 cubic feet annually)	2.027	2.432	2.612
<b>Parks and Irrigation</b>			
For each 100 cubic feet	5.322	6.387	6.861

*Source: City of Tacoma.*

Tacoma Water's charges for water service are competitive with those of other major water utilities in the Pacific Northwest as well as other regional water utilities. A comparison of Tacoma Water's current rates with those of certain other water utilities located in major metropolitan areas and elsewhere in the region are set forth in the following table.

**TABLE 13:  
2023 COMPARISON OF AVERAGE MONTHLY WATER BILLS**

<b>UTILITY</b>	<b>5/8" RESIDENTIAL (Average Bill)<sup>(1)</sup></b>	<b>2" COMMERCIAL (Average Bill)<sup>(2)</sup></b>
<b>Tacoma Water <sup>(3)</sup></b>	\$ 43.75	\$ 314.36
<b>Major Water Systems:</b>		
City of Everett, WA	37.83	238.84
Portland, OR Water Bureau	68.07	371.78
Seattle Public Utilities	61.45	346.23
<b>Neighboring Water Systems:</b>		
City of Bellevue, WA	62.06	450.50
City of Lakewood, WA	27.32	156.18
City of Puyallup, WA	33.30	228.34
City of Olympia, WA	34.64	224.76

<sup>(1)</sup> Based on a consumption pattern of 600 cubic feet per winter month (October – May) and 900 cubic feet per summer month (June – September).

<sup>(2)</sup> Based on a consumption pattern of 5,000 cubic feet per month.

<sup>(3)</sup> Tacoma rates effective as of January 1, 2023; Inside-City customer. Average residential and commercial bills based on rates effective as of January 1, 2024 are estimated to be \$47.83 and \$340.72, respectively; Inside-City customer.

*Source: Individual Utilities.*

In 1991, Tacoma Water implemented a system development charge ("SDC"), which is a one-time charge on each new water service connection to the Water System, for a service upgrade requiring a larger meter, or for any existing

service with a 3-inch or larger meter that exceeds 150 percent of the highest maximum annual daily average water use. The SDC fee is based on an equitable share of the cost of the entire existing Water System and future facilities necessary to accommodate projected growth. This fee is established pursuant to RCW 35.92.025, the City Charter, and chapter 12.10 TMC. SDCs are considered contributions for or in aid to construction, and are accounted for accordingly. The following table shows current SDCs (which initially became effective on December 1, 2020) for 2-inch meter sizes or smaller.

**TABLE 14:  
TACOMA WATER SDC CHARGES<sup>(1)</sup>  
(2-INCH METER SIZE OR SMALLER)**

<b>Meter Size (in.)</b>	<b>Residential</b>		<b>Commercial and Other</b>	
	<b>Inside City</b>	<b>Outside City</b>	<b>Inside City</b>	<b>Outside City</b>
5/8	\$ 809	\$ 907	\$ 1,061	\$ 1,273
3/4	1,213	1,456	1,592	1,910
1	2,022	2,426	2,653	3,183
1-1/2	4,043	4,852	5,306	6,367
2	6,469	7,763	8,489	10,187

<sup>(1)</sup> Effective January 1, 2020.

*Source: City of Tacoma.*

For meters 3-inches and larger, the SDC is the sum of the average day use multiplied by the average day cost/gallon, and the peak day use minus average day use multiplied by the peak day cost/gallon. Inside the City, average cost per gallon is \$2.09 for peak and average (non-summer) days, and outside of the City, average cost per gallon is \$2.51 for peak and average days. These rates became effective on January 1, 2020.

The following table shows annual funds recognized as revenues from SDCs from 2016 through 2022.

**TABLE 15:  
TACOMA WATER ANNUAL SDC REVENUE**

<b>Year</b>	<b>SDC Recognized Revenue</b>
2016	\$ 2,242,371
2017	2,585,712
2018	5,883,499 <sup>(1)</sup>
2019	2,418,367
2020	2,078,058
2021	3,545,748
2022	1,907,917

<sup>(1)</sup> SDC revenue increased in 2018 due to two large volume customers adding capacity.

*Source: City of Tacoma.*

Tacoma Water has also implemented specific rates and charges for fire protection services, wholesale contracts, and others, and offers discounts for certain eligible customers. For instance, residential customers who qualify as low-income senior or low-income disabled may apply to qualify for such reduction. See chapter 12.10 TMC for more information.

## CAPITAL IMPROVEMENT PROGRAMS - TACOMA WATER AND REGIONAL SYSTEM

### Tacoma Water Capital Improvement Program

Tacoma Water actively maintains a 10-year capital improvement program projection, which includes capital improvements, additions and renovations to the Water System necessary to address engineering recommendations, regulatory requirements and water quality standards and to provide for present and projected future customer needs. From this projection of need, Tacoma Water derives its Capital Improvement Program for the Water System. This program is an element of the City's Growth Management Act Comprehensive Plan, which contains a six-year projection of projects and is updated annually.

Tacoma Water and the Regional System have been impacted by inflation and supply chain delays, resulting in reprioritization and delays in certain infrastructure projects. Tacoma Water has conducted additional analyses to determine that the projects it undertakes are still suited to its needs when constructed given the longer lead times or higher prices. Tacoma Water cannot predict whether such trends will continue and what the impacts will be on its capital planning.

The following table shows the 2024-2028 Capital Improvement Program for Tacoma Water. Tacoma Water currently plans to fund these improvements with a combination of operating and capital reserves on hand, SDCs and other miscellaneous revenue as well as proceeds of Future Parity Bonds and additional junior lien obligations. In response to the closure of WestRock (see "THE WATER SYSTEM AND THE REGIONAL SYSTEM—Customers and Water Sales; Loss of Major Customer"), Tacoma Water has reviewed and will continue to review its capital improvement program focusing on those projects impacted by this loss of demand. While Tacoma Water will no longer have the large water demand that it previously had from WestRock's water usage, the infrastructure (pipes, filtration plant, reservoirs, water resources) used to serve WestRock and all other Tacoma Water customers will continue to require maintenance. There will be limited ability to remove segments of the Water System from service to reduce costs.

**TABLE 16:  
TACOMA WATER  
2024-2028 CAPITAL IMPROVEMENT PROGRAM  
(\$000)**

Use of Funds	2024	2025	2026	2027	2028
Fleet	\$ 6,240	\$ 2,009	\$ 2,009	\$ 812	\$ 812
Technology Projects	1,978	1,795	1,795	1,605	1,605
Wells Master Plan <sup>(1)</sup>	8,740	1,160	1,160	2,660	2,660
Pipeline 1 Pressurization Program	2,075	1,300	1,620	1,730	5,190
Water Supply	1,333	3,150	4,625	4,284	3,101
Water Treatment	1,715	378	378	886	886
Water Distribution <sup>(2)</sup>	5,124	5,444	3,844	6,246	5,946
Contingency	1,025	900	900	900	900
Carry Forward Factor <sup>(3)</sup>	(2,823)	(1,614)	(1,633)	(1,912)	(2,110)
<b>Total Uses<sup>(4)</sup></b>	<b>\$ 25,406</b>	<b>\$ 14,522</b>	<b>\$ 14,697</b>	<b>\$ 17,211</b>	<b>\$ 18,990</b>

<sup>(1)</sup> Tacoma Water is currently reviewing the groundwater prioritization projects given the closure of WestRock.

<sup>(2)</sup> Includes main renewal replacement program and other distribution renewal replacement projects such as hydrants, meters, and blowoffs.

<sup>(3)</sup> The Carry Forward Factor assumes some capital projects are carried from one year to the next by applying a 10% reduction to the capital budget.

<sup>(4)</sup> Totals may not foot due to rounding.

Source: City of Tacoma.

## Regional System Capital Improvement Program

The following table shows the 2024-2028 capital improvement program for the Regional System. Tacoma Water expects to fund these maintenance and repair projects with revenues of the Regional System. The City has no plans for the issuance of debt for the Regional System in the next several years.

**TABLE 17:**  
**REGIONAL SYSTEM**  
**2024-2028 CAPITAL IMPROVEMENT PROGRAM**  
**(\$000)**

<b>Use of Funds</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
Communication	--	\$ 143	\$ 1,043	\$ 110	\$ 110
Equipment	\$ 576	405	405	288	288
Fish Trap and Sort Facility	156	445	445	125	125
Fleet	424	291	291	195	195
General	617	--	--	--	--
Howard Hanson Additional Water Storage	455	864	864	1,162	1,162
Piling Creek Bridge	--	--	--	250	250
Pipeline 5	5	3,500	3,500	--	600
Renewal & Replacement	100	100	100	100	100
Treatment	465	735	535	100	100
<b>Total Uses<sup>(1)</sup></b>	<b>\$ 2,798</b>	<b>\$ 6,481</b>	<b>\$ 7,181</b>	<b>\$ 2,329</b>	<b>\$ 2,929</b>

<sup>(1)</sup> Totals may not foot due to rounding.

Source: City of Tacoma.

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## HISTORICAL OPERATING RESULTS - TACOMA WATER AND REGIONAL SYSTEM

### Historical Number of Customers and Water Sales

The following table shows Tacoma Water's customer accounts and water sales for the years 2018 through 2022. June 28, 2021 was recorded as the hottest day on record for the City at 108 degrees, which also coincided with record water delivery to the Water System at 97 MG. This generated above average water sales in 2021. In 2022, Tacoma Water saw delayed peak temperatures leading to peak consumption shifting into late summer and early fall, resulting in below average water sales in 2022 (due to lower fall rates).

**TABLE 18:  
TACOMA WATER  
HISTORICAL NUMBER OF CUSTOMERS AND WATER SALES**

	2018	2019	2020	2021	2022
<b>Customer Accounts (Average)</b>					
Residential & Domestic Services	96,523	98,889	101,008	101,198	102,308
Commercial & Industrial Service	6,577	6,757	6,839	6,944	6,571
WestRock <sup>(1)</sup>	1	1	1	1	1
Wholesale	15	16	24	22	17
<b>Total Customer Accounts</b>	<u>103,116</u>	<u>105,663</u>	<u>107,872</u>	<u>108,165</u>	<u>108,897</u>
<b>Water Sales (ccf)<sup>(2)</sup></b>					
Residential & Domestic Services	11,322,629	11,028,765	11,914,013	12,503,442	11,454,118
Commercial & Industrial Service	4,457,749	4,401,975	4,341,347	4,637,103	4,191,687
WestRock <sup>(1)</sup>	7,800,282	7,735,140	7,752,656	7,749,840	7,772,053
Wholesale	1,184,264	1,188,982	973,219	1,232,283	930,770
<b>Total Water Sales</b>	<u>24,764,924</u>	<u>24,354,862</u>	<u>24,981,235</u>	<u>26,122,668</u>	<u>24,348,628</u>

<sup>(1)</sup> In August 2023, WestRock announced that it would cease operations at its Tacoma mill effective September 30, 2023. See "THE WATER SYSTEM AND THE REGIONAL SYSTEM—Customers and Water Sales; Loss of Major Customer."

<sup>(2)</sup> ccf = 100 cubic feet.

Source: *Annual Tacoma Water financial reports.*

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## Historical Revenue and Expenses – Tacoma Water

The following table shows selected historical revenues and expenses for Tacoma Water for the years 2018 through 2022, based on consolidated audited financial statements that include Tacoma Water and the Regional System for the period.

**TABLE 19:  
TACOMA WATER  
HISTORICAL OPERATING RESULTS**

	2018	2019	2020	2021	2022
<b>Operating Revenue<sup>(1)</sup></b>					
Water Sales	\$ 89,449,722	\$ 90,242,382	\$ 92,707,740	\$ 98,999,183	\$ 101,188,399
Other Operating Revenue	12,491,739	12,302,372	11,760,454	12,360,117	14,029,299
<b>Total Operating Revenue</b>	<b>\$ 101,941,461</b>	<b>\$ 102,544,754</b>	<b>\$ 104,468,194</b>	<b>\$ 111,359,300</b>	<b>\$ 115,217,698</b>
<b>Operating Expenses<sup>(1)</sup></b>					
Operating & Maintenance	\$ 45,892,214	\$ 50,339,168	\$ 52,116,679	\$ 56,343,811	\$ 54,350,532
Taxes <sup>(2)</sup>	5,273,751	5,188,882	5,398,410	5,856,255	6,574,082
Depreciation	26,117,843	25,295,078	25,723,865	27,727,624	28,400,190
<b>Total Operating Expenses</b>	<b>\$ 77,283,808</b>	<b>\$ 80,823,128</b>	<b>\$ 83,238,954</b>	<b>\$ 89,927,690</b>	<b>\$ 89,324,804</b>
<b>Net Operating Income (Loss)</b>	<b>\$ 24,657,653</b>	<b>\$ 21,721,626</b>	<b>\$ 21,229,240</b>	<b>\$ 21,431,610</b>	<b>\$ 25,892,894</b>
<b>Non-Operating Revenue (Expenses)<sup>(1)</sup></b>					
Other Income <sup>(3)</sup>	\$ 3,215,049	\$ 1,802,296	\$ 651,209	\$ 2,441,693	\$ 807,804
Interest Income	3,876,762	7,370,377	5,522,409	(1,182,910)	(2,687,718)
Interest Charges (Net)	(19,269,514)	(18,181,445)	(17,565,824)	(17,094,995)	(16,896,259)
<b>Total Non-Operating Revenue (Expenses)</b>	<b>\$ (12,177,703)</b>	<b>\$ (9,008,772)</b>	<b>\$ (11,392,206)</b>	<b>\$ (15,836,212)</b>	<b>\$ (18,776,173)</b>
<b>Net Income (Loss) Before Capital Contributions<sup>(1)</sup></b>	<b>\$ 12,479,950</b>	<b>\$ 12,712,854</b>	<b>\$ 9,837,034</b>	<b>\$ 5,595,398</b>	<b>\$ 7,116,721</b>
Less: Regional System Net Income (Loss) Before Capital Contributions	(8,174,534)	(6,234,027)	(6,597,886)	(6,405,388)	(5,578,529)
<b>Tacoma Water Net Income (Loss) Before Capital Contributions</b>	<b>\$ 20,654,484</b>	<b>\$ 18,946,881</b>	<b>\$ 16,434,920</b>	<b>\$ 12,000,786</b>	<b>\$ 12,695,250</b>
<b>Debt Service Calculation Adjustments</b>					
Add: SDC Revenue	\$ 5,883,499	\$ 2,418,367	\$ 2,078,058	\$ 3,545,748	\$ 1,907,917
Add: Interest Subsidies on Water BABs	2,783,195	2,793,352	2,825,580	2,810,461	2,803,010
Add: Depreciation	16,918,137	16,787,988	17,202,439	19,203,238	19,857,867
Add: Interest Charges (Net)	14,362,259	13,535,753	12,985,934	12,594,198	12,480,063
<b>Net Tacoma Water Revenue Available for Debt Service</b>	<b>\$ 60,601,574</b>	<b>\$ 54,482,341</b>	<b>\$ 51,526,931</b>	<b>\$ 50,154,431</b>	<b>\$ 49,744,107</b>
<b>Debt Service on Outstanding Bonds Tacoma Water Parity Bonds</b>	<b>\$ 18,704,395</b>	<b>\$ 18,712,000</b>	<b>\$ 18,782,440</b>	<b>\$ 18,272,370</b>	<b>\$ 18,229,022</b>
<b>Debt Service Coverage</b>	<b>3.24</b>	<b>2.91</b>	<b>2.74</b>	<b>2.74</b>	<b>2.73</b>

<sup>(1)</sup> Includes Regional System operating results. See Table 20.

<sup>(2)</sup> Excludes City transfer for gross earnings tax, which is payable after debt service.

<sup>(3)</sup> Excludes NCS Federal Assistance grant.

Source: Water Division, 2021 and 2022 Financial Reports (consolidated).

### **Historical Revenue and Expenses – Regional System**

As described herein, Tacoma Water and the other Participants pay all costs of the Regional System on the same lien as operating costs of their respective utilities, prior to the payment of debt service for revenue bonds of such utility and capital expenses. The Participants are billed and reimburse their share of capital and operating and debt service expenses. Tacoma Water receives the payments from the other Participants and pays all capital and operating costs and debt service of the Regional System.

The Regional System annual revenues are established to approximately equal annual capital and operating costs and debt service. Variations from year to year primarily reflect the timing of payments received by Tacoma Water and payments made for capital projects. If a Participant other than Tacoma Water defaults in its payment obligation with respect to the Regional System and the default includes any amounts necessary to make payment on the Parity Bonds, Tacoma Water is obligated to increase its Participant Share of the payment to the extent another Participant does not, including paying debt service on the Regional System Revenue Bonds.

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The following table shows selected historical revenues and expenses for the Regional System for the years 2017 through 2022.

**TABLE 20:  
REGIONAL SYSTEM  
HISTORICAL OPERATING RESULTS<sup>(1)</sup>  
(Year ending December 31)**

	<b>Audited</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Operating Revenues</b>					
Tacoma Water	\$ 5,041,520	\$ 5,593,915	\$ 5,717,532	\$ 5,717,794	\$ 6,374,785
Kent	2,105,769	2,263,368	2,257,617	2,361,879	2,610,210
CWD	1,580,946	1,815,592	1,756,042	1,888,693	2,115,299
Lakehaven	<u>740,232</u>	<u>827,974</u>	<u>781,530</u>	<u>903,018</u>	<u>1,102,011</u>
<b>Total Operating Revenues</b>	\$9,468,467	\$10,500,849	\$10,512,721	\$10,871,384	\$12,202,305
<b>Operating Expenses</b>					
Operations & Maintenance	\$ 3,718,890	\$ 3,928,423	\$ 4,261,822	\$ 4,218,612	\$ 4,712,030
Depreciation	<u>9,199,706</u>	<u>8,507,090</u>	<u>8,521,426</u>	<u>8,524,386</u>	<u>8,542,323</u>
<b>Total Operating Expenses</b>	\$12,918,596	\$12,435,513	\$12,783,248	\$12,742,998	\$13,254,353
<b>Net Operating Income (Loss)</b>	\$(3,450,129)	\$(1,934,664)	\$(2,270,527)	\$(1,871,614)	\$(1,052,048)
<b>Non-Operating Revenue (Expense)</b>					
Interest and Other Income	\$ 182,850	\$ 346,329	\$ 252,531	\$ (32,977)	\$ (110,285)
Interest Charges (Net)	<u>(4,907,255)</u>	<u>(4,645,692)</u>	<u>(4,579,890)</u>	<u>(4,500,797)</u>	<u>(4,416,196)</u>
<b>Total Non-Operating Revenue (Expense)</b>	\$(4,724,405)	\$(4,299,363)	\$(4,327,359)	\$(4,533,774)	\$(4,526,481)
<b>Net Income (Loss) Before Capital Contributions</b>	\$(8,174,534)	\$(6,234,027)	\$(6,597,886)	\$(6,405,388)	\$(5,578,529)
<b>Debt Service Calculation Adjustments</b>					
Add: Capital Contributions from Participants	\$ 129,958	\$ (163,022)	\$ 57,235	\$ 151,393	\$ 241,782
Add: Interest Subsidies on Regional System 2010B Bonds	813,046	816,007	825,426	818,833	818,833
Add: Depreciation	9,199,706	8,507,090	8,521,426	8,524,386	8,542,323
Add: Interest Charges (Net)	<u>4,907,255</u>	<u>4,645,692</u>	<u>4,579,890</u>	<u>4,500,797</u>	<u>4,416,196</u>
<b>Net Regional System Revenue Available for Debt Service</b>	\$6,875,431	\$7,571,740	\$7,386,091	\$7,590,021	\$8,440,605
<b>Debt Service on Outstanding Parity Bonds</b>	\$5,610,671	\$6,365,634	\$6,359,276	\$6,445,519	\$6,459,139

<sup>(1)</sup> The rate covenant of the bond ordinances authorizing the outstanding Regional System Revenue Bonds requires the City to establish, maintain and collect contract charges or other amounts for water and other goods and services sold or supplied through the facilities of the Regional System that will provide the City with revenues of the Regional System sufficient for the payment of costs of the Regional System.

Source: Water Division, 2021 and 2022 Financial Reports (Regional Water Supply System).

## **CERTAIN INVESTMENT CONSIDERATIONS**

*Prospective purchasers of the Bonds should consider the matters set forth below as well as other information contained in this Official Statement in evaluating an investment in the Bonds. This section does not purport to be a comprehensive list or description of all potential risks which, if realized, could adversely affect the payment or the value of the Bonds. The order of presentation of these factors below is not intended to create any implication as to the relative importance of any one risk factor over another.*

### **Initiative and Referendum**

Under the State Constitution, the voters of the State have the ability to initiate legislation and modify existing legislation through the powers of initiative and referendum, respectively. The initiative power in Washington may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

Under the City Charter, voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law. Some ordinances become effective immediately, including ordinances passed as emergency measures, or relating to local improvements and assessments and authorization of bonds therefor, or adopting annual budgets, or levying taxes, or making appropriations. Ordinances granting a franchise, right, or privilege, or authorizing the issuance of revenue bonds in an amount exceeding \$5 million take effect as the City Council determines. All other ordinances take effect only after the expiration of 10 days from publication and are subject to the provisions of the City Charter concerning referendum.

### **Limitations on Remedies**

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

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

### **No Acceleration Upon an Event of Default**

Upon the occurrence of an Event of Default under the Bond Ordinance, neither any Owner of a Bond nor any Bondowners' Trustee will have the right under the Bond Ordinance to accelerate the payment of debt service on the Bonds. The City thus is liable for principal and interest payments only as they become due. The inability to accelerate the Parity Bonds limits the remedies available to the Bondowners' Trustee and the Owners upon an Event of Default, and could give rise to conflicting interests among Owners of earlier-maturing and later-maturing Bonds. The nature and extent of any such conflicts would depend in part upon the nature and duration of any default. In the event of successive defaults in payment of the principal of or interest on the Bonds, the Bondowners' Trustee or the Owners may be required to file a separate action for each such payment not made. Any such action to compel payment or for money damages would be subject to the limitations on legal claims and remedies against public

bodies under State law. For a description of the Events of Default and remedies set forth in the Bond Ordinance, see Appendix A—“COPY OF THE BOND ORDINANCE.”

The Bond Ordinance does *not* prohibit the issuance of debt, including Future Parity Bonds, subject to mandatory redemption or mandatory purchase or tender for purchase upon the occurrence and continuance of an Event of Default or other default. A mandatory redemption or purchase or tender for purchase would be substantively similar to the remedy of acceleration.

### **Municipal Bankruptcies**

Under current Washington law, local governments, such as the City and the Participants, may be able to file for bankruptcy under Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”). A creditor cannot bring an involuntary bankruptcy proceeding against a municipality, including the City or the Participants. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code. Taxing districts, including the City and the Participants, in the State are expressly authorized to carry out a plan of readjustment if approved by the appropriate court. Should the City or a Participant become a debtor in a federal bankruptcy proceeding, the owners of the Parity Bonds would continue to have a statutory lien on Gross Revenues after the commencement of the bankruptcy case so long as Gross Revenues constitute “special revenues” within the meaning of the Bankruptcy Code. “Special revenues” are defined under the Bankruptcy Code to include, among other things, receipts by local governments from the ownership, operation or disposition of projects or systems that are primarily used to provide utility services. The Bankruptcy Code provides that “special revenues” can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents, such as the Bond Ordinance. It is not clear precisely which expenses would constitute necessary operating expenses and any definition in the Bond Ordinance may not be applicable.

Furthermore, in the event of a bankruptcy, the other parties (including the Registrar, the holders of the Bonds and any Bondowners’ Trustee) may be prohibited from taking any action to collect any amount from the City, to enforce any obligations of the City, or to exercise any remedies unless the permission of the bankruptcy court is obtained. The rate covenant may not be enforceable in bankruptcy by the holders of the Bonds. Legal proceedings to resolve issues could be time-consuming and expensive, and substantial delays and reductions in payments could result.

The legal opinion of Bond Counsel regarding the validity of the Bonds will be qualified by reference to bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium and other similar laws affecting the rights of creditors generally, and by general principles of equity. See Appendix G.

### **Federal and Local Regulations**

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

There are a variety of proposed regulations and legislation at the state and federal levels that could be considered in 2024. Topics include regulations on PFAS in drinking water, mandates related to the identification and removal of lead service lines, ongoing policies related to federal sequestration, policies relating to tax-exempt financing, and critical infrastructure cybersecurity. While these policies and others have been proposed for many years, it is unclear which, if any, will be adopted. The City is considering ways that the regulations relating to PFAS and lead service line replacement will or will not impact its ongoing delivery of drinking water to its customers.

City officials charged with management of the Water System and the Regional System report that the City now holds all licenses, permits and approvals necessary for the operation of the Water System and the Regional System and that the City is in compliance in all material respects with such licenses, permits and approvals.

### **Seismic, Volcanic, Wildfire, Flooding and Other Risks**

The City's Comprehensive Emergency Management Plan identifies the following natural hazards: severe storms, earthquakes, floods, fire hazards, landslides, drought, tsunami, epidemic/pandemic and volcanic hazards. In 2001, a 6.8 magnitude earthquake occurred near Olympia, Washington, within 50 miles of the City. According to the U.S. Geological Survey, over the past 10,000 years, Mount Rainier (located within 60 miles of the City) has been the source of numerous lahars (volcanic debris flows). The most recent large lahar occurred approximately 500 years ago. Such lahars could cause catastrophic damage to the City. The Emergency Management Plan addresses disaster planning, but may not anticipate all potential hazards and their effects.

The Western United States, including Washington, has also recently experienced a series of major wildfires causing extensive damage in certain areas and diminishing air quality. The City has developed and regularly updates a wildfire protection plan. Other natural disasters, such as volcanic eruptions, flooding, mudslides, and windstorms, are also possible. The City can give no assurance regarding the effect of an earthquake, a volcanic eruption, mudslide or other natural disaster, or other risks such as climate change, epidemics and pandemics including without limitation the COVID-19 pandemic, wildfires, or acts of terrorism. The City can give no assurance that the City's insurance reserves or proceeds of insurance carried by the City would be sufficient, if available, to rebuild and reopen City and/or Water System or Regional System facilities or that City and/or Water System and/or Regional System facilities or surrounding facilities and infrastructure could or would be rebuilt and reopened in a timely manner following a major disaster.

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

### **Climate Change and Local Climate Change Initiatives**

There are potential risks to the City, including Tacoma Water, associated with long-term changes in climate and associated changes in the frequency, timing, and severity of extreme weather events. Expected impacts include sea level rise, more intense heavy rain events, more intense summer heat events, lower and warmer summer streamflows, ocean acidification, and an increased risk of flooding, drought, landslides, and wildfires. The City considers the environmental impacts associated with climate change in its decision making.

The City has set carbon pollution reduction targets and is tracking progress on priority environmental actions associated with climate change for use in its decision-making. In 2008, the City developed its first Tacoma Climate Action Plan ("CAP"), which was adopted to establish carbon reduction goals and strategies for the City and community. The highest priority recommendations identified by the associated task force included creating an Office of Sustainability and the Sustainable Tacoma Commission. Both were enacted in the spring of 2009. The 2016 Environmental Action Plan ("2016 EAP") was developed by the City in partnership with the Department. The 2016 EAP provides a plan for taking action at both the City and community level to reduce greenhouse gas emissions to meet the environmental goals outlined in the Tacoma 2025 Strategic Plan.

The City and the Department have continued to expand and refine the City's climate goals and policies. In December 2019 (City Council Resolution No. 40509), the City declared a climate emergency in Tacoma and called for a transformative climate action plan to reduce community greenhouse gas emissions and adapt to climate impacts. In 2021, the City Council adopted the 2030 Climate Action Plan ("2030 CAP"), which outlines strategies to address the climate emergency by 2030, and a path for carbon-neutrality by 2050. With the 2030 CAP, the City will take action for affordable housing; clean, reliable transportation; protections for public health; and green, good-paying jobs. It is designed to direct City funding, investments, and work over the next nine years to improve communities in the City and the environment. A progress report was delivered in 2022. Other City action includes

legislation designed to reduce the City's carbon footprint by restricting use of natural gas and new fossil fuel (City Council Resolution No. 40776, Board Resolution No. U-11193), the 2020 Anti-Racist Systems Transformation Resolution (City Council Resolution No. 40622), and others.

While the City cannot predict precisely how, when, and where specific climate impacts will occur, there have been and will be climate impacts on the City including Tacoma Water, and the surrounding region, which may have a material impact on the City including Tacoma Water, and its operations and finances.

### **Public Health Emergencies**

COVID-19 and variants of such may continue to affect commerce, financial markets, and the Puget Sound region, including as a result of new variants. The dynamic nature of COVID-19 and other public health emergencies leads to uncertainties, including (i) the geographic spread of viruses and variants and the emergence of new variants; (ii) the severity of disease; (iii) the duration of any outbreak or pandemic; (iv) actions that governmental authorities may take to contain or mitigate the outbreak or pandemic; (v) the development, efficacy, and distribution of medical therapeutics and vaccines, vaccination rates, and the efficacy of therapeutics and vaccines to emerged and new variants; (vi) the impact of outbreaks, including pandemics, on the local or global economy; (vii) the introduction and extent of public health measures; and (viii) the impact of the outbreak or pandemic and actions taken in response on County revenues, expenses, and financial condition. Other public health emergencies may occur and may occur with greater frequency and intensity given trends in globalization.

### **Cybersecurity**

Tacoma Water seeks to utilize best practices for securing utility operational networks and systems. These practices include isolating command and control systems from the Internet; network surveillance; and overseeing physical access. Tacoma Water has defined processes, measures and controls that guard the reliability of its systems and protect it from cyber threats.

The City relies on a complex technology environment to conduct its operations. A cybersecurity breach could damage the systems and cause material disruption to operations and services. The cost to remedy such damage or protect against future attacks could be substantial. Security breaches could expose the City to litigation and other legal risks, which could cause the City to incur costs related to legal or regulatory claims. The City currently maintains cybersecurity insurance coverage.

The City occasionally encounters minor cybersecurity incidents, such as device theft, malware infection, and credential compromise. As a result, small scale interruptions have occurred, though most affect only individuals. Every incident will have some operational impact, drawing resources for incident response that could be performing other work.

To help mitigate the risk of a cybersecurity incident, the City has adopted an enterprise information security program. Within it, the City has established a comprehensive set of policies and procedures. Examples include roles and responsibilities, acceptable use, configuration standards, change management, incident response, architecture review, and vulnerability management. The program includes required annual awareness training for its employees. The Chief Information Security Officer regularly works with a Technology Risk Advisory Board of key department leaders to review, evaluate, and recommend controls to manage cybersecurity risk. Additionally, cybersecurity staff participate regularly with third party sources to stay up to date and informed on the latest threats, vulnerabilities, research, and technology.

### **Lack of Secondary Market**

The Underwriters have advised the City that they intend initially to make markets in the Bonds; however, the Underwriters are not obligated to make such markets, such markets may be discontinued at any time without notice, and no assurance can be given that secondary markets therefor will develop.

## LITIGATION

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

Because of the nature of its activities, the City and Tacoma Water are subject to various pending and threatened legal actions which arise in the ordinary course of business. The City and Tacoma Water believe, based on the information presently known, the ultimate liability for any legal actions, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the financial position of the City or Tacoma Water, respectively, but could be material to results of operations or cash flows for a particular annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular claim.

## TAX MATTERS

*General.* In the opinion of Bond Counsel, under existing law and subject to certain qualifications described below, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest is taken into account in determining the annual adjusted financial statement income for the purpose of computing the alternative minimum tax imposed on certain corporations. The proposed form of opinion of Bond Counsel with respect to the Bonds to be delivered on the date of issuance of the Bonds is set forth in Appendix G.

The Code contains a number of requirements that apply to the Bonds, and the City has made certain representations and has covenanted to comply with each such requirement. Bond Counsel's opinion assumes the accuracy of the representations made by the City and is subject to the condition that the City comply with the above-referenced covenants. If the City fails to comply with such covenants or if the City's representations are inaccurate or incomplete, interest on the Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Except as expressly stated herein, Bond Counsel expresses no opinion regarding any tax consequences related to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

*Original Issue Premium and Discount.* If the initial offering price to the public at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes. If the initial offering price to the public at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes.

Under the Code, original issue discount is treated as interest excluded from federal gross income to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under the federal alternative minimum tax.

Under the Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax consequences of owning such Bonds.

*Post Issuance Matters.* The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the Owners to incur significant expense.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters and any pending or proposed legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

*Not Bank Qualified.* The City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

## **RATINGS**

Moody's Investors Service Inc. and S&P Global Ratings have assigned ratings of "Aa1" (outlook stable) and "AA+" (outlook stable), respectively, to the Bonds. Ratings were applied for by the City and certain information was supplied by the City to the rating agencies to be considered in evaluating the Bonds.

The ratings reflect only the views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward, suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the ratings would be likely to have an adverse effect on the market price of the Bonds. The City does not have any obligation to take any action, other than filing notice of a listed event, if the ratings on the Bonds are changed, suspended or withdrawn.

## **UNDERWRITING**

Wells Fargo Bank, National Association and KeyBanc Capital Markets, Inc. (together, the “Underwriters”) will purchase the Bonds at a price of \$74,843,681.02 (representing the aggregate principal amount of the Bonds (\$63,800,000.00), plus original issue premium of \$11,207,433.95 and less an underwriters’ discount of \$163,752.93). The Underwriters’ obligations are subject to certain conditions precedent, and they will be obligated to purchase all Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers at prices lower than the public offering prices, and the public offering prices may be changed, from time to time, by the Underwriters.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group (“WFBNA”), one of the Underwriters of the Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

## **MUNICIPAL ADVISOR**

Montague DeRose and Associates, LLC, Walnut Creek, California, served as municipal advisor to Tacoma Water in connection with the issuance of the Bonds (the “Municipal Advisor”). The Municipal Advisor has not audited, authenticated, or otherwise verified the information set forth in this Official Statement or the other information available from Tacoma Water with respect to the appropriateness, accuracy, and completeness of the disclosure of such information, and the Municipal Advisor makes no guarantee, warranty, or other representation on any matter related to such information. Montague DeRose and Associates, LLC is an independent municipal advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading of municipal securities or any other negotiable instruments.

## **APPROVAL OF CERTAIN LEGAL MATTERS**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Pacifica Law Group LLP, Seattle, Washington. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix G hereto. Pacifica Law Group LLP is also serving as Disclosure Counsel to the City in connection with the issuance of the Bonds.

Certain legal matters will be passed upon for the Underwriters by Foster Garvey PC, counsel to the Underwriters. Any opinion of Underwriters’ counsel will be rendered solely to the Underwriters, and any opinion of Underwriters’ counsel or Disclosure Counsel will be limited in scope and cannot be relied upon by investors.

## **POTENTIAL CONFLICTS OF INTEREST**

Some or all of the fees of the Municipal Advisor, the Bond Registrar, the Underwriters, Underwriters’ counsel, Disclosure Counsel and Bond Counsel are contingent upon the issuance and sale of the Bonds. None of the members of the City Council, the Board or other officers of the City have interests in the issuance of the Bonds that

are prohibited by applicable law. Currently and from time to time Bond Counsel and Disclosure Counsel serve as counsel to other parties involved with the Bonds, such as Kent and the Underwriters (and has represented CWD) with respect to transactions other than the issuance of the Bonds. From time to time Underwriters' counsel serves as counsel to other parties involved with the Bonds (including Lakehaven) with respect to transactions other than the issuance of the Bonds.

The City's code of ethics sets forth types of prohibited conduct for City officers and employees. Such prohibited conduct includes, but is not limited to, participating in the making of a contract in which they have a direct or indirect financial interest; influencing the City's selection of or conduct of business with a corporation, person or firm having or proposing to do business with the City, if the officer or employee has a financial interest in the corporation, person or firm; and appearing or giving an official opinion before the City Council while having a financial interest in any legislation coming before the City Council and participating in discussion with or giving an official opinion to the City Council (excluding, in each case, a remote interest that is disclosed in advance).

### **CONTINUING DISCLOSURE UNDERTAKING**

Pursuant to a certificate to be executed by the City on or prior to the date of issuance and delivery of the Bonds (a "Continuing Disclosure Certificate"), the City will covenant for the benefit of the owners and the "Beneficial Owners" (as defined in the Continuing Disclosure Certificate) of the Bonds pursuant to Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12") to provide certain financial information and operating data not later than the end of nine months after the end of each of the City's fiscal years (presently, December 31), commencing in 2024 with the report for the fiscal year ended December 31, 2023, and to provide notices of the occurrence of certain enumerated events with respect to the Bonds. The information will be filed by or on behalf of the City with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. See Appendix F for a form of the Continuing Disclosure Certificate.

*Other Ongoing Disclosure Undertakings of the City.* The City has previously entered into continuing disclosure undertakings in connection with various City financings and obligations under Rule 15c2-12 (the "Prior Undertakings"). With respect to its Prior Undertakings, the City (i) failed to timely file taxable sales information, lodging tax information and solid waste tonnage percentage calculations for fiscal year ended December 31, 2018, (ii) failed to timely file the incurrence of certain financial obligations (low-interest loans from State lending programs), and (iii) while the City had timely filed its audited financial statements and notices for fiscal years ended December 31, 2019 through 2022 for certain of its outstanding bonds, it did not link such filings to the State of Washington Certificates of Participation, Series 2020C (Taxable), under which the City is an obligated person for purposes of Rule 15c2-12. As of the date of this Official Statement, the foregoing information has been filed and/or linked on EMMA.

### **MISCELLANEOUS**

At the time of delivery of the Bonds, one or more officials of the City will furnish a certificate stating that to the best of their knowledge, this Official Statement, as of its date and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading (however, the City will make no representation regarding DTC and its book-entry-only system, the City's municipal advisor, the form of opinion provided by Bond Counsel, or the Underwriters).

All estimates, assumptions, statistical information and other statements contained herein, while taken from sources the City considers reliable, are not guaranteed by the City. The statements relating to the Bond Ordinance are in summarized form, and in all respects are subject to and qualified in their entirety by express reference to the provisions of such document in its complete form. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers of the Bonds. The City has authorized the preparation and distribution of this Official Statement.

CITY OF TACOMA, WASHINGTON

By /s/ Scott Dewhirst  
Superintendent/Chief Operating Officer,  
Department of Public Utilities, Water Division

By /s/ Andy Cherullo  
Finance Director

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**APPENDIX A**

**COPY OF THE BOND ORDINANCE**

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Req. # - \_\_\_\_\_

## ORDINANCE NO.

1 AN ORDINANCE of the City of Tacoma, Washington, relating to the water  
2 system; providing for the issuance and sale of water system revenue  
3 refunding bonds in an aggregate principal amount not to exceed  
4 \$75,000,000 to provide funds to defease and/or refund all or a portion of  
5 the City's Water System Revenue and Refunding Bonds, 2005 and Water  
6 System Revenue and Refunding Bonds, 2013; fixing or setting parameters  
with respect to certain terms and covenants of the bonds, and appointing  
the City's designated representatives to approve the final terms of the sale  
of the bonds; and approving certain other matters in connection therewith.

7 WHEREAS the City of Tacoma, Washington ("City"), acting by and through  
8 its Department of Public Utilities, Water Division (d/b/a "Tacoma Water"), owns and  
9 operates a water system ("Water System") for which capital improvements and  
10 other expenses may be financed through the issuance of water system revenue  
11 bonds, and

12 WHEREAS pursuant to Ordinance No. 27405, the City issued its Water  
13 System Revenue and Refunding Bonds, 2005 ("2005 Bonds"), and

14 WHEREAS pursuant to Ordinance No. 27837, the City issued its Water  
15 System Revenue Bonds, 2009 (Taxable Build America Bonds – Direct Payment)  
16 ("2009 Bonds"), and

17 WHEREAS pursuant to Ordinance No. 27902, the City issued its Water  
18 System Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment)  
19 ("2010 Bonds"), and

20 WHEREAS pursuant to Ordinance No. 28138, the City issued its Water  
21 System Revenue and Refunding Bonds, 2013 ("2013 Bonds"), and



1 WHEREAS pursuant to Ordinance No. 28138, as supplemented by  
2 Ordinance No. 28290, the City issued its Water System Revenue Refunding  
3 Bonds, Series 2015A ("2015 Bonds"), and

4 WHEREAS the 2005 Bonds, the 2009 Bonds, the 2010 Bonds, the  
5 2013 Bonds, and the 2015 Bonds (together, "Outstanding Parity Bonds") are  
6 payable from and secured by a pledge of Gross Revenue of the Water System,  
7 subject only to the payment of Operation and Maintenance Expenses (each as  
8 defined herein), and

9 WHEREAS the City has adopted financial policies which provide that as a  
10 general rule, existing bonds will not be refunded through the issuance of refunding  
11 bonds unless the refunding plan will achieve a net present value savings of at least  
12 5%, or as an exception, to obtain more favorable covenants when it is in the City's  
13 interest to do so, and

14 WHEREAS the 2005 Bonds are subject to redemption at the option of the  
15 City at any time on or after December 1, 2015, and

16 WHEREAS the 2013 Bonds maturing on or after December 1, 2023 are  
17 subject to redemption at the option of the City at any time on or after June 1, 2023,  
18 and

19 WHEREAS the ordinances authorizing the Outstanding Parity Bonds permit  
20 the City to issue water system revenue bonds for purposes of the Water System  
21 with a lien and charge on revenue of the Water System equal to the lien and



1 charge thereon of the Outstanding Parity Bonds, if specified conditions are met  
2 and complied with at the time of issuance of those bonds, and  
3 WHEREAS the Public Utilities Board ("Board") has initiated and has  
4 recommended to the City Council for its approval the issuance of water system  
5 revenue bonds in one or more series ("2023 Bonds"), together with other available  
6 money, to defease and/or refund all or a portion of the 2005 Bonds and the 2013  
7 Bonds (together, "Refunding Candidates") for aggregate debt service savings  
8 and/or to restructure the debt if it is in the best interest of Tacoma Water, and  
9  
10 WHEREAS the City Council has determined that it is in the best interest of  
11 the City and its ratepayers to issue the 2023 Bonds to defease and/or refund all or  
12 a portion of the Refunding Candidates (if so refunded, "Refunded Bonds") and to  
13 pay costs of issuance and sale of the 2023 Bonds, and  
14  
15 WHEREAS the City Council wishes to delegate authority to the individuals  
16 authorized herein (each, a "Designated Representative"), for a limited time, the  
17 authority to approve the final terms of the 2023 Bonds authorized herein within the  
18 parameters set by this ordinance, and  
19  
20 WHEREAS the City expects to receive a purchase contract from Wells Fargo  
21 Corporate & Investment Banking and KeyBanc Capital Markets Inc.  
22 ("Underwriters") to purchase the 2023 Bonds authorized herein, and now desires to  
23 issue and sell such bonds to the Underwriters as set forth herein; Now, Therefore,  
24  
25 BE IT ORDAINED BY THE CITY OF TACOMA:  
26



1 Section 1. Definitions and Interpretation of Terms.

2 A. Definitions. Unless otherwise defined in the recitals and elsewhere in  
3 this ordinance, capitalized terms used herein shall have the following meanings:  
4  
5 "Accreted Value" means either: (1) with respect to any Capital Appreciation  
6 Bonds, as of the time of calculation, the sum of the amount representing the initial  
7 principal amount of such Capital Appreciation Bonds as set forth in the applicable  
8 Parity Bond Authorizing Ordinance plus the interest accumulated, compounded  
9 and unpaid thereon as of the most recent compounding date; or (2) with respect to  
10 original issue discount bonds under the Code, as of the time of calculation, the  
11 amount representing the initial public offering price of such original issue discount  
12 bonds plus the amount of the discounted principal which has accreted since the  
13 date of issue, determined in accordance with the provisions of the applicable Parity  
14 Bond Authorizing Ordinance.  
15  
16 "Acquired Obligations" means the Government Obligations, if any, acquired  
17 by the City under the terms of this ordinance and the Escrow Agreement to effect  
18 the defeasance and refunding of the Refunded Bonds, but only to the extent that  
19 the same are acquired at Fair Market Value.  
20  
21 "Annual Debt Service" means, for any Fiscal Year of the Water System,  
22 all amounts required to be paid in respect of interest on and principal of Parity  
23 Bonds (excluding interest payments capitalized by Parity Bonds and excluding  
24 the accrued interest paid to the City upon the issuance of Parity Bonds) and  
25  
26



A-3

1 Payment Agreement Payments in respect of Parity Payment Agreements,  
2 subject to the following:

3 (1) Debt Service on Term Bonds. For purposes of calculating debt  
4 service on Term Bonds, only the scheduled mandatory redemption amounts  
5 payable in respect of principal of Term Bonds shall be taken into account in any  
6 Fiscal Year prior to the Term Bond Maturity Year, and only the principal amount  
7 scheduled to remain outstanding after payment of all prior mandatory  
8 redemption amounts shall be taken into account in the Term Bond Maturity  
9 Year;  
10

11 (2) Interest on Parity Bonds. For purposes of determining compliance  
12 with the Coverage Requirement, the Reserve Account Requirement and the  
13 conditions for the issuance of Future Parity Bonds or the creation of Contract  
14 Resource Obligations:  
15

16 (a) Generally. Except as otherwise provided by  
17 Subparagraph (2)(b) with respect to Variable Interest Rate Bonds and by  
18 Subparagraph (2)(c) with respect to Parity Bonds with respect to which a  
19 Payment Agreement is in force, interest on any issue of Parity Bonds payable in  
20 a Fiscal Year shall be calculated based on the actual amount of accrued,  
21 accreted or otherwise accumulated interest that is payable in that Fiscal Year in  
22 respect of that issue taken as a whole, at the rate or rates set forth in the Parity  
23 Bond Authorizing Ordinance;  
24  
25  
26



1 (b) Interest on Variable Interest Rate Bonds. The amount of  
2 interest deemed to be payable on any issue of Variable Interest Rate Bonds  
3 shall be calculated on the assumption that the interest rate on those bonds  
4 would be equal to the rate (the "assumed RBI-based rate") that is 90% of the  
5 average Bond Buyer Revenue Bond Index or comparable index during the fiscal  
6 quarter preceding the quarter in which the calculation is made; except that, for  
7 purposes of determining actual compliance with the Coverage Requirement  
8 under Section 16(B) in any past Fiscal Year, the actual amount of interest paid  
9 on any issue of Variable Interest Rate Bonds shall be taken into account;  
10

11 (c) Interest on Parity Bonds with Respect to Which a Payment  
12 Agreement or Parity Payment Agreement is in Force. Debt service on Parity  
13 Bonds with respect to which a Payment Agreement or Parity Payment  
14 Agreement is in force shall be based on the net economic effect on the City  
15 expected to be produced by the terms of the Parity Bonds and the terms of the  
16 Payment Agreement, including but not limited to the effects set forth in  
17 Section 17 of this ordinance.  
18  
19

20 (d) Interest on Parity Bonds designated as "Build America  
21 Bonds." Interest on Parity Bonds designated as Build America Bonds, including  
22 the 2009 Bonds and the 2010 Bonds, only for purposes of calculating the  
23 Reserve Account Requirement, shall be based on the net interest after the 35%  
24  
25  
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1 federal direct payment or such other federal direct payment to be received for  
2 Parity Bonds.

3 "Assistant Finance Director/Controller" means the duly appointed and acting  
4 Assistant Finance Director/Controller of the City, including anyone acting in an  
5 interim or other capacity for the position, or the successor to the duties of that  
6 office.

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

10 "Beneficial Owner" means any person that has or shares the power, directly  
11 or indirectly, to make investment decisions concerning ownership of any 2023  
12 Bonds (including persons holding 2023 Bonds through nominees, depositories or  
13 other intermediaries).

14 "Board" means the Public Utility Board of the City, as the same shall be duly  
15 and regularly constituted from time to time.

16 "Bond Counsel" means Pacifica Law Group LLP or another law firm  
17 selected by the City that is nationally recognized in matters concerning bonds and  
18 other securities issued by states and local governments.

19 "Bond Fund" means the special fund or subfunds of the City known as the  
20 Water Revenue Bond Fund, created in the Water Division Fund of the City including  
21 any subfunds within such fund.



1 "Bond Insurance" means any bond insurance, letter of credit, guaranty,  
2 surety bond or similar credit enhancement device providing for or securing the  
3 payment of all or part of the principal of and interest on any Parity Bonds.

4 "Bond Insurer" means any provider of Bond Insurance approved by the City  
5 Council by ordinance or resolution.

6 "Bond Purchase Contract" means the contract between the Underwriters and  
7 the City for the purchase of the 2023 Bonds, executed pursuant to this ordinance  
8 and setting forth the final terms of the 2023 Bonds.

9 "Bond Register" means the registration books maintained by the Bond  
10 Registrar for purposes of identifying ownership of the 2023 Bonds or the nominee of  
11 each owner, and such other information as the Bond Registrar shall determine.

12 "Bond Registrar" means, initially, the fiscal agent of the State, whose duties  
13 include registering and authenticating the 2023 Bonds, maintaining the Bond  
14 Register, effecting transfer of ownership of the 2023 Bonds and paying interest on  
15 and principal of the 2023 Bonds.

16 "Bondowners' Trustee" has the meaning set forth in Section 27(B) of this  
17 ordinance.

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

20 "Call Date" means a date selected by a Designated Representative for the  
21 refunding of the Refunded Bonds which shall be no earlier than June 1, 2023.



A-5

1 "Capital Appreciation Bonds" means any Parity Bonds, all or a portion of the  
2 interest on which is compounded and accumulated at the rates or in the manner,  
3 and on the dates, set forth in the applicable Parity Bond Authorizing Ordinance and  
4 is payable only upon redemption or on the maturity date of such Parity Bonds.  
5 Parity Bonds that are issued as Capital Appreciation Bonds, but later convert to  
6 obligations on which interest is paid periodically, shall be Capital Appreciation  
7 Bonds until the conversion date and thereafter shall no longer be Capital  
8 Appreciation Bonds, but shall be treated as having a principal amount equal to their  
9 Accreted Value on the conversion date.

10 "City" means the City of Tacoma, Washington, a municipal corporation duly  
11 organized and existing under and by virtue of the laws of the State.

12 "City Attorney" means the duly appointed and acting City Attorney of the City,  
13 including anyone acting in an interim or other capacity for the position, or the  
14 successor to the duties of that office.

15 "City Clerk" means the duly appointed and acting City Clerk of the City,  
16 including anyone acting in an interim or other capacity for the position, or the  
17 successor to the duties of that office.

18 "City Manager" means the duly appointed and acting City Manager of the  
19 City, including anyone acting in an interim or other capacity for the position, or the  
20 successor to the duties of that office.



1 "Code" means the Internal Revenue Code of 1986 as in effect on the date of  
2 issuance of the Tax-Exempt Bonds or (except as otherwise referenced herein) as it  
3 may be amended to apply to obligations issued on the date of issuance of the Tax-  
4 Exempt Bonds, together with applicable proposed, temporary, and final regulations  
5 promulgated, and applicable official public guidance published, under the Code.

6 "Continuing Disclosure Certificate" means one or more written undertakings  
7 for the benefit of the owners and Beneficial Owners of the 2023 Bonds as required  
8 by Section (b)(5) of the Rule.

9 "Contract Resource Obligation" means an obligation of the City, designated  
10 as a Contract Resource Obligation and entered into pursuant to Section 21 of this  
11 ordinance, to make payments for water supply, transmission or other commodity or  
12 service to another person or entity (including, without limitation, a separate utility  
13 system created pursuant to Section 20 of this ordinance). The Water System has  
14 designated the Regional System as a Contract Resource Obligation.

15 "Council" or "City Council" means the City Council as the general legislative  
16 authority of the City, as duly and regularly constituted from time to time.

17 "Coverage Requirement" in any Fiscal Year of the Water System means an  
18 amount of Net Revenue of the Water System equal to at least 1.25 times the  
19 Annual Debt Service that year on all Parity Bonds.

20 "Debt Service Account" means the account of that name created in the  
21 Bond Fund.



9-A

1 "Designated Representative" means the Director of Utilities and the  
2 Superintendent of the Water Division, and their designees. The signature of one  
3 Designated Representative shall be sufficient to bind the City.

4 "Director of Utilities" means the duly appointed and acting Director of the City  
5 Department of Public Utilities, including anyone acting in an interim or other  
6 capacity for the position, or the successor to the duties of that office.

8 "DTC" means The Depository Trust Company.

9 "Escrow Agent" means the escrow agent appointed pursuant to  
10 Section 8(C) of this ordinance.

11 "Escrow Agreement" means the Escrow Deposit Agreement between the  
12 City and the Escrow Agent to be dated as of the Issue Date of the 2023 Bonds.

13 "Fair Market Value" means the price at which a willing buyer would  
14 purchase an investment from a willing seller in a bona fide, arm's-length  
15 transaction, except for specified investments as described in Treasury  
16 Regulation § 1.148-5(d)(6), including United States Treasury obligations,  
17 certificates of deposit, guaranteed investment contracts, and investments for yield  
18 restricted defeasance escrows. Fair Market Value is generally determined on the  
19 date on which a contract to purchase or sell an investment becomes binding, and,  
20 to the extent required by the applicable regulations under the Code, the term  
21 "investment" will include a hedge.  
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23  
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1 "Federal Tax Certificate" means the certificate of the City pertaining to the  
2 tax-exemption of interest on the Tax-Exempt Bonds, and any attachments thereto.

3 "Filtration Treatment Project" means the design and construction of the  
4 portion of the filtration treatment system financed by the Regional System.

5 "Finance Director" means the duly appointed and acting Finance Director of  
6 the City, including anyone acting in an interim or other capacity for the position, or  
7 the successor to the duties of that office.

8 "Fiscal Year" means the fiscal year used by the City at any time. At the  
9 time of the adoption of this ordinance, the Fiscal Year is the 12-month period  
10 beginning January 1 of each year.

11 "Future Parity Bonds" means all revenue bonds and other obligations  
12 (including Parity Payment Agreements) of the City issued or entered into after the  
13 date of the issuance of the 2023 Bonds and then outstanding, the payment of  
14 which constitutes a lien and charge equal to the lien and charge securing the  
15 payment of the principal of and interest on the 2023 Bonds and the Outstanding  
16 Parity Bonds.

17 "Government Obligations" means those obligations now or hereafter defined  
18 as such in chapter 39.53 RCW constituting direct obligations of, or obligations the  
19 principal of and interest on which are unconditionally guaranteed by the United  
20 States of America, as such chapter may be hereafter amended or restated.  
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A-7

1 "Gross Revenue of the Water System" or "Gross Revenue" means in any  
2 Fiscal Year of the Water System all of the revenues of the Water System, including,  
3 but not limited to, revenue from the sale or transmission of water; the sale, lease, or  
4 furnishing of other commodities, services, properties or facilities; the imposition of  
5 connection, capital improvement or other charges; utility local improvement district  
6 assessments that are pledged to Parity Bonds; and earnings from the investment of  
7 money in the Water Division Fund. However, Gross Revenue shall not include  
8 earnings of the Regional System or any other separate utility system that may be  
9 acquired or constructed by the City pursuant to Section 20 hereof; principal  
10 proceeds of Parity Bonds or other borrowing; grants or other capital contributions to  
11 the Water System which by their terms are restricted to specific projects or  
12 purposes; or earnings or proceeds from any investments in a trust, defeasance or  
13 escrow fund created to defease or refund Water System obligations (until  
14 commingled with other earnings and revenues of the Water System defined as  
15 Gross Revenue) or held in a special account for the purpose of paying a rebate to  
16 the United States government under the Code.

17  
18  
19  
20 "Independent Consulting Engineer" means either (1) an independent  
21 licensed professional engineer experienced in the design, construction or operation  
22 or the development of rates and charges of municipal utilities of comparable size  
23 and character to the Water System; or (2) an independent certified public  
24 accountant or other professional consultant experienced in the development of  
25



1 rates and charges for municipal utilities of comparable size and character to the  
2 Water System.

3 "Issue Date" means, with respect to any series of 2023 Bonds, the date of  
4 initial issuance and delivery of such series to the Underwriters.

5 "Letter of Representations" means the blanket issuer letter of representations  
6 from the City to DTC.

7  
8 "Maximum Annual Debt Service" means at the time of calculation, the  
9 maximum amount of Annual Debt Service that will mature or come due in the  
10 current year or any future year on the Parity Bonds.

11 "Mayor" means the duly elected Mayor of the City or the successor to such  
12 officer.

13  
14 "Moody's" means Moody's Investors Service, Inc., or its comparable  
15 recognized business successor.

16 "Net Revenue of the Water System" or "Net Revenue" means, for any period,  
17 the Gross Revenue minus: (1) Operation and Maintenance Expenses; (2) deposits  
18 into the Rate Stabilization Account; and (3) proceeds from the sale of property of  
19 the Water System, and plus withdrawals from the Rate Stabilization Account.

20 "Official Statement" means the disclosure documents prepared and delivered  
21 in connection with the issuance of each series of 2023 Bonds.

22 "Operation and Maintenance Expenses" means all expenses incurred by the  
23 City in causing the Water System to be operated and maintained in good repair,  
24  
25  
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A-8

1 working order and condition, including, without limitation: deposits, premiums,  
2 assessments, or other payments for insurance, if any, on the Water System;  
3 payments into pension funds; State-imposed taxes; amounts due under Contract  
4 Resource Obligations, including Regional System Costs, but only at the times  
5 described in Section 21 of this ordinance; payments made to any other person or  
6 entity for the receipt of water supply or transmission or other right, commodity or  
7 service; payments made to any other person or entity that are required in  
8 connection with the operation of the Water System or the acquisition or  
9 transmission of water and that are not subordinate to the lien of the Parity Bonds;  
10 and payments with respect to any other expenses of the Water System that are  
11 properly treated as operation and maintenance expenses under generally  
12 accepted accounting principles applicable to municipal corporations. Operation  
13 and Maintenance Expenses do not include any depreciation or taxes levied or  
14 imposed by the City, Payment Agreement Payments, or payments to the City in  
15 lieu of taxes, any rebate amount, or capital additions or capital replacements to the  
16 Water System.

17  
18 "Outstanding Parity Bonds" mean the City's senior lien parity bonds  
19 outstanding on the date of this ordinance as identified in the recitals to this  
20 ordinance.

21  
22 "Owners" mean, without distinction, the Registered Owners and the  
23 Beneficial Owners.  
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1 "Parity Bond Authorizing Ordinances" means the ordinances and/or  
2 resolutions of the City authorizing the issuance and sale and establishes the terms  
3 of a particular issue of Parity Bonds.

4 "Parity Bonds" mean the Outstanding Parity Bonds, the 2023 Bonds and  
5 any Future Parity Bonds.

6  
7 "Parity Payment Agreement" means a Payment Agreement under which the  
8 City's payment obligations are expressly stated to be secured by a pledge of and  
9 lien on Gross Revenue of the Water System on an equal and ratable basis with the  
10 Gross Revenue required to be paid into the Bond Fund to pay and secure the  
11 payment of the principal of and interest on Parity Bonds.

12  
13 "Payment Agreement" means a written agreement, for the purpose of  
14 managing or reducing the City's exposure to fluctuations or levels of interest rates,  
15 currencies or commodities, or for other interest rate, investment, asset or liability  
16 management purposes, entered into on either a current or forward basis by the  
17 City and a Qualified Counterparty, all as authorized by any applicable laws of the  
18 State.

19  
20 "Payment Agreement Payments" means the amounts periodically required  
21 to be paid by the City to the Qualified Counterparty pursuant to a Payment  
22 Agreement.  
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1 "Payment Agreement Receipts" means the amounts periodically required to  
2 be paid by the Qualified Counterparty to the City pursuant to a Payment  
3 Agreement.

4 "Projects" mean the capital facilities of the Water System financed or  
5 refinanced with proceeds of the Refunded Bonds.

6 "Qualified Counterparty" means a party (other than the City or a party  
7 related to the City) who is the other party to a Payment Agreement and (1)(a)  
8 whose senior debt obligations are rated in one of the three highest rating  
9 categories of each of the Rating Agencies (without regard to any gradations within  
10 a rating category) or (b) whose obligations under the Payment Agreement are  
11 guaranteed for the entire term of the Payment Agreement by a bond insurer or  
12 other institution which has been assigned a credit rating in one of the two highest  
13 rating categories of each of the Rating Agencies, and (2) who is otherwise qualified  
14 to act as the other party to a Payment Agreement under any applicable laws of the  
15 State.

16 "Rate Stabilization Account" means the account of that name created in the  
17 Water Division Fund for the purposes described in this ordinance.

18 "Rating Agencies" means Moody's, S&P or another nationally recognized  
19 rating agency rating municipal bonds.

20 "Record Date" means the Bond Registrar's close of business on the 15th  
21 day of the month preceding an interest payment date. With respect to redemption



1 of a Bond prior to its maturity, the Record Date shall mean the Bond Registrar's  
2 close of business on the date on which the Bond Registrar sends the notice of  
3 redemption in accordance with Section 5.

4 "Refunded Bonds" mean all or a portion of the Refunding Candidates  
5 designated by a Designated Representative for refunding pursuant to this  
6 ordinance.

7 "Refunding Account" means the account of that name established pursuant  
8 to this ordinance.

9 "Refunding Candidates" mean all or a portion of the 2005 Bonds and the  
10 2013 Bonds currently outstanding.

11 "Regional System" means the Regional Water Supply System, comprised of  
12 certain property and facilities to deliver and receive water for the Regional System  
13 participants from the exercise by the City of its Second Diversion Water Right,  
14 which property and facilities include: (1) a Main Branch pipeline to the City with a  
15 72 MGD nominal capacity; (2) headworks improvements associated with the  
16 Second Diversion Water Right; (3) related fisheries and environmental  
17 enhancements; (4) improvements and additions to the Howard Hanson Dam to  
18 raise the summer storage pool to elevation of 1,167 feet in phase I to provide an  
19 additional 20,000 acre feet of water storage, together with improvements and  
20 additions related to accommodating fish passage; (5) the Filtration Treatment  
21 Project; and (6) additional related water treatment facilities; and as the same will  
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1 be added to, improved, and extended for as long as any of the Regional System  
2 bonds are outstanding. The Regional System shall not include the Water System  
3 or any other separate system.

4 "Regional System Costs" means with respect to each month all costs  
5 attributable to the Regional System, to the extent not paid from the proceeds of  
6 bonds of the Regional System or other sources, resulting from the ownership,  
7 operation, maintenance, and termination of, and repair, renewals, replacements,  
8 additions, improvements, betterments, and modifications to the Regional System,  
9 including, without limitation: (1) operating expenses of the Regional System;  
10 (2) the amount required to be paid into the bond fund for Regional System bonds;  
11 (3) any amount that the City may be required during such month to pay for the  
12 prevention or correction of any unusual loss or damage or for renewals,  
13 replacements, repairs, additions, improvements, betterments, and modifications  
14 that are necessary to keep the Regional System in good operating condition, to  
15 improve the operation thereof or to prevent a loss; and (4) all other charges or  
16 obligations against the revenues of the Regional System.

17 "Registered Owner" means the person named as the registered owner of a  
18 2023 Bond in the Bond Register. For so long as the 2023 Bonds are held in book-  
19 entry only form, DTC or its nominee shall be deemed to be the sole Registered  
20 Owner.

21 "Reserve Account" means the Reserve Account created in the Bond Fund.



1 "Reserve Account Requirement" means, with respect to the Outstanding  
2 Parity Bonds and the 2023 Bonds (so long as the 2005 Bonds are outstanding), as  
3 of any date the lesser of Maximum Annual Debt Service or 125% of average  
4 Annual Debt Service on all the outstanding Parity Bonds. The Reserve Account  
5 Requirement for a series of Parity Bonds shall not exceed 10% of the net proceeds  
6 of such Bonds.

7 Once the 2005 Bonds are no longer outstanding, the Reserve Account  
8 Requirement with respect to the 2015 Bonds, the 2023 Bonds and any Future  
9 Parity Bonds will be either (1) as of any date the lesser of Maximum Annual Debt  
10 Service or 125% of average Annual Debt Service of such 2015 Bonds, 2023 Bonds  
11 or Future Parity Bonds, but in no case shall the Reserve Account Requirement for  
12 a series of Parity Bonds exceed 10% of the net proceeds of such Bonds, or (2) the  
13 ordinance authorizing such issuance of such Bonds may provide for the creation of  
14 a separate reserve account, in which case the Reserve Account Requirement,  
15 which may be zero (\$0.00), for such Bonds may be set in such ordinance.

16 "Reserve Insurance" means any bond insurance, letter of credit, guaranty,  
17 surety bond, or similar credit enhancement device obtained by the City equal to  
18 part or all of the Reserve Account Requirement for any Parity Bonds which is  
19 issued by an institution which has been assigned a credit rating at the time of  
20 issuance of the device in one of the two highest rating categories of each of the  
21 Rating Agencies.



1 "Rule" means the Security and Exchange Commission's Rule 15c2-12  
2 under the Securities Exchange Act of 1934, as the same may be amended from  
3 time to time.

4 "S&P" means S&P Global Ratings, or its comparable recognized business  
5 successor.

6  
7 "Second Diversion Water Right" means the City's permit to appropriate up to  
8 100 cubic feet per second of surface water from the Green River for municipal and  
9 industrial supply, obtained from the State Department of Ecology.

10 "State" means the state of Washington.

11  
12 "Taxable Bonds" means any 2023 Bonds of a series determined to be  
13 issued on a taxable basis pursuant to this ordinance.

14 "Tax-Exempt Bonds" means any 2023 Bonds of a series determined to be  
15 issued on a tax-exempt basis under the Code pursuant to this ordinance.

16 "Term Bond Maturity Year" means any calendar year in which Term Bonds  
17 are scheduled to mature.

18  
19 "Term Bonds" means those Bonds designated as such by a Designated  
20 Representative and those Parity Bonds designated as such in the applicable Parity  
21 Bond Authorizing Ordinance.

22 "Treasurer" means the duly appointed and acting Treasurer of the City,  
23 including anyone acting in an interim or other capacity for the position, or the  
24 successor to the duties of that office.  
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1 "Underwriters" mean Wells Fargo Corporate & Investment Banking and  
2 KeyBanc Capital Markets Inc., and their successors.

3 "Variable Interest Rate" means any variable interest rate or rates to be  
4 borne by any Parity Bonds. The method of computing such a variable interest rate  
5 shall be as specified in the applicable Parity Bond Authorizing Ordinance, which  
6 ordinance or resolution also shall specify either: (1) the particular period or periods  
7 of time or manner of determining such period or periods of time for which each  
8 value of such variable interest rate shall remain in effect; or (2) the time or times  
9 upon which any change in such variable interest rate shall become effective. A  
10 Variable Interest Rate may, without limitation, be based on the interest rate on  
11 certain bonds or may be based on interest rate, currency, commodity, or other  
12 indexes.  
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15 "Variable Interest Rate Bonds" means, for any period of time, any Parity  
16 Bonds that bear a Variable Interest Rate during that period, except that Parity  
17 Bonds shall not be treated as Variable Interest Rate Bonds if the net economic  
18 effect of interest rates on particular Parity Bonds of an issue and interest rates on  
19 other Parity Bonds of the same issue, as set forth in the applicable Parity Bond  
20 Authorizing Ordinance, or the net economic effect of a Payment Agreement with  
21 respect to particular Parity Bonds, in either case is to produce obligations that bear  
22 interest at a fixed interest rate; and Parity Bonds with respect to which a Payment  
23 Agreement is in force shall be treated as Variable Interest Rate Bonds if the net  
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1 economic effect of the Payment Agreement is to produce obligations that bear  
2 interest at a Variable Interest Rate.

3 "Water Division Fund" means Fund No. 4600 of the City, or any successor  
4 fund or funds, into which is paid the Gross Revenue of the Water System.

5 "Water System" means the water system of the City as it now exists, and all  
6 additions thereto and betterments and extensions thereof at any time made for so  
7 long as any of the Parity Bonds are outstanding. The Water System shall not  
8 include the Regional System or any water supply or service or other facilities that  
9 may be created, acquired, or constructed by the City as a separate utility system,  
10 as provided in Section 20 of this ordinance.  
11

12 "2005 Bonds" has the meaning set forth in the recitals hereto.

13 "2009 Bonds" has the meaning set forth in the recitals hereto.

14 "2010 Bonds" has the meaning set forth in the recitals hereto.

15 "2013 Bonds" has the meaning set forth in the recitals hereto.

16 "2015 Bonds" has the meaning set forth in the recitals hereto.

17 "2023 Bonds" means the Water System Revenue Refunding Bonds  
18 authorized to be issued in one or more series pursuant to this ordinance.  
19

20 B. Interpretation. In this ordinance, unless the context otherwise requires:

21 (1) The terms "hereby," "hereof," "hereto," "herein," "hereunder," and  
22 any similar terms, as used in this ordinance, refer to this ordinance as a whole and  
23 not to any particular article, section, subdivision, or clause hereof, and the term  
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1 "hereafter" shall mean after, and the term "heretofore" shall mean before, the date  
2 of this ordinance;

3 (2) Words importing the singular number shall mean and include the  
4 plural number and vice versa;

5 (3) Words importing persons shall include firms, associations,  
6 partnerships (including limited partnerships), trusts, corporations, limited liability  
7 companies, and other legal entities, including public bodies, as well as natural  
8 persons;  
9

10 (4) Any headings preceding the text of the several articles and  
11 sections of this ordinance, and any table of contents or marginal notes appended  
12 to copies hereof, shall be solely for convenience of reference and shall not  
13 constitute a part of this ordinance, nor shall they affect its meaning, construction, or  
14 effect; and  
15

16 (5) All references herein to "articles," "sections," and other  
17 subdivisions or clauses are to the corresponding articles, sections, subdivisions, or  
18 clauses hereof.  
19

20 Section 2. Findings; Parity Bonds.

21 A. Parity and Other Findings. In connection with the issuance of the 2023  
22 Bonds on a parity of lien with the Outstanding Parity Bonds, the City hereby makes  
23 the following findings:  
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1 (1) There is, and as of the Issue Date of the 2023 Bonds there will be,  
2 no deficiency in the Bond Fund and no Event of Default as defined in the Parity  
3 Bond Authorizing Ordinances for the Outstanding Parity Bonds has occurred or  
4 shall have occurred and be continuing as of such date.

5 (2) All assessments and interest thereon that may be levied in any  
6 utility local improvement district created by the City for the purpose of paying, in  
7 whole or in part, the principal of and interest on the 2023 Bonds, shall be paid  
8 directly into the Bond Fund, except for any prepaid assessments permitted by law  
9 to be paid into a construction fund or account.

10 (3) This ordinance provides that the payment of the principal of and  
11 interest on the 2023 Bonds shall be paid out of the Bond Fund as provided in and  
12 required by the Parity Bond Authorizing Ordinances for the Outstanding Parity  
13 Bonds.

14 (4) The 2023 Bonds will be issued for refunding purposes for  
15 aggregate debt service savings and/or to restructure the Refunded Bonds. At or  
16 prior to the issuance of the 2023 Bonds, the City will have on file a certificate  
17 satisfying the Future Parity Bond requirements of the Parity Bond Authorizing  
18 Ordinances.

19 B. Findings Related to Gross Revenue of the Water System. The City  
20 hereby finds and determines that the Gross Revenue of the Water System at the  
21 rates to be charged for water and other services and commodities from the Water  
22



1 System will be more than sufficient to meet all Operation and Maintenance  
2 Expenses to make all required payments with respect to the Outstanding Parity  
3 Bonds and the 2023 Bonds, and to permit the setting aside into the Bond Fund out  
4 of the Gross Revenue of amounts sufficient to pay the principal of and interest on  
5 the 2023 Bonds when due at maturity and upon any mandatory sinking fund  
6 redemption thereof.

7 The City further finds and determines that in creating the Bond Fund and in  
8 fixing the amounts to be paid into the Bond Fund, it has exercised due regard for  
9 Operation and Maintenance Expenses, and the City has not bound and obligated  
10 itself to set aside and pay into the Bond Fund a greater amount or proportion of the  
11 Gross Revenue than in the judgment of the City will be available over and above  
12 the Operation and Maintenance Expenses.

13 The 2023 Bonds shall be issued as Future Parity Bonds under the terms of  
14 the Parity Bond Authorizing Ordinances for the Outstanding Parity Bonds, subject  
15 to the same rights and limitations as Parity Bonds set forth therein and herein.

16 Section 3. Authorization of 2023 Bonds. For the purposes of providing part  
17 of the funds required to defease and/or refund the Refunded Bonds and pay costs  
18 of issuance of the 2023 Bonds, the City is hereby authorized to issue and sell one  
19 or more series of Water System revenue refunding bonds in an aggregate principal  
20 amount not to exceed \$75,000,000 ("2023 Bonds").  
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1 The 2023 Bonds shall be designated as the "City of Tacoma, Washington,  
2 Water System Revenue Refunding Bonds, Series 2023," or other such designation  
3 as set forth in the 2023 Bonds and approved by a Designated Representative,  
4 which may include but is not limited to revising the series designation to "Series  
5 2024," pursuant to the terms of this ordinance. The 2023 Bonds may be issued in  
6 one or more series, may be designated as Taxable Bonds or Tax-Exempt Bonds,  
7 and may be issued on the same Issue Date or from time to time on different Issue  
8 Dates.

10 The 2023 Bonds shall be dated as of the Issue Date for such 2023 Bonds,  
11 shall be fully registered as to both principal and interest, shall be in the  
12 denomination of \$5,000 each or any integral multiple thereof within a series and  
13 maturity, shall be numbered separately in such manner and with any additional  
14 designation as the Bond Registrar deems necessary for purposes of identification  
15 and control, shall bear interest from their Issue Date payable on the dates and at  
16 the rates set forth in the Bond Purchase Contract, and shall be subject to optional  
17 and/or mandatory redemption, and mature on the dates and in the principal  
18 amounts set forth in the Bond Purchase Contract.

21 The 2023 Bonds shall be special obligations of the City payable only  
22 from the Bond Fund and shall be payable and secured as provided herein and  
23 in the Parity Bond Authorizing Ordinances as applicable to Parity Bonds. The  
24



1 2023 Bonds shall not be general obligations of the City, the State or any  
2 political subdivision thereof.

3 Section 4. Registration of 2023 Bonds.

4 A. Bond Registrar/Bond Register. The City hereby specifies and adopts the  
5 system of registration approved by the Washington State Finance Committee from  
6 time to time through the appointment of a state fiscal agent. The City shall cause a  
7 Bond Register to be maintained by the Bond Registrar. So long as any 2023 Bonds  
8 remain outstanding, the Bond Registrar shall make all necessary provisions to  
9 permit the exchange or registration or transfer of 2023 Bonds at its designated  
10 office. The Bond Registrar may be removed at any time at the option of the  
11 Finance Director upon prior notice to the Bond Registrar and a successor Bond  
12 Registrar appointed by the Finance Director. No resignation or removal of the Bond  
13 Registrar shall be effective until a successor shall have been appointed and until  
14 the successor Bond Registrar shall have accepted the duties of the Bond Registrar  
15 hereunder. The Bond Registrar is authorized, on behalf of the City, to authenticate  
16 and deliver 2023 Bonds transferred or exchanged in accordance with the provisions  
17 of such 2023 Bonds and this ordinance, and to carry out all of the Bond Registrar's  
18 powers and duties under this ordinance. The Bond Registrar shall be responsible  
19 for its representations contained in the Certificate of Authentication of the 2023  
20 Bonds.  
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1 B. Registered Ownership. The City and the Bond Registrar, each in its  
2 discretion, may deem and treat the Registered Owner of each 2023 Bond as the  
3 absolute owner thereof for all purposes (except as provided in the Continuing  
4 Disclosure Certificate), and neither the City nor the Bond Registrar shall be affected  
5 by any notice to the contrary. Payment of any such 2023 Bond shall be made only  
6 as described in subsection G below, but such 2023 Bond may be transferred as  
7 herein provided. All such payments made as described in subsection G below shall  
8 be valid and shall satisfy and discharge the liability of the City upon such 2023  
9 Bond to the extent of the amount or amounts so paid.

10 C. DTC Acceptance/Letters of Representations. The 2023 Bonds initially  
11 shall be held by DTC acting as depository. The City has executed and delivered to  
12 DTC a Blanket Issuer Letter of Representations. Neither the City nor the Bond  
13 Registrar shall have any responsibility or obligation to DTC participants or the  
14 persons for whom they act as nominees (or any successor depository) with respect  
15 to the 2023 Bonds in respect of the accuracy of any records maintained by DTC (or  
16 any successor depository) or any DTC participant, the payment by DTC (or any  
17 successor depository) or any DTC participant of any amount in respect of the  
18 principal of or interest on 2023 Bonds, any notice which is permitted or required to  
19 be given to Registered Owners under this ordinance (except such notices as shall  
20 be required to be given by the City to the Bond Registrar or to DTC (or any  
21 successor depository)), or any consent given or other action taken by DTC (or any  
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1 successor depository) as the Registered Owner. For so long as any 2023 Bonds  
2 are held by a depository, DTC or its successor depository or its nominee shall be  
3 deemed to be the Registered Owner for all purposes hereunder, and all references  
4 herein to the Registered Owners shall mean DTC (or any successor depository) or  
5 its nominee and shall not mean the owners of any beneficial interest in such 2023  
6 Bonds.

7 D. Use of Depository.

8 (1) The 2023 Bonds of each series shall be registered initially in the  
9 name of "Cede & Co.", as nominee of DTC, with one 2023 Bond maturing on each  
10 of the maturity dates for the 2023 Bonds in a denomination corresponding to the  
11 total principal therein designated to mature on such date. Registered ownership of  
12 such 2023 Bonds, or any portions thereof, may not thereafter be transferred except  
13 (i) to any successor of DTC or its nominee, provided that any such successor shall  
14 be qualified under any applicable laws to provide the service proposed to be  
15 provided by it; (ii) to any substitute depository appointed by the Finance Director  
16 pursuant to subsection (2) below or such substitute depository's successor; or (iii)  
17 to any person as provided in subsection (4) below.

18 (2) Upon the resignation of DTC or its successor (or any substitute  
19 depository or its successor) from its functions as depository or a determination by  
20 the Finance Director to discontinue the system of book entry transfers through  
21 DTC or its successor (or any substitute depository or its successor), the Finance  
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1 Director may appoint a substitute depository. Any such substitute depository shall  
2 be qualified under any applicable laws to provide the services proposed to be  
3 provided by it.

4 (3) In the case of any transfer pursuant to clause (i) or (ii) of  
5 subsection (1) above, the Bond Registrar shall, upon receipt of all outstanding 2023  
6 Bonds, together with a written request on behalf of the Finance Director, issue a  
7 single new 2023 Bond for such series for each maturity then outstanding, registered  
8 in the name of such successor or such substitute depository, or their nominees, as  
9 the case may be, all as specified in such written request of the Finance Director.

10 (4) In the event that (A) DTC or its successor (or substitute depository  
11 or its successor) resigns from its functions as depository, and no substitute  
12 depository can be obtained, or (B) the Finance Director determines that it is in the  
13 best interest of the Beneficial Owners of the 2023 Bonds that such owners be able  
14 to obtain physical 2023 Bond certificates, the ownership of such 2023 Bonds may  
15 then be transferred to any person or entity as herein provided, and shall no longer  
16 be held by a depository. The Finance Director shall deliver a written request to the  
17 Bond Registrar, together with a supply of physical 2023 Bonds, to issue 2023  
18 Bonds as herein provided in any authorized denomination. Upon receipt by the  
19 Bond Registrar of all then outstanding 2023 Bonds of a series together with a  
20 written request on behalf of the Finance Director to the Bond Registrar, new 2023  
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1 Bonds of such series shall be issued in the appropriate denominations and  
2 registered in the names of such persons as are requested in such written request.

3 E. Registration of Transfer of Ownership or Exchange; Change in  
4 Denominations. The transfer of any 2023 Bond may be registered and 2023 Bonds  
5 may be exchanged, but no transfer of any such 2023 Bond shall be valid unless it is  
6 surrendered to the Bond Registrar with the assignment form appearing on such  
7 2023 Bond duly executed by the Registered Owner or such Registered Owner's  
8 duly authorized agent in a manner satisfactory to the Bond Registrar. Upon such  
9 surrender, the Bond Registrar shall cancel the surrendered 2023 Bond and shall  
10 authenticate and deliver, without charge to the Registered Owner or transferee  
11 therefor, a new 2023 Bond (or 2023 Bonds at the option of the new Registered  
12 Owner) of the same series, date, maturity, and interest rate and for the same  
13 aggregate principal amount in any authorized denomination, naming as Registered  
14 Owner the person or persons listed as the assignee on the assignment form  
15 appearing on the surrendered 2023 Bond, in exchange for such surrendered and  
16 cancelled 2023 Bond. Any 2023 Bond may be surrendered to the Bond Registrar  
17 and exchanged, without charge, for an equal aggregate principal amount of 2023  
18 Bonds of the same series, date, maturity, and interest rate, in any authorized  
19 denomination. The Bond Registrar shall not be obligated to register the transfer of  
20 or to exchange any 2023 Bond between the Record Date and the next principal  
21 payment or redemption date.  
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1 F. Bond Registrar's Ownership of 2023 Bonds. The Bond Registrar may  
2 become the Registered Owner of any 2023 Bond with the same rights it would have  
3 if it were not the Bond Registrar, and to the extent permitted by law, may act as  
4 depository for and permit any of its officers or directors to act as a member of, or in  
5 any other capacity with respect to, any committee formed to protect the right of the  
6 Registered Owners or Beneficial Owners of 2023 Bonds.

8 G. Place and Medium of Payment. Both principal of and interest on the  
9 2023 Bonds shall be payable in lawful money of the United States of America.  
10 Interest on the 2023 Bonds shall be calculated on the basis of a year of 360 days  
11 and twelve 30-day months. For so long as all 2023 Bonds of a series are held by a  
12 depository, payments of principal thereof and interest thereon shall be made as  
13 provided in accordance with the operational arrangements of DTC referred to in the  
14 Letter of Representations. In the event that the 2023 Bonds of a series are no  
15 longer held by a depository, interest on such 2023 Bonds shall be paid by check or  
16 draft mailed to the Registered Owners at the addresses for such Registered  
17 Owners appearing on the Bond Register on the Record Date, or upon the written  
18 request of a Registered Owner of more than \$1,000,000 of 2023 Bonds (received  
19 by the Bond Registrar at least by the Record Date), such payment shall be made by  
20 the Bond Registrar by wire transfer to the account within the United States  
21 designated by the Registered Owner. Principal of the 2023 Bonds shall be payable  
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1 upon presentation and surrender of such 2023 Bonds by the Registered Owners at  
2 the designated office of the Bond Registrar.

3 If any 2023 Bond is duly presented for payment and funds have not been  
4 provided by the City on the applicable payment date, then interest will continue to  
5 accrue thereafter on the unpaid principal thereof at the rate stated on the 2023  
6 Bond until the 2023 Bond is paid.

8 Section 5. Redemption Terms and Right to Purchase.

9 A. Mandatory Redemption of Term Bonds and Optional Redemption, if any.

10 Each series of 2023 Bonds shall be subject to optional redemption on the dates, at  
11 the prices and under the terms set forth in the Bond Purchase Contract. Each  
12 series of 2023 Bonds shall be subject to mandatory redemption to the extent, if any,  
13 set forth in the Bond Purchase Contract.

15 B. Selection of 2023 Bonds for Redemption. For as long as the 2023 Bonds  
16 of a series are held in book entry only form, the selection of particular 2023 Bonds  
17 within a series and maturity to be redeemed shall be made in accordance with the  
18 operational arrangements then in effect at DTC. If the 2023 Bonds of a series are  
19 no longer held by a depository, the selection of such 2023 Bonds of such series to  
20 be redeemed and the surrender and reissuance thereof, as applicable, shall be  
21 made as provided in the following provisions of this subsection B or in the Official  
22 Statement. If the City redeems at any one time fewer than all of the 2023 Bonds of  
23 a series having the same maturity date, the particular 2023 Bonds or portions of  
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2023 Bonds of such series and maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of \$5,000. In the case of a 2023 Bond of a denomination greater than \$5,000, the City and the Bond Registrar shall treat each 2023 Bond as representing such number of separate 2023 Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such 2023 Bond by \$5,000. In the event that only a portion of the principal sum of a 2023 Bond is redeemed, upon surrender of such 2023 Bond at the designated office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a 2023 Bond or 2023 Bonds of like series, maturity and interest rate in any of the denominations herein authorized. Notwithstanding the foregoing or anything else to the contrary in this ordinance, the selection of any 2023 Bonds for redemption may be as provided in the Bond Purchase Contract or Official Statement for such 2023 Bonds.

C. Notice of Redemption.

(1) Official Notice. For so long as the 2023 Bonds of a series are held by a depository, notice of redemption shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the City nor the Bond Registrar shall provide any notice of redemption to any Beneficial Owners. The notice of optional redemption may be conditional. Unless waived by any owner of 2023 Bonds to be redeemed, official notice of any such redemption (which



optional redemption may be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the 2023 Bond or 2023 Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar.

All official notices of redemption shall be dated and shall state:

- (i) the redemption date,
- (ii) the redemption price,
- (iii) if fewer than all outstanding 2023 Bonds are to be redeemed, the identification by series and maturity (and, in the case of partial redemption, the respective principal amounts) of the 2023 Bonds to be redeemed,
- (iv) any conditions to redemption, and
- (v) the place where such 2023 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Bond Registrar.

On or prior to any optional redemption date, unless any condition to such redemption has not been satisfied or waived, or notice of such redemption has been rescinded or revoked, and on or prior to any mandatory redemption date, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the



1 redemption price of all the 2023 Bonds or portions of 2023 Bonds which are to be  
2 redeemed on that date. The City retains the right to rescind any optional  
3 redemption notice and the related optional redemption of 2023 Bonds by giving  
4 notice of rescission to the affected Registered Owners at any time on or prior to the  
5 scheduled redemption date. Any notice of optional redemption that is so rescinded  
6 shall be of no effect, and the 2023 Bonds for which the notice of optional  
7 redemption has been rescinded shall remain outstanding.

8  
9 (2) Effect of Notice; 2023 Bonds Due. If notice of redemption has  
10 been given and not rescinded or revoked, or if the conditions set forth in a  
11 conditional notice of redemption have been satisfied or waived, the 2023 Bonds or  
12 portions of 2023 Bonds to be redeemed shall, on the redemption date, become due  
13 and payable at the redemption price therein specified, and if the Bond Registrar  
14 then holds sufficient funds to pay such 2023 Bonds at the redemption price, then  
15 from and after such date such 2023 Bonds or portions of 2023 Bonds shall cease to  
16 bear interest. Upon surrender of such 2023 Bonds for redemption in accordance  
17 with said notice, such 2023 Bonds shall be paid by the Bond Registrar at the  
18 redemption price. Installments of interest due on or prior to the redemption date  
19 shall be payable as herein provided for payment of interest. All 2023 Bonds which  
20 have been redeemed shall be canceled by the Bond Registrar and shall not be  
21 reissued.  
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1 (3) Additional Notice. In addition to the foregoing notice, further  
2 notice shall be given by the City as set out below, but no defect in said further  
3 notice nor any failure to give all or any portion of such further notice shall in any  
4 manner defeat the effectiveness of a call for redemption if notice thereof is given as  
5 above-prescribed. Each further notice of redemption given hereunder shall contain  
6 the information required above for an official notice of redemption plus (i) the  
7 CUSIP numbers of all 2023 Bonds being redeemed; (ii) the date of issue of the  
8 2023 Bonds as originally issued; (iii) the rate of interest borne by each 2023 Bond  
9 being redeemed; (iv) the maturity date of each 2023 Bond being redeemed; and  
10 (v) any other descriptive information needed to identify accurately the 2023 Bonds  
11 being redeemed. Each further notice of redemption may be sent at least 20 days  
12 before the redemption date to each party entitled to receive notice pursuant to the  
13 Continuing Disclosure Certificate and with such additional information as the City  
14 shall deem appropriate, but such mailings shall not be a condition precedent to the  
15 redemption of such 2023 Bonds.  
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19 (4) Amendment of Notice Provisions. The foregoing notice provisions  
20 of this section, including, but not limited to, the information to be included in  
21 redemption notices and the persons designated to receive notices, may be  
22 amended by additions, deletions and changes in order to maintain compliance with  
23 duly promulgated regulations and recommendations regarding notices of  
24 redemption of municipal securities.  
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A-20

1 D. Purchase of 2023 Bonds. The City reserves the right to purchase any or  
2 all of the 2023 Bonds in the open market at any time at any price acceptable to the  
3 City plus accrued interest to the date of purchase.

4 Section 6. Form of 2023 Bonds; Execution. The 2023 Bonds shall be in  
5 substantially the form set forth in Exhibit A, which is incorporated herein by this  
6 reference, with such changes thereto as may be approved by a Designated  
7 Representative, consistent with this ordinance.

8 The 2023 Bonds shall be executed on behalf of the City with the manual or  
9 facsimile signatures of the Mayor and City Clerk and the seal of the City shall be  
10 impressed, imprinted, or otherwise reproduced thereon.

11 Only such 2023 Bonds as shall bear thereon a Certificate of Authentication in  
12 the form provided herein, manually executed by the Bond Registrar, shall be valid  
13 or obligatory for any purpose or entitled to the benefits of this ordinance. Such  
14 Certificate of Authentication shall be conclusive evidence that the 2023 Bonds so  
15 authenticated have been duly executed, authenticated and delivered hereunder and  
16 are entitled to the benefits of this ordinance.

17 In case either of the officers who shall have executed the 2023 Bonds shall  
18 cease to be an officer or officers of the City before the 2023 Bonds so signed shall  
19 have been authenticated or delivered by the Bond Registrar, or issued by the City,  
20 such 2023 Bonds may nevertheless be authenticated, delivered, and issued and  
21 upon such authentication, delivery, and issuance, shall be as binding upon the City  
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1 as though those who signed the same had continued to be such officers of the City.  
2 Any 2023 Bond may be signed and attested on behalf of the City by such persons  
3 who at the date of the actual execution of such 2023 Bond, are the proper officers  
4 of the City, although at the original date of such 2023 Bond any such person shall  
5 not have been such officer of the City.

6 Section 7. Lost or Destroyed 2023 Bonds. In case any 2023 Bonds shall be  
7 lost, stolen, or destroyed, the Bond Registrar may authenticate and deliver a new  
8 2023 Bond or 2023 Bonds of like series, amount, date, tenor, and effect to the  
9 owner thereof upon the owner paying the expenses and charges of the City in  
10 connection therewith and upon filing with the Bond Registrar evidence satisfactory  
11 to the Bond Registrar that such 2023 Bond(s) were actually lost, stolen, or  
12 destroyed and of ownership thereof, and upon furnishing the City with indemnity  
13 satisfactory to both.

14 Section 8. Deposit of Proceeds of the 2023 Bonds; Refunding Plan.

15 A. Upon closing of the 2023 Bonds, the City shall deposit proceeds of each  
16 series of 2023 Bonds (net of the Underwriters' discount and any associated fees  
17 and costs) as provided in this section.

18 B. An amount, if any, shall be deposited into the Reserve Account or a  
19 separate reserve account to satisfy the Reserve Account Requirement with respect  
20 to the 2023 Bonds.  
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A-21

1 C. For the purpose of realizing a debt service savings and/or to  
2 restructure the Refunded Bonds, the City proposes to apply a portion of the  
3 proceeds of the 2023 Bonds to defease and/or redeem the Refunded Bonds as set  
4 forth herein. If a Designated Representative determines that it is in the best  
5 interest of the City to proceed with the refunding authorized herein, a Designated  
6 Representative shall designate all or a portion of the Refunding Candidates as  
7 Refunded Bonds and such designation shall be set forth in the Bond Purchase  
8 Contract. Each Designated Representative is further authorized to appoint an  
9 escrow agent ("Escrow Agent") to assist in the refunding plan authorized herein.

10 A portion of the proceeds of such series of 2023 Bonds, together with other  
11 available funds of the City, if any, shall be deposited with the Escrow Agent on  
12 behalf of the City in the Refunding Account, which is hereby authorized to be  
13 created, pursuant to an Escrow Agreement to be used immediately upon receipt  
14 thereof to defease or redeem, as applicable, the Refunded Bonds as authorized by  
15 the bond ordinances authorizing the Refunded Bonds, and to pay costs of  
16 issuance of such series of 2023 Bonds. The net proceeds deposited with the  
17 Escrow Agent shall be used to defease the Refunded Bonds and discharge the  
18 obligations thereon by either holding the funds uninvested or through the purchase  
19 of certain Acquired Obligations bearing such interest and maturing as to principal  
20 and interest in such amounts and at such times which, together with any necessary  
21 beginning cash balance, will provide for the payment of interest on the Refunded  
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1 Bonds as the same becomes due on and prior to the Call Date for the Refunded  
2 Bonds, and the redemption price (100 percent of the principal amount) of the  
3 Refunded Bonds on the Call Date. Such Acquired Obligations shall be purchased  
4 at a yield not greater than the yield permitted by the Code and regulations relating  
5 to acquired obligations in connection with refunding bond issues.

6 A cash balance and the Acquired Obligations shall be deposited irrevocably  
7 with the Escrow Agent in an amount sufficient to defease the Refunded Bonds. In  
8 order to carry out the purposes of this section, each Designated Representative  
9 and the Finance Director are authorized and directed to execute and deliver to the  
10 Escrow Agent an Escrow Agreement.

11 The City hereby irrevocably sets aside sufficient funds out of the purchase  
12 of Acquired Obligations from proceeds of one or more series of 2023 Bonds to  
13 make the payments described above. In the Escrow Agreement, the City shall  
14 irrevocably call the Refunded Bonds for redemption on the Call Date in accordance  
15 with the provisions of the bond ordinances authorizing the redemption and  
16 retirement of the Refunded Bonds prior to their fixed maturities. Said defeasance  
17 and call for redemption of the Refunded Bonds shall be irrevocable after the  
18 delivery of the cash and Acquired Obligations to the Escrow Agent.

19 The Escrow Agent is hereby authorized and directed to provide for the  
20 giving of notices of the redemption of the Refunded Bonds in accordance with the  
21 applicable provisions of the bond ordinances authorizing the issuance of the  
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1 Refunded Bonds. The costs of publication of such notices shall be an expense of  
2 the City.

3 Section 9. Flow of Funds. The Gross Revenue of the Water System shall  
4 be used for the following purposes only and shall be applied in the following order  
5 of priority:  
6

7 A. To pay the Operation and Maintenance Expenses;

8 B. To pay interest on Parity Bonds and net payments on Parity Payment  
9 Agreements when due;

10 C. To pay the principal of Parity Bonds as it comes due at maturity or as  
11 the principal is required to be paid pursuant to mandatory redemption requirements  
12 applicable to Term Bonds, and to make payments due under any reimbursement  
13 agreement with a Bond Insurer which agreement requires those payments to be  
14 treated on a parity of lien with the Parity Bonds;

15 D. To make all payments required to be made into the Reserve Account  
16 and into any separate reserve account that secures the payment of Parity Bonds,  
17 all payments required to be made under any agreement relating to the provision of  
18 Reserve Insurance, and payments due under any reimbursement agreement with a  
19 Bond Insurer which agreement requires those payments to be treated on a parity of  
20 lien with the payments required to be made into the Reserve Account or any  
21 separate reserve account that secures the payment of Parity Bonds;

22 E. To make all payments required to be made into any revenue bond,  
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1 note, warrant, or other revenue obligation redemption fund, debt service account, or  
2 reserve account created to pay or secure the payment of the principal of and  
3 interest on any revenue bonds, notes, warrants, or other obligations of the City  
4 having a lien upon the revenue of the Water System junior and inferior to the lien  
5 thereon for the payment of the principal of and interest on the Parity Bonds,  
6 including any junior lien State loans that are obligations of the Water System; and  
7

8 F. To retire by redemption or purchase in the open market any  
9 outstanding revenue bonds or other revenue obligations of the Water System; to  
10 make necessary additional betterments, improvements, and repairs to or  
11 extensions and replacements of the Water System; to make deposits into the Rate  
12 Stabilization Account; or for any other lawful Water System purposes, including  
13 payment of gross earnings taxes to the City's General Fund.  
14

15 The City may transfer any money from any funds or accounts of the Water  
16 System legally available therefor, except bond redemption funds, refunding escrow  
17 funds or defeasance funds, to meet the required payments to be made into the  
18 Bond Fund.  
19

20 The City shall promptly collect all assessments levied in any utility local  
21 improvement district now or hereafter created to secure the payment of the principal  
22 of and interest on any Parity Bonds and shall pay the same into the Bond Fund,  
23 except for any prepaid assessments permitted by law to be paid into a construction  
24 fund or account.  
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A-23

1 Section 10. Bond Fund. The Bond Fund has been created in the Water  
2 Division Fund, known as the Water Revenue Bond Fund, and is further divided  
3 into two accounts: the Debt Service Account and the Reserve Account. At the  
4 option of the City, separate accounts may be created in the Bond Fund for the  
5 purpose of paying or securing the payment of principal, premium, if any, and  
6 interest on any series of Parity Bonds. So long as any Parity Bonds are  
7 outstanding, the City shall set aside and pay into the Bond Fund out of the Net  
8 Revenue, certain fixed amounts without regard to any fixed proportion, namely:

9 A. Debt Service Account. Into the Debt Service Account on or before  
10 each interest or principal and interest payment date of any Parity Bonds at least  
11 an amount which, together with other money on deposit therein, will be  
12 sufficient to pay the interest, or principal and interest, to become due and  
13 payable on the Parity Bonds on that payment date, including any Parity Bonds  
14 subject to mandatory redemption on that date, and net payments due on Parity  
15 Payment Agreements; and

16 B. Reserve Account. Into the Reserve Account the Reserve Account  
17 Requirement for any Parity Bonds secured by the Reserve Account, and into  
18 any other separate reserve account the Reserve Account Requirement for any  
19 Parity Bonds secured by such separate reserve account.

20 (1) Once the 2005 Bonds are no longer outstanding, the City  
21 may establish separate reserve accounts and separate Reserve Account



1 Requirements (which may be zero (\$0.00)) for a series of Future Parity Bonds,  
2 in which case the Reserve Account shall not secure such Future Parity Bonds.  
3 Further, once the 2005 Bonds are no longer outstanding, the 2015 Bonds will  
4 be released and will no longer be secured by the Reserve Account or any other  
5 debt service reserve account.

6 (2) Each Designated Representative is authorized to  
7 determine whether the 2023 Bonds will be secured by the Reserve Account for  
8 a period less than the initial final maturity date thereof, and thereafter (1) by a  
9 separate reserve account with a different Reserve Account Requirement, or (2)  
10 not be secured by a reserve account at all. Such determination shall be set  
11 forth in the Bond Purchase Contract. Notice of any change in the Reserve  
12 Account Requirement or release of the Reserve Account with respect to the  
13 2023 Bonds will be given by the City in a manner similar to a release or  
14 substitution of property securing the 2023 Bonds in accordance with the  
15 Continuing Disclosure Certificate.

16 (3) The following subsection (3) applies to the Reserve  
17 Account so long as it secures payment of any Parity Bonds. Provisions related  
18 to a separate reserve account established for one or more series of Future  
19 Parity Bonds shall be set forth in the applicable Parity Bond Authorizing  
20 Ordinance(s).



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1 The City may, at any time, provide all or any part of the Reserve Account  
2 Requirement through Reserve Insurance, and the amount available to be drawn  
3 upon under that Reserve Insurance shall be credited against the Reserve  
4 Account Requirement, subject to the following:

5 The Reserve Insurance shall not be cancelable on less than three years'  
6 notice. On receipt of a notice of cancellation of any Reserve Insurance or upon  
7 notice that the entity providing the Reserve Insurance no longer meets the  
8 requirements specified herein, the City shall substitute Reserve Insurance in the  
9 amount required to make up the deficiency created in the Reserve Account or in  
10 the alternative shall create a special account in the Water Division Fund and  
11 deposit therein, on or before the 25<sup>th</sup> day of each of the 36 succeeding calendar  
12 months (commencing with the 25<sup>th</sup> day of the calendar month next following the  
13 date of the notice) 1/36th of the amount sufficient, together with other money  
14 and investments on deposit in the Reserve Account, to equal the Reserve  
15 Account Requirement in effect as of the date the cancellation or disqualification  
16 of the entity becomes effective. Those amounts shall be deposited in the  
17 special account from money in the Water Division Fund after making provision  
18 for payment of Operation and Maintenance Expenses and for required  
19 payments into the Bond Fund. Amounts on deposit in that special account shall  
20 not be available to pay debt service on Parity Bonds or for any other purpose of  
21 the City, and shall be transferred to the Reserve Account on the effective date  
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1 of any cancellation of a Reserve Insurance to make up all or part of the  
2 deficiency caused thereby. Amounts in that special account or in the Reserve  
3 Account may be transferred back to the Water Division Fund and used for any  
4 purpose if and when qualifying Reserve Insurance is obtained.

5 Except for withdrawals therefrom and payments over time as authorized  
6 herein, the Reserve Account shall be maintained at the Reserve Account  
7 Requirement applicable to the Parity Bonds secured by the Reserve Account,  
8 as it may be adjusted from time to time, at all times so long as any Parity Bonds  
9 secured by the Reserve Account remain outstanding. For the purpose of  
10 determining the amount credited to the Reserve Account, obligations in which  
11 money in the Reserve Account has been invested shall be valued at the greater  
12 of cost or accreted value.

13 In the event that there shall be a deficiency in the Debt Service Account  
14 to meet maturing installments of either principal or interest or mandatory  
15 redemption requirements for the Parity Bonds secured by the Reserve Account,  
16 as the case may be, that deficiency shall be made up from the Reserve Account  
17 by the withdrawal of cash or draws on the Reserve Insurance therefrom for that  
18 purpose. Any deficiency created in the Reserve Account by reason of any such  
19 withdrawal shall, within 12 months, be made up from Net Revenue available  
20 after making necessary provisions for the required payments into the Debt  
21 Service Account.  
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1 The money in the Reserve Account may be applied to the payment of the  
2 last outstanding Parity Bonds secured by the Reserve Account payable out of  
3 the Bond Fund, except that any money in the Reserve Account (including  
4 investment earnings) in excess of the applicable Reserve Account Requirement  
5 may be withdrawn and deposited in the Debt Service Account and spent for the  
6 purpose of retiring Parity Bonds secured by the Reserve Account or may be  
7 deposited in any other fund or account and spent for any other lawful Water  
8 System purpose.

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10 (4) When the total amount in the Bond Fund (including  
11 investment earnings) shall equal the total amount of principal and interest for all  
12 Parity Bonds to the last maturity thereof, no further payment need be made into  
13 the Bond Fund.  
14

15 The City may provide for the purchase, redemption, or defeasance of  
16 any Parity Bonds by the use of money on deposit in any account in the Bond  
17 Fund as long as the money remaining in those accounts is sufficient to satisfy  
18 the required deposits in those accounts for the remaining Parity Bonds.  
19

20 All money in the Bond Fund may be kept in cash or invested in legal  
21 investments (including the City's investment pool) maturing, for investments in  
22 the Debt Service Account, not later than the dates when the funds are required  
23 for the payment of principal of or interest on the Parity Bonds and, for  
24 investments in the Reserve Account, maturing (or subject to redemption, or  
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1 repurchase and redemption, at the option of the City) on a date not later than  
2 15 years from the date of investment. All such investments shall be acquired at  
3 Fair Market Value.

4 Earnings from investments in the Debt Service Account shall be  
5 deposited in that account. Earnings from investments in the Reserve Account  
6 shall be deposited in that account if necessary to meet the applicable Reserve  
7 Requirement. Notwithstanding the provisions for the deposit of earnings, any  
8 earnings that are subject to federal arbitrage rebate requirements may be  
9 withdrawn from the Bond Fund for deposit into a separate fund or account  
10 created for the purpose of compliance with those rebate requirements.  
11

12 If the City provides for all or part of the applicable Reserve Account  
13 Requirement by Reserve Insurance, excess amounts in the Reserve Account  
14 may be withdrawn from that account and deposited either in the Debt Service  
15 Account and/or in the Water Division Fund, subject to applicable state and  
16 federal law.  
17

18 The City may create sinking fund accounts or other accounts in the Bond  
19 Fund for the payment or securing the payment of Parity Bonds, as long as the  
20 maintenance of such accounts does not conflict with the rights of the owners of  
21 such Parity Bonds.  
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1 C. Money in each of the subaccounts described in this Section 10 may  
2 be used, if necessary, to pay rebate amounts to the extent that such rebate  
3 amounts are directly attributable to earnings on such subaccount.

4 Section 11. Rate Stabilization Account. There has previously been  
5 established in the Water Division Fund a Rate Stabilization Account. The City  
6 may, at any time, as determined by the City and as consistent with Section 9 of  
7 this ordinance, deposit in the Rate Stabilization Account Gross Revenue and  
8 any other money received by the Water System and available to be used  
9 therefor, excluding principal proceeds of Parity Bonds or other borrowing. Net  
10 Revenue for a Fiscal Year shall not include deposits into the Rate Stabilization  
11 Account. The City may withdraw money from the Rate Stabilization Account for  
12 inclusion in the Net Revenue for any Fiscal Year of the Water System, except  
13 that: (a) the total amount withdrawn from the Rate Stabilization Account in any  
14 Fiscal Year of the Water System may not exceed the total debt service of the  
15 Water System in that year; and (b) the Net Revenue in that Fiscal Year,  
16 disregarding the amounts withdrawn from the Rate Stabilization Account, must  
17 equal at least 1.0 times the Annual Debt Service that year on all Parity Bonds.  
18 Such deposits or withdrawals may be made up to and including the date  
19 90 days after the end of the Fiscal Year for which the deposit or withdrawal will  
20 be included as Net Revenue for that Fiscal Year.  
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1 Earnings from investments in the Rate Stabilization Account shall be  
2 deposited in that account or another fund or account of the Water System. If  
3 earnings from investments in the Rate Stabilization Account are deposited into  
4 that account, such amounts shall not be included in the calculation of Net  
5 Revenue unless and until withdrawn from that account as provided above.  
6 Investments shall be acquired at Fair Market Value.

7 No deposit of Gross Revenue shall be made into the Rate Stabilization  
8 Account to the extent that such deposit would prevent the City from meeting the  
9 Coverage Requirement in the relevant Fiscal Year.

10 Section 12. Finding as to Sufficiency of Gross Revenue. The City finds  
11 that the Gross Revenue and benefits to be derived from the operation and  
12 maintenance of the Water System of the City at the rates to be charged for  
13 water and other services and commodities from the Water System will be more  
14 than sufficient to meet all Operation and Maintenance Expenses and to permit  
15 the setting aside into the Bond Fund out of the Gross Revenue of amounts  
16 sufficient to pay the principal of and interest on the Bonds and any mandatory  
17 redemption requirements when due. The City further declares that in creating  
18 the Bond Fund and in fixing the amounts to be paid into the Bond Fund it has  
19 exercised due regard for Operation and Maintenance Expenses, and the City  
20 has not bound and obligated itself to set aside and pay into the Bond Fund a  
21 greater amount or proportion of the Gross Revenue than in the judgment of the  
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1 City will be available over and above the Operation and Maintenance  
2 Expenses.

3       Section 13. Pledge of Gross Revenue and Lien Position. The Gross  
4 Revenue of the Water System and all money and investments held in the Bond  
5 Fund (including the Reserve Account or any separate reserve account to the  
6 extent such account secures the payment of Parity Bonds), the Rate Stabilization  
7 Account, and any construction fund (except money and investments held in a  
8 separate fund or account created for the purpose of compliance with rebate  
9 requirements under the Code), is pledged to the payment of the Parity Bonds and  
10 to make payments into the Reserve Account or any separate reserve account  
11 required by the Parity Bond Authorizing Ordinances, and this pledge shall  
12 constitute a lien and charge upon the Gross Revenue prior and superior to any  
13 other charges whatsoever, except subject to the Operation and Maintenance  
14 Expenses of the Water System. The pledge of Gross Revenue of the Water  
15 System to the payment of the Parity Bonds is on a parity of lien as the payment of  
16 other parity lien obligations as provided in the Parity Bond Authorizing Ordinances.  
17

18       The Gross Revenue and other money and securities hereby pledged  
19 shall immediately be subject to the lien of this pledge without any physical  
20 delivery or further act, and the lien of this pledge shall be valid and binding as  
21 against all parties having claims of any kind in tort, contract or otherwise against  
22 the City.  
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1       All Parity Bonds hereafter outstanding shall be equally and ratably  
2 payable and secured without priority by reason of date of adoption of the  
3 ordinance providing for their issuance or by reason of their number or date of  
4 sale, issuance, execution or delivery, or by the liens, pledges, charges, trusts,  
5 assignments and covenants made herein or in any ordinance authorizing Future  
6 Parity Bonds, except as otherwise expressly provided or permitted in this  
7 ordinance and except as to insurance which may be obtained by the City to  
8 insure the repayment of one or more series or maturities within a series.  
9

10       Parity Bonds shall not in any manner or to any extent constitute general  
11 obligations of the City or of the State, or any political subdivision of the State, or  
12 a charge upon any general fund or upon any money or other property of the  
13 City or of the State, or of any political subdivision of the State, not specifically  
14 pledged thereto by this ordinance.  
15

16       Section 14. Defeasance. In the event that the City, to effect the payment,  
17 retirement, or redemption of any 2023 Bond, sets aside in the Bond Fund or in  
18 another special account, cash or noncallable Government Obligations, or any  
19 combination of cash and/or noncallable Government Obligations, in amounts  
20 and maturities which, together with the known earned income therefrom, are  
21 sufficient to redeem and retire such 2023 Bond in accordance with its terms and  
22 to pay when due the interest and redemption premium, if any, thereon, and  
23 such cash and/or noncallable Government Obligations are irrevocably set aside  
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1 and pledged for such purpose, then no further payments need be made into the  
2 Bond Fund for the payment of the principal of and interest on such 2023 Bond.  
3 The owner of a 2023 Bond so provided for shall cease to be entitled to any  
4 benefit or security of this ordinance except the right to receive payment of  
5 principal, premium, if any, and interest from the Bond Fund or such special  
6 account, and such 2023 Bond shall be deemed to be not outstanding under this  
7 ordinance.  
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9 The City shall give written notice of defeasance to the Registered Owners of  
10 the 2023 Bonds and to each party entitled to receive notice in accordance with the  
11 Continuing Disclosure Certificate.  
12

13 Section 15. Tax Covenants. The 2023 Bonds of a series may be issued  
14 as Tax-Exempt Bonds. The City hereby covenants that it will take all actions  
15 necessary to assure the exclusion of interest on the Tax-Exempt Bonds from  
16 the gross income of the Owners of the Tax-Exempt Bonds, to the same extent  
17 as such interest is permitted to be excluded from gross income under the Code  
18 as in effect on the Issue Date of the Tax-Exempt Bonds, including, but not  
19 limited to, the following:  
20

21 A. Private Activity Bond Limitation. The City will assure that the proceeds of  
22 the Tax-Exempt Bonds are not so used as to cause the Tax-Exempt Bonds to  
23 satisfy the private business tests of Section 141(b) of the Code or the private loan  
24 financing test of Section 141(c) of the Code.  
25  
26



1 B. Limitations on Disposition of Projects. The City will not sell or otherwise  
2 transfer or dispose of (i) any personal property components of the Projects  
3 refinanced with proceeds of the Tax-Exempt Bonds other than in the ordinary  
4 course of an established government program under Treasury Regulation  
5 Section 1.141-2(d)(4) or (ii) any real property components of such Projects, unless  
6 it has received an opinion of nationally recognized bond counsel to the effect that  
7 such disposition will not adversely affect the treatment of interest on the Tax-  
8 Exempt Bonds as excludable from gross income for federal income tax purposes.  
9

10 C. Federal Guarantee Prohibition. The City will not take any action or permit  
11 to suffer any action to be taken if the result of such action would be to cause any of  
12 the Tax-Exempt Bonds to be "federally guaranteed" within the meaning of  
13 Section 149(b) of the Code.  
14

15 D. Rebate Requirement. The City will take any and all actions necessary to  
16 assure compliance with Section 148(f) of the Code, relating to the rebate of excess  
17 investment earnings, if any, to the federal government, to the extent that such  
18 section is applicable to the Tax-Exempt Bonds.  
19

20 E. No Arbitrage. The City will not take, or permit or suffer to be taken, any  
21 action with respect to the proceeds of the Tax-Exempt Bonds which, if such action  
22 had been reasonably expected to have been taken, or had been deliberately and  
23 intentionally taken, on the Issue Date of the Tax-Exempt Bonds would have caused  
24  
25  
26



1 the Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148 of  
2 the Code.

3 F. System of Registration. The City will maintain a system for recording the  
4 ownership of the Tax-Exempt Bonds that complies with the provisions of  
5 Section 149 of the Code until the Tax-Exempt Bonds have been surrendered and  
6 canceled.  
7

8 G. Record Retention. The City will retain its records of all accounting and  
9 monitoring it carries out with respect to the Tax-Exempt Bonds for at least three  
10 years after the Tax-Exempt Bonds mature or are prepaid (whichever is earlier);  
11 however, if the Tax-Exempt Bonds are redeemed prior to maturity, the City will  
12 retain its records of accounting and monitoring at least three years after the earlier  
13 of the maturity or redemption of the obligations that refunded the Tax-Exempt  
14 Bonds.  
15

16 H. Compliance with Federal Tax Certificate. The City will comply with the  
17 provisions of the Federal Tax Certificate with respect to the Tax-Exempt Bonds,  
18 which are incorporated herein as if fully set forth herein.  
19

20 The covenants of this section will survive payment in full or defeasance of  
21 the Tax-Exempt Bonds.  
22

23 Section 16. Covenants. The City covenants and agrees with the owner of  
24 each Bond at any time outstanding, as follows:  
25  
26



1 A. Operation and Maintenance. It will at all times maintain, preserve,  
2 and keep the properties of the Water System in good repair, working order, and  
3 condition; will make all necessary and proper additions, betterments, renewals,  
4 and repairs thereto, and improvements, replacements, and extensions thereof;  
5 and will at all times operate or cause to be operated the properties of the Water  
6 System and the business in connection therewith in an efficient manner and at  
7 a reasonable cost.  
8

9 B. Establishment and Collection of Rates and Charges and Other  
10 Covenants. It will establish, maintain, and collect rates and charges for  
11 services and facilities provided by the Water System which will be fair and  
12 equitable, and will adjust those rates and charges from time to time so that:  
13

14 (1) The Gross Revenue will be sufficient to: (i) pay all Operation  
15 and Maintenance Expenses; (ii) pay when due all amounts that the City is  
16 obligated to pay into the Bond Fund and the accounts therein; and (iii) pay all  
17 taxes, assessments, or other governmental charges lawfully imposed on the  
18 Water System or the revenue therefrom or payments in lieu thereof and any  
19 and all other amounts which the City may now or hereafter become obligated to  
20 pay from the Gross Revenue by law or contract; and  
21

22 (2) The Net Revenue of the Water System in each Fiscal Year of  
23 the Water System will be at least equal to the Coverage Requirement.  
24  
25  
26



1 The failure of the City to comply with subparagraphs (1) and (2) of this  
2 subsection B shall not be an Event of Default as defined in Section 27 of this  
3 ordinance if the City promptly retains an Independent Consulting Engineer or,  
4 once the 2005 Bonds and 2009 Bonds are no longer outstanding, an  
5 independent certified public accountant, to recommend to the City Council  
6 adjustments in the rates of the Water System necessary to meet the  
7 requirements of those subparagraphs and if the City Council adopts the  
8 recommended modifications within 180 days of the date the failure become  
9 known to the City Council.  
10

11 C. Sale, Transfer, or Disposition of the Water System. It will sell,  
12 transfer, or otherwise dispose of any of the works, plant, properties, facilities, or  
13 other part of the Water System or any real or personal property comprising a  
14 part of the Water System only upon approval by ordinance and only consistent  
15 with one or more of the following:  
16

17 (1) The City may exchange any of the works, plant, properties,  
18 facilities, or other part of the Water System for works, plant, properties, or  
19 facilities of substantially the same type, use and value; or  
20

21 (2) The City, in its discretion, may carry out such a sale, transfer,  
22 or disposition (each, as used in this subparagraph, a "transfer") if the facilities or  
23 property transferred are not material to the operation of the Water System, or  
24 shall have become unserviceable, inadequate, obsolete or unfit to be used in  
25  
26



1 the operation of the Water System or are no longer necessary, material, or  
2 useful to the operation of the Water System; or  
3

4 (3) The City, in its discretion, may carry out such a transfer if the  
5 aggregate depreciated cost value of the facilities or property being transferred  
6 under this subparagraph (iii) in any Fiscal Year of the Water System comprises  
7 no more than three percent of the total assets of the Water System; or  
8

9 (4) The City may sell, lease, mortgage, or otherwise dispose of  
10 the Water System, including all additions to and betterments and extensions  
11 thereof at any time made, that are used, useful, or material in the operation of  
12 the Water System, if provision is made for the replacement thereof or if the City  
13 receives from the purchaser or transferee an amount equal to or greater than  
14 the greatest of the following:  
15

16 (i) An amount which will be in the same proportion to the  
17 net amount of Parity Bonds then outstanding (defined as the total amount of the  
18 Parity Bonds less the amount of cash and investments in the Bond Fund and  
19 accounts therein) that the Gross Revenue of the Water System from the portion  
20 of the Water System sold or disposed of for the preceding year bears to the  
21 total Gross Revenue of the Water System for that period;  
22

23 (ii) An amount which will be in the same proportion to the  
24 net amount of Parity Bonds then outstanding (as defined above) that the Net  
25 Revenue from the portion of the Water System sold or disposed of for the  
26



1 preceding year bears to the total Net Revenue of the Water System for such  
2 period; or

3 (iii) An amount which will be in the same proportion to the  
4 net amount of Parity Bonds then outstanding (as defined above) that the  
5 depreciated cost value of the portion of the Water System sold or disposed of  
6 bears to the depreciated cost value of the entire Water System immediately  
7 prior to such sale or disposition.  
8

9 The amount required to be paid to the City under this paragraph may be  
10 reduced by any "equity credits" or similar amounts based on prior capital  
11 contributions or other payments to the City which, under any contract between  
12 the City and the purchaser or transferee, are allowed as a setoff against the  
13 purchase or transfer price that would otherwise be payable to the City.  
14

15 The City may accept from the purchaser or transferee the amount  
16 calculated as described in this paragraph, payable, with interest, amortized over  
17 the number of years of remaining life of the portion of the Water System sold or  
18 disposed of or such shorter period of time as determined by the City. However,  
19 the contract of transfer or sale must provide that the payments to the City shall  
20 be either superior to or equal to the lien on the revenues of the purchaser or  
21 transferee of all other obligations of the purchaser or transferee.  
22

23 D. No Free Service. Except to aid the poor or infirm and for firefighting  
24 purposes and if the City elects to provide free service for such purposes, it will  
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26



1 not furnish or supply or permit the furnishing or supplying of any service or  
2 facility in connection with the operation of the Water System free of charge to  
3 any person, firm, or corporation, public or private.  
4

5 E. Liens Upon the Water System. Except as otherwise provided in this  
6 ordinance, it will not at any time create or permit to accrue or to exist any lien or  
7 other encumbrance or indebtedness upon the Gross Revenue or any part  
8 thereof, prior or superior to the lien thereon for the payment of the Parity Bonds,  
9 and will pay and discharge, or cause to be paid and discharged, any and all  
10 lawful claims for labor, materials, or supplies which, if unpaid, might become a  
11 lien or charge upon the Gross Revenue or any part thereof, prior or superior to,  
12 or on a parity with, the lien of the Parity Bonds, or which might impair the  
13 security of the Parity Bonds.  
14

15 F. Books and Accounts. It will keep proper books, records, and  
16 accounts with respect to the operations, income, and expenditures of the Water  
17 System in accordance with generally accepted accounting practices relating to  
18 municipal utilities and any applicable rules and regulations prescribed by the  
19 State, and will cause those books, records, and accounts to be audited on an  
20 annual basis by the State Auditor and/or independent auditor (or, if such audit is  
21 not made by the State Auditor within 270 days after the close of any Fiscal Year  
22 of the Water System, by a certified public accountant selected by the City). It  
23 will prepare annual financial and operating statements as soon as practicable  
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1 after the close of each Fiscal Year of the Water System showing in reasonable  
2 detail the financial condition of the Water System as of the close of the previous  
3 year, and the income and expenses for such year, including the amounts paid  
4 into the Bond Fund and into any and all special funds or accounts created  
5 pursuant to the provisions of this ordinance, the status of all funds and accounts  
6 as of the end of such year, and the amounts expended for maintenance,  
7 renewals, replacements, and capital additions to the Water System. Such  
8 statements shall be sent to the owner of any Parity Bonds upon written request  
9 therefor being made to the City. The City may charge a reasonable cost for  
10 providing such financial statements.  
11

12  
13 G. Collection of Delinquent Accounts. On at least an annual basis, it will  
14 determine all accounts that are delinquent and will take such actions as the City  
15 determines are reasonably necessary to enforce payment of those delinquent  
16 accounts.  
17

18 H. Maintenance of Insurance. It at all times will carry fire and extended  
19 coverage, public liability and property damage and such other forms of  
20 insurance with responsible insurers and with policies payable to the City on  
21 such of the buildings, equipment, works, plants, facilities and properties of the  
22 Water System as are ordinarily carried by municipal or privately owned utilities  
23 engaged in the operation of like systems, and against such claims for damages  
24 as are ordinarily carried by municipal or privately owned utilities engaged in the  
25  
26



1 operation of like systems, or it will self insure or will participate in an insurance  
2 pool or pools with reserves adequate, in the reasonable judgment of the City, to  
3 protect the Water System and the owners of the Parity Bonds against loss.  
4

5 I. Condemnation Awards and Insurance Proceeds. If the City  
6 receives any condemnation awards or proceeds of an insurance policy in  
7 connection with any loss of or damage to any property of the Water System, it  
8 shall apply the condemnation award or insurance proceeds, in the City's sole  
9 discretion, either: (A) to the cost of replacing or repairing the lost or damaged  
10 properties; (B) to the payment, purchase or redemption of Parity Bonds; or  
11 (C) to the cost of improvements to the Water System.  
12

13 Section 17. Payment Agreements and Parity Payment Agreements.

14 A. Calculation of Debt Service on Parity Bonds With Respect to Which a  
15 Payment Agreement Is in Force. Debt service on Parity Bonds with respect to  
16 which a Payment Agreement is in force shall be calculated based on the net  
17 economic effect on the City expected to be produced by the terms of the Parity  
18 Bonds and the terms of the Payment Agreement, including, but not limited to,  
19 the effects that: (1) Parity Bonds that would, but for a Payment Agreement, be  
20 treated as obligations bearing interest at a Variable Interest Rate instead shall  
21 be treated as obligations bearing interest at a fixed interest rate; and (2) Parity  
22 Bonds that would, but for a Payment Agreement, be treated as obligations  
23 bearing interest at a fixed interest rate instead shall be treated as obligations  
24  
25  
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1 bearing interest at a Variable Interest Rate. Accordingly, the amount of interest  
2 deemed to be payable on any Parity Bonds with respect to which a Payment  
3 Agreement is in force shall be an amount equal to the amount of interest that  
4 would be payable at the rate or rates stated in those Parity Bonds plus Payment  
5 Agreement Payments minus Payment Agreement Receipts. For the purposes  
6 of calculating as nearly as practicable Payment Agreement Receipts and  
7 Payment Agreement Payments, under a Payment Agreement that includes a  
8 variable rate component determined by reference to a pricing mechanism or  
9 index that is not the same as the pricing mechanism or index used to determine  
10 the variable rate interest component on the Parity Bonds to which the Payment  
11 Agreement is related, it shall be assumed that the fixed rate used in calculating  
12 Payment Agreement Payments will be equal to 105% of the fixed rate specified  
13 by the Payment Agreement and that the pricing mechanism or index specified  
14 by the Payment Agreement is the same as the pricing mechanism or index  
15 specified by the Parity Bonds.

16  
17  
18  
19 B. Debt Service on Parity Payment Agreements. No additional debt  
20 service shall be taken into account with respect to a Parity Payment Agreement  
21 for any period during which Payment Agreement Payments on that Parity  
22 Payment Agreement are taken into account in determining Annual Debt Service  
23 on related Parity Bonds under subsection A of this Section 17. However, for  
24 any period during which Payment Agreement Payments are not taken into  
25  
26



1 account in calculating Annual Debt Service on any outstanding Parity Bonds  
2 because the Parity Payment Agreement is not then related to any outstanding  
3 Parity Bonds, debt service on that Parity Payment Agreement shall be taken  
4 into account by assuming:

5  
6 (1) City Obligated to Make Payments Based on Fixed Rate. If the  
7 City is obligated to make Payment Agreement Payments based on a fixed rate  
8 and the Qualified Counterparty is obligated to make payments based on a  
9 variable rate index, that payments by the City will be based on the assumed  
10 fixed rate, and that payments by the Qualified Counterparty will be based on a  
11 rate equal to the average rate determined by the variable rate index specified  
12 by the Parity Payment Agreement during the fiscal quarter preceding the  
13 quarter in which the calculation is made; and

14  
15 (2) City Obligated to Make Payments Based on Variable Rate  
16 Index. If the City is obligated to make Payment Agreement Payments based on  
17 a variable rate index and the Qualified Counterparty is obligated to make  
18 payment based on a fixed rate, that payments by the City will be based on a  
19 rate equal to the average rate determined by the variable rate index specified  
20 by the Parity Payment Agreement during the fiscal quarter preceding the  
21 quarter in which the calculation is made, and that the Qualified Counterparty will  
22 make payments based on the fixed rate specified by the Parity Payment  
23 Agreement.  
24  
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1 Section 18. Future Parity Bonds. The City reserves the right to issue  
2 Future Parity Bonds and to enter into Parity Payment Agreements for purposes  
3 of the Water System or to refund a portion of the Parity Bonds if the following  
4 conditions are met and complied with at the time of the issuance of those  
5 Future Parity Bonds or entering into the Parity Payment Agreement:  
6

7 A. There shall be no deficiency in the Bond Fund and no Event of  
8 Default as defined in Section 27 shall have occurred and be continuing.

9 B. The Parity Bond Authorizing Ordinance shall provide that all  
10 assessments and interest thereon that may be levied in any utility local  
11 improvement district created for the purpose of paying, in whole or in part, the  
12 principal of and interest on those Future Parity Bonds, shall be paid directly into  
13 the Bond Fund, except for any prepaid assessments permitted by law to be paid  
14 into a construction fund or account.  
15

16 C. The Parity Bond Authorizing Ordinance shall provide for the payment  
17 of the principal thereof and interest thereon out of the Bond Fund.  
18

19 D. The Parity Bond Authorizing Ordinance shall provide for the payment  
20 of amounts into the Bond Fund to meet mandatory redemption requirements  
21 applicable to any Term Bonds to be issued and for regular payments to be  
22 made for the payment of the principal of such Term Bonds on or before their  
23 maturity, or, as an alternative, the mandatory redemption of those Term Bonds  
24 prior to their maturity date from money in the Debt Service Account.  
25  
26



1 E. If the Future Parity Bonds proposed to be issued are secured by the  
2 Reserve Account, the Parity Bond Authorizing Ordinance shall provide for the  
3 deposit into the Reserve Account of: (1) an amount, if any, necessary to fund  
4 the Reserve Account Requirement upon the issuance of those Future Parity  
5 Bonds from Future Parity Bond proceeds or other money legally available; or  
6 (2) Reserve Insurance or an amount plus Reserve Insurance necessary to fund  
7 the Reserve Account Requirement upon the issuance of those Future Parity  
8 Bonds; or (3) amounts necessary to fund the Reserve Account Requirement  
9 from Net Revenue within five years from the date of issuance of those Future  
10 Parity Bonds, in five approximately equal annual payments. Once the 2005  
11 Bonds are no longer outstanding, such Future Parity Bonds may be secured by  
12 a separate reserve account with a separate Reserve Account Requirement,  
13 which may be zero.  
14

15 F. There shall be on file with the City either:  
16

17 (1) A certificate of the Finance Director demonstrating that during  
18 any 12 consecutive calendar months out of the immediately preceding  
19 24 calendar months Net Revenue was at least equal to 1.25 times the projected  
20 Maximum Annual Debt Service for all Parity Bonds including the Future Parity  
21 Bonds proposed to be issued; or  
22

23 (2) A certificate of an Independent Consulting Engineer or, once  
24 the 2005 Bonds and 2009 Bonds are no longer outstanding, an independent  
25  
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1 certified public accountant, that, in such individual's opinion, the Net Revenue  
2 will be at least equal to 1.25 times the projected Average Annual Debt Service  
3 for all Parity Bonds including the Future Parity Bonds proposed to be issued. In  
4 providing that certificate, the Independent Consulting Engineer, or independent  
5 certified public accountant, may take into account the following adjustments:

6 (i) Any changes in rates in effect and being charged, or  
7 rates expected to be charged in accordance with a program of specific rates,  
8 rate levels, or increases in overall rate revenue approved by ordinance or  
9 resolution;  
10

11 (ii) Net revenue from customers of the Water System who  
12 have become customers during the 12 consecutive month period, or thereafter,  
13 and their estimate of net revenue from any customers to be connected to the  
14 Water System who have paid the required connection charges, adjusted to  
15 reflect one year's net revenue from those customers;  
16

17 (iii) The Independent Consulting Engineer's, or  
18 independent certified public account's, estimate of customers anticipated to be  
19 served by facilities or improvements financed in substantial part by those Future  
20 Parity Bonds (or additional Parity Bonds expected to be issued during the five-  
21 year period); and  
22

23 (iv) Net revenue from any person, firm, corporation, or  
24 municipal corporation under any executed contract for water or other utility  
25  
26



1 service, which revenue was not included in the historical Net Revenue of the  
2 Water System.

3 If the Future Parity Bonds proposed to be issued are for the sole purpose  
4 of refunding outstanding bonds payable from the Bond Fund, no such coverage  
5 certification shall be required if the Annual Debt Service on the Parity Bonds  
6 after the issuance of the Future Parity Bonds is not, for any year in which Parity  
7 Bonds are outstanding, more than \$5,000 over the Annual Debt Service on the  
8 Parity Bonds prior to the issuance of those Future Parity Bonds.  
9

10 Nothing contained herein shall prevent the City from issuing Future  
11 Parity Bonds to refund maturing Parity Bonds, money for the payment of which  
12 is not otherwise available, or revenue bonds that are a charge or lien upon the  
13 Gross Revenue subordinate to the charge or lien of the Parity Bonds, or from  
14 pledging the payment of utility local improvement district assessments into a  
15 bond redemption fund created for the payment of the principal of and interest on  
16 those junior lien bonds as long as such utility local improvement district  
17 assessments are levied for improvements constructed from the proceeds of  
18 those junior lien bonds.  
19

20 Section 19. Reimbursement Obligations. If the City elects to meet the  
21 Reserve Account Requirement or any portion thereof through the use of  
22 Reserve Insurance or elects to secure any issue of Parity Bonds through the  
23 use of Bond Insurance, the City may contract with the entity providing such  
24  
25  
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1 Reserve Insurance or Bond Insurance to the effect that the City's  
2 reimbursement obligation, if any, to such entity ranks on a parity of lien with the  
3 Parity Bonds.

4       Section 20. Separate Utility Systems. The City may create, acquire,  
5 construct, finance, own, and operate one or more additional systems for water  
6 supply, transmission, treatment, or other commodity or service. The Regional  
7 System has been created as a separate system. The revenue of any separate  
8 utility system shall not be included in the Gross Revenue of the Water System  
9 and may be pledged to the payment of revenue obligations issued to purchase,  
10 construct, condemn, or otherwise acquire or expand the separate utility system.  
11 Neither the Gross Revenue nor the Net Revenue of the Water System shall be  
12 pledged by the City to the payment of any obligations of a separate utility  
13 system except: (A) as a Contract Resource Obligation upon compliance with  
14 Section 21; and/or (B) with respect to the Net Revenue, on a basis subordinate  
15 to the lien of the Parity Bonds on that Net Revenue.

16       Section 21. Contract Resource Obligations. The City may at any time  
17 enter into one or more contracts or other obligations for the acquisition, from  
18 facilities to be constructed, of water supply, transmission, treatment, or other  
19 commodity or service relating to the Water System. The City's obligation with  
20 respect to the Regional System is a Contract Resource Obligation. The City  
21 may determine that such contract or other obligation is a Contract Resource  
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1 Obligation, and may provide that all payments under that Contract Resource  
2 Obligation (including payments prior to the time that water supply, transmission,  
3 treatment or other commodity or service is being provided, or during a  
4 suspension or after termination of supply or service) shall be Operation and  
5 Maintenance Expenses if the following requirements are met at the time such  
6 Contract Resource Obligation is entered into:

7       A. No Event of Default as defined in Section 27 of this ordinance has  
8 occurred and is continuing.

9       B. There shall be on file a certificate of an Independent Consulting  
10 Engineer or, once the 2005 Bonds, the 2009 Bonds and the 2010 Bonds are no  
11 longer outstanding, an independent certified public accountant, stating that:  
12 (1) the payments to be made by the City in connection with the Contract  
13 Resource Obligation are reasonable for the supply, transmission, treatment, or  
14 other service rendered; (2) the source of any new supply, and any facilities to  
15 be constructed to provide the supply, transmission, treatment, or other service,  
16 are sound from a water or other commodity supply or transmission planning  
17 standpoint, are technically and economically feasible in accordance with  
18 prudent utility practice, and are likely to provide supply or transmission or other  
19 service no later than a date set forth in the Independent Consulting Engineer's,  
20 or independent certified public accountant's, certification; and (3) the Net  
21 Revenue (further adjusted by the Independent Consulting Engineer's, or  
22  
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1 independent certified public accountant's, estimate of the payments to be made  
2 in accordance with the Contract Resource Obligation) for the five Fiscal Years  
3 following the year in which the Contract Resource Obligation is incurred, as  
4 such Net Revenue is estimated by the Independent Consulting Engineer, or  
5 independent certified public accountant (with such estimate based on such  
6 factors as he or she considers reasonable), will be at least equal to the  
7 Coverage Requirement.

8  
9 Payments required to be made under Contract Resource Obligations  
10 shall not be subject to acceleration.

11  
12 Nothing in this section shall be deemed to prevent the City from entering  
13 into other agreements for the acquisition of water supply, transmission,  
14 treatment, or other commodity or service from existing facilities and from  
15 treating those payments as Operation and Maintenance Expenses of the Water  
16 System. Nothing in this section shall be deemed to prevent the City from  
17 entering into other agreements for the acquisition of water supply, transmission,  
18 treatment, or other commodity or service from facilities to be constructed and  
19 from agreeing to make payments with respect thereto, such payments  
20 constituting a lien and charge on Gross Revenue subordinate to that of Parity  
21 Bonds.  
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1 Section 22. Sale of 2023 Bonds.

2 A. Bond Sale. The 2023 Bonds shall be sold by negotiated public sale to  
3 the Underwriters pursuant to the terms of the Bond Purchase Contract. The City  
4 Council has determined that it would be in the best interest of the City to delegate to  
5 the Designated Representatives, for a limited time, the authority to select the  
6 Refunded Bonds from the Refunding Candidates, to designate each series of 2023  
7 Bonds as Tax-Exempt Bonds or Taxable Bonds, to determine the Reserve Account  
8 Requirement and other related provisions in accordance with Section 10, and to  
9 approve the final terms for each series of 2023 Bonds, including but not limited to  
10 final interest rates, final maturity date, redemption terms, principal maturities, and  
11 any other terms for each series of 2023 Bonds.

12  
13 Each Designated Representative is further authorized to designate all or a  
14 portion of a series of 2023 Bonds allocated to refinance the portion of the Projects  
15 which have environmentally beneficial attributes, as "Green Bonds," and to engage  
16 with such consultants and to undertake such action, execute such certificates, and  
17 agree to such terms as necessary to accomplish such designation.  
18  
19

20 B. Sale Parameters. Subject to the terms and conditions set forth in this  
21 section, each Designated Representative is hereby authorized to select the  
22 Refunded Bonds from the Refunding Candidates, to designate the 2023 Bonds of a  
23 series as Tax-Exempt Bonds or Taxable Bonds, to determine the Reserve Account  
24 Requirement and other related provisions in accordance with Section 10, and to  
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1 approve the final interest rates, final maturity date, redemption terms and principal  
2 maturities for each series of 2023 Bonds, and to agree to any other final terms for  
3 each series of 2023 Bonds that are in the best interest of the City and necessary to  
4 facilitate this ordinance so long as:

5 (1) the aggregate principal (face) amount of all 2023 Bonds issued  
6 under this ordinance does not exceed \$75,000,000,

7 (2) the final maturity date for each series of 2023 Bonds is no later  
8 than December 1, 2043,

9 (3) the aggregate purchase price for the 2023 Bonds of a series shall  
10 not be less than 95 percent of the aggregate stated principal amount of such 2023  
11 Bonds, excluding any original issue discount, and not greater than 140 percent,

12 (4) the 2023 Bonds of each series shall bear interest at fixed rates  
13 per annum and the true interest cost for the 2023 Bonds of such series (in the  
14 aggregate) does not exceed 4.50 percent, and

15 (5) the 2023 Bonds of each series conform to all other terms of this  
16 ordinance.

17 The final terms of each series of 2023 Bonds shall be set forth in the Bond  
18 Purchase Contract. Subject to the terms and conditions set forth in this section,  
19 each Designated Representative is hereby authorized to execute the Bond  
20 Purchase Contract.  
21  
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1 The authority granted to the Designated Representatives by this section shall  
2 expire one year from the effective date of this ordinance. If a Bond Purchase  
3 Contract for the 2023 Bonds has not been executed by such date, the authorization  
4 for the issuance of the 2023 Bonds shall be rescinded, and the 2023 Bonds shall  
5 not be issued nor their sale approved unless such 2023 Bonds are re-authorized by  
6 ordinance of the City Council at the request of the Board. The ordinance re-  
7 authorizing the issuance and sale of such 2023 Bonds may be in the form of a new  
8 ordinance repealing this ordinance in whole or in part or may be in the form of an  
9 amendatory ordinance approving a Bond Purchase Contract or establishing terms  
10 and conditions for the authority delegated under this section.

11 Section 23. General Authorization; Documents. Following the passage and  
12 approval of this ordinance, the proper officials of the City, including the Designated  
13 Representatives, the Mayor, the Finance Director, the Treasurer, the City Manager,  
14 the Assistant Finance Director/Controller, and the City Clerk, are authorized and  
15 directed to undertake all action necessary for the prompt execution and delivery of  
16 the 2023 Bonds to the Underwriters and further to execute all closing certificates  
17 and documents required to effect the closing and delivery of the 2023 Bonds in  
18 accordance with the terms of this ordinance and the Bond Purchase Contract.  
19 Such documents may include, but are not limited to, documents related to a  
20 municipal bond insurance policy delivered by a Bond Insurer to insure the payment  
21 when due of the principal of and interest on all or a portion of the 2023 Bonds as  
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1 provided therein, if such insurance is determined by a Designated Representative  
2 to be in the best interest of the City.

3 Notwithstanding anything herein to the contrary, the signature of one  
4 authorized official, including, but not limited to, the Designated Representatives,  
5 shall be sufficient to bind the City.  
6

7 Section 24. Preliminary and Final Official Statements. The Designated  
8 Representatives and the City Finance Director are each hereby authorized to deem  
9 final the preliminary Official Statement relating to the 2023 Bonds for the purposes  
10 of the Rule. The Designated Representatives and the City Finance Director are  
11 each further authorized to approve for purposes of the Rule, on behalf of the City,  
12 the final Official Statement relating to the issuance and sale of the 2023 Bonds and  
13 the distribution of the final Official Statement pursuant thereto with such changes, if  
14 any, as may be deemed by such individual to be appropriate.  
15

16 Section 25. Ongoing Disclosure; Continuing Disclosure Certificate. The City  
17 covenants to execute and deliver on each Issue Date a Continuing Disclosure  
18 Certificate consistent with the Rule. The Finance Director is hereby authorized to  
19 execute and deliver a Continuing Disclosure Certificate upon the issuance, delivery,  
20 and sale of the 2023 Bonds with such terms and provisions as such officer shall  
21 deem appropriate and in the best interests of the City.  
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1 Section 26. Amendatory and Supplemental Ordinances.

2 A. This ordinance shall not be modified or amended in any respect  
3 subsequent to the initial issuance of the Parity Bonds, except as provided in  
4 and in accordance with and subject to the provisions of this section.  
5

6 B. Modification without Bondholder Consent. The City, from time to  
7 time, and at any time, without the consent of or notice to the registered owners  
8 of the Parity Bonds, may pass supplemental or amendatory ordinances as  
9 follows:  
10

11 (1) To cure any formal defect, omission, inconsistency, or  
12 ambiguity in this ordinance in a manner not adverse to the owner of any Parity  
13 Bond;  
14

15 (2) To impose upon the Bond Registrar (with its consent) for the  
16 benefit of the registered owners of the Parity Bonds any additional rights,  
17 remedies, powers, authority, security, liabilities, or duties which may lawfully be  
18 granted, conferred, or imposed and which are not contrary to or inconsistent  
19 with this ordinance as theretofore in effect;  
20

21 (3) To add to the covenants and agreements of, and limitations  
22 and restrictions upon, the City in this ordinance, other covenants, agreements,  
23 limitations, and restrictions to be observed by the City which are not contrary or  
24 inconsistent with this ordinance as theretofore in effect;  
25  
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1 (4) To confirm, as further assurance, any pledge under, and the  
2 subjection to any claim, lien, or pledge created or to be created by this  
3 ordinance of any other money, securities, or funds;

4 (5) To authorize different denominations of the Parity Bonds and  
5 to make correlative amendments and modifications to this ordinance regarding  
6 exchangeability of Parity Bonds of different authorized denominations,  
7 redemptions of portions of Parity Bonds of particular authorized denominations,  
8 and similar amendments and modifications of a technical nature;

9 (6) To modify, alter, amend, or supplement this ordinance in any  
10 other respect which is not materially adverse to the registered owners of the  
11 Parity Bonds and which does not involve a change described in Section 26(C);

12 (7) Because of change in federal law or rulings, to maintain the  
13 exclusion from gross income of the interest on the Parity Bonds from federal  
14 income taxation; and

15 (8) To add to the covenants and agreements of, and limitations  
16 and restrictions upon, the City in this ordinance, other covenants, agreements,  
17 limitations, and restrictions to be observed by the City which are requested by a  
18 Bond Insurer or provider of Reserve Insurance and which are not materially  
19 adverse to the registered owners of the Parity Bonds.

20 Before the City shall adopt any such supplemental ordinance pursuant to  
21 this subsection, there shall have been delivered to the City and the Bond  
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1 Registrar an opinion of Bond Counsel, stating that such supplemental ordinance  
2 is authorized or permitted by this ordinance and, upon the execution and  
3 delivery thereof, will be valid and binding upon the City in accordance with its  
4 terms and will not adversely affect the exclusion from gross income for federal  
5 income tax purposes of interest on the tax-exempt Parity Bonds.

6 C. Modification with Bondholder Consent.

7 (1) Except for any supplemental ordinance entered into pursuant  
8 to Section 26(B), subject to the terms and provisions contained in this section  
9 and not otherwise, registered owners of not less than 60% in aggregate  
10 principal amount of the Parity Bonds shall have the right from time to time to  
11 consent to and approve the passage by the City of any supplemental ordinance  
12 deemed necessary or desirable by the City for the purpose of modifying,  
13 altering, amending, supplementing, or rescinding, in any particular, any of the  
14 terms or provisions contained in this ordinance; except that, unless approved in  
15 writing by the registered owners of all Parity Bonds, nothing contained in this  
16 section shall permit, or be construed as permitting:  
17

18 (i) A change in the times, amounts, or currency of payment  
19 of the principal of or interest on any outstanding Parity Bond, or a reduction in  
20 the principal amount or redemption price of any outstanding Parity Bond or a  
21 change in the redemption price of any outstanding Parity Bond or a change in  
22 the method of determining the rate of interest thereon;  
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1 (ii) A preference of priority of any Parity Bond or Bonds  
2 over any other Parity Bond or Bonds; or

3 (iii) A reduction in the aggregate principal amount of Parity  
4 Bonds, the consent of the registered owners of Parity Bonds of which is  
5 required for any such supplemental ordinance.  
6

7 (2) If, at any time, the City shall pass any supplemental ordinance  
8 for any of the purposes of this section, the Bond Registrar shall cause notice of  
9 the proposed supplemental ordinance to be given by first-class United States  
10 mail to all registered owners of the Parity Bonds, to any Bond Insurer, and to  
11 the Rating Agencies if the Parity Bonds are rated by those agencies. Such  
12 notice shall briefly set forth the nature of the proposed supplemental ordinance  
13 and shall state that a copy thereof is on file at the office of the Bond Registrar  
14 for inspection by all registered owners of the Parity Bonds.  
15

16 (3) Within two years after the date of the mailing of such notice,  
17 the City may adopt such supplemental ordinance in substantially the form  
18 described in such notice, but only if there shall have first been delivered to the  
19 Bond Registrar: (i) the required consents, in writing, of the registered owners of  
20 the Parity Bonds; and (ii) an opinion of bond counsel stating that such  
21 supplemental ordinance is authorized or permitted by this ordinance and, upon  
22 the execution and delivery thereof, will be valid and binding upon the City in  
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1 accordance with its terms and will not adversely affect the exclusion from gross  
2 income for federal income tax purposes of interest on the Parity Bonds.

3 (4) If registered owners of not less than the percentage of Parity  
4 Bonds required by this section shall have consented to and approved the  
5 execution and delivery thereof as herein provided, no owner of the Parity Bonds  
6 shall have any right to object to the passage of such supplemental ordinance, or  
7 to object to any of the terms and provisions contained therein or the operation  
8 thereof, or in any manner to question the propriety of the passage thereof, or to  
9 enjoin or restrain the City or the Bond Registrar from passing the same or from  
10 taking any action pursuant to the provisions thereof.  
11

12 D. Upon the execution and delivery of any supplemental ordinance  
13 pursuant to the provisions of this section, this ordinance shall be, and be  
14 deemed to be, modified and amended in accordance therewith, and the  
15 respective rights, duties, and obligations under this ordinance of the City, the  
16 Bond Registrar and all registered owners of Parity Bonds, shall thereafter be  
17 determined, exercised and enforced under this ordinance subject in all respects  
18 to such modifications and amendments.  
19

20 Section 27. Defaults and Remedies.

21 A. Events of Default. The following shall constitute "Events of Default"  
22 with respect to the Parity Bonds.  
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1 (1) If a default is made in the payment of the principal of or  
2 interest on any of the Parity Bonds when the same shall become due and  
3 payable.

4 (2) If the City defaults in the observance and performance of any  
5 other of the covenants, conditions, and agreements on the part of the City set  
6 forth in this ordinance or any covenants, conditions, or agreements on the part  
7 of the City contained in any Parity Bond Authorizing Ordinance and such default  
8 or defaults have continued for a period of six months after the City has received  
9 from the Bondowners' Trustee (as defined below) or from the registered owners  
10 of not less than 25% in principal amount of the Parity Bonds, a written notice  
11 specifying and demanding the cure of such default. However, if the default in  
12 the observance and performance of any other of the covenants, conditions, and  
13 agreements is one which cannot be completely remedied within the six months  
14 after written notice has been given, it shall not be an Event of Default with  
15 respect to the Parity Bonds as long as the City has taken active steps within the  
16 six months after written notice has been given to remedy the default and is  
17 diligently pursuing such remedy.

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

20 B. Bondowners' Trustee. So long as such Event of Default has not been  
21 remedied, a bondowners' trustee (the "Bondowners' Trustee") may be



1 appointed by the registered owners of 25% in principal amount of the Parity  
2 Bonds, by an instrument or concurrent instruments in writing signed and  
3 acknowledged by such registered owners of the Parity Bonds or by their  
4 attorneys in fact duly authorized and delivered to such Bondowners' Trustee,  
5 notification thereof being given to the City. That appointment shall become  
6 effective immediately upon acceptance thereof by the Bondowners' Trustee.  
7 Any Bondowners' Trustee appointed under the provisions of this section shall  
8 be a bank or trust company organized under the laws of the State, the State of  
9 New York, or a national banking association. The bank or trust company acting  
10 as Bondowners' Trustee may be removed at any time, and a successor  
11 Bondowners' Trustee may be appointed, by the registered owners of a majority  
12 in principal amount of the Parity Bonds, by an instrument or concurrent  
13 instruments in writing signed and acknowledged by such registered owners of  
14 the Parity Bonds or by their attorneys-in-fact duly authorized. The Bondowners'  
15 Trustee may require such security and indemnity as may be reasonable against  
16 the costs, expenses, and liabilities that may be incurred in the performance of  
17 its duties. In the event that any Event of Default in the sole judgment of the  
18 Bondowners' Trustee is cured and the Bondowners' Trustee furnishes to the  
19 City a certificate so stating, that Event of Default shall be conclusively deemed  
20 to be cured and the City, the Bondowners' Trustee and the registered owners of



1 the Parity Bonds shall be restored to the same rights and position which they  
2 would have held if no Event of Default had occurred.

3 The Bondowners' Trustee appointed in the manner herein provided, and  
4 each successor thereto, is declared to be a trustee for the registered owners of  
5 all the Parity Bonds and is empowered to exercise all the rights and powers  
6 herein conferred on the Bondowners' Trustee.  
7

8 C. Suits at Law or in Equity. Upon the happening of an Event of Default  
9 and during the continuance thereof, the Bondowners' Trustee may, and upon  
10 the written request of the registered owners of not less than 25% in principal  
11 amount of the Parity Bonds outstanding shall, take such steps and institute  
12 such suits, actions, or other proceedings, all as it may deem appropriate for the  
13 protection and enforcement of the rights of the registered owners of the Parity  
14 Bonds, to collect any amounts due and owing to or from the City, or to obtain  
15 other appropriate relief, and may enforce the specific performance of any  
16 covenant, agreement, or condition contained in this ordinance or in any of the  
17 Parity Bonds.  
18

19 Nothing contained in this section shall, in any event or under any  
20 circumstance, be deemed to authorize the acceleration of maturity of principal  
21 of the Parity Bonds, and the remedy of acceleration is expressly denied to the  
22 registered owners of the Parity Bonds under any circumstances including,  
23 without limitation, upon the occurrence and continuance of an Event of Default.  
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1 Any action, suit, or other proceedings instituted by the Bondowners'  
2 Trustee hereunder shall be brought in its name as trustee for the Bondowners  
3 and all such rights of action upon or under any of the Parity Bonds or the  
4 provisions of this ordinance may be enforced by the Bondowners' Trustee  
5 without the possession of any of those Parity Bonds and without the production  
6 of the same at any trial or proceedings relative thereto except where otherwise  
7 required by law. Any such suit, action, or proceeding instituted by the  
8 Bondowners' Trustee shall be brought for the ratable benefit of all of the  
9 registered owners of those Parity Bonds, subject to the provisions of this  
10 ordinance. The respective registered owners of the Parity Bonds, by taking and  
11 holding the same, shall be conclusively deemed irrevocably to appoint the  
12 Bondowners' Trustee the true and lawful trustee of the respective registered  
13 owners of those Parity Bonds, with authority to institute any such action, suit, or  
14 proceeding; to receive as trustee and deposit in trust any sums becoming  
15 distributable on account of those Parity Bonds; to execute any paper or  
16 documents for the receipt of money; and to do all acts with respect thereto that  
17 the registered owner himself or herself might have done in person. Nothing  
18 herein shall be deemed to authorize or empower the Bondowners' Trustee to  
19 consent to accept or adopt, on behalf of any registered owner of the Parity  
20 Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or  
21 any right of any registered owner thereof, or to authorize or empower the  
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1 Bondowners' Trustee to vote the claims of the registered owners thereof in any  
2 receivership, insolvency, liquidation, bankruptcy, reorganization, or other  
3 proceeding to which the City is a party.

4 D. Application of Money Collected by Bondowners' Trustee. Any money  
5 collected by the Bondowners' Trustee, at any time pursuant to this section, shall  
6 be applied in the following order of priority:

7 (1) First, to the payment of the charges, expenses, advances,  
8 and compensation of the Bondowners' Trustee and the charges, expenses,  
9 counsel fees, disbursements, and compensation of its agents and attorneys;

10 (2) Second, to the payment to the persons entitled thereto of all  
11 installments of interest then due on the Parity Bonds in the order of maturity of  
12 such installments and, if the amount available shall not be sufficient to pay in  
13 full any installment or installments maturing on the same date, then to the  
14 payment thereof ratably, according to the amounts due thereon to the persons  
15 entitled thereto, without any discrimination or preference; and

16 (3) Third, to the payment to the persons entitled thereto of the  
17 unpaid principal amounts of any Parity Bonds which shall have become due  
18 (other than Parity Bonds previously called for redemption for the payment of  
19 which money is held pursuant to the provisions hereto), whether at maturity or  
20 by proceedings for redemption or otherwise, in the order of their due dates and,  
21 if the amount available shall not be sufficient to pay in full the principal amounts  
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1 due on the same date, then to the payment thereof ratably, according to the  
2 principal amounts due thereon to the persons entitled thereto, without any  
3 discrimination or preference.

4 E. Duties and Obligations of Bondowners' Trustee. The Bondowners'  
5 Trustee shall not be liable except for the performance of such duties as are  
6 specifically set forth herein. During an Event of Default, the Bondowners'  
7 Trustee shall exercise such of the rights and powers vested in it hereby, and  
8 shall use the same degree of care and skill in its exercise, as a prudent person  
9 would exercise or use under the circumstances in the conduct of such person's  
10 own affairs. The Bondowners' Trustee shall have no liability for any act or  
11 omission to act hereunder except for the Bondowners' Trustee's own negligent  
12 action, its own negligent failure to act or its own willful misconduct. The duties  
13 and obligations of the Bondowners' Trustee shall be determined solely by the  
14 express provisions of this ordinance, and no implied powers, duties, or  
15 obligations of the Bondowners' Trustee shall be read into this ordinance.

16 The Bondowners' Trustee shall not be required to expend or risk its own  
17 funds or otherwise incur individual liability in the performance of any of its duties  
18 or in the exercise of any of its rights or powers as the Bondowners' Trustee,  
19 except as may result from its own negligent action, its own negligent failure to  
20 act or its own willful misconduct.  
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1 The Bondowners' Trustee shall not be bound to recognize any person as  
2 a registered owner of any Parity Bond until such person's title thereto, if  
3 disputed, has been established to its reasonable satisfaction.

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

10 F. Suits by Individual Bondowners Restricted. Neither the registered  
11 owner nor the beneficial owner of any one or more of Parity Bonds shall have  
12 any right to institute any action, suit, or proceeding at law or in equity for the  
13 enforcement of same unless:  
14

15 (1) An Event of Default has happened and is continuing;

16 (2) A Bondowners' Trustee has been appointed;

17 (3) Such owner previously shall have given to the Bondowners'  
18 Trustee written notice of the Event of Default on account of which such suit,  
19 action, or proceeding is to be instituted;

20 (4) The registered owners of 25% in principal amount of the  
21 Parity Bonds, after the occurrence of such Event of Default, have made written  
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1 request of the Bondowners' Trustee and have afforded the Bondowners'  
2 Trustee a reasonable opportunity to institute such suit, action, or proceeding;

3 (5) There have been offered to the Bondowners' Trustee security  
4 and indemnity satisfactory to it against the costs, expenses, and liabilities to be  
5 incurred therein or thereby; and  
6

7 (6) The Bondowners' Trustee has refused or neglected to comply  
8 with such request within a reasonable time.

9 No registered owner or beneficial owner of any Parity Bond shall have  
10 any right in any manner whatever by such individual's action to affect or impair  
11 the obligation of the City to pay from the Net Revenue the principal of and  
12 interest on such Parity Bonds to the respective owners thereof when due.

13 G. Payment Solely From Net Revenue and Certain Funds. Nothing in  
14 this section shall be deemed to require payment to Bondowners from any  
15 source other than the Net Revenue and money and investments in the funds  
16 pledged in Section 13 of this ordinance.  
17

18 Section 29. Miscellaneous.

19 A. Ratification of Prior Acts. Any action taken consistent with the authority  
20 and prior to the effective date of this ordinance is ratified, approved and confirmed.

21 B. Parity Bond Authorizing Ordinances. In the event of any inconsistency  
22 between the terms and provisions provided for in this ordinance and the Parity  
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1 Bond Authorizing Ordinances for the Outstanding Parity Bonds, the terms and  
2 provisions of this ordinance shall control.

3 C. Corrections by Clerk. Upon approval of the City Attorney's Office and  
4 Bond Counsel, the City Clerk is hereby authorized to make necessary corrections  
5 to this ordinance, including, but not limited to, the correction of clerical errors;  
6 references to other local, state or federal laws, codes, rules, or regulations;  
7 ordinance numbering and section/subsection numbering; and other similar  
8 necessary corrections.  
9

10 D. Severability. If any one or more of the provisions of this ordinance is  
11 or are held by any court of competent jurisdiction to be contrary to law, then  
12 such provision or provisions shall be null and void and shall be deemed  
13 separable from the remaining provisions and shall in no way affect the validity  
14 of the other provisions of this ordinance.  
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1 E. Effective Date. This ordinance shall take effect and be in force 10  
2 days after its passage, approval and publication as required by law.

3  
4 Passed: \_\_\_\_\_

5  
6  
7 Attest:

\_\_\_\_\_  
Mayor

8  
9 \_\_\_\_\_  
City Clerk

10  
11 Approved as to form and legality:

12 Pacifica Law Group LLP  
13 Bond Counsel

14 By \_\_\_\_\_  
15  
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EXHIBIT A

FORM OF BOND

The 2023 Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

No. \_\_\_\_\_ \$ \_\_\_\_\_

STATE OF WASHINGTON  
CITY OF TACOMA, WASHINGTON

WATER SYSTEM REVENUE REFUNDING BOND, SERIES 2023

INTEREST RATE: \_\_\_\_\_ MATURITY DATE: \_\_\_\_\_ CUSIP NO.: \_\_\_\_\_  
\_\_\_\_\_ %

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: \_\_\_\_\_

The City of Tacoma, Washington (the "City") hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest from \_\_\_\_\_, 2023, or the most recent date to which interest has been paid or duly provided for, until payment of this bond at the Interest Rate set forth above, payable on \_\_\_\_\_, and semiannually thereafter on the first days of each succeeding \_\_\_\_\_ 1 and \_\_\_\_\_ 1. Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as the bonds of this issue are held in fully immobilized form, payments of principal of and interest hereon shall be made as provided in accordance with the operational arrangements of The Depository Trust Company ("DTC") referred to in the Blanket Issuer Letter of Representations from the City to DTC. In the event that the bonds of this issue are no longer held in fully immobilized form, interest on this bond shall be paid by check or draft mailed to the Registered Owner at the address appearing on the Bond Register on the 15<sup>th</sup> day of the month preceding the interest payment date, and principal of this bond shall be payable upon presentation and surrender of this bond by the Registered Owner at the principal office of the fiscal agent of the State of Washington (the "Bond Registrar"); provided, however, that if so requested in writing by the Registered Owner of at least \$1,000,000 principal



amount of bonds, interest will be paid by wire transfer on the date due to an account with a bank located within the United States.

This bond is one of an authorized issue of \$ \_\_\_\_\_ City of Tacoma, Washington, Water System Revenue Refunding Bonds, Series 2023 ("Bonds"). The Bonds are issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Washington, Ordinance No. \_\_\_\_\_ ("Bond Ordinance") of the City. The Bonds are issued for the purpose of refunding the City's outstanding Water System Revenue and Refunding Bonds, 2013 and paying costs of issuance.

Capitalized terms used in this bond and not otherwise defined shall have the meanings given them in the Bond Ordinance.

The bonds of this issue are subject to redemption prior to their maturities as provided in the Bond Ordinance.

The bonds of this issue are payable solely from the special fund of the City known as the Water Revenue Bond Fund of the Water Division Fund (the "Bond Fund"), created by Ordinance No. 25392. The City has irrevocably obligated and bound itself to pay into the Bond Fund out of Net Revenue of the Water System or from such other money as may be provided for such purpose certain amounts necessary to pay and secure the payment of the principal and interest on the Parity Bonds.

The City has pledged to set aside from the Gross Revenue of the Water System and to pay into the Bond Fund the various amounts required by the Bond Ordinance to be paid into and maintained in such Fund within the times provided by the Bond Ordinance.

To the extent more particularly provided by the Bond Ordinance, the amounts so pledged to be paid out of the Gross Revenue of the System into the Bond Fund shall be a lien and charge thereon equal in rank to the lien and charge upon such Gross Revenue of the amounts required to pay and secure the payment of the City's Outstanding Parity Bonds and any Future Parity Bonds, and superior to all other liens and charges of any kind or nature, except subject to the Operation and Maintenance Expenses of the Water System.

The City hereby covenants that it will perform all the covenants of this bond and of the Bond Ordinance, and reference is hereby made to the Bond Ordinance for a complete statement of such covenants.

The pledge of Gross Revenue of the Water System and other obligations of the City under the Bond Ordinance may be discharged at or prior to the maturity



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1 or redemption of the Bonds upon the making of provision for the payment thereof  
2 on the terms and conditions set forth in the Bond Ordinance.

3 The bonds of this issue are special limited obligations of the City and are  
4 not an obligation of the State of Washington or any political subdivision thereof  
5 other than the City, and neither the full faith and credit nor the taxing power of the  
6 City or the State of Washington is pledged to the payment of the bonds of this  
7 issue.

8 This bond shall not be valid or become obligatory for any purpose or be  
9 entitled to any security or benefit under the Bond Ordinance until the Certificate  
10 of Authentication has been manually signed by the Bond Registrar.

11 This bond is transferable only on the records maintained by the Bond  
12 Registrar for that purpose upon the surrender of this bond by the Registered  
13 Owner or such individual's duly authorized agent and only if endorsed in the  
14 manner provided hereon, and a new fully registered Bond of like principal  
15 amount, maturity, and interest rate shall be issued to the transferee in exchange.  
16 Such exchange or transfer shall be without cost to the Registered Owner or  
17 transferee. The City and Bond Registrar may deem the person in whose name  
18 this bond is registered to be the absolute owner for the purpose of receiving  
19 payment of the principal of and interest on this bond and for all other purposes.

20 The Bond Registrar is not required to issue, register, transfer, or exchange  
21 any Bonds during a period beginning at the opening of business on the 15<sup>th</sup> day  
22 of the month next preceding any interest payment date and ending at the close  
23 of business on the interest payment date, or, in the case of any proposed  
24 redemption of the Bonds, after the mailing of notice of the call of such Bonds for  
25 redemption.

26 It is hereby certified that all acts, conditions, and things required by the  
Constitution and statutes of the State of Washington and the Charter and  
ordinances of the City to exist, to have happened, been done, and performed  
precedent to and in the issuance of this bond do exist, have happened, been  
done, and performed and that the issuance of this bond and the Bonds does not  
violate any constitutional, statutory, or other limitation upon the amount of bonded  
indebtedness that the City may incur.

IN WITNESS WHEREOF, the City of Tacoma, Washington, has caused  
this bond to be signed with the manual or facsimile signature of the Mayor and  
attested by the manual or facsimile signature of the City Clerk, and the seal of  
the City to be impressed or a manual or facsimile thereof to be imprinted hereon,  
as of this \_\_\_\_ day of \_\_\_\_\_, 2023.

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CITY OF TACOMA, WASHINGTON

By \_\_\_\_\_ /s/  
Mayor

ATTEST:

\_\_\_\_\_/s/  
City Clerk

CERTIFICATE OF AUTHENTICATION

This bond is one of the bonds described in the within-mentioned Bond  
Ordinance and is one of the Water System Revenue Refunding Bonds, Series  
2023 of the City, dated \_\_\_\_\_, 2023.

WASHINGTON STATE FISCAL AGENT, as  
Bond Registrar

By \_\_\_\_\_  
Authorized Signer

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## APPENDIX B

### BOOK-ENTRY SYSTEM

*The following information has been provided by DTC from its website. The City makes no representation regarding the accuracy or completeness thereof. Beneficial Owners should therefore confirm the following with DTC or the Direct Participants (as hereinafter defined). Language in [brackets] with ~~strike-through~~ has been deleted as permitted by DTC as it does not pertain to the Bonds.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for ~~[each issue of]~~ the Securities, ~~[each]~~ in the aggregate principal amount of such issue, and will be deposited with DTC. ~~[If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]~~

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

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

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

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

~~[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]~~

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof

## APPENDIX C

### GENERAL AND ECONOMIC INFORMATION

Tacoma, the county seat of Pierce County (the “County”), is located in the west central part of Washington State near the southern tip of Puget Sound. It is the third largest city in the State with a 2023 estimated population of 222,400. The City is located 32 miles south of the City of Seattle and 31 miles northeast of the City of Olympia, the State capital.

The historical population of the City and the County is shown in the following table.

**Table C-1: Population**

<b>Year</b>	<b>Tacoma</b>	<b>Pierce County</b>
2023	222,400	946,300
2022	220,800	937,400
2021	218,700	928,200
2020	219,346	921,130
2019	211,400	888,300

*Source: Washington State Office of Financial Management estimates.*

The following are economic indicators for the City and the County.

**Table C-2: Pierce County  
2020 Major Employers**

<b>Employer</b>	<b>Sector</b>	<b>Number of Full Time Employees</b>
Joint Base Lewis-McCord	Military	54,000
MultiCare Health System	Health Care	8,264
The State	Government	7,859
CHI Franciscan Health	Health Care	5,682
Tacoma School District	Education	3,649
The City and Tacoma Public Utilities	Government	3,623
Pierce County Government	Government	3,304
Puyallup School District	Education	2,711
Bethel School District	Education	2,689
Safeway and Albertsons	Retail	2,153

*Source: Economic Development Board of Tacoma-Pierce County.*

**Table C-3: City Residential and Commercial Building Permit Values**

Year	Single Family		Multifamily	
	Number of Dwellings	Value of Permits	Number of Dwellings	Value of Permits
2023 <sup>(1)</sup>	69	\$ 20,301,029	608	\$ 127,667,936
2022	149	42,296,423	1,391	200,409,861
2021	250	69,159,564	2,220	278,672,092
2020	241	66,921,678	691	103,200,698
2019	162	44,650,935	914	114,839,154

<sup>(1)</sup> Latest data available through October 2023.

Source: United States Census Bureau

**Table C-4: Pierce County and City of Tacoma Taxable Retail Sales (\$000)**

Year	Pierce County	City of Tacoma
2023 <sup>(1)</sup>	\$ 11,360,504,753	\$ 3,390,995,375
2022	23,881,668,344	7,104,415,018
2021	22,863,160,384	6,699,732,445
2020	19,407,955,285	5,700,693,214
2019	18,746,939,008	5,887,578,667

<sup>(1)</sup> Latest data available; through second quarter. Taxable retail sales through second quarter 2022 for the County and the City were \$11,514,712,428 and \$3,447,753,670, respectively.

Source: Washington State Department of Revenue.

**Table C-5: Pierce County and Washington State Median Household Income**

Year	Pierce County	Washington State
2022 <sup>(1)</sup>	\$ 91,092	\$ 86,343
2021 <sup>(2)</sup>	85,492	84,155
2020	80,236	80,319
2019	78,779	78,674
2018	71,208	72,297

<sup>(1)</sup> Projected.

<sup>(2)</sup> Preliminary estimates.

Source: Washington State Office of Financial Management for County and State data.

**Table C-6: Pierce County and Washington State Total Personal and Per Capita Income**

Year	Pierce County		State of Washington	
	Total Personal Income (in thousands) <sup>(1)</sup>	Per Capita Income <sup>(1)</sup>	Total Personal Income (in thousands) <sup>(2)</sup>	Per Capita Income <sup>(2)</sup>
2022	\$ 55,630,100	\$ 59,986	\$ 586,520,188	\$ 75,332
2021	55,137,240	59,466	574,266,835	74,188
2020	51,285,933	55,533	522,713,789	67,674
2019	47,470,340	51,939	484,334,162	63,405
2018	44,407,824	49,220	451,609,165	59,827

<sup>(1)</sup> Census Bureau mid-year population estimates. Estimates for 2010-2019 reflect county estimates available as of March 2020.

<sup>(2)</sup> Census Bureau mid-year state population. Estimates for 2010-2020 reflect estimates available as of December 2020.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

*[Remainder of page left intentionally blank.]*

Employment within the County is described in the following table:

**Table C-7: Tacoma Metropolitan Area (Pierce County) Residential Civilian Labor Force and Employment and Average Civilian Nonagricultural Wage and Salary Employment**

NAICS Industry Title	Annual Average				
	2023 <sup>(1)</sup>	2022	2021	2020	2019
<b>Residential Labor Force</b>					
Civilian Labor Force	460,049	455,225	446,328	454,097	442,094
Total Employment	439,148	431,871	419,135	410,611	419,394
Total Unemployment	20,901	23,354	27,193	43,486	22,700
Unemployment Percent of Labor Force	4.5%	5.1%	6.1%	9.6%	5.1%
Total Nonfarm	341,470	334,258	321,058	312,108	327,342
Total Private	282,770	276,750	264,525	255,433	267,825
Goods Producing	43,760	43,708	42,467	41,475	43,200
Mining and Logging	300	342	375	300	300
Construction	26,530	26,433	25,425	24,708	25,167
Specialty Trade Contractors	17,030	17,375	16,775	16,392	16,725
Manufacturing	16,930	16,933	16,667	16,467	17,733
Services Providing	297,710	290,550	278,592	270,633	284,142
Trade, Transportation and Utilities	72,260	71,825	69,650	67,567	68,142
Wholesale Trade	13,750	13,233	12,683	12,575	13,375
Retail Trade	37,380	37,233	37,208	35,258	36,075
Food and Beverage Stores	6,830	6,667	6,742	6,408	5,975
General Merchandise Stores	9,380	9,475	9,292	8,842	8,842
Transportation and Utilities	21,130	21,358	19,758	19,733	18,692
Information	2,080	1,892	1,650	1,992	2,208
Financial Activities	14,360	14,325	14,483	14,433	14,708
Professional and Business Services	40,030	38,883	35,892	32,833	33,983
Admin, Support, Waste Mgmt. & Remed.	25,630	25,250	23,167	20,750	22,350
Administrative and Support Services	23,480	23,050	21,017	18,825	20,625
Education and Health Services	61,070	59,267	58,242	57,075	56,942
Ambulatory Health Care Services	18,970	18,508	18,308	18,000	18,075
Hospitals	13,670	13,008	13,092	13,300	13,125
Leisure and Hospitality	35,640	33,850	29,900	27,258	33,975
Food Services and Drinking Places	28,540	27,567	24,550	22,758	27,400
Other Services	13,570	13,000	12,242	12,800	14,667
Government	58,700	57,508	56,533	56,675	59,517
Federal Government	11,260	11,208	11,350	11,700	11,892
State Government	9,970	9,900	10,533	10,833	11,167
State Government Educational Services	2,790	2,792	2,942	3,167	3,608
Local Government	37,470	36,400	34,650	34,142	36,458
Local Government Educational Services	20,630	20,275	19,008	18,992	20,367

<sup>(1)</sup> Information uses the most recent quarter from the Unemployment Insurance tax reports (currently June 2023) and estimates employment from that point to present. Most recent data available is preliminary through October 2023.

Source: Washington State Employment Security Department

**APPENDIX D**

**COPY OF THE 2024 REGIONAL WATER SUPPLY SYSTEM BOND ORDINANCE**

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Req. # \_\_ - \_\_\_\_

## ORDINANCE NO.

1 AN ORDINANCE of the City of Tacoma, Washington, relating to the Regional  
2 Water Supply System; providing for the issuance and sale of Regional  
3 Water Supply System revenue refunding bonds in an aggregate principal  
4 amount not to exceed \$40,850,000 to provide funds to defease and/or  
5 refund all or a portion of the City's Regional Water Supply System  
6 Revenue Refunding Bonds, 2013; fixing or setting parameters with respect  
7 to certain terms and covenants of the bonds, and appointing the City's  
8 designated representatives to approve the final terms of the sale of the  
9 bonds; approving an amendment to the Repayment Agreement; and  
10 approving certain other matters in connection therewith.

11 WHEREAS the City of Tacoma, Washington ("City"), acting by and  
12 through its Department of Public Utilities, Water Division (d/b/a "Tacoma  
13 Water"), owns and operates a water system ("Water System") and a Regional  
14 Water Supply System ("Regional System") as separate systems, and

15 WHEREAS the Regional System is a "Contract Resource Obligation" (as  
16 defined in the ordinances authorizing the issuance of the hereinafter defined  
17 Water System Bonds) of the Water System and, therefore, all payments under  
18 that Contract Resource Obligation, including payments before commencement,  
19 during suspension and after termination of water supply or service, shall be  
20 treated as "Operation and Maintenance Expenses" (as defined in the  
21 ordinances authorizing the issuance of the hereinafter defined Water System  
22 Bonds) of the Water System, and

23 WHEREAS the City has entered into the Agreement for the Second  
24 Supply Project effective December 19, 2002, and a Repayment Agreement,  
25 effective November 1, 2002, as each may be amended from time to time  
26 (together, "Project Agreement"), with the City of Kent ("Kent"), Covington Water



1 District ("CWD") and Lakehaven Water and Sewer District, formerly known as  
2 Lakehaven Utility District ("Lakehaven," and collectively with the City, Kent and  
3 CWD, "Participants"), to design, finance, construct, operate and maintain  
4 certain property and facilities to deliver and receive water from the Regional  
5 System, and

6 WHEREAS under the Project Agreement, the City may finance, to the  
7 extent not otherwise provided by the Participants, all or part of certain costs of  
8 the Regional System, with the proceeds of revenue bonds to be issued by the  
9 City, and

10 WHEREAS pursuant to Substitute Ordinance No. 28137, the City has  
11 issued its \$64,795,000 original principal amount of Regional Water Supply  
12 System Revenue Refunding Bonds, 2013 ("2013 RWSS Bonds"), of which  
13 \$52,045,000 are presently outstanding, and

14 WHEREAS pursuant to Ordinance No. 27903, the City has issued its  
15 \$3,595,000 original principal amount of Regional Water Supply System  
16 Revenue Bonds, Series 2010A ("2010A RWSS Bonds"), and its \$44,245,000  
17 original principal amount of Regional Water Supply System Revenue Bonds,  
18 Series 2010B (Taxable Build America Bonds – Direct Payment) ("2010B RWSS  
19 Bonds," and collectively with the 2010A RWSS Bonds and the 2013 RWSS  
20 Bonds, "Outstanding Parity Bonds"), and

21 WHEREAS pursuant to the ordinances authorizing the issuance of the  
22 Outstanding Parity Bonds, the City is authorized to issue revenue bonds that



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1 are secured by a lien and charge on Regional System revenues equal to the  
2 lien and charge securing the payment of principal of and interest on the  
3 Outstanding Parity Bonds, if specified conditions are met and complied with at  
4 the time of issuance of such bonds, and

5 WHEREAS the City has adopted financial policies which provide that as  
6 a general rule, existing bonds will not be refunded through the issuance of  
7 refunding bonds unless the refunding plan will achieve a net present value  
8 savings of at least 5%, or as an exception, to obtain more favorable covenants  
9 when it is in the City's interest to do so, and

10 WHEREAS the 2013 RWSS Bonds maturing on or after December 1,  
11 2023 are subject to redemption at the option of the City at any time on or after  
12 June 1, 2023, and

13 WHEREAS the Public Utility Board ("Board") has initiated and has  
14 recommended to the City Council for its approval the issuance of Regional  
15 System revenue refunding bonds in one or more series ("2023 RWSS Bonds"),  
16 together with other available money, to defease and/or refund all or a portion of  
17 the 2013 RWSS Bonds (if so refunded, "Refunded Bonds") for aggregate debt  
18 service savings and/or to restructure the debt if it is in the best interest of  
19 Tacoma Water and the Regional System, and

20 WHEREAS the City Council has determined that it is in the best interest of  
21 the City and the Regional System to issue the 2023 RWSS Bonds to defease  
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1 and/or refund the Refunded Bonds and to pay costs of issuance and sale of the  
2 2023 RWSS Bonds, and

3 WHEREAS the City Council wishes to delegate authority to the individuals  
4 authorized herein (each, a "Designated Representative"), for a limited time, the  
5 authority to approve the final terms of the 2023 RWSS Bonds authorized herein  
6 within the parameters set by this ordinance, and

7 WHEREAS the City expects to receive a purchase contract from KeyBanc  
8 Capital Markets Inc. and Wells Fargo Corporate & Investment Banking  
9 ("Underwriters") to purchase the 2023 RWSS Bonds authorized herein, and now  
10 desires to issue and sell such bonds to the Underwriters as set forth herein; Now,  
11 Therefore,

12 BE IT ORDAINED BY THE CITY OF TACOMA:

13 Section 1. Definitions and Interpretation of Terms.

14 A. Definitions. Unless otherwise defined in the recitals and elsewhere in  
15 this ordinance, capitalized terms used herein shall have the following meanings:

16 "Accreted Value" means either: (1) with respect to any Capital  
17 Appreciation Bonds, as of the time of calculation, the sum of the amount  
18 representing the initial principal amount of such Capital Appreciation Bonds as  
19 set forth in the applicable Parity Bond Authorizing Ordinance plus the interest  
20 accumulated, compounded and unpaid thereon as of the most recent  
21 compounding date; or (2) with respect to original issue discount bonds under  
22 the Code, as of the time of calculation, the amount representing the initial public  
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1 offering price of such original issue discount bonds plus the amount of the  
2 discounted principal which has accreted since the date of issue, determined in  
3 accordance with the provisions of the applicable Parity Bond Authorizing  
4 Ordinance.

5 "Acquired Obligations" means the Government Obligations, if any,  
6 acquired by the City under the terms of this ordinance and the Escrow  
7 Agreement to effect the defeasance and refunding of the Refunded Bonds, but  
8 only to the extent that the same are acquired at Fair Market Value.

9 "Annual Debt Service" means the amount required to be paid in a  
10 calendar year for (1) interest due in such calendar year on all outstanding Parity  
11 Bonds (excluding the accrued interest paid to the City upon issuance of Parity  
12 Bonds), (2) principal of all outstanding Serial Bonds due in such calendar year,  
13 and (3) any Mandatory Amortization Installment for such calendar year. If on  
14 such date of calculation the interest rate on any Variable Interest Rate Bonds  
15 shall then be fixed for a specified period, including pursuant to a Payment  
16 Agreement, the interest rate used for such specified period for the purpose of  
17 the foregoing calculation shall be such actual interest rate.

18 In the case of Variable Interest Rate Bonds, for the purpose of  
19 calculating Annual Debt Service, the interest rate thereon shall be calculated on  
20 the assumption that such bonds will bear interest during such period at a rate  
21 equal to the rate most recently reported by The Bond Buyer as the Bond Buyer  
22 Index for long-term revenue bonds as of the date the Parity Bonds are sold;



1 provided, that if on such date of calculation the interest rate on such bonds shall  
2 then be fixed for a specified period, the interest rate used for such specified  
3 period for the purpose of the foregoing calculation shall be such actual interest  
4 rate.

5 For purposes of computing Annual Debt Service on any Parity Bonds  
6 which constitute Balloon Indebtedness, it shall be assumed that the principal of  
7 such Balloon Indebtedness, together with interest thereon at the rate applicable  
8 to such Balloon Indebtedness, shall be amortized in equal annual installments  
9 over a term equal to the lesser of (1) 25 years or (2) the average weighted  
10 useful life (expressed in years and rounded to the next highest integer) of the  
11 properties and assets constituting the project (if any) financed out of the  
12 proceeds of such Balloon Indebtedness.

13 The interest on Parity Bonds designated as Build America Bonds or  
14 similar bonds, including the 2010B RWSS Bonds, for purposes of calculating  
15 the Annual Debt Service for purposes of the Reserve Account Requirement,  
16 shall be based on the net interest after the federal direct payment or such other  
17 federal direct payment to be received for the 2010B RWSS Bonds and Future  
18 Parity Bonds.

19 "Assistant Finance Director/Controller" means the duly appointed and acting  
20 Assistant Finance Director/Controller of the City, including anyone acting in an  
21 interim or other capacity for the position, or the successor to the duties of that  
22 office.



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

4 "Balloon Indebtedness" means any series of Parity Bonds more than  
5 25% of the principal of which, in accordance with the terms of such Parity  
6 Bonds, is due and payable in any one Fiscal Year either by reason of the stated  
7 maturity date of such Parity Bonds or pursuant to a sinking fund installment;  
8 provided that with respect to any Parity Bonds issued as Term Bonds, such  
9 Bonds shall only be treated as Balloon Indebtedness if more than 25% of the  
10 principal thereof is due in any one Fiscal Year pursuant to the applicable sinking  
11 fund requirement or upon the stated maturity date thereof (assuming that the  
12 only principal due on the stated maturity date thereof will be the principal  
13 remaining outstanding after all redemptions have been made pursuant to the  
14 applicable sinking fund requirement).

15 "Beneficial Owner" means any person that has or shares the power, directly  
16 or indirectly, to make investment decisions concerning ownership of any 2023  
17 RWSS Bonds (including persons holding 2023 RWSS Bonds through nominees,  
18 depositories or other intermediaries).

19 "Board" means the Public Utility Board of the City, as the same shall be duly  
20 and regularly constituted from time to time.  
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1 "Bond Counsel" means Pacifica Law Group LLP or another law firm  
2 selected by the City that is nationally recognized in matters concerning bonds and  
3 other securities issued by states and local governments.

4 "Bond Fund" means the City of Tacoma Regional Water Supply System  
5 Bond Fund including any subfunds within such fund.

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

12 "Bond Purchase Contract" means the contract between the Underwriters and  
13 the City for the purchase of the 2023 RWSS Bonds, executed pursuant to this  
14 ordinance and setting forth the final terms of the 2023 RWSS Bonds.

15 "Bond Register" means the registration books maintained by the Bond  
16 Registrar for purposes of identifying ownership of the 2023 RWSS Bonds or the  
17 nominee of each owner, and such other information as the Bond Registrar shall  
18 determine.

19 "Bond Registrar" means, initially, the fiscal agent of the State, whose  
20 duties include registering and authenticating the 2023 RWSS Bonds,  
21 maintaining the Bond Register, effecting transfer of ownership of the 2023  
22 RWSS Bonds and paying interest on and principal of the 2023 RWSS Bonds.  
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1 "Bondowners' Trustee" has the meaning set forth in Section 25(B) of this  
2 ordinance.

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

5 "Call Date" means a date selected by a Designated Representative for  
6 the refunding of the Refunded Bonds which shall be no earlier than June 1,  
7 2023.

8 "Capital Appreciation Bonds" means any Parity Bonds, all or a portion of  
9 the interest on which is compounded and accumulated at the rates or in the  
10 manner, and on the dates, set forth in the applicable Parity Bond Authorizing  
11 Ordinance and is payable only upon redemption or on the maturity date of such  
12 Parity Bonds. Parity Bonds that are issued as Capital Appreciation Bonds, but  
13 later convert to obligations on which interest is paid periodically, shall be Capital  
14 Appreciation Bonds until the conversion date and thereafter shall no longer be  
15 Capital Appreciation Bonds, but shall be treated as having a principal amount  
16 equal to their Accreted Value on the conversion date.

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

19 "City" means the City of Tacoma, Washington, a municipal corporation  
20 duly organized and existing under and by virtue of the laws of the State.



1 "City Attorney" means the duly appointed and acting City Attorney of the  
2 City, including anyone acting in an interim or other capacity for the position, or  
3 the successor to the duties of that office.

4 "City Clerk" means the duly appointed and acting City Clerk of the City,  
5 including anyone acting in an interim or other capacity for the position, or the  
6 successor to the duties of that office.

7 "City Manager" means the duly appointed and acting City Manager of the  
8 City, including anyone acting in an interim or other capacity for the position, or  
9 the successor to the duties of that office.

10 "Code" means the Internal Revenue Code of 1986 as in effect on the  
11 date of issuance of the Tax-Exempt Bonds or (except as otherwise referenced  
12 herein) as it may be amended to apply to obligations issued on the date of  
13 issuance of the Tax-Exempt Bonds, together with applicable proposed,  
14 temporary and final regulations promulgated, and applicable official public  
15 guidance published, under the Code.

16 "Construction Account" means the Tacoma Second Supply Project  
17 Construction Account established by the Finance Director of the City in  
18 accordance with Substitute Ordinance 27001.

19 "Continuing Disclosure Certificate" means one or more written  
20 undertakings for the benefit of the owners and Beneficial Owners of the 2023  
21 RWSS Bonds as required by Section (b)(5) of the Rule.



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1 "Council" or "City Council" means the City Council as the general  
2 legislative authority of the City, as duly and regularly constituted from time to  
3 time.

4 "Current Interest Bonds" means Parity Bonds, the interest on which is  
5 paid periodically.

6 "CWD" means Covington Water District, and its successors.

7 "Debt Service Account" means the Debt Service Account in the Bond  
8 Fund.

9 "Designated Representative" means the Director of Utilities and the  
10 Superintendent of the Water Division, and their designees. The signature of  
11 one Designated Representative shall be sufficient to bind the City.

12 "Director of Utilities" means the duly appointed and acting Director of the  
13 City Department of Public Utilities, including anyone acting in an interim or other  
14 capacity for the position, or the successor to the duties of that office.

15 "DTC" means The Depository Trust Company.

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

20 "Escrow Agent" means the escrow agent appointed pursuant to  
21 Section 8(B) of this ordinance.



1 "Escrow Agreement" means the Escrow Deposit Agreement between the  
2 City and the Escrow Agent to be dated as of the Issue Date of the 2023 RWSS  
3 Bonds.

4 "Fair Market Value" means the price at which a willing buyer would  
5 purchase an investment from a willing seller in a bona fide, arm's length  
6 transaction, except for specified investments as described in Treasury  
7 Regulation § 1.148-5(d)(6), including United States Treasury obligations,  
8 certificates of deposit, guaranteed investment contracts, and investments for  
9 yield restricted defeasance escrows. Fair Market Value is generally determined  
10 on the date on which a contract to purchase or sell an investment becomes  
11 binding, and, to the extent required by the applicable regulations under the  
12 Code, the term "investment" will include a hedge.

13 "Federal Tax Certificate" means the certificate of the City pertaining to  
14 the tax-exemption of interest on the Tax-Exempt Bonds, and any attachments  
15 thereto.

16 "Filtration Treatment Project" means the design and construction of the  
17 portion of the filtration treatment system financed by the Regional System.

18 "Finance Director" means the duly appointed and acting Finance Director  
19 of the City, including anyone acting in an interim or other capacity for the  
20 position, or the successor to the duties of that office.



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1 "Fiscal Year" means the fiscal year used by the City at any time. At the  
2 time of the adoption of this ordinance, the Fiscal Year is the 12-month period  
3 beginning January 1 of each year.

4 "Future Parity Bonds" means any revenue bonds or any other revenue  
5 obligations of the City issued in accordance with this ordinance after the date of  
6 issuance of the 2023 RWSS Bonds, that are secured by a lien and charge as  
7 described in Section 17 equal to the lien and charge securing the payment of  
8 the principal of and interest on the 2023 RWSS Bonds and the Outstanding  
9 Parity Bonds.  
10

11 "Government Obligations" means those obligations now or hereafter  
12 defined as such in chapter 39.53 RCW constituting direct obligations of, or  
13 obligations the principal of and interest on which are unconditionally guaranteed  
14 by the United States of America, as such chapter may be hereafter amended or  
15 restated.  
16

17 "Gross Revenues of the Water System" means in any Fiscal Year of the  
18 Water System all of the revenues of the Water System, including but not limited  
19 to revenue from the sale or transmission of water; the sale, lease or furnishing  
20 of other commodities, services, properties or facilities; the imposition of  
21 connection, capital improvement or other charges; utility local improvement  
22 district assessments that are pledged to Water System Bonds; and earnings  
23 from the investment of money in the Water System Revenue Fund. However,  
24 Gross Revenue shall not include earnings of the Regional System or a separate  
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1 utility system that may be acquired or constructed by the City, including the  
2 Regional System; principal proceeds of Water System Bonds or other  
3 borrowings; grants or other capital contributions to the Water System which by  
4 their terms are restricted to specific projects or purposes; or earnings or  
5 proceeds from any investments in a trust, defeasance or escrow fund created to  
6 defease or refund Water System obligations (until commingled with other  
7 earnings and revenues of the Water System defined as Gross Revenue) or held  
8 in a special account for the purpose of paying a rebate to the United States  
9 government under the Code.  
10

11 "Issue Date" means, with respect to any series of 2023 RWSS Bonds,  
12 the date of initial issuance and delivery of such series to the Underwriters.  
13

14 "Kent" means the City of Kent, and its successors.

15 "Lakehaven" means Lakehaven Water and Sewer District, and its  
16 successors.  
17

18 "Letter of Representations" means the blanket issuer letter of  
19 representations from the City to DTC.

20 "Mandatory Amortization Installment" means, for any Fiscal Year, the  
21 principal amount of Term Bonds required to be purchased, redeemed, or paid in  
22 such year as established by the ordinance or resolution of the City authorizing  
23 the issuance of such Term Bonds.  
24

25 "Maximum Interest Rate" means, with respect to any particular Variable  
26 Interest Rate Bond, a numerical rate of interest, which shall be set forth in any



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1 ordinance authorizing such Bond that shall be the maximum rate of interest  
2 such Bond may at any time bear.

3 "Mayor" means the duly elected Mayor of the City or the successor to  
4 such officer.

5 "Moody's" means Moody's Investors Service, Inc., or its comparable  
6 recognized business successor.

7 "Net Revenues" means, for any period, Revenues minus Operating  
8 Expenses for such period, excluding from the computation of Revenues any  
9 profit or loss derived from the sale or other disposition, not in the ordinary  
10 course of business, of properties, rights or facilities of the Regional System or  
11 gains or losses resulting from the early extinguishment of debt or the  
12 requirements to mark assets or liabilities to market.

13 "Official Statement" means the disclosure documents prepared and  
14 delivered in connection with the issuance of each series of 2023 RWSS Bonds.

15 "Operating Expenses" means all expenses incurred by the City in  
16 causing the Regional System to be operated and maintained in good repair,  
17 working order and condition, including without limitation: deposits, premiums,  
18 assessments or other payments for insurance, if any, on the Regional System;  
19 payments into pension funds; State-imposed taxes; payments made to any  
20 other person or entity for the receipt of water supply or transmission or other  
21 right, commodity or service; payments made to any other person or entity that  
22 are required in connection with the operation of the Regional System or the  
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1 acquisition or transmission of water and that are not subordinate to the lien of  
2 the Parity Bonds; and payments with respect to any other expenses of the  
3 Regional System that are properly treated as operation and maintenance  
4 expenses under generally accepted accounting principles applicable to  
5 municipal corporations. Operating Expenses do not include any depreciation or  
6 taxes levied or imposed by the City, Payment Agreement payments, or  
7 payments to the City in lieu of taxes, any Rebate Amount, or capital additions or  
8 capital replacements to the Regional System.

9 "Outstanding Parity Bonds" means the 2010 RWSS Bonds and the 2013  
10 RWSS Bonds.

11 "Owners" mean, without distinction, the Registered Owners and the  
12 Beneficial Owners.

13 "Parity Bond Authorizing Ordinances" means the ordinances and/or  
14 resolutions of the City authorizing the issuance and sale and establishes the  
15 terms of a particular issue of Parity Bonds.

16 "Parity Bonds" means the Outstanding Parity Bonds, the 2023 RWSS  
17 Bonds and any Future Parity Bonds.

18 "Participants" mean the City, Kent, CWD and Lakehaven.

19 "Participants' Payments" means all payments received from the  
20 Participants under the Project Agreement.  
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D-9

1 "Participants' Systems" or "Participant's System" means the City's Water  
2 System, Kent's water system, CWD's water system, and Lakehaven's water  
3 and sewer system.

4 "Payment Date" means the dates on which principal and/or interest on  
5 the Parity Bonds is due and payable.

6 "Permitted Investments" means investments that are now or may  
7 hereafter be permitted to the City by the laws of the State.

8 "Project Agreement" means, together, the Agreement for the Second  
9 Supply Project, entered into by and among the Participants effective as of  
10 December 19, 2002, and the Repayment Agreement, entered into by and  
11 among the Participants effective as of November 1, 2002, as each may be  
12 amended from time to time.

13 "Projects" mean the capital facilities of the Regional System financed or  
14 refinanced with proceeds of the Refunded Bonds.

15 "Qualified Insurance" means any municipal bond insurance policy or  
16 surety bond issued by any insurance company licensed to conduct an  
17 insurance business in any state of the United States (or by a service  
18 corporation acting on behalf of one or more such insurance companies), which  
19 insurance company or companies, as of the time of issuance of such policy or  
20 surety bond, are currently rated in one of the two highest rating categories by  
21 two Rating Agencies.  
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1 "Qualified Letter of Credit" means any letter of credit issued by a financial  
2 institution for the account of the City on behalf of the owners of the Parity  
3 Bonds, which institution maintains an office, agency or branch in the  
4 United States and as of the time of issuance of such letter of credit is currently  
5 rated in one of the two highest rating categories by two Rating Agencies.

6 "Rating Agencies" means Moody's, S&P or another nationally recognized  
7 rating agency rating municipal bonds.

8 "Rebate Amount" means the amount, if any, determined to be payable  
9 with respect to the 2023 RWSS Bonds by the City to the United States of  
10 America in accordance with Section 148(f) of the Code.

11 "Record Date" means the Bond Registrar's close of business on the 15th  
12 day of the month preceding an interest payment date. With respect to  
13 redemption of a Bond prior to its maturity, the Record Date shall mean the Bond  
14 Registrar's close of business on the date on which the Bond Registrar sends  
15 the notice of redemption in accordance with Section 5.

16 "Refunded Bonds" means all or a portion of the 2013 RWSS Bonds  
17 designated by the Designated Representative for refunding pursuant to this  
18 ordinance.

19 "Refunding Account" means the account of that name established  
20 pursuant to this ordinance.

21 "Regional System" means the Regional Water Supply System,  
22 comprised of certain property and facilities to deliver and receive water for the  
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D-10

1 Participants from the exercise by the City of its Second Diversion Water Right,  
2 which property and facilities include (1) a Main Branch pipeline to the City with a  
3 72 MGD nominal capacity; (2) headworks improvements associated with the  
4 Second Diversion Water Right; (3) related fisheries and environmental  
5 enhancements; (4) improvements and additions to the Howard Hanson Dam to  
6 raise the summer storage pool to elevation 1,167 in phase I to provide an  
7 additional 20,000 acre feet of water storage, together with improvements and  
8 additions related to accommodating fish passage; (5) the Filtration Treatment  
9 Project; and (6) additional related water treatment facilities; and as the same  
10 will be added to, improved and extended for as long as any of the Parity Bonds  
11 are outstanding. The Regional System shall not include the Water System or  
12 any other separate system.

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

3 "Registered Owner" means the person named as the registered owner of  
4 a 2023 RWSS Bond in the Bond Register. For so long as the 2023 RWSS  
5 Bonds are held in book-entry only form, DTC or its nominee shall be deemed to  
6 be the sole Registered Owner.

7 "Reserve Account" means the Reserve Account created in the Bond  
8 Fund.

9 "Reserve Account Requirement" with respect to the 2023 RWSS Bonds  
10 means zero (\$0.00).

11 The Reserve Account Requirements with respect to the Outstanding  
12 Parity Bonds have the meanings set forth in the applicable Parity Bond  
13 Authorizing Ordinances.

14 The Reserve Account Requirement with respect to Future Parity Bonds  
15 will be either (1) an amount equal to Average Annual Debt Service on such  
16 issuance of Future Parity Bonds, but in no case shall the amount in the Reserve  
17 Account allocable to such issuance of Future Parity Bonds exceed 10% of the  
18 proceeds of such bonds, or (2) the ordinance authorizing such issuance of  
19 Future Parity Bonds may provide for the creation of a separate reserve account,  
20 in which case the Reserve Account Requirement, if any, for such issuance of  
21 Future Parity Bonds may be set in such ordinance and the Reserve Account  
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D-11

1 created by Ordinance No. 27001 shall not secure such series of Future Parity  
2 Bonds.

3 "Revenue Fund" means the Regional Water Supply System Fund.

4 "Revenues" means the income, revenues, receipts and loan proceeds  
5 derived by the City through the ownership and operation of the Regional  
6 System, including Participants' Payments, but, except as provided in Sections 9  
7 and 12, shall not include any income derived by the City through the ownership  
8 and operation of the Water System or any other separate utility system of the  
9 City.  
10

11 "Rule" means the Security and Exchange Commission's Rule 15c2-12  
12 under the Securities Exchange Act of 1934, as the same may be amended from  
13 time to time.  
14

15 "S&P" means S&P Global Ratings, or its comparable recognized  
16 business successor.

17 "Second Diversion Water Right" means the City's permit to appropriate  
18 up to 100 cubic feet per second of surface water from the Green River for  
19 municipal and industrial supply, obtained from the State Department of Ecology.  
20

21 "Serial Bonds" means Parity Bonds other than term bonds.

22 "State" means the State of Washington.

23 "Taxable Bonds" means any 2023 RWSS Bonds of a series determined  
24 to be issued on a taxable basis pursuant to this ordinance.  
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1 "Tax-Exempt Bonds" means any 2023 RWSS Bonds of a series  
2 determined to be issued on a tax-exempt basis under the Code pursuant to this  
3 ordinance.

4 "Term Bonds" means Parity Bonds designated as such by a Designated  
5 Representative and those Parity Bonds designated as such in the applicable  
6 Parity Bond Authorizing Ordinance.  
7

8 "Treasurer" means the duly appointed and acting Treasurer of the City,  
9 including anyone acting in an interim or other capacity for the position, or the  
10 successor to the duties of that office.  
11

12 "Underwriters" means KeyBanc Capital Markets Inc. and Wells Fargo  
13 Corporate & Investment Banking, and their successors.

14 "Variable Interest Rate" means any variable interest rate or rates to be  
15 borne by any Parity Bonds. The method of computing such a variable interest  
16 rate shall be as specified in the applicable Parity Bond Authorizing Ordinance,  
17 which ordinance or resolution also shall specify either: (1) the particular period  
18 or periods of time or manner of determining such period or periods of time for  
19 which each value of such variable interest rate shall remain in effect; or (2) the  
20 time or times upon which any change in such variable interest rate shall  
21 become effective. A Variable Interest Rate may, without limitation, be based on  
22 the interest rate on certain bonds or may be based on interest rate, currency,  
23 commodity, or other indexes.  
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1 "Variable Interest Rate Bonds" for any period of time means Parity Bonds  
2 that during such period bear a Variable Interest Rate, provided that Parity  
3 Bonds the interest rate on which shall have been fixed for the remainder of the  
4 term thereof shall no longer be Variable Interest Rate Bonds.

5 "Water System" means the water system of the City as it now exists, and  
6 all additions thereto and betterments and extensions thereof at any time made  
7 for so long as any of the Water System Bonds are outstanding. The Water  
8 System shall not include the Regional System or any water supply or service or  
9 other facilities that may be created, acquired, or constructed by the City as a  
10 separate utility system.

11 "Water System Bonds" means, as of the date of this ordinance, the City's  
12  
13 (1) \$46,550,000 original principal amount of Water System Revenue and  
14 Refunding Bonds, 2005; (2) \$76,755,000 original principal amount of Water  
15 System Revenue Bonds, 2009 (Taxable Build America Bonds – Direct  
16 Payment); (3) \$74,985,000 original principal amount of Water System Revenue  
17 Bonds, 2010B (Taxable Build America Bonds – Direct Payment);  
18  
19 (4) \$78,305,000 original principal amount of Water System Revenue and  
20 Refunding Bonds, 2013; (5) \$16,645,000 original principal amount of Water  
21 System Revenue Refunding Bonds, Series 2015A; and (6) any obligations  
22 thereafter issued on a parity of lien on Gross Revenues of the Water System  
23 with such Water System Bonds.  
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1 "2010 RWSS Bonds" means the 2010A RWSS Bonds and the 2010B  
2 RWSS Bonds.

3 "2010A RWSS Bonds" means the City's Regional Water Supply System  
4 Revenue Bonds, 2010A, issued in the original principal amount of \$3,595,000  
5 pursuant to Ordinance No. 27903, passed on July 20, 2010.

6 "2010B RWSS Bonds" means the City's Regional Water Supply System  
7 Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment),  
8 issued in the original principal amount of \$44,245,000 pursuant to Ordinance  
9 No. 27903, passed on July 20, 2010.

10 "2013 RWSS Bonds" means the "City of Tacoma, Washington, Regional  
11 Water Supply System Revenue Refunding Bonds, 2013" issued in the original  
12 principal amount of \$64,795,000 pursuant to Ordinance No. 28137, passed on  
13 March 19, 2013.

14 "2023 RWSS Bonds" or "Bonds" means the "City of Tacoma,  
15 Washington, Regional Water Supply System Revenue Refunding Bonds, Series  
16 2023" to be hereafter issued pursuant to and for the purposes provided in this  
17 ordinance.

18 B. Interpretation. In this ordinance, unless the context otherwise  
19 requires:

20 (1) The terms "hereby," "hereof," "hereto," "herein," "hereunder,"  
21 and any similar terms, as used in this ordinance, refer to this ordinance as a  
22 whole and not to any particular article, section, subdivision, or clause hereof,  
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D-13

1 and the term "hereafter" shall mean after, and the term "heretofore" shall mean  
2 before, the date of this ordinance;

3 (2) Words importing the singular number shall mean and include  
4 the plural number and vice versa;

5 (3) Words importing persons shall include firms, associations,  
6 partnerships (including limited partnerships), trusts, corporations, limited liability  
7 companies, and other legal entities, including public bodies, as well as natural  
8 persons;

9 (4) Any headings preceding the text of the several articles and  
10 sections of this ordinance, and any table of contents or marginal notes  
11 appended to copies hereof, shall be solely for convenience of reference and  
12 shall not constitute a part of this ordinance, nor shall they affect its meaning,  
13 construction, or effect; and

14 (5) All references herein to "articles," "sections," and other  
15 subdivisions or clauses are to the corresponding articles, sections, subdivisions,  
16 or clauses hereof.

17 Section 2. Findings; Parity Bonds.

18 A. Parity and Other Findings. In connection with the issuance of the  
19 2023 RWSS Bonds on a parity of lien with the Outstanding Parity Bonds, the  
20 City hereby makes the following findings:

21 (1) As of the date hereof, and as of the Issue Date of the 2023  
22 RWSS Bonds, the Project Agreement is and will be in effect.



1 (2) There is, and as of the Issue Date of the 2023 RWSS Bonds,  
2 there will be, no deficiency in the Bond Fund or any accounts therein.

3 (3) The 2023 RWSS Bonds will be issued for refunding purposes  
4 for aggregate debt service savings and/or to restructure the Refunded Bonds.  
5 At or prior to the issuance of the 2023 RWSS Bonds, the City will have on file a  
6 certificate satisfying the Future Parity Bond requirements of the Parity Bond  
7 Authorizing Ordinances for the Outstanding Parity Bonds.

8 B. Findings Related to Revenues of the Regional System. The City hereby  
9 finds and determines that the Revenues of the Regional System will be more than  
10 sufficient to meet all Operating Expenses to make all required payments with  
11 respect to the Outstanding Parity Bonds and the 2023 RWSS Bonds, and to permit  
12 the setting aside into the Bond Fund out of the Revenues of amounts sufficient to  
13 pay the principal of and interest on the 2023 RWSS Bonds when due at maturity  
14 and upon any mandatory sinking fund redemption thereof.

15 The City further finds and determines that in creating the Bond Fund and in  
16 fixing the amounts to be paid into the Bond Fund, it has exercised due regard for  
17 Operating Expenses, and the City has not bound and obligated itself to set aside  
18 and pay into the Bond Fund a greater amount or proportion of the Revenues than  
19 in the judgment of the City will be available over and above the Operating  
20 Expenses.

21 The 2023 RWSS Bonds shall be issued as Future Parity Bonds under  
22 the terms of the Parity Bond Authorizing Ordinances for the Outstanding Parity  
23 Bonds.



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1 Bonds, subject to the same rights and limitations as Parity Bonds set forth  
2 therein and herein.

3       Section 3. Authorization of 2023 RWSS Bonds. For the purposes of  
4 providing part of the funds required to defease and/or refund the Refunded  
5 Bonds and paying costs of issuance of the 2023 RWSS Bonds, the City is  
6 hereby authorized to issue and sell one or more series of Regional System  
7 revenue refunding bonds in an aggregate principal amount not to exceed  
8 \$40,850,000 ("2023 RWSS Bonds").

9  
10       The 2023 RWSS Bonds shall be designated as the "City of Tacoma,  
11 Washington, Regional Water Supply System Revenue Refunding Bonds, Series  
12 2023," or other such designation as set forth in the 2023 RWSS Bonds and  
13 approved by a Designated Representative, which may include but is not limited to  
14 revising the series designation to "Series 2024," pursuant to the terms of this  
15 ordinance. The 2023 RWSS Bonds may be issued in one or more series, may be  
16 designated as Taxable Bonds or Tax-Exempt Bonds, and may be issued on the  
17 same Issue Date or from time to time on different Issue Dates.

18  
19       The 2023 RWSS Bonds shall be dated as of the Issue Date for such 2023  
20 RWSS Bonds, shall be fully registered as to both principal and interest, shall be in  
21 the denomination of \$5,000 each or any integral multiple thereof within a series  
22 and maturity, shall be numbered separately in such manner and with any additional  
23 designation as the Bond Registrar deems necessary for purposes of identification  
24 and control, shall bear interest from their Issue Date payable on the dates and at  
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1 the rates set forth in the Bond Purchase Contract, and shall be subject to optional  
2 and/or mandatory redemption, and mature on the dates and in the principal  
3 amounts set forth in the Bond Purchase Contract.

4       The 2023 RWSS Bonds shall be special obligations of the City payable  
5 only from the Bond Fund and shall be payable and secured as provided herein.  
6 The 2023 RWSS Bonds shall not be general obligations of the City, the State or  
7 any political subdivision thereof.

8       Section 4. Registration of 2023 RWSS Bonds.

9  
10       A. Bond Registrar/Bond Register. The City hereby specifies and adopts the  
11 system of registration approved by the Washington State Finance Committee from  
12 time to time through the appointment of a state fiscal agent. The City shall cause a  
13 Bond Register to be maintained by the Bond Registrar. So long as any 2023  
14 RWSS Bonds remain outstanding, the Bond Registrar shall make all necessary  
15 provisions to permit the exchange or registration or transfer of 2023 RWSS Bonds  
16 at its designated office. The Bond Registrar may be removed at any time at the  
17 option of the Finance Director upon prior notice to the Bond Registrar and a  
18 successor Bond Registrar appointed by the Finance Director. No resignation or  
19 removal of the Bond Registrar shall be effective until a successor shall have been  
20 appointed and until the successor Bond Registrar shall have accepted the duties of  
21 the Bond Registrar hereunder. The Bond Registrar is authorized, on behalf of the  
22 City, to authenticate and deliver 2023 RWSS Bonds transferred or exchanged in  
23 accordance with the provisions of such 2023 RWSS Bonds and this ordinance, and  
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D-15

1 to carry out all of the Bond Registrar's powers and duties under this ordinance. The  
2 Bond Registrar shall be responsible for its representations contained in the  
3 Certificate of Authentication of the 2023 RWSS Bonds.

4 B. Registered Ownership. The City and the Bond Registrar, each in its  
5 discretion, may deem and treat the Registered Owner of each 2023 RWSS Bond as  
6 the absolute owner thereof for all purposes (except as provided in the Continuing  
7 Disclosure Certificate), and neither the City nor the Bond Registrar shall be affected  
8 by any notice to the contrary. Payment of any such 2023 RWSS Bond shall be  
9 made only as described in subsection G, but such 2023 RWSS Bond may be  
10 transferred as herein provided. All such payments made as described in  
11 subsection G shall be valid and shall satisfy and discharge the liability of the City  
12 upon such 2023 RWSS Bond to the extent of the amount or amounts so paid.

13 C. DTC Acceptance/Letters of Representations. The 2023 RWSS Bonds  
14 initially shall be held by DTC acting as depository. The City has executed and  
15 delivered to DTC a Blanket Issuer Letter of Representations. Neither the City nor  
16 the Bond Registrar shall have any responsibility or obligation to DTC participants or  
17 the persons for whom they act as nominees (or any successor depository) with  
18 respect to the 2023 RWSS Bonds in respect of the accuracy of any records  
19 maintained by DTC (or any successor depository) or any DTC participant, the  
20 payment by DTC (or any successor depository) or any DTC participant of any  
21 amount in respect of the principal of or interest on 2023 RWSS Bonds, any notice  
22 which is permitted or required to be given to Registered Owners under this  
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1 ordinance (except such notices as shall be required to be given by the City to the  
2 Bond Registrar or to DTC (or any successor depository)), or any consent given or  
3 other action taken by DTC (or any successor depository) as the Registered Owner.  
4 For so long as any 2023 RWSS Bonds are held by a depository, DTC or its  
5 successor depository or its nominee shall be deemed to be the Registered Owner  
6 for all purposes hereunder, and all references herein to the Registered Owners  
7 shall mean DTC (or any successor depository) or its nominee and shall not mean  
8 the owners of any beneficial interest in such 2023 RWSS Bonds.  
9

10 D. Use of Depository.

11 (1) The 2023 RWSS Bonds of each series shall be registered initially  
12 in the name of "Cede & Co.", as nominee of DTC, with one 2023 RWSS Bond  
13 maturing on each of the maturity dates for the 2023 RWSS Bonds in a  
14 denomination corresponding to the total principal therein designated to mature on  
15 such date. Registered ownership of such 2023 RWSS Bonds, or any portions  
16 thereof, may not thereafter be transferred except (i) to any successor of DTC or its  
17 nominee, provided that any such successor shall be qualified under any applicable  
18 laws to provide the service proposed to be provided by it; (ii) to any substitute  
19 depository appointed by the Finance Director pursuant to subsection (2) below or  
20 such substitute depository's successor; or (iii) to any person as provided in  
21 subsection (4) below.  
22  
23  
24

25 (2) Upon the resignation of DTC or its successor (or any substitute  
26 depository or its successor) from its functions as depository or a determination by



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1 the Finance Director to discontinue the system of book entry transfers through  
2 DTC or its successor (or any substitute depository or its successor), the Finance  
3 Director may appoint a substitute depository. Any such substitute depository shall  
4 be qualified under any applicable laws to provide the services proposed to be  
5 provided by it.

6  
7 (3) In the case of any transfer pursuant to clause (i) or (ii) of  
8 subsection (1) above, the Bond Registrar shall, upon receipt of all outstanding 2023  
9 RWSS Bonds, together with a written request on behalf of the Finance Director,  
10 issue a single new 2023 RWSS Bond for such series for each maturity then  
11 outstanding, registered in the name of such successor or such substitute  
12 depository, or their nominees, as the case may be, all as specified in such written  
13 request of the Finance Director.

14  
15 (4) In the event that (A) DTC or its successor (or substitute depository  
16 or its successor) resigns from its functions as depository, and no substitute  
17 depository can be obtained, or (B) the Finance Director determines that it is in the  
18 best interest of the Beneficial Owners of the 2023 RWSS Bonds that such owners  
19 be able to obtain physical 2023 RWSS Bond certificates, the ownership of such  
20 2023 RWSS Bonds may then be transferred to any person or entity as herein  
21 provided, and shall no longer be held by a depository. The Finance Director shall  
22 deliver a written request to the Bond Registrar, together with a supply of physical  
23 2023 RWSS Bonds, to issue 2023 RWSS Bonds as herein provided in any  
24 authorized denomination. Upon receipt by the Bond Registrar of all then  
25  
26



1 outstanding 2023 RWSS Bonds of a series together with a written request on behalf  
2 of the Finance Director to the Bond Registrar, new 2023 RWSS Bonds of such  
3 series shall be issued in the appropriate denominations and registered in the names  
4 of such persons as are requested in such written request.

5  
6 E. Registration of Transfer of Ownership or Exchange; Change in  
7 Denominations. The transfer of any 2023 RWSS Bond may be registered and 2023  
8 RWSS Bonds may be exchanged, but no transfer of any such 2023 RWSS Bond  
9 shall be valid unless it is surrendered to the Bond Registrar with the assignment  
10 form appearing on such 2023 RWSS Bond duly executed by the Registered Owner  
11 or such Registered Owner's duly authorized agent in a manner satisfactory to the  
12 Bond Registrar. Upon such surrender, the Bond Registrar shall cancel the  
13 surrendered 2023 RWSS Bond and shall authenticate and deliver, without charge  
14 to the Registered Owner or transferee therefor, a new 2023 RWSS Bond (or 2023  
15 RWSS Bonds at the option of the new Registered Owner) of the same series, date,  
16 maturity, and interest rate and for the same aggregate principal amount in any  
17 authorized denomination, naming as Registered Owner the person or persons listed  
18 as the assignee on the assignment form appearing on the surrendered 2023 RWSS  
19 Bond, in exchange for such surrendered and cancelled 2023 RWSS Bond. Any  
20 2023 RWSS Bond may be surrendered to the Bond Registrar and exchanged,  
21 without charge, for an equal aggregate principal amount of 2023 RWSS Bonds of  
22 the same series, date, maturity, and interest rate, in any authorized denomination.  
23  
24 The Bond Registrar shall not be obligated to register the transfer of or to exchange  
25  
26



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1 any 2023 RWSS Bond between the Record Date and the next principal payment or  
2 redemption date.

3 F. Bond Registrar's Ownership of 2023 RWSS Bonds. The Bond Registrar  
4 may become the Registered Owner of any 2023 RWSS Bond with the same rights it  
5 would have if it were not the Bond Registrar, and to the extent permitted by law,  
6 may act as depository for and permit any of its officers or directors to act as a  
7 member of, or in any other capacity with respect to, any committee formed to  
8 protect the right of the Registered Owners or Beneficial Owners of 2023 RWSS  
9 Bonds.  
10

11 G. Place and Medium of Payment. Both principal of and interest on the  
12 2023 RWSS Bonds shall be payable in lawful money of the United States of  
13 America. Interest on the 2023 RWSS Bonds shall be calculated on the basis of a  
14 year of 360 days and twelve 30-day months. For so long as all 2023 RWSS Bonds  
15 of a series are held by a depository, payments of principal thereof and interest  
16 thereon shall be made as provided in accordance with the operational  
17 arrangements of DTC referred to in the Letter of Representations. In the event that  
18 the 2023 RWSS Bonds of a series are no longer held by a depository, interest on  
19 such 2023 RWSS Bonds shall be paid by check or draft mailed to the Registered  
20 Owners at the addresses for such Registered Owners appearing on the Bond  
21 Register on the Record Date, or upon the written request of a Registered Owner of  
22 more than \$1,000,000 of 2023 RWSS Bonds (received by the Bond Registrar at  
23 least by the Record Date), such payment shall be made by the Bond Registrar by  
24  
25  
26



1 wire transfer to the account within the United States designated by the Registered  
2 Owner. Principal of the 2023 RWSS Bonds shall be payable upon presentation and  
3 surrender of such 2023 RWSS Bonds by the Registered Owners at the designated  
4 office of the Bond Registrar.

5 If any 2023 RWSS Bond is duly presented for payment and funds have not  
6 been provided by the City on the applicable payment date, then interest will  
7 continue to accrue thereafter on the unpaid principal thereof at the rate stated on  
8 the 2023 RWSS Bond until the 2023 RWSS Bond is paid.  
9

10 Section 5. Redemption Terms and Right to Purchase.

11 A. Mandatory Redemption of Term Bonds and Optional Redemption, if any.  
12 Each series of 2023 RWSS Bonds shall be subject to optional redemption on the  
13 dates, at the prices and under the terms set forth in the Bond Purchase Contract.  
14 Each series of 2023 RWSS Bonds shall be subject to mandatory redemption to the  
15 extent, if any, set forth in the Bond Purchase Contract.  
16

17 B. Selection of 2023 RWSS Bonds for Redemption. For as long as the 2023  
18 RWSS Bonds of a series are held in book entry only form, the selection of particular  
19 2023 RWSS Bonds within a series and maturity to be redeemed shall be made in  
20 accordance with the operational arrangements then in effect at DTC. If the 2023  
21 RWSS Bonds of a series are no longer held by a depository, the selection of such  
22 2023 RWSS Bonds of such series to be redeemed and the surrender and  
23 reissuance thereof, as applicable, shall be made as provided in the following  
24 provisions of this subsection B or in the Official Statement. If the City redeems at  
25  
26



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1 any one time fewer than all of the 2023 RWSS Bonds of a series having the same  
2 maturity date, the particular 2023 RWSS Bonds or portions of 2023 RWSS Bonds  
3 of such series and maturity to be redeemed shall be selected by lot (or in such  
4 manner determined by the Bond Registrar) in increments of \$5,000. In the case of  
5 a 2023 RWSS Bond of a denomination greater than \$5,000, the City and the Bond  
6 Registrar shall treat each 2023 RWSS Bond as representing such number of  
7 separate 2023 RWSS Bonds each of the denomination of \$5,000 as is obtained by  
8 dividing the actual principal amount of such 2023 RWSS Bond by \$5,000. In the  
9 event that only a portion of the principal sum of a 2023 RWSS Bond is redeemed,  
10 upon surrender of such 2023 RWSS Bond at the designated office of the Bond  
11 Registrar there shall be issued to the Registered Owner, without charge therefor,  
12 for the then unredeemed balance of the principal sum thereof, at the option of the  
13 Registered Owner, a 2023 RWSS Bond or 2023 RWSS Bonds of like series,  
14 maturity and interest rate in any of the denominations herein authorized.  
15 Notwithstanding the foregoing or anything else to the contrary in this ordinance, the  
16 selection of any 2023 RWSS Bonds for redemption may be as provided in the Bond  
17 Purchase Contract or Official Statement for such 2023 RWSS Bonds.

21 C. Notice of Redemption.

22 (1) Official Notice. For so long as the 2023 RWSS Bonds of a series  
23 are held by a depository, notice of redemption shall be given in accordance with the  
24 operational arrangements of DTC as then in effect, and neither the City nor the  
25 Bond Registrar shall provide any notice of redemption to any Beneficial Owners.  
26



1 The notice of optional redemption may be conditional. Unless waived by any owner  
2 of 2023 RWSS Bonds to be redeemed, official notice of any such redemption  
3 (which optional redemption may be conditioned by the Bond Registrar on the  
4 receipt of sufficient funds for redemption or otherwise) shall be given by the Bond  
5 Registrar on behalf of the City by mailing a copy of an official redemption notice by  
6 first class mail at least 20 days and not more than 60 days prior to the date fixed for  
7 redemption to the Registered Owner of the 2023 RWSS Bond or 2023 RWSS  
8 Bonds to be redeemed at the address shown on the Bond Register or at such other  
9 address as is furnished in writing by such Registered Owner to the Bond Registrar.  
10

12 All official notices of redemption shall be dated and shall state:

- 13 (i) the redemption date,  
14 (ii) the redemption price,  
15 (iii) if fewer than all outstanding 2023 RWSS Bonds are to be  
16 redeemed, the identification by series and maturity (and, in the case of partial  
17 redemption, the respective principal amounts) of the 2023 RWSS Bonds to be  
18 redeemed,  
19 (iv) any conditions to redemption, and  
20 (v) the place where such 2023 RWSS Bonds are to be  
21 surrendered for payment of the redemption price, which place of payment shall be  
22 the principal office of the Bond Registrar.  
23

24 On or prior to any optional redemption date, unless any condition to such  
25 redemption has not been satisfied or waived, or notice of such redemption has  
26



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1 been rescinded or revoked, and on or prior to any mandatory redemption date, the  
2 City shall deposit with the Bond Registrar an amount of money sufficient to pay the  
3 redemption price of all the 2023 RWSS Bonds or portions of 2023 RWSS Bonds  
4 which are to be redeemed on that date. The City retains the right to rescind any  
5 optional redemption notice and the related optional redemption of 2023 RWSS  
6 Bonds by giving notice of rescission to the affected Registered Owners at any time  
7 on or prior to the scheduled redemption date. Any notice of optional redemption  
8 that is so rescinded shall be of no effect, and the 2023 RWSS Bonds for which the  
9 notice of optional redemption has been rescinded shall remain outstanding.

10  
11 (2) Effect of Notice; 2023 RWSS Bonds Due. If notice of redemption  
12 has been given and not rescinded or revoked, or if the conditions set forth in a  
13 conditional notice of redemption have been satisfied or waived, the 2023 RWSS  
14 Bonds or portions of 2023 RWSS Bonds to be redeemed shall, on the redemption  
15 date, become due and payable at the redemption price therein specified, and if the  
16 Bond Registrar then holds sufficient funds to pay such 2023 RWSS Bonds at the  
17 redemption price, then from and after such date such 2023 RWSS Bonds or  
18 portions of 2023 RWSS Bonds shall cease to bear interest. Upon surrender of such  
19 2023 RWSS Bonds for redemption in accordance with said notice, such 2023  
20 RWSS Bonds shall be paid by the Bond Registrar at the redemption price.  
21 Installments of interest due on or prior to the redemption date shall be payable as  
22 herein provided for payment of interest. All 2023 RWSS Bonds which have been  
23 redeemed shall be canceled by the Bond Registrar and shall not be reissued.



1 (3) Additional Notice. In addition to the foregoing notice, further  
2 notice shall be given by the City as set out below, but no defect in said further  
3 notice nor any failure to give all or any portion of such further notice shall in any  
4 manner defeat the effectiveness of a call for redemption if notice thereof is given as  
5 above-prescribed. Each further notice of redemption given hereunder shall contain  
6 the information required above for an official notice of redemption plus (i) the  
7 CUSIP numbers of all 2023 RWSS Bonds being redeemed; (ii) the date of issue of  
8 the 2023 RWSS Bonds as originally issued; (iii) the rate of interest borne by each  
9 2023 RWSS Bond being redeemed; (iv) the maturity date of each 2023 RWSS  
10 Bond being redeemed; and (v) any other descriptive information needed to identify  
11 accurately the 2023 RWSS Bonds being redeemed. Each further notice of  
12 redemption may be sent at least 20 days before the redemption date to each party  
13 entitled to receive notice pursuant to the Continuing Disclosure Certificate and with  
14 such additional information as the City shall deem appropriate, but such mailings  
15 shall not be a condition precedent to the redemption of such 2023 RWSS Bonds.

16  
17 (4) Amendment of Notice Provisions. The foregoing notice provisions  
18 of this section, including, but not limited to, the information to be included in  
19 redemption notices and the persons designated to receive notices, may be  
20 amended by additions, deletions and changes in order to maintain compliance with  
21 duly promulgated regulations and recommendations regarding notices of  
22 redemption of municipal securities.



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1 D. Purchase of 2023 RWSS Bonds. The City reserves the right to purchase  
2 any or all of the 2023 RWSS Bonds in the open market at any time at any price  
3 acceptable to the City plus accrued interest to the date of purchase.

4 Section 6. Form of 2023 RWSS Bonds; Execution. The 2023 RWSS Bonds  
5 shall be in substantially the form set forth in Exhibit A, which is incorporated herein  
6 by this reference, with such changes thereto as may be approved by a Designated  
7 Representative, consistent with this ordinance.

8 The 2023 RWSS Bonds shall be executed on behalf of the City with the  
9 manual or facsimile signatures of the Mayor and City Clerk and the seal of the City  
10 shall be impressed, imprinted, or otherwise reproduced thereon.

11 Only such 2023 RWSS Bonds as shall bear thereon a Certificate of  
12 Authentication in the form provided herein, manually executed by the Bond  
13 Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of  
14 this ordinance. Such Certificate of Authentication shall be conclusive evidence that  
15 the 2023 RWSS Bonds so authenticated have been duly executed, authenticated  
16 and delivered hereunder and are entitled to the benefits of this ordinance.

17 In case either of the officers who shall have executed the 2023 RWSS Bonds  
18 shall cease to be an officer or officers of the City before the 2023 RWSS Bonds so  
19 signed shall have been authenticated or delivered by the Bond Registrar, or issued  
20 by the City, such 2023 RWSS Bonds may nevertheless be authenticated, delivered,  
21 and issued and upon such authentication, delivery, and issuance, shall be as  
22 binding upon the City as though those who signed the same had continued to be  
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24  
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26



1 such officers of the City. Any 2023 RWSS Bond may be signed and attested on  
2 behalf of the City by such persons who at the date of the actual execution of such  
3 2023 RWSS Bond, are the proper officers of the City, although at the original date  
4 of such 2023 RWSS Bond any such person shall not have been such officer of the  
5 City.  
6

7 Section 7. Lost or Destroyed 2023 RWSS Bonds. In case any 2023 RWSS  
8 Bonds shall be lost, stolen, or destroyed, the Bond Registrar may authenticate and  
9 deliver a new 2023 RWSS Bond or 2023 RWSS Bonds of like series, amount, date,  
10 tenor, and effect to the owner thereof upon the owner paying the expenses and  
11 charges of the City in connection therewith and upon filing with the Bond Registrar  
12 evidence satisfactory to the Bond Registrar that such 2023 RWSS Bond(s) were  
13 actually lost, stolen, or destroyed and of ownership thereof, and upon furnishing the  
14 City with indemnity satisfactory to both.  
15

16 Section 8. Deposit of Proceeds of the 2023 RWSS Bonds; Refunding  
17 Plan.  
18

19 A. Upon closing of the 2023 RWSS Bonds, the City shall deposit  
20 proceeds of each series of 2023 RWSS Bonds (net of the Underwriters'  
21 discount and any associated fees and costs) as follows:

22 (1) an amount sufficient to refund the Refunded Bonds to be  
23 deposited with the Escrow Agent; and  
24

25 (2) the amount to pay costs of issuing the 2023 RWSS Bonds into  
26 the Revenue Fund, or deposited with the Escrow Agent.



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1 The exact amount of such deposits shall be determined by a Designated  
2 Representative of the City.

3 B. For the purpose of realizing a debt service savings and/or to  
4 restructure the Refunded Bonds, the City proposes to apply a portion of the  
5 proceeds of the 2023 RWSS Bonds to defease and/or redeem the Refunded  
6 Bonds as set forth herein. If a Designated Representative determines that it is  
7 in the best interest of the City to proceed with the refunding authorized herein, a  
8 Designated Representative shall designate all or a portion of the 2013 RWSS  
9 Bonds as Refunded Bonds and such designation shall be set forth in the Bond  
10 Purchase Contract. Each Designated Representative is further authorized to  
11 appoint an escrow agent ("Escrow Agent") to assist in the refunding plan  
12 authorized herein.

13 A portion of the proceeds of such series of 2023 RWSS Bonds, together  
14 with other available funds of the City, if any, shall be deposited with the Escrow  
15 Agent on behalf of the City in the Refunding Account, which is hereby authorized to  
16 be created, pursuant to an Escrow Agreement to be used immediately upon receipt  
17 thereof to defease or redeem, as applicable, the Refunded Bonds as authorized by  
18 the bond ordinance authorizing the Refunded Bonds, and to pay costs of issuance  
19 of such series of 2023 RWSS Bonds. The net proceeds deposited with the Escrow  
20 Agent shall be used to defease the Refunded Bonds and discharge the obligations  
21 thereon by either holding the funds uninvested or through the purchase of certain  
22 Acquired Obligations bearing such interest and maturing as to principal and  
23  
24  
25  
26



1 interest in such amounts and at such times which, together with any necessary  
2 beginning cash balance, will provide for the payment of interest on the Refunded  
3 Bonds as the same becomes due on and prior to the Call Date for the Refunded  
4 Bonds, and the redemption price (100 percent of the principal amount) of the  
5 Refunded Bonds on the Call Date. Such Acquired Obligations shall be purchased  
6 at a yield not greater than the yield permitted by the Code and regulations relating  
7 to acquired obligations in connection with refunding bond issues.

8 A cash balance and the Acquired Obligations shall be deposited irrevocably  
9 with the Escrow Agent in an amount sufficient to defease the Refunded Bonds. In  
10 order to carry out the purposes of this section, each Designated Representative  
11 and the Finance Director are authorized and directed to execute and deliver to the  
12 Escrow Agent an Escrow Agreement.

13 The City hereby irrevocably sets aside sufficient funds out of the purchase  
14 of Acquired Obligations from proceeds of one or more series of 2023 RWSS Bonds  
15 to make the payments described above. In the Escrow Agreement, the City shall  
16 irrevocably call the Refunded Bonds for redemption on the Call Date in accordance  
17 with the provisions of the bond ordinance authorizing the redemption and  
18 retirement of the Refunded Bonds prior to their fixed maturities. Said defeasance  
19 and call for redemption of the Refunded Bonds shall be irrevocable after the  
20 delivery of the cash and Acquired Obligations to the Escrow Agent.

21 The Escrow Agent is hereby authorized and directed to provide for the  
22 giving of notices of the redemption of the Refunded Bonds in accordance with the  
23  
24  
25  
26



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1 applicable provisions of the bond ordinance authorizing the issuance of the  
2 Refunded Bonds. The costs of publication of such notices shall be an expense of  
3 the City.

4 Section 9. Revenue Fund. The City covenants that it will pay, or cause  
5 to be paid, into the Revenue Fund all of the Revenues and all other money  
6 required to be paid into the Revenue Fund pursuant to this ordinance.

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

13 In each month, the City shall apply amounts in the Revenue Fund first, to  
14 the payment of Operating Expenses of the Regional System for such month  
15 and second, to the deposit in the Bond Fund of the amounts required pursuant  
16 to Section 10 and, in the event the City has entered into any Parity Payment  
17 Agreement (as described in Section 16) on a parity of lien with the Parity  
18 Bonds, to make any regularly scheduled City Payments adjusted by any  
19 regularly scheduled Receipt (provided, however, that termination payments with  
20 respect to any Parity Payment Agreement shall not rank on a parity of lien with  
21 the Parity Bonds); and, in the event the City has entered into a reimbursement  
22 agreement authorized by Section 18, to make all payments required to be made  
23  
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26



1 on a parity of lien with the Parity Bonds pursuant to such reimbursement  
2 agreement in connection with a Qualified Letter of Credit, Qualified Insurance,  
3 or other credit facility, provided that if there is not sufficient money to make all  
4 payments under more than one such reimbursement agreement, the payments  
5 shall be made on a pro rata basis. After such required payments are made,  
6 amounts in the Revenue Fund may be used to pay junior lien obligations of the  
7 Regional System, to finance capital improvements or for any other lawful  
8 purpose of the Regional System.

9 Section 10. Bond Fund.

10 A. Bond Fund. The Bond Fund has been created and divided into two  
11 accounts: the Debt Service Account and the Reserve Account. At the option of  
12 the City, separate accounts may be created in the Bond Fund for the purpose of  
13 paying or securing the payment of principal, premium, if any, and interest on  
14 any series of Parity Bonds. So long as any Parity Bonds are outstanding, the  
15 Bond Fund shall be used solely and Revenues are appropriated for the  
16 purposes of paying the principal of, premium, if any, and interest on Parity  
17 Bonds and retiring Parity Bonds prior to maturity in the manner provided herein  
18 or in any ordinance authorizing Parity Bonds.

19 The City shall set aside and pay into the Bond Fund out of the Revenue  
20 Fund certain fixed amounts sufficient (together with other available funds on  
21 hand and paid into the Bond Fund) to pay the principal of, premium, if any, and  
22 interest on the Parity Bonds from time to time outstanding pursuant to this  
23  
24  
25  
26



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1 ordinance and the ordinances authorizing the Parity Bonds as the same  
2 respectively become due and payable, either at the maturity thereof or in  
3 accordance with the terms of any Mandatory Amortization Installment schedule  
4 established for the retirement of Term Bonds. The fixed amounts to be paid  
5 into the Bond Fund, to the extent that such payments are not made from bond  
6 proceeds or from other money that may legally be available therefor, shall be  
7 made out of the Revenue Fund into the Bond Fund in the following order of  
8 priority: first, to pay interest; second, to pay principal and Mandatory  
9 Amortization Installments; and third, into the Reserve Account and into any  
10 separate reserve account that secures the payment of Parity Bonds.

11  
12 (1) Interest. In the case of all Parity Bonds, no later than the day  
13 prior to the date on which an installment of interest falls due on any Parity  
14 Bonds, there shall be on deposit in the Debt Service Account in the Bond Fund  
15 an amount equal to the installment of interest then falling due on all outstanding  
16 Parity Bonds.

17  
18 (2) Principal. No later than the day prior to the date upon which  
19 an installment of principal on Parity Bonds that are Serial Bonds falls due, there  
20 shall be on deposit in the Debt Service Account in the Bond Fund an amount  
21 equal to the installment of principal then falling due on all outstanding Parity  
22 Bonds that are Serial Bonds.

23  
24 (3) Term Bonds. No later than the day prior to the date upon  
25 which a Mandatory Amortization Installment falls due, there shall be on deposit  
26



1 in the Debt Service Account an amount equal to the Mandatory Amortization  
2 Installment for such date. The City shall apply all such money to the  
3 redemption or purchase of Term Bonds on the next ensuing Mandatory  
4 Amortization Installment due date (or may so apply such money prior to such  
5 Mandatory Amortization Installment due date), pursuant to the terms of this  
6 ordinance or of the Parity Bond Authorizing Ordinance authorizing the issuance  
7 thereof. If the principal amount of Term Bonds retired by purchase or  
8 redemption exceeds the cumulative amount required to be redeemed by  
9 Mandatory Amortization Installment, then such excess may be credited against  
10 Mandatory Amortization Installments in the manner determined by the City at  
11 the time of such purchase or redemption. Any such purchase of Term Bonds  
12 by the City may be made with or without tenders of such bonds in such manner  
13 as the City shall, in its discretion, deem to be in its best interest.

14  
15 (4) Reserve Account.

16  
17 (i) The 2023 RWSS Bonds shall not be secured by the  
18 Reserve Account or any separate reserve account. The Reserve Account  
19 Requirement for the 2023 RWSS Bonds is zero (\$0.00).

20  
21 (ii) The following subsection (ii) applies to the Reserve  
22 Account so long as it secures payment of any Parity Bonds. Provisions related  
23 to a separate reserve account established for one or more series of Future  
24 Parity Bonds shall be set forth in the applicable Parity Bond Authorizing  
25 Ordinance(s).  
26



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1 Valuation of the amount in the Reserve Account and all subaccounts  
2 therein shall be made by the City on each December 31 and may be made on  
3 any other date. Such valuation shall be at the market value of the obligations in  
4 such account and such subaccounts (including accrued interest); provided, that  
5 investments which mature within one year shall be valued at their maturity  
6 value.

7  
8 In the event of the issuance of any Future Parity Bonds secured by the  
9 Reserve Account, the Parity Bond Authorizing Ordinance for such Future Parity  
10 Bonds shall provide for further and additional approximately equal monthly  
11 payments into the Reserve Account from the money in the Revenue Fund, in  
12 such amounts and at such times so that by no later than five years from the  
13 date of issuance of such Future Parity Bonds or by the final maturity established  
14 for such series of Future Parity Bonds, whichever occurs first, there will be  
15 credited to the Reserve Account an amount equal to the Reserve Account  
16 Requirement, if any. Notwithstanding the foregoing provisions of this  
17 subparagraph (ii), the proceedings authorizing the issuance of Future Parity  
18 Bonds, to the extent permitted under the Code, may provide for payments into  
19 the Reserve Account from the proceeds of such Future Parity Bonds or from  
20 any other money lawfully available therefor, or may provide for the City to obtain  
21 Qualified Insurance or a Qualified Letter of Credit for amounts required by this  
22 subsection or similar provisions in other Parity Bond Authorizing Ordinance to  
23 be paid out of the Reserve Account. The face amount of any such Qualified  
24  
25  
26



1 Insurance or Qualified Letter of Credit shall be credited against the amounts  
2 required to be maintained in the Reserve Account by this section or similar  
3 provisions in other Parity Bond Authorizing Ordinance to the extent that such  
4 payments and credits to be made are insured by an insurance company, or  
5 guaranteed by a letter of credit from a financial institution. Such Qualified Letter  
6 of Credit or Qualified Insurance shall not be cancelable on less than five years'  
7 notice.  
8

9 On receipt of a notice of cancellation of any Qualified Letter of Credit or  
10 Qualified Insurance or upon notice that the entity providing the Qualified Letter  
11 of Credit or Qualified Insurance no longer meets the requirements specified  
12 herein, the City shall substitute a Qualified Letter of Credit or Qualified  
13 Insurance in the amount required to make up the deficiency created in the  
14 Reserve Account or in the alternative shall create a special account in the  
15 Revenue Fund and deposit therein, on or before the 25<sup>th</sup> day of each of the  
16 36 succeeding calendar months (commencing with the 25<sup>th</sup> day of the calendar  
17 month next following the date of the notice) one thirty-sixth of the amount  
18 sufficient, together with other money and investments on deposit in the Reserve  
19 Account, to equal the Reserve Account Requirement in effect as of the date the  
20 cancellation or disqualification of the entity becomes effective. Those amounts  
21 shall be deposited in the special account from money in the Revenue Fund after  
22 making provision for payment of Operating Expenses and for required  
23 payments into the Bond Fund. Amounts on deposit in that special account shall  
24  
25  
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1 not be available to pay debt service on Parity Bonds or for any other purpose of  
2 the City, and shall be transferred to the Reserve Account on the effective date  
3 of any cancellation of a Qualified Letter of Credit or Qualified Insurance to make  
4 up all or part of the deficiency caused thereby. Amounts in that special account  
5 or in the Reserve Account may be transferred to the Revenue Fund and used  
6 for any purpose if and when a qualifying Qualified Letter of Credit or Qualified  
7 Insurance is obtained.

8  
9 If at any time the money and value of Permitted Investments in the  
10 Reserve Account shall exceed the amount of money and value of Permitted  
11 Investments then required to be maintained therein, such excess may be  
12 transferred to the Revenue Fund.

13  
14 In the event that there shall be a deficiency in the Debt Service Account  
15 for Parity Bonds secured by the Reserve Account, the City shall promptly make  
16 up such deficiency from available funds in the Reserve Account by the  
17 withdrawal of cash therefrom for that purpose and by the sale or redemption of  
18 obligations held in the Reserve Account, if necessary, in such amounts as will  
19 provide cash in the Reserve Account sufficient to make up any such deficiency,  
20 and if a deficiency still exists immediately prior to an interest payment date and  
21 after the withdrawal of cash, the City shall then draw from any Qualified Letter  
22 of Credit, Qualified Insurance, or other equivalent credit facility in sufficient  
23 amount to make up the deficiency. Such draw shall be made at such times and  
24 under such circumstances as the agreement for such Qualified Letter of Credit  
25  
26



1 or Qualified Insurance shall provide. The City covenants that any deficiency  
2 created in the Reserve Account by reason of any withdrawal therefrom for  
3 payment into the Debt Service Account shall be made up from money in the  
4 Revenue Fund first available after providing for the required payments into such  
5 Debt Service Account and after providing for payments under a reimbursement  
6 agreement entered into by the City under Section 18.

7  
8 When a series of Parity Bonds is refunded in whole or in part, money  
9 may be withdrawn from the Reserve Account to pay or provide for the payment  
10 of refunded Parity Bonds; provided that immediately after such withdrawal there  
11 shall remain in or be credited to the Reserve Account money, Qualified  
12 Insurance, Qualified Letter of Credit and Permitted Investments in an amount  
13 equal to the Reserve Account Requirement or so much thereof as is then  
14 required to be maintained.

15  
16 B. Money in the Bond Fund shall be transmitted to the Bond  
17 Registrar in amounts sufficient to meet the maturing installments of principal of,  
18 premium, if any, and interest on all Parity Bonds when due. All money  
19 remaining in the Bond Fund after provision for the payment in full of the  
20 principal of, premium, if any, and interest on all Parity Bonds shall be returned  
21 to the Revenue Fund.

22  
23 The Bond Fund shall be drawn upon solely for the purpose of paying the  
24 principal of, premium, if any, and interest on Parity Bonds. Money set aside  
25 from time to time with the Bond Registrar for such payment shall be held in trust  
26



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1 for the owners of Parity Bonds in respect of which the same shall have been so  
2 set aside. Until so set aside, all money in the Bond Fund shall be held in trust  
3 for the benefit of the owners of all Parity Bonds at the time outstanding equally  
4 and ratably.

5 C. Money in the Bond Fund may, at the option of the City, be  
6 invested and reinvested as permitted by law in Permitted Investments maturing,  
7 or which are redeemable at the option of the owner, prior to the date needed or  
8 prior to the maturity date of the final installment of principal of the Parity Bonds  
9 payable out of the Bond Fund, but only to the extent that the same are acquired  
10 at Fair Market Value. At the City's option, earnings on investments in the Bond  
11 Fund may be retained in the Bond Fund or transferred to the Revenue Fund,  
12 except that earnings on investments in the Reserve Account shall first be  
13 applied to remedy any deficiency in such Account.

14 D. Money in each of the subaccounts described in this Section 10  
15 may be used, if necessary, to pay Rebate Amounts to the extent that such  
16 Rebate Amounts are directly attributable to earnings on such subaccount.

17 Section 11. Adequacy of Revenues of Regional System to Make  
18 Required Payments. The Council declares, in fixing the amounts to be paid into  
19 the Bond Fund as hereinbefore provided, that it has exercised due regard for  
20 Operating Expenses and has not obligated the City to set aside and pay into the  
21 Bond Fund a greater amount of the Revenues than in its judgment will be  
22 available over and above such Operating Expenses.



1 Section 12. Pledge of Gross Revenue and Lien Position. The Parity  
2 Bonds are special limited obligations of the City payable from and secured  
3 solely by Revenues, including the amount of Gross Revenues of the Water  
4 System and Participants' Payments required to be deposited in the Revenue  
5 Fund pursuant to Section 9, subject to the prior payment of Operating  
6 Expenses, and other funds specifically pledged hereunder. There are hereby  
7 pledged as security for the payment of the principal, premium, if any, and  
8 interest on the Parity Bonds in accordance with their terms and the provisions of  
9 this ordinance, and any City Payments or reimbursement obligations as set  
10 forth in Sections 16 and 18: (1) the proceeds of the sale of the Parity Bonds to  
11 the extent held in the Bond Fund and any construction fund established for the  
12 Parity Bonds, (2) the Revenues, including such Gross Revenues of the Water  
13 System and Participants' Payments as provided in Section 9, and (3) the money  
14 and investments, if any, credited to the Bond Fund (including the Reserve  
15 Account or any separate reserve account to the extent such account secures  
16 the payment of Parity Bonds) and any construction fund established for the  
17 Parity Bonds, and the income therefrom. The Revenues and other money and  
18 securities hereby pledged shall immediately be subject to the lien of this pledge  
19 without any physical delivery or further act, and the lien of this pledge shall be  
20 valid and binding as against all parties having claims of any kind in tort, contract  
21 or otherwise against the City.



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1 All Parity Bonds hereafter outstanding shall be equally and ratably  
2 payable and secured without priority by reason of date of adoption of the  
3 ordinance providing for their issuance or by reason of their number or date of  
4 sale, issuance, execution or delivery, or by the liens, pledges, charges, trusts,  
5 assignments and covenants made herein or in any ordinance authorizing Future  
6 Parity Bonds, except as otherwise expressly provided or permitted in this  
7 ordinance and except as to insurance which may be obtained by the City to  
8 insure the repayment of one or more series or maturities within a series.

9 Parity Bonds shall not in any manner or to any extent constitute general  
10 obligations of the City or of the State, or any political subdivision of the State, or  
11 a charge upon any general fund or upon any money or other property of the  
12 City or of the State, or of any political subdivision of the State, not specifically  
13 pledged thereto by this ordinance.

14 Section 13. Defeasance. In the event that the City, to effect the  
15 payment, retirement, or redemption of any 2023 RWSS Bond, sets aside in the  
16 Bond Fund or in another special account, cash or noncallable Government  
17 Obligations, or any combination of cash and/or noncallable Government  
18 Obligations, in amounts and maturities which, together with the known earned  
19 income therefrom, are sufficient to redeem and retire such 2023 RWSS Bond in  
20 accordance with its terms and to pay when due the interest and redemption  
21 premium, if any, thereon, and such cash and/or noncallable Government  
22 Obligations are irrevocably set aside and pledged for such purpose, then no  
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1 further payments need be made into the Bond Fund for the payment of the  
2 principal of and interest on such 2023 RWSS Bond. The owner of a 2023  
3 RWSS Bond so provided for shall cease to be entitled to any benefit or security  
4 of this ordinance except the right to receive payment of principal, premium, if  
5 any, and interest from the Bond Fund or such special account, and such 2023  
6 RWSS Bond shall be deemed to be not outstanding under this ordinance.

7 The City shall give written notice of defeasance to the Registered  
8 Owners of the 2023 RWSS Bonds and to each party entitled to receive notice in  
9 accordance with the Continuing Disclosure Certificate.

10 Section 14. Tax Covenants. The 2023 RWSS Bonds of a series may be  
11 issued as Tax-Exempt Bonds. The City hereby covenants that it will take all  
12 actions necessary to assure the exclusion of interest on the Tax-Exempt Bonds  
13 from the gross income of the Owners of the Tax-Exempt Bonds, to the same  
14 extent as such interest is permitted to be excluded from gross income under the  
15 Code as in effect on the Issue Date of the Tax-Exempt Bonds, including, but not  
16 limited to, the following:

17 A. Private Activity Bond Limitation. The City will assure that the proceeds of  
18 the Tax-Exempt Bonds are not so used as to cause the Tax-Exempt Bonds to  
19 satisfy the private business tests of Section 141(b) of the Code or the private loan  
20 financing test of Section 141(c) of the Code.

21 B. Limitations on Disposition of Projects. The City will not sell or otherwise  
22 transfer or dispose of (i) any personal property components of the Projects  
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1 refinanced with proceeds of the Tax-Exempt Bonds other than in the ordinary  
2 course of an established government program under Treasury Regulation  
3 Section 1.141-2(d)(4) or (ii) any real property components of such Projects, unless  
4 it has received an opinion of nationally recognized bond counsel to the effect that  
5 such disposition will not adversely affect the treatment of interest on the Tax-  
6 Exempt Bonds as excludable from gross income for federal income tax purposes.

7  
8 C. Federal Guarantee Prohibition. The City will not take any action or permit  
9 to suffer any action to be taken if the result of such action would be to cause any of  
10 the Tax-Exempt Bonds to be "federally guaranteed" within the meaning of  
11 Section 149(b) of the Code.  
12

13 D. Rebate Requirement. The City will take any and all actions necessary to  
14 assure compliance with Section 148(f) of the Code, relating to the rebate of excess  
15 investment earnings, if any, to the federal government, to the extent that such  
16 section is applicable to the Tax-Exempt Bonds.  
17

18 E. No Arbitrage. The City will not take, or permit or suffer to be taken, any  
19 action with respect to the proceeds of the Tax-Exempt Bonds which, if such action  
20 had been reasonably expected to have been taken, or had been deliberately and  
21 intentionally taken, on the Issue Date of the Tax-Exempt Bonds would have caused  
22 the Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148 of  
23 the Code.  
24

25 F. System of Registration. The City will maintain a system for recording the  
26 ownership of the Tax-Exempt Bonds that complies with the provisions of



1 Section 149 of the Code until the Tax-Exempt Bonds have been surrendered and  
2 canceled.  
3

4 G. Record Retention. The City will retain its records of all accounting and  
5 monitoring it carries out with respect to the Tax-Exempt Bonds for at least three  
6 years after the Tax-Exempt Bonds mature or are prepaid (whichever is earlier);  
7 however, if the Tax-Exempt Bonds are redeemed prior to maturity, the City will  
8 retain its records of accounting and monitoring at least three years after the earlier  
9 of the maturity or redemption of the obligations that refunded the Tax-Exempt  
10 Bonds.  
11

12 H. Compliance with Federal Tax Certificate. The City will comply with the  
13 provisions of the Federal Tax Certificate with respect to the Tax-Exempt Bonds,  
14 which are incorporated herein as if fully set forth herein.  
15

16 The covenants of this section will survive payment in full or defeasance of  
17 the Tax-Exempt Bonds.  
18

19 Section 15. Covenants. The City covenants with the owner of each  
20 2023 RWSS Bond at any time outstanding, as follows:  
21

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



1 B. Rate Covenants.

2 (1) The City shall establish, maintain and collect contract  
3 charges or other amounts for water and other goods and services sold or  
4 supplied through the facilities of the Regional System that will provide the City  
5 with Revenues sufficient for the payment of Regional System Costs.

6 (2) The City shall establish, maintain and collect rates and  
7 charges for water and other goods and services sold or supplied through the  
8 facilities of the Water System sufficient to pay the cost of operation and  
9 maintenance of the Water System and to provide Gross Revenues of the Water  
10 System sufficient, together with amounts on deposit in the Revenue Fund and  
11 available for such purpose (including Participants' Payments), to pay all  
12 Regional System Costs and all obligations against Gross Revenues of the  
13 Water System now or hereafter imposed by law or contract.

14 C. Project Agreement. The City shall not amend Sections 11.4, 10, 25.3,  
15 25.7, 25.8, or 31.3 of the Agreement for the Second Supply Project in any  
16 manner that would materially impact the security for the Parity Bonds or  
17 increase or reduce a Participant's obligations to pay its share of debt service on  
18 the Parity Bonds or any Future Parity Bonds, other than to allow for a new  
19 Participant or an existing Participant (other than the City) to assign its interests  
20 in the Project Agreement if (1) the new Participant signs a Project Agreement  
21 substantially in the form of the Project Agreement, (2) the new Participant's  
22 water system is rated at least in one of the three highest categories by one  
23  
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1 Rating Agency, (3) the Participant's resolutions or ordinances authorizing  
2 outstanding water revenue bonds permit the Participant to pay all costs it owes  
3 under the Project Agreement as an operating and maintenance expense of its  
4 water system and any other utility that is combined with its water system, (4) the  
5 tax-exempt status of any outstanding Parity Bonds issued as tax-exempt  
6 obligations or the entitlement of the City to receive federal direct payments from  
7 the United States Treasury with respect to any outstanding Parity Bonds issued  
8 as Build America Bonds will not be affected, and (5) to the extent that the new  
9 Participant's share of debt service on any Parity Bonds exceeds 10% or other  
10 threshold as determined by the City, the new Participant shall execute a  
11 continuing disclosure undertaking that satisfies the requirements of Rule 15c2-  
12 12.

13 D. Sale, Transfer or Disposition of the Regional System. The City may  
14 sell, transfer or otherwise dispose of any of the works, plant, properties,  
15 facilities or other part of the Regional System or any real or personal property  
16 comprising a part of the Regional System only consistent with State law and the  
17 City Charter and one or more of the following:  
18

19 (1) The City may exchange any of the works, plant, properties,  
20 facilities or other part of the Regional System for works, plant, properties or  
21 facilities of substantially the same type, use and value; or  
22

23 (2) The City in its discretion may carry out such a sale, transfer  
24 or disposition (each, as used in this subparagraph, a "transfer") if the facilities or  
25  
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1 property transferred are not material to the operation of the Regional System, or  
2 shall have become unserviceable, inadequate, obsolete or unfit to be used in  
3 the operation of the Regional System or are no longer necessary, material or  
4 useful to the operation of the Regional System; or

5 (3) The City in its discretion may carry out such a transfer if the  
6 aggregate depreciated cost value of the facilities or property of the Regional  
7 System being transferred under this subparagraph (iii) in any Fiscal Year  
8 comprises no more than five percent of the total assets of the Regional System;  
9 or  
10

11 (4) The City may sell, lease, mortgage or otherwise dispose of  
12 the Regional System, including all additions to and betterments and extensions  
13 thereof at any time made, that are used, useful or material in the operation of  
14 the Regional System, if provision is made for the replacement thereof or  
15 provision is made for the payment, redemption or other retirement of a principal  
16 amount of Parity Bonds equal to the greater of the following amounts:  
17

18 (i) An amount that will be in the same proportion to the net  
19 Bond Obligation of Parity Bonds then outstanding (defined as the total Bond  
20 Obligation of such Parity Bonds outstanding less the amount of cash and  
21 investments in the Debt Service Account) that the revenues attributable to the  
22 part of the Regional System sold or disposed of for any 12 consecutive of the  
23 most recent 24 months bears to the total revenues for such period; or  
24  
25  
26



1 (ii) An amount that will be in the same proportion to the net  
2 Bond Obligation of Parity Bonds then outstanding that the book value of the part  
3 of the Regional System sold or disposed of bears to the book value of the entire  
4 Regional System immediately prior to such sale or disposition.

5 E. Books and Accounts. It will keep proper books, records and accounts  
6 with respect to the operations, income and expenditures of the Regional  
7 System in accordance with generally accepted accounting practices relating to  
8 municipal utilities, and will cause those books, records and accounts to be  
9 audited on an annual basis by the State Auditor or by a Certified Public  
10 Accountant selected by the City. It will prepare annual financial and operating  
11 statements after the close of each Fiscal Year of the Regional System showing  
12 in reasonable detail the financial condition of the Regional System, which  
13 financial and operating statements may be included in the consolidated financial  
14 statements of the Water System or other form deemed appropriate by the City.  
15

16 F. Maintenance of Insurance. The City will keep the Regional System  
17 insured, and will carry such other insurance, with responsible insurers, with  
18 policies payable to the City, against risks, accidents or casualties, at least to the  
19 extent that insurance is deemed prudent and/or necessary by the other  
20 Participants; provided, however, that the City may, with the other Participants'  
21 approval, institute or continue a self-insurance program with respect to any or  
22 all of the aforementioned risks. In the event of any loss or damage, the City will  
23 promptly deposit the insurance proceeds into the Construction Account or other  
24  
25  
26



1 capital account, or any construction fund hereafter created for the Regional  
2 System, and use such funds to repair or replace the damaged portion of the  
3 insured property and apply the proceeds of any insurance policy or  
4 self-insurance funding for that purpose; or in the event the City should  
5 determine not to repair or reconstruct such damaged portion of the properties of  
6 the Regional System, the proceeds of such insurance or self-insurance funding  
7 shall be transferred to the Reserve Account to the extent that such transfer shall  
8 be necessary to make up any deficiency in the Reserve Account and the  
9 balance, if any, shall, at the option of the City, be used for repairs, renewals,  
10 replacements, or additions to or extension of the Regional System or be used in  
11 the retirement of Parity Bonds prior to maturity, either by purchase at prices not  
12 to exceed the next applicable redemption price or by call for redemption.

13  
14  
15 Section 16. Parity Derivative Products. For purposes of this section, the  
16 following words shall have the following definitions:

17  
18 A. "Payment" means any payment (designated as such by an ordinance)  
19 required to be made by or on behalf of the City under a Payment Agreement  
20 and which is determined according to a formula set forth in the Payment  
21 Agreement.

22  
23 B. "Parity Payment Agreement" means a Payment Agreement under  
24 which the City's payment obligations are expressly stated to be secured by a  
25 pledge of and lien on Gross Revenues on an equal and ratable basis with  
26



1 Gross Revenues required to be paid into the Bond Fund to pay and secure the  
2 payment of the principal of and interest on Parity Bonds.

3  
4 C. "Payment Agreement" means a written agreement, for the purpose of  
5 managing or reducing the City's exposure to fluctuations or levels of interest  
6 rates, currencies or commodities or for other interest rate, investment, asset or  
7 liability management purposes, entered into on either a current or forward basis  
8 by the City and a Qualified Counterparty, all as authorized by any applicable  
9 laws of the State. Such agreement may or may not be characterized by a  
10 structure of reciprocity of payment.

11  
12 D. "Payment Date" means any date specified in the Payment Agreement  
13 on which a City Payment or Receipt is due and payable under the Payment  
14 Agreement.

15  
16 E. "Receipt" means any payment (designated as such by an ordinance)  
17 to be made to, or for the benefit of, the City under a Payment Agreement by the  
18 Payor.

19  
20 F. "Payor" means a Qualified Counterparty to a Payment Agreement  
21 that is obligated to make one or more payments thereunder.

22  
23 G. "Qualified Counterparty" means a party (other than the City or a party  
24 related to the City) who is the other party to a Payment Agreement that has or  
25 whose obligations are unconditionally guaranteed by a party that has at least an  
26 investment grade rating from a Rating Agency or who is otherwise qualified to



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1 act as the other party to a Payment Agreement under any applicable laws of the  
2 State.

3 H. A Payment made under a Payment Agreement may be on a parity  
4 with the 2023 RWSS Bonds if the Payment Agreement satisfies the  
5 requirements for Future Parity Bonds described in Section 17, taking into  
6 consideration regularly scheduled Payments and Receipts (if any) under the  
7 Payment Agreement. The following shall be conditions precedent to the use of  
8 any Payment Agreement on parity with the 2023 RWSS Bonds:

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

18 (2) Prior to entering into a Payment Agreement, the City shall  
19 adopt an ordinance, which shall:

20 (i) set forth the manner in which the Payments and  
21 Receipts are to be calculated and a schedule of Payment Dates;  
22  
23  
24  
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26



1 (ii) establish general provisions for the rights of parties to  
2 Payment Agreements; and

3 (iii) set forth such other matters as the City deems  
4 necessary or desirable in connection with the management of Payment  
5 Agreements as are not clearly inconsistent with the provisions of this ordinance.  
6 The Payment Agreement may oblige the City to pay, on one or more scheduled  
7 and specified Payment Dates, the Payments in exchange for the Payor's  
8 obligation to pay or to cause to be paid to the City, on scheduled and specified  
9 Payment Dates, the Receipts. The City may also enter into Payment  
10 Agreements that are not reciprocated by the other party to the agreement.

11 If the City enters into a Parity Payment Agreement, Payments shall be  
12 made from the Debt Service Account in the Bond Fund and Annual Debt  
13 Service shall include any regularly scheduled City Payments adjusted by any  
14 regularly scheduled Receipts during a Fiscal Year. Receipts shall be made  
15 directly into the Bond Fund. Obligations to make unscheduled payments, such  
16 as termination payments, may not be entered into on parity with the 2023  
17 RWSS Bonds.

18 Nothing in this section shall preclude the City from entering into Payment  
19 Agreements with a claim on Gross Revenues junior to that of the 2023 RWSS  
20 Bonds. Furthermore, nothing in this section shall preclude the City from  
21 entering into obligations on parity with the 2023 RWSS Bonds in connection  
22 with the use of Payment Agreements or similar instruments if the City obtains  
23  
24  
25  
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1 an opinion of Bond Counsel that the obligations of the City thereunder are  
2 consistent with this ordinance.

3 Section 17. Future Parity Bonds.

4 A. The City reserves the right to issue Future Parity Bonds from time to  
5 time as may be required for any lawful purpose of the City relating to the  
6 Regional System, including but not limited to, acquiring, constructing and  
7 installing additions, betterments and improvements to and extensions of,  
8 acquiring necessary equipment for, or making necessary renewals,  
9 replacements or repairs and capital improvements to the Regional System and  
10 refunding any outstanding indebtedness.  
11

12 B. The City covenants that Future Parity Bonds shall be issued only  
13 upon compliance with the following conditions:

14 (1) The Project Agreement shall be in effect.

15 (2) At the times of the issuance of such Future Parity Bonds there  
16 is no deficiency in the Bond Fund or in any of the accounts therein.  
17

18 (3) If the Future Parity Bonds proposed to be issued are secured  
19 by the Reserve Account, the Parity Bond Authorizing Ordinance shall require  
20 that there shall be paid into the Reserve Account in the Bond Fund (a) from the  
21 proceeds of such Future Parity Bonds an amount such that the amount on  
22 deposit in the Reserve Account, allowing for any amount covenanted in a Parity  
23 Bond Authorizing Ordinance for outstanding Parity Bonds to be paid into such  
24 Account over five years, in equal monthly installments, as provided in  
25  
26



1 Section 10(A)(4) is equal to the Reserve Account Requirement, if any, or  
2 (b) from the Revenue Fund in not more than five years, in equal monthly  
3 installments, as provided in Section 10(A)(4) such that the amount on deposit in  
4 the Reserve Account is equal to the Reserve Account Requirement. Upon the  
5 issuance of any series of Future Parity Bonds, the City shall recalculate the  
6 Reserve Account Requirement, which recalculated Reserve Account  
7 Requirement shall become effective as of such date of recalculation.  
8 Notwithstanding the foregoing, Future Parity Bonds may be secured by a  
9 separate reserve account with a separate Reserve Account Requirement, which  
10 may be zero.  
11

12 (4) Without obtaining a certificate described in (4)(i) or (ii),

13 Future Parity Bonds may be issued for refunding purposes as described in  
14 Subsection 17(C). For all other Future Parity Bonds there shall be on file with  
15 the City Clerk either:  
16

17 (i) A certificate of the Finance Director (or equivalent  
18 official) of each Participant (including the City in the case of the Water System)  
19 that will be responsible for paying debt service on the Future Parity Bonds  
20 stating that "Revenues" or "Gross Revenues" (as defined in the Participant's  
21 System bond ordinances or resolutions) in any 12 consecutive months out of  
22 the most recent 24 months preceding the delivery of the Future Parity Bonds  
23 then proposed to be issued, as determined from the financial statements of the  
24 Participant's System, were sufficient to pay the operation and maintenance  
25  
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1 expenses of the Participant's System and the Participant's portion of the debt  
2 service on the Future Parity Bonds then proposed to be issued based on the  
3 highest debt service in the next three calendar years following the year interest  
4 is capitalized or the project being financed is placed in service, whichever is  
5 later, and "Net Revenues" (as defined in the Participant's System bond  
6 ordinance or resolution) for such 12-month period were sufficient to pay debt  
7 service on the Participant's senior lien water revenue bonds and meet the  
8 Participant's rate coverage required by such ordinance or resolution; or  
9  
10 (ii) For each Participant (including the City) that will be  
11 responsible for paying debt service on the Future Parity Bonds, a certificate of  
12 an Engineer or a Certified Public Accountant showing that the "Adjusted  
13 Revenues" (determined as described herein) for each calendar year during the  
14 life of the Future Parity Bonds proposed to be issued will be sufficient to pay the  
15 operation and maintenance expenses of the Participant's System and the  
16 Participant's portion of the debt service on outstanding Parity Bonds and on the  
17 Future Parity Bonds then proposed to be issued, based on the highest debt  
18 service in the three calendar years following the year interest is capitalized, or  
19 the project being financed is placed in service, whichever is later, and "Adjusted  
20 Net Revenues" (determined as described herein) will be sufficient to pay debt  
21 service on the Participant's senior lien water revenue bonds and meet the  
22 Participant's rate coverage required by the ordinances or resolutions  
23 authorizing such senior lien bonds.  
24  
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1 The "Adjusted Revenues" or "Adjusted Net Revenues," as applicable,  
2 shall be the Participant's System water revenue for a period of any  
3 12 consecutive months out of the 24 months immediately preceding the date of  
4 delivery of such proposed Future Parity Bonds ("Base Period") as adjusted by  
5 such Engineer or Accountant to take into consideration changes in revenues  
6 estimated to occur under the following conditions for each year after such  
7 delivery for so long as any Parity Bonds, including the Future Parity Bonds  
8 proposed to be issued, shall be outstanding:  
9  
10 (1) the additional revenues that would have been  
11 received if any change in rates and charges adopted prior to the date of such  
12 certificate and subsequent to the beginning of the Base Period and effective  
13 within 12 months of the certificate had been in force during the full Base Period;  
14  
15 (2) the additional net revenues that would have  
16 been received if any facility of the Participant's System that became fully  
17 operational after the beginning of the Base Period had been so operating for the  
18 entire Base Period;  
19  
20 (3) the additional revenues to the Participant's  
21 System estimated by such Engineer or Accountant to be received (a) as a result  
22 of any additions, betterments and improvements to and extensions of any  
23 facilities of the Participant's System which are under construction at the time of  
24 such certificate or (b) as a result of improvements to the Regional System to be  
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1 constructed or acquired from the proceeds of the Future Parity Bonds to be  
2 issued; and

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

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

11 C. In the event that any Future Parity Bonds provided for in this section  
12 are issued for refunding purposes and the issuance of such refunding Future  
13 Parity Bonds results in a net present value monetary saving to the City and  
14 such refunding Future Parity Bonds will not require an increase of greater than  
15 \$5,000 in debt service payments to be paid in any Fiscal Year or calendar year  
16 thereafter than would have been required to be paid in the same Fiscal Year or  
17 calendar year for Annual Debt Service on the Parity Bonds being refunded, then  
18 paragraph (4) of Subsection 17(B) need not be complied with to permit such  
19 refunding Future Parity Bonds to be issued, although the provisions of  
20 paragraphs (1), (2) and (3) of Subsection 17(B) must still be complied with.

21 D. In making any calculations required to be made by a Finance Director  
22 or the Engineer or Accountant in paragraph (4) of Subsection 17(B), in the case  
23



1 of Variable Interest Rate Bonds, for purposes of calculating Annual Debt  
2 Service the interest rate thereon shall be calculated on the assumption that  
3 such bonds will bear interest at a rate equal to the rate most recently reported  
4 by The Bond Buyer as the Bond Buyer's Index for long-term revenue bonds;  
5 provided, that if on such date of calculation the interest rate on such bonds shall  
6 then be fixed to maturity, the interest rate used for such specified period for the  
7 purpose of the foregoing calculation shall be such actual interest rate.

8 Section 18. Reimbursement Obligations. In the event that the City  
9 elects to meet the requirements of Section 10(A)(4) with respect to the Reserve  
10 Account as to any issue of Parity Bonds through the use of a Qualified Letter of  
11 Credit, Qualified Insurance or other equivalent credit enhancement device, the  
12 City may contract with the entity providing such Qualified Letter of Credit,  
13 Qualified Insurance or other equivalent credit enhancement device that the  
14 City's reimbursement obligation, if any, to such entity ranks on a parity of lien  
15 with the Parity Bonds.

16 In the event that the City elects additionally to secure any issue of  
17 Variable Interest Rate Bonds through the use of a letter of credit, insurance or  
18 other equivalent credit enhancement device, the City may contract with the  
19 entity providing such letter of credit, insurance or other equivalent credit  
20 enhancement device that the City's reimbursement obligation, if any, to such  
21 entity ranks on a parity of lien with the Parity Bonds; provided, that the  
22 payments due under such reimbursement agreement are such that if such  
23



1 reimbursement obligation were a series of Future Parity Bonds, such Future  
2 Parity Bonds could be issued in compliance with the provisions of Section 17.

3 Section 19. Junior Lien Obligations. Nothing herein shall prevent the  
4 City from issuing bonds, notes, warrants or other obligations payable from and  
5 secured by a lien and charge junior to the lien and charge described in  
6 Section 9.

7 Section 20. Sale of 2023 RWSS Bonds.

8 A. Bond Sale. The 2023 RWSS Bonds shall be sold by negotiated public  
9 sale to the Underwriters pursuant to the terms of the Bond Purchase Contract. The  
10 City Council has determined that it would be in the best interest of the City to  
11 delegate to the Designated Representatives, for a limited time, the authority to  
12 select the Refunded Bonds, to designate each series of 2023 RWSS Bonds as Tax-  
13 Exempt Bonds or Taxable Bonds, and to approve the final terms for each series of  
14 2023 RWSS Bonds, including but not limited to final interest rates, final maturity  
15 date, redemption terms, principal maturities, and any other terms for each series of  
16 2023 RWSS Bonds.

17 Each Designated Representative is further authorized to designate all or a  
18 portion of a series of 2023 RWSS Bonds allocated to refinance the portion of the  
19 Projects which have environmentally beneficial attributes, as "Green Bonds," and to  
20 engage with such consultants and to undertake such action, execute such  
21 certificates, and agree to such terms as necessary to accomplish such designation.  
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1 B. Sale Parameters. Subject to the terms and conditions set forth in this  
2 section, each Designated Representative is hereby authorized to select the  
3 Refunded Bonds, to designate the 2023 RWSS Bonds of a series as Tax-Exempt  
4 Bonds or Taxable Bonds, and to approve the final interest rates, final maturity date,  
5 redemption terms and principal maturities for each series of 2023 RWSS Bonds,  
6 and to agree to any other final terms for each series of 2023 RWSS Bonds that are  
7 in the best interest of the City and necessary to facilitate this ordinance so long as:

8 (1) the aggregate principal (face) amount of all 2023 RWSS Bonds  
9 issued under this ordinance does not exceed \$40,850,000,

10 (2) the final maturity date for each series of 2023 RWSS Bonds is no  
11 later than December 1, 2032,

12 (3) the aggregate purchase price for the 2023 RWSS Bonds of a  
13 series shall not be less than 95 percent of the aggregate stated principal amount of  
14 such 2023 RWSS Bonds, excluding any original issue discount, and not greater  
15 than 140 percent,

16 (4) the 2023 RWSS Bonds of each series shall bear interest at fixed  
17 rates per annum and the true interest cost for the 2023 RWSS Bonds of such series  
18 (in the aggregate) does not exceed 4.25 percent, and

19 (5) the 2023 RWSS Bonds of each series conform to all other terms  
20 of this ordinance.

21 The final terms of each series of 2023 RWSS Bonds shall be set forth in the  
22 Bond Purchase Contract. Subject to the terms and conditions set forth in this  
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1 section, each Designated Representative is hereby authorized to execute the Bond  
2 Purchase Contract.

3       The authority granted to the Designated Representatives by this section shall  
4 expire one year from the effective date of this ordinance. If a Bond Purchase  
5 Contract for the 2023 RWSS Bonds has not been executed by such date, the  
6 authorization for the issuance of the 2023 RWSS Bonds shall be rescinded, and the  
7 2023 Bonds shall not be issued nor their sale approved unless such 2023 RWSS  
8 Bonds are re-authorized by ordinance of the City Council at the request of the  
9 Board. The ordinance re-authorizing the issuance and sale of such 2023 RWSS  
10 Bonds may be in the form of a new ordinance repealing this ordinance in whole or  
11 in part or may be in the form of an amendatory ordinance approving a Bond  
12 Purchase Contract or establishing terms and conditions for the authority delegated  
13 under this section.

14       Section 21. General Authorization; Documents. Following the passage and  
15 approval of this ordinance, the proper officials of the City, including the Designated  
16 Representatives, the Mayor, the Finance Director, the Treasurer, the City Manager,  
17 the Assistant Finance Director/Controller, and the City Clerk, are authorized and  
18 directed to undertake all action necessary for the prompt execution and delivery of  
19 the 2023 RWSS Bonds to the Underwriters and further to execute all closing  
20 certificates and documents required to effect the closing and delivery of the 2023  
21 RWSS Bonds in accordance with the terms of this ordinance and the Bond  
22 Purchase Contract. Such documents may include, but are not limited to,  
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1 documents related to a municipal bond insurance policy to insure the payment  
2 when due of the principal of and interest on all or a portion of the 2023 RWSS  
3 Bonds as provided therein, if such insurance is determined by a Designated  
4 Representative to be in the best interest of the City.

5       Notwithstanding anything herein to the contrary, the signature of one  
6 authorized official, including, but not limited to, the Designated Representatives,  
7 shall be sufficient to bind the City.  
8

9       Section 22. Preliminary and Final Official Statements. The Designated  
10 Representatives and the City Finance Director are each hereby authorized to deem  
11 final the preliminary Official Statement relating to the 2023 RWSS Bonds for the  
12 purposes of the Rule. The Designated Representatives and the City Finance  
13 Director are each further authorized to approve for purposes of the Rule, on behalf  
14 of the City, the final Official Statement relating to the issuance and sale of the 2023  
15 RWSS Bonds and the distribution of the final Official Statement pursuant thereto  
16 with such changes, if any, as may be deemed by such individual to be appropriate.

17       Section 23. Ongoing Disclosure; Continuing Disclosure Certificate. The City  
18 covenants to execute and deliver on each Issue Date a Continuing Disclosure  
19 Certificate consistent with the Rule. The Finance Director is hereby authorized to  
20 execute and deliver a Continuing Disclosure Certificate upon the issuance, delivery,  
21 and sale of the 2023 RWSS Bonds with such terms and provisions as such officer  
22 shall deem appropriate and in the best interests of the City.  
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1 Section 24. Additional or Supplemental Ordinances.

2 A. The Council from time to time and at any time may pass an ordinance  
3 or ordinances supplemental hereto, which ordinance or ordinances thereafter  
4 shall become a part of this ordinance, for any one or more or all of the following  
5 purposes:  
6

7 (1) To add to the covenants and agreements of the City  
8 contained in this ordinance other covenants and agreements thereafter to be  
9 observed which shall not adversely affect the interests of the owners of any  
10 Parity Bonds or to surrender any right or power reserved to or conferred upon  
11 the City; or  
12

13 (2) To make such provisions for the purpose of curing any  
14 ambiguities or of curing, correcting or supplementing any defective provision  
15 contained in this ordinance or any ordinance authorizing Parity Bonds in regard  
16 to matters or questions arising under such ordinances as the Council may deem  
17 necessary or desirable and not inconsistent with such ordinances and which  
18 shall not adversely affect the interest of the owners of the Parity Bonds. Any  
19 such supplemental ordinance of the City may be passed without the consent of  
20 the owners of any Parity Bonds at any time outstanding, notwithstanding any of  
21 the provisions of Subsection (b) of this section, if the City obtains an opinion of  
22 Bond Counsel to the effect that such supplemental ordinance is solely for one  
23 or more of the purposes stated above and will not adversely affect the interests  
24 of the owners of Parity Bonds.  
25  
26



1 B. With the consent of the owners of not less than 51% in aggregate

2 Bond Obligations of the Parity Bonds at the time outstanding, the City may pass  
3 an ordinance or ordinances supplemental hereto for the purpose of adding any  
4 provisions to or changing in any manner or eliminating any of the provisions of  
5 this ordinance or of any supplemental ordinance; provided, however, that no  
6 such supplemental ordinance shall:  
7

8 (1) Extend the fixed maturity of any Parity Bonds, or reduce the  
9 rate of interest thereon, or extend the times of payment of interest thereon from  
10 their due dates, or reduce the amount of the principal thereof, or reduce any  
11 premium payable on the redemption thereof, without the consent of the owner  
12 of each Parity Bond so affected; or  
13

14 (2) Reduce the aforesaid percentage of bondowners required to  
15 approve any such supplemental ordinance, without the consent of the owners of  
16 all of the Parity Bonds then outstanding.  
17

18 It shall not be necessary for the consent of bondowners under this  
19 Subsection (B) to approve the particular form of any proposed supplemental  
20 ordinance, but it shall be sufficient if such consent shall approve the substance  
21 thereof.  
22

23 C. Upon the passage of any supplemental ordinance pursuant to the  
24 provisions of this section, this ordinance shall be deemed to be modified and  
25 amended in accordance therewith, and the respective rights, duties and  
26 obligations of the City under this ordinance and of all owners of Parity Bonds



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1 outstanding hereunder shall thereafter be determined, exercised and enforced  
2 thereunder, subject in all respects to such modification and amendments, and  
3 all the terms and conditions of any such supplemental ordinance shall be  
4 deemed to be part of the terms and conditions of this ordinance for any and all  
5 purposes.  
6

7 To the extent the 2023 RWSS Bonds are insured, the insurer may  
8 consent on behalf of owners of the 2023 RWSS Bonds to any amendment to  
9 this ordinance so long as the Insurer is not in default on its obligations to pay.  
10

11 Section 25. Defaults and Remedies.

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

14 (1) If a default is made in the payment of the principal of or  
15 interest on any of the Parity Bonds when the same shall become due and  
16 payable; or  
17

18 (2) If the City defaults in the observance and performance of any  
19 of the covenants, conditions and agreements on the part of the City set forth in  
20 this ordinance or any covenants, conditions or agreements on the part of the  
21 City contained in any ordinance authorizing Parity Bonds and such default or  
22 defaults have continued for a period of six months after it has received from the  
23 Bondowners' Trustee (as defined below) or from the registered owners of not  
24 less than 25% in principal amount of the Parity Bonds, a written notice  
25 specifying and demanding the cure of such default. However, if the default in  
26



1 the observance and performance of any other of the covenants, conditions and  
2 agreements is one which cannot be completely remedied within the six months  
3 after written notice has been given, it shall not be an Event of Default with  
4 respect to the Parity Bonds as long as the City has taken active steps within the  
5 six months after written notice has been given to remedy the default and is  
6 diligently pursuing such remedy.  
7

8 (3) If the City files a petition in bankruptcy or is placed in  
9 receivership under any state or federal bankruptcy or insolvency law.  
10

11 B. Bondowners' Trustee. So long as such Event of Default has not been  
12 remedied, a bondowners' trustee ("Bondowners' Trustee") may be appointed by  
13 the registered owners of 25% in principal amount of the Parity Bonds, by an  
14 instrument or concurrent instruments in writing signed and acknowledged by  
15 such registered owners of the Parity Bonds or by their attorneys-in-fact duly  
16 authorized and delivered to such Bondowners' Trustee, notification thereof  
17 being given to the City. That appointment shall become effective immediately  
18 upon acceptance thereof by the Bondowners' Trustee. Any Bondowners'  
19 Trustee appointed under the provisions of this section shall be a bank or trust  
20 company organized under the laws of the State, the State of New York or a  
21 national banking association. The bank or trust company acting as  
22 Bondowners' Trustee may be removed at any time, and a successor  
23 Bondowners' Trustee may be appointed, by the registered owners of a majority  
24 in principal amount of the Parity Bonds, by an instrument or concurrent  
25  
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1 instruments in writing signed and acknowledged by such registered owners of  
2 the Parity Bonds or by their attorneys-in-fact duly authorized. The Bondowners'  
3 Trustee may require such security and indemnity as may be reasonable against  
4 the costs, expenses and liabilities that may be incurred in the performance of its  
5 duties. In the event that any Event of Default in the sole judgment of the  
6 Bondowners' Trustee is cured and the Bondowners' Trustee furnishes to the  
7 City a certificate so stating, that Event of Default shall be conclusively deemed  
8 to be cured and the City, the Bondowners' Trustee and the registered owners of  
9 the Parity Bonds shall be restored to the same rights and position which they  
10 would have held if no Event of Default had occurred.

11  
12  
13 The Bondowners' Trustee appointed in the manner herein provided, and  
14 each successor thereto, is declared to be a trustee for the registered owners of  
15 all the Parity Bonds and is empowered to exercise all the rights and powers  
16 herein conferred on the Bondowners' Trustee.

17  
18 C. Suits at Law or in Equity. Upon the happening of an Event of Default  
19 and during the continuance thereof, the Bondowners' Trustee may, and upon  
20 the written request of the registered owners of not less than 25% in principal  
21 amount of the Parity Bonds outstanding shall, take such steps and institute  
22 such suits, actions or other proceedings, all as it may deem appropriate for the  
23 protection and enforcement of the rights of the registered owners of the Parity  
24 Bonds, to collect any amounts due and owing to or from the City, or to obtain  
25 other appropriate relief, and may enforce the specific performance of any  
26



1 covenant, agreement or condition contained in this ordinance or in any  
2 ordinance authorizing Parity Bonds.

3  
4 Nothing contained in this section shall, in any event or under any  
5 circumstance, be deemed to authorize the acceleration of maturity of principal  
6 on the Parity Bonds, and the remedy of acceleration is expressly denied to the  
7 registered owners of the Parity Bonds under any circumstances including,  
8 without limitation, upon the occurrence and continuance of an Event of Default.

9  
10 Any action, suit or other proceedings instituted by the Bondowners'  
11 Trustee hereunder shall be brought in its name as trustee for the owners of  
12 Parity Bonds and all such rights of action upon or under any of the Parity Bonds  
13 or the provisions of this ordinance may be enforced by the Bondowners'  
14 Trustee without the possession of any of those Parity Bonds and without the  
15 production of the same at any trial or proceedings relative thereto except where  
16 otherwise required by law. Any such suit, action or proceeding instituted by the  
17 Bondowners' Trustee shall be brought for the ratable benefit of all of the  
18 registered owners of those Parity Bonds, subject to the provisions of this  
19 ordinance. The respective registered owners of the Parity Bonds, by taking and  
20 holding the same, shall be conclusively deemed irrevocably to appoint the  
21 Bondowners' Trustee the true and lawful trustee of the respective registered  
22 owners of those Parity Bonds, with authority to institute any such action, suit or  
23 proceeding; to receive as trustee and deposit in trust any sums becoming  
24 distributable on account of those Parity Bonds; to execute any paper or  
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1 documents for the receipt of money; and to do all acts with respect thereto that  
2 the registered owner himself or herself might have done in person. Nothing  
3 herein shall be deemed to authorize or empower the Bondowners' Trustee to  
4 consent to accept or adopt, on behalf of any registered owner of the Parity  
5 Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or  
6 any right of any registered owner thereof, or to authorize or empower the  
7 Bondowners' Trustee to vote the claims of the registered owners thereof in any  
8 receivership, insolvency, liquidation, bankruptcy, reorganization or other  
9 proceeding to which the City is a party.

12 D. Application of Money Collected by Bondowners' Trustee. Any money  
13 collected by the Bondowners' Trustee at any time pursuant to this section, shall  
14 be applied in the following order of priority:

15 (1) First, to the payment of the charges, expenses, advances and  
16 compensation of the Bondowners' Trustee and the charges, expenses, counsel  
17 fees, disbursements and compensation of its agents and attorneys; and

19 (2) Second, to the payment to the persons entitled thereto of all  
20 installments of interest then due on the Parity Bonds in the order of maturity of  
21 such installments and, if the amount available shall not be sufficient to pay in  
22 full any installment or installments maturing on the same date, then to the  
23 payment thereof ratably, according to the amounts due thereon to the persons  
24 entitled thereto, without any discrimination or preference; and  
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1 (3) Third, to the payment to the persons entitled thereto of the  
2 unpaid principal amounts of any Parity Bonds which shall have become due  
3 (other than Parity Bonds previously called for redemption for the payment of  
4 which money is held pursuant to the provisions hereto), whether at maturity or  
5 by proceedings for redemption or otherwise, in the order of their due dates and,  
6 if the amount available shall not be sufficient to pay in full the principal amounts  
7 due on the same date, then to the payment thereof ratably, according to the  
8 principal amounts due thereon to the persons entitled thereto, without any  
9 discrimination or preference.

11 E. Duties and Obligations of Bondowners' Trustee. The Bondowners'  
12 Trustee shall not be liable except for the performance of such duties as are  
13 specifically set forth herein. During an Event of Default, the Bondowners'  
14 Trustee shall exercise such of the rights and powers vested in it hereby, and  
15 shall use the same degree of care and skill in its exercise, as a prudent person  
16 would exercise or use under the circumstances in the conduct of such person's  
17 own affairs. The Bondowners' Trustee shall have no liability for any act or  
18 omission to act hereunder except for the Bondowners' Trustee's own negligent  
19 action, its own negligent failure to act or its own willful misconduct. The duties  
20 and obligations of the Bondowners' Trustee shall be determined solely by the  
21 express provisions of this ordinance, and no implied powers, duties or  
22 obligations of the Bondowners' Trustee shall be read into this ordinance.  
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1 The Bondowners' Trustee shall not be required to expend or risk its own  
2 funds or otherwise incur individual liability in the performance of any of its duties  
3 or in the exercise of any of its rights or powers as the Bondowners' Trustee,  
4 except as may result from its own negligent action, its own negligent failure to  
5 act or its own willful misconduct.

7 The Bondowners' Trustee shall not be bound to recognize any person as  
8 a registered owner of any Parity Bond until such person's title thereto, if  
9 disputed, has been established to its reasonable satisfaction.

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

18 F. Suits by Individual Bondowners Restricted. Neither the registered  
19 owner nor the beneficial owner of any one or more of Parity Bonds shall have  
20 any right to institute any action, suit or proceeding at law or in equity for the  
21 enforcement of same unless:

- 22 (1) An Event of Default has happened and is continuing; and  
23 (2) A Bondowners' Trustee has been appointed; and  
24  
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1 (3) Such owner previously shall have given to the Bondowners'  
2 Trustee written notice of the Event of Default on account of which such suit,  
3 action or proceeding is to be instituted; and  
4

5 (4) The registered owners of 25% in principal amount of the  
6 Parity Bonds, after the occurrence of such Event of Default, have made written  
7 request of the Bondowners' Trustee and have afforded the Bondowners'  
8 Trustee a reasonable opportunity to institute such suit, action or proceeding;  
9 and  
10

11 (5) There have been offered to the Bondowners' Trustee security  
12 and indemnity satisfactory to it against the costs, expenses and liabilities to be  
13 incurred therein or thereby; and  
14

15 (6) The Bondowners' Trustee has refused or neglected to comply  
16 with such request within a reasonable time.

17 No registered owner or beneficial owner of any Parity Bond shall have  
18 any right in any manner whatever by such individual's action to affect or impair  
19 the obligation of the City to pay from Gross Revenues the principal of and  
20 interest on such Parity Bonds to the respective owners thereof when due.

21 G. Payment Solely From Gross Revenues and Certain Funds. Nothing  
22 in this section shall be deemed to require payment to owners of Parity Bonds  
23 from any source other than Gross Revenues and money and investments in the  
24 funds pledged in this ordinance.  
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1 Section 26. Approval of Amendment to the Repayment Agreement. The  
2 Participants previously entered into the Repayment Agreement, effective  
3 November 1, 2002, as amended (the "Repayment Agreement"), to elaborate on  
4 the payment obligation of the Participants with respect to the Refunded Bonds.  
5 Council hereby approves an amendment to the Repayment Agreement to  
6 revise certain payment obligations of the Participants and other matters related  
7 thereto, in substantially the form on file with the City Clerk. The Designated  
8 Representatives are each hereby authorized to execute the amendment and to  
9 approve such changes as determined to be necessary by such individuals to  
10 complete such amendment and carryout the purposes of this ordinance.  
11

12 Section 27. Miscellaneous.

13 A. Ratification of Prior Acts. Any action taken consistent with the authority  
14 and prior to the effective date of this ordinance is ratified, approved and confirmed.  
15

16 B. Parity Bond Authorizing Ordinances. In the event of any inconsistency  
17 between the terms and provisions provided for in this ordinance and the Parity  
18 Bond Authorizing Ordinances for the Outstanding Parity Bonds, the terms and  
19 provisions of this ordinance shall control.  
20

21 C. Corrections by Clerk. Upon approval of the City Attorney's Office and  
22 Bond Counsel, the City Clerk is hereby authorized to make necessary corrections  
23 to this ordinance, including, but not limited to, the correction of clerical errors;  
24 references to other local, state or federal laws, codes, rules, or regulations;  
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1 ordinance numbering and section/subsection numbering; and other similar  
2 necessary corrections.  
3

4 D. Severability. If any one or more of the provisions of this ordinance is or  
5 are held by any court of competent jurisdiction to be contrary to law, then such  
6 provision or provisions shall be null and void and shall be deemed separable from  
7 the remaining provisions and shall in no way affect the validity of the other  
8 provisions of this ordinance.  
9

10 E. Effective Date. This ordinance shall take effect and be in force 10 days  
11 after its passage, approval and publication as required by law.

12 Passed: \_\_\_\_\_  
13

14  
15 Attest: \_\_\_\_\_  
16

Mayor

17  
18 City Clerk \_\_\_\_\_  
19

20 Approved as to form and legality:

21 Pacifica Law Group LLP  
22 Bond Counsel

23 By \_\_\_\_\_  
24  
25  
26



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EXHIBIT A  
FORM OF BOND

The 2023 RWSS Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

No. \_\_\_\_\_ \$ \_\_\_\_\_

STATE OF WASHINGTON  
CITY OF TACOMA, WASHINGTON

REGIONAL WATER SUPPLY SYSTEM REVENUE REFUNDING BOND,  
SERIES 2023

INTEREST RATE: \_\_\_\_\_ MATURITY DATE: \_\_\_\_\_ CUSIP NO.: \_\_\_\_\_

REGISTERED OWNER: \_\_\_\_\_

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

The City of Tacoma, Washington (the "City") hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest from \_\_\_\_\_, or the most recent date to which interest has been paid or duly provided for, until payment of this bond at the Interest Rate set forth above, payable on \_\_\_\_\_, and semiannually thereafter on the first days of each succeeding \_\_\_\_\_ and \_\_\_\_\_. Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as the bonds of this issue are held in fully immobilized form, payments of principal of and interest hereon shall be made as provided in accordance with the operational arrangements of The Depository Trust Company ("DTC") referred to in the Blanket Issuer Letter of Representations from the City to DTC. In the event that the bonds of this issue are no longer held in fully immobilized form, interest on this bond shall be paid by check or draft mailed to the Registered Owner at the address appearing on the Bond Register on the 15th day of the month preceding the interest payment date, and principal of this bond shall be payable upon presentation and surrender of this bond by the Registered Owner at the principal office of the fiscal agent of the State of Washington (the "Bond Registrar"); provided, however, that if so requested in writing by the Registered Owner of at least \$1,000,000 principal amount of bonds, interest will be paid by



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wire transfer on the date due to an account with a bank located within the United States.

This bond is one of an authorized issue of \$ \_\_\_\_\_ City of Tacoma, Washington, Regional Water Supply System Revenue Refunding Bonds, Series 2023 ("Bonds"). The Bonds are issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Washington, Ordinance No. \_\_\_\_\_ ("Bond Ordinance") of the City. The Bonds are issued for the purpose of refunding the City's outstanding Regional Water Supply System Revenue Refunding Bonds, 2013 and paying costs of issuance.

Capitalized terms used in this bond and not otherwise defined shall have the meanings given them in the Bond Ordinance.

The bonds of this issue are subject to redemption prior to their maturities as provided in the Bond Ordinance.

The bonds of this issue are payable solely from the special fund of the City known as the Water Revenue Bond Fund (the "Bond Fund"), created by Ordinance No. 25392. The City has pledged and bound itself to pay into the Revenue Fund as collected all of the Revenues derived by the City from the operation of the City's Regional Water Supply System. The City by the Bond Ordinance has further pledged and bound itself to set aside from the money in the Revenue Fund and to pay into the Bond Fund and the accounts therein certain fixed amounts sufficient to pay the principal, premium, if any, and interest on the Parity Bonds as the same become due. As security for the payment of the principal of, premium, if any, and interest on all Parity Bonds the City has pledged (i) the proceeds of the sale of Parity Bonds to the extent held in funds established by the Bond Ordinance, (ii) the Revenues and such Gross Revenues of the Water System and Participants' Payments as provided in the Bond Ordinance, and (iii) the money and investments, if any, credited to the funds and accounts established by the Bond Ordinance and the income therefrom.

To the extent more particularly provided by the Bond Ordinance, the amounts so pledged to be paid out of the Revenues shall be a lien and charge thereon equal in rank to the lien and charge upon such Revenues of the amounts required to pay and secure the payment of the City's Outstanding Parity Bonds and any Future Parity Bonds, and superior to all other liens and charges of any kind or nature, except subject to the Operating Expenses.



D-45

1 The City hereby covenants that it will perform all the covenants of this  
2 bond and of the Bond Ordinance, and reference is hereby made to the Bond  
3 Ordinance for a complete statement of such covenants.

4 The pledge of Revenues and other obligations of the City under the Bond  
5 Ordinance may be discharged at or prior to the maturity or redemption of the  
6 Bonds upon the making of provision for the payment thereof on the terms and  
7 conditions set forth in the Bond Ordinance.

8 The bonds of this issue are special limited obligations of the City and are  
9 not an obligation of the State of Washington or any political subdivision thereof  
10 other than the City, and neither the full faith and credit nor the taxing power of  
11 the City or the State of Washington is pledged to the payment of the bonds of  
12 this issue.

13 This bond shall not be valid or become obligatory for any purpose or be  
14 entitled to any security or benefit under the Bond Ordinance until the Certificate  
15 of Authentication has been manually signed by the Bond Registrar.

16 This bond is transferable only on the records maintained by the Bond  
17 Registrar for that purpose upon the surrender of this bond by the Registered  
18 Owner or such individual's duly authorized agent and only if endorsed in the  
19 manner provided hereon, and a new fully registered Bond of like principal  
20 amount, maturity, and interest rate shall be issued to the transferee in  
21 exchange. Such exchange or transfer shall be without cost to the Registered  
22 Owner or transferee. The City and Bond Registrar may deem the person in  
23 whose name this bond is registered to be the absolute owner for the purpose of  
24 receiving payment of the principal of and interest on this bond and for all other  
25 purposes.

26 The Bond Registrar is not required to issue, register, transfer, or  
exchange any Bonds during a period beginning at the opening of business on  
the 15th day of the month next preceding any interest payment date and ending  
at the close of business on the interest payment date, or, in the case of any  
proposed redemption of the Bonds, after the mailing of notice of the call of such  
Bonds for redemption.

It is hereby certified that all acts, conditions, and things required by the  
Constitution and statutes of the State of Washington and the Charter and  
ordinances of the City to exist, to have happened, been done, and performed  
precedent to and in the issuance of this bond do exist, have happened, been  
done, and performed and that the issuance of this bond and the Bonds does not  
violate any constitutional, statutory, or other limitation upon the amount of  
bonded indebtedness that the City may incur.

A-3-



1 IN WITNESS WHEREOF, the City of Tacoma, Washington, has caused  
2 this bond to be signed with the manual or facsimile signature of the Mayor and  
3 attested by the manual or facsimile signature of the City Clerk, and the seal of  
4 the City to be impressed or a manual or facsimile thereof to be imprinted  
5 hereon, as of this \_\_\_\_ day of \_\_\_\_\_, 2023.

6 \_\_\_\_\_  
7 Mayor

8 ATTEST:

9 \_\_\_\_\_  
10 City Clerk

11 CERTIFICATE OF AUTHENTICATION

12 This bond is one of the bonds described in the within-mentioned Bond  
13 Ordinance and is one of the Regional Water Supply System Revenue  
14 Refunding Bonds, Series 2023 of the City, dated \_\_\_\_\_, 2023.

15 WASHINGTON STATE FISCAL  
16 AGENT, as Bond Registrar

17 By \_\_\_\_\_  
18 Authorized Signer

19  
20  
21  
22  
23  
24  
25  
26  
A-4-

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## **APPENDIX E**

### **SUMMARY OF THE SECOND SUPPLY PROJECT AGREEMENT**

*Following is a summary of certain of the provisions of the Second Supply Project Agreement (as amended), which summary is qualified in its entirety by reference to the complete text of Second Supply Project Agreement (as amended) on file with the City Clerk of the City.*

#### **DEFINITIONS**

“Additional Water” means water from any source, other than the First Diversion and Second Diversion Water, that is proposed by any Participant for introduction into the Project, and such introduction is approved by the Project Committee, pursuant to the provisions of the Second Supply Project Agreement described in “SECOND SUPPLY PROJECT AGREEMENT—*Project Committee*” and “—*Delivery of Additional Water*.”

“Annual Operating Plan” means the plan for the operation of the Project during any Operating Year that is prepared in accordance with the provisions of the Second Supply Project Agreement described in “SECOND SUPPLY PROJECT AGREEMENT—*Management of Project Water and Storage Use*.”

“Capital Expenditures” means expenditures of funds subsequent to Initial Project Construction, which are in excess of five hundred dollars (\$500.00), or such other amount as may be established by the Project Committee in accordance with the Second Supply Project Agreement, are made to enhance the value or extend the life of the Project, and are contained in the Capital Expenditures element of any Project Annual Budget. This definition is to be used after Initial Project Construction for the purpose of categorizing costs for preparing the Project Annual Budget. This definition has no application to the treatment of costs incurred during Initial Project Construction, or to costs incurred pursuant to agreements entered into prior to the Project being placed in operation, and does not in any way limit or require the Participants to utilize a similar definition in accounting for the costs of the Project on such Participant’s books of account.

“CWD” means the Covington Water District.

“Delivery Meter” means each of the meters which is located at or in the vicinity of the Points of Delivery of each of the Participants, and which measures the amount of Project Water delivered to each Participant from the Project.

“Due Date” means the date by which payment of any invoice issued pursuant to the provisions described in “SECOND SUPPLY PROJECT AGREEMENT—*Payment*” is due to Tacoma or to an established escrow agent, which date shall be the close of business on the thirtieth (30th) day after an invoice is issued pursuant to the Second Supply Project Agreement, provided, however, that if such thirtieth day falls on a Saturday, Sunday or legal holiday observed by Tacoma, the Due Date shall be extended until the close of business of the next regular business day of Tacoma.

“Effective Date” means December 19, 2002.

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

“Financing Plan” means a plan for the funding of Project Costs which includes the issuance (or multiple issuances) of Project Bonds as approved by the Project Committee pursuant to the Second Supply Project Agreement, and shall generally be in the form attached to the Second Supply Project Agreement.

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

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

“Flow Control Valve” means the valve located in the vicinity of the Point(s) of Delivery for each Participant that controls the volume of Project Water that is delivered to each Participant. Flow Control Valves are not part of the Project

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

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

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

“Initial Project Construction Budget” means the budget for Initial Project Construction.

“Initial Project Construction Schedule” means the schedule for Initial Project Construction.

“Interest Rate” means for each day that it is applied a rate equal to one-three hundred and sixty-fifth (1/365) of the prime interest rate for preferred customers established from time to time by the Bank of America, or such other bank as may be designated by the Project Committee pursuant to the Second Supply Project Agreement. When used to calculate the late payment charge pursuant to section 25, three (3) percentage points shall be added to such prime interest rate for each thirty (30) days that the payment of any invoice remains past due.

“Joint Delivery Meter” means a type of Delivery Meter that measures the amount of Project Water that will be shared between more than one Project Participant.

“Kent” means the City of Kent.

“Lakehaven” means the Lakehaven Utility District, now known as the Lakehaven Water and Sewer District.

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

“Operating Life” means the period of time during which the Project is operational and capable of fulfilling its delivery function in a reasonably efficient and economical manner. The provisions of the Second Supply Project Agreement described below in “SECOND SUPPLY PROJECT AGREEMENT—*Term of the Second Supply Project Agreement*” summarizes the expectations of the Participants regarding the Operating Life.

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

“Participants” means (1) the City of Tacoma, Department of Public Utilities, Water Division, (2) the City of Kent, (3) the CWD, and (4) the Lakehaven Utility District, the parties to the Second Supply Project Agreement.

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

“Point of Delivery” means the point where facilities have been constructed that permit a Participant or Participants to divert and take delivery of Project Water from the Project, and which serve to interconnect the Project and the water supply system of such Participant or Participants.

“Project” shall have the meaning ascribed to such term in the provisions of the Second Supply Project Agreement summarized below under “THE SECOND SUPPLY PROJECT AGREEMENT—*The Project*.”

“Project Annual Budget” means the budget for all of the costs of the Project for each Operating Year, including without limitation the costs of operation, maintenance, insurance, renewal, replacement, additions and improvements to the Project, that are approved by the Project Committee pursuant to the provisions of the Second Supply Project Agreement summarized in “SECOND SUPPLY PROJECT AGREEMENT—*Project Committee*.”

“Project Bonds” means those bonds issued by Tacoma’s separate system in accordance with the Second Supply Project Agreement for the purpose of providing funds for the payment of certain Project Costs.

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

“Project Committee” means the committee constituted pursuant to the provisions of the Second Supply Project Agreement.

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

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

“Project Map” means the map of the Project set forth in the Second Supply Project Agreement.

“Project Meter” means a meter that measures the flow of Project Water and is needed for the operation of the Project, but is not a Master Meter or a Deliver Meter.

“Project Operator” means the Participant that is designated pursuant to the Second Supply Project Agreement to operate and maintain the Project, which Participant shall be Tacoma.

“Project Quality Assurance Procedures” means the quality assurance procedures followed during Initial Project Construction.

“Project Specifications” means the specifications governing Initial Project Construction.

“Project Water” means any and all water, including without limitation First Diversion Water, Second Diversion Water and Additional Water, that is introduced into and that uses some portion of the Project, regardless of its source.

“Prudent Utility Practice” means at a particular time any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time a decision is made (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the water utility industry in the

Puget Sound region), would be expected to accomplish the desired result at the lowest reasonable cost consistent with Project longevity, reliability, safety and expedition.

“Reasonable Costs” means the costs that are consistent with, and not in excess of, the level of costs that a water utility operating water facilities in the Puget Sound region and acting consistent with Prudent Utility Practice and in a manner expected to produce the lowest total project cost would incur to design, construct and operate such facilities, taking into account any circumstances particular to the facility or facilities.

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

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

“Storage” means the retention of water at the Howard Hanson Dam until withdrawn therefrom, all pursuant to the Second Supply Project Agreement.

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

“Tacoma” means the City of Tacoma, Department of Public Utilities, Water Division.

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

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

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

## **THE SECOND SUPPLY PROJECT AGREEMENT**

### ***The Project***

The Participants have entered into the Second Supply Project Agreement to permit, design, finance, construct, operate, and maintain the Project and to receive deliveries of Project Water. For purposes of the Second Supply Project Agreement, the Project consists of the following: (1) the water from the exercise of the Second

Diversion Water Right (up to 100 cfs); (2) the Second Supply Pipeline commencing at the Headworks and continuing to Tacoma's Pipeline No. 4 near the Portland Avenue Reservoir (approximately thirty-four miles with a nominal capacity of seventy-two mgd); (3) a portion of the improvements at the Headworks diversion dam and intake (associated with the Second Diversion Water Right), as specified in the Second Supply Project Agreement; (4) a portion of the Project fisheries and environmental enhancements, as specified in the Second Supply Project Agreement; (5) the right to store water as a result of the Howard-Hanson Dam Additional Storage Project (up to 20,000 acre-feet per year of municipal water supply storage available for withdrawal during each Operating Year in Phase I and options to participate in Phase II); and (6) the expansion of existing or the construction of additional Treatment Facilities.

Pursuant to the Second Supply Project Agreement, the Project has been designed to permit all Participants to receive at their point(s) of Delivery their respective Participant Share of Second Diversion Water simultaneously. The Participants understand and acknowledge in the Second Supply Project Agreement that the capability of Project facilities at any point in time is dependent upon the use being made of the Project by the Participants, and external factors as well.

The Second Supply Project Agreement provides that Tacoma shall own the Project, and all facilities related thereto.

### ***Rights and Obligations of the Participants***

Pursuant to the terms of the Second Supply Project Agreement, each Participant shall have the following contractual rights and obligations:

- The contractual right to use an undivided share of the Project equal to its Project Capacity Share, and the contractual right to use available Excess Project Capacity.
- The contractual right to schedule for delivery and receive at its Point(s) of Delivery its Participant Share of Second Diversion Water, and the contractual obligation to take delivery of the Second Diversion Water so delivered.
- The contractual right to schedule for delivery and receive at its Point(s) of Delivery Additional Water, and the contractual obligation to take delivery of the Additional Water so delivered.
- The contractual right to its Participant Share of storage.
- The contractual obligation to pay its Participant Share of Project Costs, initially as a capital contribution in exchange for, and to qualify each Participant to enjoy, the rights and interests described in this section, and upon operation as a share of operating and maintenance costs of a Project providing water that is furnished by each of the Participants to its customers.

### ***Rights and Obligations of Tacoma as Project Operator***

Pursuant to the Second Supply Project Agreement, Tacoma is the Project Operator and is responsible for the day to day operation of the Project, including without limitation, coordination of Storage with the Army Corps of Engineers, delivery of Project Water to the Participants at their Points of Delivery, performance of maintenance, renewals, replacements, improvements and additions to the Project, reading and testing of the Master Meter and all Delivery Meters, obtaining and maintaining required permits, approvals and regulatory authorizations needed to operate the Project, all as set forth in the Second Supply Project Agreement. As Project Operator, Tacoma is required, consistent with the terms of the Second Supply Project Agreement and the approved Project Budget then in effect, to operate and maintain the Project in a manner that is consistent with Prudent Utility Practice.

As Project Operator, consistent with Prudent Utility Practice and the Second Supply Project Agreement, Tacoma is required:

- to deliver to each Participant at its Point(s) of Delivery Project Water as scheduled by each Participant pursuant to the Second Supply Project Agreement;
- to ensure that all Project Water delivered to Participants at their Point(s) of Delivery is in compliance with all applicable state and federal drinking water laws, regulations and standards; and
- to ensure that Project Water is delivered to Participants at their Point(s) of Delivery, and that such deliveries are made at the pressures specified, and measured at the locations set forth, in the Second Supply Project Agreement.

Tacoma is required to report to the other Participants its activities as Project Operator, as such reports are required pursuant to the Second Supply Project Agreement. Notwithstanding Tacoma's duty to report to the other Participants, Tacoma may without consulting the other Participants take such actions as it determines to be appropriate under the circumstances as Tacoma understands them to fulfill its duties under the Second Supply Project Agreement as Project Operator, consistent with Prudent Utility Practice.

In the event that circumstances require Tacoma to take actions not contemplated by the Project Annual Budget then in effect, Tacoma is required to make a reasonable effort to consult with the other Participants if circumstances permit. The Second Supply Project Agreement provides, however, that Tacoma may take such actions as it judges to be appropriate under the circumstances as Tacoma understands them without prior consultation with the other Participants. If Tacoma takes such actions without prior consultation with the other Participants, it is required to promptly notify the other Participants of the action taken and consult with them as soon as practicable.

### ***Term of the Project Agreement***

The Second Supply Project Agreement took effect when executed by all of the Participants, and is to remain in full force and effect during the Operating Life of the Project, including any and all renewals, replacements and additions thereto. Except for those sections and subsections that expressly survive the termination, the Second Supply Project Agreement is to terminate for all Participants on the date that the Participants determine, pursuant to the provisions of the Second Supply Project Agreement summarized below, that the Operating Life of the Project has ended.

The Second Supply Project Agreement provides that it is the expectation of the Participants that the Project will have an Operating Life of not less than one hundred (100) years. The Second Supply Project Agreement provides further that this is only the expectation of the Participants, and does not impose any duty, obligation, liability or responsibility on Tacoma regarding the Project other than as set forth in other sections of the Second Supply Project Agreement.

Tacoma is the holder of the Second Diversion Water Right Permit. The rights of the other Participants to a share of the water available under the Second Diversion Water Right arise under the terms of the Second Supply Project Agreement. Upon the termination of the Second Supply Project Agreement pursuant, each Participant is to have the right to participate in any subsequent project that is constructed, in whole or in part, to make available to one or more of the Participants Second Diversion Water, and shall include the right to obtain and use a share of Second Diversion Water and Storage then available on a basis and in amounts comparable to such Participant's right under the Second Supply Project Agreement. Pursuant to the Second Supply Project Agreement, the rights and obligations of the Participants described in this paragraph shall survive the termination of the Second Supply Project Agreement, and shall be fully enforceable subsequent thereto.

Pursuant to the Second Supply Project Agreement, all obligations incurred during the term of the Second Supply Project Agreement shall survive the termination or expiration of the Second Supply Project Agreement, and shall survive until satisfied.

## ***Project Committee***

The Second Supply Project Committee provides that there shall be a Project Committee composed of one (1) representative of each Participant. Each Participant may change its representative and/or its alternate representative at any time by providing written notification to all other Participants. The representatives of the Participants shall have the following votes at the Project Committee meetings: (i) Tacoma- Fifteen (15) votes; (ii) CWD- Seven (7) votes; (iii) Kent- Seven (7) votes; and (iv) Lakehaven- Seven (7) votes.

The Second Supply Project Agreement requires that for the Project Committee to take action, there must be present a quorum of not less than three (3) Participants, one of which must be the Project Operator. Tacoma is obligated to attend any Project Committee meeting convened pursuant to the Second Supply Project Agreement. All decisions and actions of the Project Committee are required to be taken by a vote of the Participants present. All matters decided by the Project Committee, other than those items described in the following two paragraphs, require a simple majority of the votes cast by the Participants present.

Pursuant to the Second Supply Project Agreement, the following matters require for approval the affirmative vote of twenty-nine thirty-sixths (29/36) of the Project Committee votes and three of the Participants: (i) any amendment or modification to the Project Specifications; (ii) approval of Treatment Facilities inconsistent with the description set forth in the Second Supply Project Agreement; (iii) any amendment or modification to the Initial Project Construction Budget; (iv) any amendment or modification to the Initial Project Construction Schedule; (v) approval of any change order that exceeds one-half of the original contingency for the contract for which the change order is requested, or which exceeds the sum of \$500,000.00; (vi) approval of the Capital Expenditures contained in any Project Annual Budget; and (vii) approval or revision of any Financing Plan. In addition to the foregoing, in order for a representative to vote on any Financing Plan or revision thereto, the representative must present to the Project Committee a resolution (or ordinance, as appropriate) passed in the sixty (60) days prior to the Project Committee vote by the governing body of the Participant on whose behalf the representative will vote, and indicating the nature of the vote to be cast by such representative.

The Second Supply Project Agreement provides that any determination of the Operating Life requires the affirmative vote of all Participants. In order for a representative to vote on the determination of the Operating Life, the representative must present to the Project Committee a resolution (or ordinance, as appropriate) passed in the sixty (60) days prior to the Project Committee vote by the governing body of the Participant on whose behalf the representative will vote, and indicating the nature of the vote to be cast by such representative.

The Project Committee is required to adopt such rules as it determines to be convenient and appropriate for the conduct of its business, including without limitation rules of procedure for meetings. Persons who are not designated representatives of any Participant but who are elected officials, directors, officers, employees, consultants or agents of a Participant may attend meetings of the Project Committee.

After the completion of Initial Project Construction, the Project Committee is required to meet no less frequently than once each quarter. The Project Committee may meet more frequently should circumstances warrant. The dates for all regularly scheduled Project Committee meetings are to be established at the last Project Committee meeting prior to the year in which such meetings shall take place.

Any Participant may convene a Project Committee meeting after the completion of Initial Project Construction by giving written notice to all other Participants no less than fourteen (14) days prior to the proposed date of the Project Committee meeting. The written notice shall indicate the time, location and agenda items to be discussed.

Subsequent to the completion of Initial Project Construction, the Project Committee is responsible for the following activities, and for such other activities as the Project Committee agrees to undertake: approving new Points of Delivery; approving and revising the Project Annual Budget; approving Additional Water deliveries; approving and revising Financing Plans; approving imposition of the Surcharge Rate; determining actions needed to maintain water quality; determining amounts and types of insurance and self-insurance arrangements; determining Project Operating Life; disposition of unexpended funds from Initial Project Construction Budget; establishing operating ranges for the Master and Delivery Meters; establishing ramp rates for changes to scheduled flows;

establishing scheduling procedures; establishing metering testing standards; establishing procedures for scheduling run of river Second Diversion Water; establishing procedures for excess deliveries of run of river Second Diversion Water; receiving the annual operator's report; resolving hydraulic issues; revising the commencement date of any Operating Year; revising deadlines set forth in the Second Supply Project Agreement relating to management of project water and storage use, delivery of Additional Water and water metering; revising dates for storage periods; revising the dollar limit for Capital Expenditures; revising reporting requirements by Project Operator; review and approval of the Capital Element of the Annual Budget; review and approval of the Annual Operating Plan; selecting a substitute bank for computing Interest Rate; and selecting a third party auditor.

Decisions of the Project Committee taken pursuant to the provisions of the Second Supply Project Agreement, and any impasse or inability of the Project Committee to reach a decision on any topic, are not subject to the dispute resolution process described below under "SECOND SUPPLY PROJECT AGREEMENT—*Dispute Resolution*." By unanimous agreement, the Participants may voluntarily elect to submit to mediation or arbitration any topic that is subject to disposition by the Project Committee.

### ***Project Financing***

After the completion of Initial Project Construction, from time to time the Participants will be required to fund the replacement, renewal, repair, improvement or make capital additions to the Project pursuant to the Second Supply Project Agreement. If all or any portion of the funding for the costs of such replacements, renewals, repairs, improvements and capital additions is to be provided by the issuance of Project Bonds, Tacoma is required to submit to the Project Committee a Financing Plan setting forth the purpose, amount, repayment schedule and timing of the proposed issuance (or issuances). Upon approval by the Project Committee, Tacoma may cause to be issued by such separate system in accordance with the approved Financing Plan Project Bonds for such purposes, the repayment of which shall be secured by the payments to be made by the Participants to the Second Supply Project Agreement.

The costs of operating and maintaining the Project shall be established in accordance with the applicable provisions of the Second Supply Project Agreement.

### ***Provisions Applicable to All Project Financing***

Pursuant to the Second Supply Project Agreement, Tacoma may establish a separate system for accounting and bond issuance purposes for the Project. All Project Bonds are to be issued in accordance with a Financing Plan approved by the Project Committee, are to be for the purpose of financing Project Costs, and may be issued by Tacoma's separate system. If and to the extent permitted by the then current law, such Project Bonds are to be issued as non-recourse, tax-exempt municipal bonds, the repayment of which shall be secured by the payments to be made by the Participants pursuant to the Second Supply Project Agreement.

The Participants shall be given the opportunity to review and comment upon any preliminary and final official statements prepared in conjunction with the issuance of all project bonds.

If Tacoma issues Project Bonds on behalf of any other participants, Tacoma is required to take all commercially reasonable actions necessary to ensure that the proceeds from such issuances are available in a timely manner to fund the construction, replacement, renewal, repair, improvement of or capital additions to the Project, while seeking to minimize the interest rates of such Project Bonds. Tacoma is authorized in the Second Supply Project Agreement to purchase bond insurance and other credit enhancement devices, issue bonds in series, and take all such other actions as may be commercially reasonable to reduce the costs to the Participants of Project Bonds issued in accordance with the Second Supply Project Agreement.

The costs incurred by Tacoma from time to time to cause the issuance of Project Bonds, including without limitation the costs of Tacoma staff and associated overheads, are to be treated as Project Costs.

Except to the extent Participants elect to make payments as described in the following paragraph, each of the Participants agrees in the Second Supply Project to pay its Participant Share of any and all amounts necessary to repay Project Bonds, including without limitation the costs of issuing such Project Bonds as described in this

section, and such payments are to be made in such amounts and at such times as required by the covenants of such Project Bonds. Except as otherwise described in this section, and as described below under “SECOND SUPPLY PROJECT AGREEMENT—Reimbursable Costs,” the obligation of the Participants to make all such payments are to be apportioned among the Participants based upon their Participant Shares.

In lieu of paying its Participant Share of amounts necessary to repay Project Bonds, any Participant may elect to fund all or any part of its Participant Share of a Project Cost, which is to be funded by the issuance of Project Bonds, by the payment of cash obtained by issuing its own bonds, by obtaining loans from private or public sources, or any other lawful means. Any Participant electing to pay cash for its Participant Share of any such Project Cost is required to inform all other Participants of such election in writing not less than ninety (90) days prior to the proposed date of issuance of the Project Bonds, as set forth in the approved Financing Plan for such Project Bonds. Upon receipt of such written notice from any Participant, the timing and amounts of the payments any Participant electing to pay cash will be obligated to make shall be established by the Project Committee, and is to be included in the Project Annual Budget and in the Financing Plan containing the Project Cost to be so paid. The Participant so electing will be required to make the payments in the amounts and at the times specified by the Project Committee in the relevant Financing Plan and Project Annual Budgets.

Nothing in the provisions of the Second Supply Project Agreement summarized in this section will prohibit two or more Participants from entering into an agreement under which one Participant funds the Participant Share of a Project Cost of the other Participant, provided, however, that such agreement will not serve to relieve any Participant of its obligation to pay its Participant Share of a project Cost under the Second Supply Project Agreement.

If and to the extent there is funding available from sources other than Project Bonds and cash payments made as described above, including without limitation grants, cost sharing, federal, state or local government funding, such funding is to be applied to the costs of constructing, operating or enhancing the Project, as determined by the Project Committee, such that all Participants share the financial benefits of such funding in proportion to their Participant’s Share of federal, state or local loans to an individual Participant to assist the Participant in providing for its Participant Share of Project Cost (e.g. public works trust fund loans) shall not be required to be so shared.

If and to the extent there are funds remaining in any bond fund established in conjunction with Project Bonds after the repayment in full of all outstanding Project Bonds, such funds are to be used in accordance with the applicable covenants and bond resolutions, or if no such direction is provided by the applicable covenants or bond resolutions, at the discretion of the Project Committee for the benefit of the Project.

Notwithstanding any other provision of the Second Supply Project Agreement, the obligation of the Participants to make payments to pay any and all amounts necessary to repay Project Bonds issued by Tacoma’s separate system, including without limitation the costs of issuing Project Bonds, shall survive the expiration or termination of the Second Supply Project Agreement, and shall be fully enforceable subsequent thereto.

To the extent necessary for Tacoma to comply with applicable securities laws and regulations, including continuing disclosure requirements under SEC Regulation 15c2-12, Participants for whom Tacoma issues bonds shall provide information to Tacoma for inclusion in official statements, continuing disclosure filings and similar documents to filings.

### ***Treatment of Certain Cost Overruns***

The Second Supply Project Agreement states that modifications to the Headworks as set forth in the Project Specifications will benefit both the Project and Pipeline No. 1. In the event that the modifications to the Headworks either exceed or fall short of the amounts budgeted for such work in the Initial Project Construction Budget, then any such overrun or surplus are to be apportioned between the Project and Pipeline No. 1 using the allocator that was applied to the costs of the constructing the Headworks modifications, as set forth in the Second Supply Project Agreement. The portion of any such overrun or surplus allocated to Pipeline No. 1 shall not be treated as a Project Cost.

In the event that the cost of constructing a Point of Delivery either exceeds or falls short of the amounts budgeted for such work, the Participant that will receive Project Water through such Point of Delivery will be required to pay for any cost overrun, or receive a credit in the amount of any surplus attributable to the construction of the Point of Delivery. The cost of constructing Points of Delivery is not to be treated as a Project Cost.

Except as described in the preceding two paragraphs, in the event that the cost of constructing any portion of the Project exceeds or falls short of the amounts budgeted therefore in the Initial Project Construction Budget, then any such amount is to be treated as a Project Cost or as surplus funds of the Project.

#### ***Use of Project for First Diversion Water***

Pursuant to the Second Supply Project Agreement, Tacoma shall have the right to use its Project Capacity Share to move First Diversion Water when Tacoma deems it appropriate to do so. Tacoma shall also have the right to use any Excess Project Capacity available to it under the Second Supply Project Agreement to move First Diversion Water. In such event, the First Diversion Water shall have the same priority to Excess Project Capacity as Second Diversion Water. First Diversion Water that is moved through the Project pursuant to the provisions of the Second Supply Project Agreement described in this section are not subject to the requirements of the Second Supply Project Agreement relating to the delivery of Additional Water, but are subject to all other provisions of the Second Supply Project Agreement.

#### ***Use of Project Capacity During Certain Events***

Certain Participants have entered into an agreement pursuant to which they will provide aid and assistance upon the occurrence of specified events on their respective systems (the “agreement”). Nothing in the agreement between such Participants entitles them to take any action or refrain from any action that would be inconsistent with the rights under the Second Supply Project Agreement, or that would result in any other Participant being unable to fully exercise its rights under the Second Supply Project Agreement.

Notwithstanding any other provision of the Second Supply Project Agreement, the signatories to the agreement retain the right to revise or modify the terms of their agreement without the approval or consent of any Participant that is not a signatory thereto.

The Second Supply Project Agreement provides that should Tacoma receive from any Participant a request for deliveries of Project Water that exceeds the rights of such Participant under the Second Supply Project Agreement, and such request is due to the occurrence of an Uncontrollable Force event on the requesting Participant’s system that renders such Participant incapable of meeting the water supply needs of its retail customers, Tacoma is required to promptly notify all other Participants of such request. Tacoma may, but shall not be obligated to, query the other Participants or convene a Project Committee meeting to determine if there are voluntary actions that could be taken by some or all of the Participants to alleviate the situation on the system of the Participant making such request. Tacoma shall not take any action to comply with the request of any Participant subject to an Uncontrollable Force event without the consent of each and every Participant that will be affected by such action.

Notwithstanding anything to the contrary in the Second Supply Project Agreement, should Tacoma lose the use, in part or in whole, of Tacoma’s Pipelines Nos. 1, 2 or 4 due to an Uncontrollable Force event, and as a consequence thereof experience a water supply shortage on the Tacoma water system, then in that event Tacoma may use the Project to move First Diversion Water if so doing will alleviate such water supply shortage. In order to make such use of the Project, Tacoma may curtail or interrupt deliveries of Project Water to other Participants, so long as the reductions to the deliveries of Project Water to other Participants are: (i) made to all other Participants as nearly as practicable in proportion to the Participant Share of each Participant; (ii) do not exceed the reductions in deliveries of Project Water being experienced by Tacoma; and (iii) do not cause a water shortage on the water system of the other Participants that exceeds the water supply shortage being experienced by Tacoma.

### ***Discharge of Project Water***

From time to time as Project Operator, Tacoma may judge it necessary to discharge Project Water into the system of one or more Participants for purposes of maintaining water quality, performance of maintenance or for other purposes.

The Second Supply Project Agreement provides that when Tacoma determines that it is necessary to discharge Project Water as described in the preceding paragraph, and the Project Water so discharged will enter the system of any other Participant, Tacoma is required to promptly notify the Participant or Participants into whose distribution systems the discharge will occur of the timing of such discharge, the volume of water involved, and the reason for such discharge. The Second Supply Project Agreement provides Tacoma shall not implement a proposed discharge unless and until it has received the permission therefore from the Participant or Participants into whose distribution systems the discharge will occur. Such Participant or Participants is not to unreasonably withhold permission for a discharge as proposed by Tacoma.

Project Water received by a Participant due to a discharge implemented by Tacoma pursuant to the Second Supply Project Agreement in amounts equal to or less than the Project Water the Participant scheduled for delivery during the time period when the discharged Project water is received shall be considered as the delivery of Project Water for all purposes under the Second Supply Project Agreement. If and to the extent the Project Water received by a Participant due to such a discharge exceeds the Project Water the Participant scheduled for delivery during the time period when the Discharged Project Water is received, such amount of Project Water in excess of the scheduled amounts are not to be considered as the delivery of Project Water for any purpose under the Second Supply Project Agreement, and are to be deducted from the amounts of Project Water metered pursuant to the Second Supply Project Agreement.

Project Water discharged by Tacoma pursuant to the Second Supply Project Agreement which is not considered as the delivery of Project Water, is to be deducted from the amount of Project Water available to all Participants in proportion to their respective Participant Share.

### ***Water Quality***

Project Water available to the Participants pursuant to the Second Supply Project Agreement is to be in compliance with all applicable state and federal drinking water laws, regulations and standards.

The Participants agree in the Second Supply Project Agreement that if applicable state or federal drinking water laws, regulations or standards require additional or different Treatment Facilities in order for Project Water to remain in compliance therewith, the Participants will take the steps necessary to add such Treatment Facilities to the Project. The costs of so doing shall be treated as Project Costs, and shall be apportioned to each of the Participants on the basis of their Participant Share.

The Project Committee is required to make all necessary determinations regarding what Treatment Facilities should be added to the Project in order to comply with the provisions of the Second Supply Project Agreement summarized in this section. For purposes of making all such determinations, any Treatment Facility shall be located at or near the Headworks, is to be capable of treating water in amounts equal to the maximum capacity of the Project as set forth in the Second Supply Project Agreement, and is to use the technology which is expected to have the lowest life cycle costs. Any decision by the Project Committee to take inconsistent actions must be approved in accordance with the provisions of the Second Supply Project Agreement summarized under “SECOND SUPPLY PROJECT AGREEMENT—*Project Committee*.”

The Second Supply Project Agreement provides that Tacoma may elect to increase the capacity of the Treatment Facilities used for the chlorination of Project Water to enable such facilities to chlorinate First Diversion Water. To exercise such option, Tacoma must give written notice of its election to all Participants prior to the initiation of final Project design for Initial Project Construction. If Tacoma exercises such option to increase the capacity of such Treatment Facilities to chlorinate First Diversion Water, Tacoma will be responsible for paying the incremental costs for such increased treatment capacity.

Should Tacoma elect to increase the chlorination capacity of the Treatment Facilities to accommodate First Diversion Water, and it is subsequently required that First Diversion Water and Second Diversion Water must be given filtration treatment, then Tacoma will be required to pay to the Project, upon the commencement of construction of such filtration facility, a credit calculated pursuant to the formula set out in the Second Supply Project Agreement.

### ***Availability of Storage***

Pursuant to the Second Supply Project Agreement, storage of Second Diversion Water is provided by Phase I of the Howard Hanson Additional Storage Project.

When Phase I is completed, each Participant will have the right to store Second Diversion Water in proportion to their Participant Share of Second Diversion Water between February 15 and June 30. In most years, the total amount of stored water is to equal 20,000 acre-feet if all Participants commit the full amount of their allocation of Second Diversion Water to Storage. Second Diversion Water used by any Participant during the February 15 through June 30 period for purposes other than Storage is to be accounted for as a use of that Participant's share of Storage, unless full Storage has been achieved prior to June 30 and Second Diversion Water is available as run of the river water.

If the Howard Hanson Additional Storage Project proceeds to Phase II, then in that event the Participants are to be afforded the opportunity to participate in such Phase II in proportion to their respective Participant Share. Should any Participant decline to participate, in whole or in part, in Phase II, each Participant participating in Phase II is to have a right of first refusal to any portion of Phase II in which any other Participant declines participation. The share of Phase II which is declined by a Participant is to be made available to the Participants participating in Phase II based on their Participant Share, assuming that the sum of the Participant Shares of those Participants that will participate in Phase II equals one hundred percent of the Project.

The timing and amount of Storage available to the Participants under the Second Supply Project Agreement will be governed by the Howard Hanson Project Cooperation Agreement, executed by Tacoma and the Army Corps of Engineers.

### ***Management of Project Water and Storage Use***

The Second Supply Project Agreement provides that each Participant is entitled to schedule the use of its Project Capacity Share to deliver Project Water to its Point(s) of Delivery, notwithstanding the use of such Project capacity as Excess Project Capacity by any other Participant. Excess Project Capacity is to be first made available to Participants for the delivery of Second Diversion Water to Participants Point(s) of Delivery, and in the case of Tacoma for the delivery of First and Second Diversion Water, and then any Excess Project Capacity remaining thereafter is to be made available to Participants for the delivery of Additional Water. Such rights and priorities are to apply to all aspects of the provisions of the Second Supply Project Agreement summarized in this section, including the review and revision of Participants' operating plans, review and approval of Annual Operating Plans, and the scheduling of Project Water within an Operating Year.

### ***Participants' Operating Plans and Annual Operating Plan***

On or before April 1<sup>st</sup> of each year during the term hereof, Tacoma is required to provide to each Participant a written estimate of the expected availability of the Project for the next Operating Year, and the expected availability of Second Diversion Water. This is to include, but not be limited to, information regarding expected operating constraints and any additional information available to Tacoma that may be useful to Participants in planning their use of the Project in the next Operating Year.

Not later than thirty (30) days after receipt of the information from Tacoma, each Participant is required to submit to Tacoma and to all other Participants a written draft operating plan for the next Operating Year. Each Participant's draft operating plan is to include, but not be limited to, the amount of Additional Water and Second Diversion Water that each such Participant expects to receive from the Project in each week during the next

Operating Year, the amount of Second Diversion Water each Participant expects to place in Storage, and the timing and amount of expected withdrawals from Storage. If any Participant expects to make use of Excess Project Capacity during the next Operating Year, such Participant's draft operating plan is to identify the quantity, duration, timing and the specific facilities that are intended to be so used.

In making Excess Project Capacity available to the Participants as may be requested in their draft operating plans, all requests for the use of Excess Project Capacity to move Second Diversion Water (and, in the case of Tacoma, to move First and Second Diversion Water) are required to be satisfied first, and then any Excess Project Capacity remaining thereafter are required to be made available to fulfill requests to move Additional Water.

Not later than thirty (30) days after receipt of the Participants operating plans, Tacoma is required to prepare and submit to the Project Committee a draft Annual Operating Plan that incorporates the draft operating plans submitted to Tacoma. The Project Committee is to convene one or more meetings to consider the draft Annual Operating Plan prepared by Tacoma, and to approve the Annual Operating Plan as submitted or as may be revised by the Project Committee, for the next Operating Year. The Annual Operating Plan so approved is required to include, at a minimum, the Participants' operating plans and any revisions thereto, allocation of Excess Project Capacity among the Participants, scheduled maintenance outages, their timing and duration, and any constraints on the availability of Second Diversion Water or Storage. If and to the extent that the Annual Operating Plan reflects a constraint or diminution in the capability of the Project to deliver Project Water to the Participants, or in the amount or availability of Second Diversion Water or Storage, the Annual Operating Plan for the Operating Year in which such constraint or diminution occurs is to apportion to all Participants in proportion to their Participant Share the consequences of such constraint or diminution; *provided however*, that a constraint or diminution that affects facilities that serve some but not all of the Participants is to be borne only by those Participants served thereby.

If any operating plan submitted by a Participant includes the introduction by that Participant of Additional Water into the Project during the Operating Year, then as part of the consideration and approval process, all of the conditions of the Second Supply Project Agreement relating to the delivery of Additional Water shall also apply thereto.

The Project Committee may elect to advance or delay the commencement of any Operating Year if it determines that it is necessary and appropriate to do so.

### ***Scheduling Delivery of Project Water During an Operating Year***

Prior to 10:00 A.M. on any Thursday during each Operating Year, any Participant may submit to Tacoma, in the manner and in the form established by the Project Committee, a schedule for Project Water deliveries for the following seven (7) days. Such schedule is required to contain at a minimum a uniform rate of water deliveries for each day of the schedule, and shall take effect on the day following the Thursday the schedule is submitted. Schedules so submitted are to remain in effect until replaced by a subsequent schedule submitted in accordance with the provisions of the Second Supply Project Agreement. As Project Operator, Tacoma, consistent with the priorities for the use of Project capacity as set forth in the Second Supply Project Agreement, will be required to take all reasonable actions required to ensure that the amount of Project Water scheduled by each Participant is available to the scheduling Participant at its Point(s) of Delivery. Tacoma will not be responsible for the operation of Flow Control Valves by which Participants withdraw water from the Project.

Tacoma may revise schedules submitted, if and to the extent any such schedule calls for deliveries that are in excess of the submitting Participant's rights under the Second Supply Project Agreement, cannot be accommodated within Excess Project Capacity available, or is inconsistent with Project operating constraints. Tacoma will be required to notify any Participant whose schedule is revised. In the event that a change in circumstances necessitates a change to a schedule then in effect, the submitting Participant may request a change to such schedule, and Tacoma will be required to take all reasonable actions that are consistent with the Second Supply Project Agreement to accommodate such schedule change.

If Tacoma receives a schedule that exceeds the rights of the submitting Participant under the Second Supply Project Agreement, Tacoma will be required to make reasonable efforts to accommodate such schedule by using any available Excess Project Capacity. To the extent that Tacoma receives more than one schedule that calls

for deliveries in excess of the rights of the submitting Participants under the Second Supply Project Agreement, Tacoma will be required to make reasonable efforts to accommodate such schedules by using Excess Project Capacity. If such schedules so submitted exceed the amount of Excess Project Capacity available, Tacoma shall, consistent with the priorities for the use of Project capacity summarized above, prorate the available Excess Project Capacity to the schedules which require such Excess Project Capacity on the basis of the Participant Shares of the submitting Participants, and will be required to promptly notify each such Participant of the amount of the schedule that cannot be accommodated. Each Participant so notified will have until 3:00 P.M. to notify Tacoma if, and the extent to which, it has been able to accommodate its schedule

Pursuant to the Second Supply Project Agreement, the scheduling provisions summarized in this section are designed primarily to apply to the withdrawal and use of Second Diversion Water from Storage, and are not meant to apply to the scheduling of Second Diversion Water available as run of river water. The Project Committee will be required to formulate, and revise from time to time as appropriate, procedures under which Tacoma shall provide Participants with information regarding the availability of, and Participants shall schedule delivery of Second Diversion Water available as run of river water.

Each week during every Operating Year, Tacoma will be required to transmit to each of the Participants a report regarding the status of operations related to the Project. The report is to be transmitted to the Participants by means determined by the Project Committee. The Project Committee may from time to time revise the information to be included in the weekly report by Tacoma.

The Project Committee may modify the deadlines for the submission of information required by the Second Supply Project Agreement.

#### ***Delivery of Additional Water***

Subject to the requirements of the Second Supply Project Agreement summarized in the preceding section and in this section, each Participant will have the right to use its Project Capacity Share to move Project Water in accordance with the Second Supply Project Agreement.

Any Participant wishing to use Project facilities to move Additional Water that was not included in the Annual Operating Plan then in effect is required to make all reasonable efforts to notify all other Participants at the earliest practicable date of its intention to move such Additional Water. Such notification is to include, but not be limited to information regarding the quantity, source, duration, destination and water quality of any Additional Water proposed to be so moved. A Participant wishing to move Additional Water will be required to submit to the Project Committee in writing the required information not later than sixty (60) days prior to the date the Additional Water is proposed to be first introduced into the Project.

The Project Committee is then to determine whether the proposed introduction of Additional Water is: (a) consistent with the proposing Participant's rights under the Second Supply Project Agreement; (b) conforms with all applicable state and federal drinking water laws, regulations and standards; and (c) is compatible with the water quality of Project Water at the point of introduction into the Project. If the Project Committee makes a determination that such Additional Water does not meet all of the foregoing conditions, it will disapprove the proposed introduction of the Additional Water. Such determination is to be made within sixty (60) days of the date of receipt of the written notice.

The Second Supply Project Agreement provides that the testing and monitoring of the quality and quantity of any Additional Water introduced into the Project is to be the responsibility of Tacoma.

The Participant that proposes to introduce Additional Water into the Project re to pay the costs of acquiring and installing a separate meter that complies with Project meter standards, to measure the flow of Additional Water. Tacoma is to acquire, install and maintain such meter, and the meter shall be part of the Project.

The Participant which introduces Additional Water into the Project is to be responsible for paying any and all costs associated with the introduction of Additional Water as determined by the Project Committee, including

without limitation, the costs of any testing and monitoring water quality, increased Variable O&M Costs attributable to such Additional Water, and the costs of additional metering.

### ***Metering of Water Deliveries***

The Master Meter will be located at the Headworks to measure the flow of Project Water. Each Participant's Delivery Meter shall be located at the Point of Delivery for each such Participant. All Point of Delivery facilities will be designed and constructed as part of the Project, but the costs of designing and constructing such facilities will be billed separately to the Participant that will receive deliveries of Project Water at such Point (or Points) of Delivery, and will not be treated as Project Costs. Each Participant shall be responsible, at its own expense, for operating and maintaining those Point of Delivery facilities for which it is separately billed.

Unless alternative provision is made in the Project Annual Budget, the cost of installing the initial and any replacement Delivery Meter(s) for each Participant are to be borne of each such Participant. The cost of installing the Master Meter is to be a Project Cost. All such meters are to be considered a part of the Project.

The Second Supply Project Agreement provides that, as Project Operator, Tacoma will be responsible for the calibration and testing of the Master Meter, Project Meters, Joint Delivery Meters, and Delivery Meters (collectively referred to as "All Meters"). All Meters are to be tested for accuracy at least once a year, and the results of such testing are to be made available to all Participants at no charge. The costs of the annual test of the Master Meter and the Project Meters are to be a Project Cost. The costs of the annual tests of the Delivery Meter(s) are to be borne by the Participant whose Project Water deliveries are measured by such Delivery Meter(s). The costs of the annual test of the Joint Delivery Meters are to be apportioned to the Project Participants sharing the meter(s) by separate agreement. In addition to the annual meter test, any Participant may test any meter that measures Project Water at any reasonable time and at such Participant's expense. The results of any additional meter test are to be made available to all other Participants at no charge.

Any and all maintenance, repairs, and replacements to the Master Meter, Project Meters, Joint Delivery Meters, and Delivery Meters are to be the sole responsibility of Tacoma as Project Operator. The costs of any and all maintenance, repairs and replacements of the Master Meter and Project Meters are to be Project Costs. The costs of any and all maintenance, repair and replacement of Delivery Meters are to be borne by the Participant whose Project Water deliveries are measured by such Delivery Meter. The costs of any and all maintenance, repairs, and replacement of Joint Delivery Meters are to be apportioned to the Project Participants sharing the meter(s) by separate agreement.

In the event there is a difference between the quantity of Project Water as measured at the Master Meter and the quantity of Project Water as measured by summing the readings on each of the Delivery Meters, such difference are to be apportioned among the Participants based on the volumes as recorded on each of the Participants meters, unless the Project Committee determines that a different adjustment is appropriate under the circumstances.

For Joint Delivery Meters, an annual comparison is to be done between the summation of daily Joint Delivery Meter readings and the summation of readings from daily Participants' Deliver Meter(s) downstream. If the different between the two annual readings is greater than 2 percent, then an appropriate adjustment to the amount of Project Water delivered to each affected Participant is to be made. The adjustment is to be apportioned among the Participants based on the volumes recorded on each of the Participants' meters, unless the involved Participants determine that a different adjustment is appropriate under the circumstances.

Pursuant to the procedures summarized above under "SECOND SUPPLY PROJECT AGREEMENT—*Project Committee*," the Project Committee is required to establish the size and the flow range within which each Delivery Meter must operate. Should Tacoma determine that any Delivery Meter is operating outside the flow range so established, it will be required to notify in writing the Participant whose Project Water deliveries are measured by such Delivery Meter, and the size of the replacement meter needed to operate within the flow range. Tacoma will be required to provide the Participant an opportunity to discuss the problem with the existing Delivery Meter, and the need for the proposed replacement Delivery Meter. After providing such written notice, Tacoma may replace the faulty Delivery Meter and bill the Participant for the costs of procuring and installing such meter, and such Participant will be obligated to pay such bill.

The Flow Control Valve for each Participant is to be owned by and under the control of each Participant, and Flow Control Valves will not be a part of the Project. Each Participant is responsible for the operation and control of its own Flow Control Valve. Upon reasonable notice and subject to scheduling with the other Participant, each Participant is to have the right to enter the meter and/or valve vault or vaults of any other Participant for any reason related to the Project.

As Project Operator, Tacoma is to have access to the control signals from each meter station, and access to each vault in which a Delivery Meter is located. Each Participant is to have the right to receive the control signal for its Delivery Meter(s), and the control signal from any other meters operated in conjunction with the Project. The costs of equipment necessary to receive any such control signals are to be borne by the Participant receiving such signals.

### ***Deliveries of Project Water in Excess of Schedules***

The Second Supply Project Agreement provides that, as Project Operator, Tacoma is to monitor the delivery of Project Water to each Participant to ensure that the withdrawals and deliveries of Project Water comport with the schedules submitted by each Participant.

Should Tacoma determine that a Participant is receiving deliveries of Project Water at their Point(s) of Delivery in excess of their scheduled amounts, Tacoma will be required to notify such Participant of the excess deliveries, and the Participant will be required to promptly take the steps necessary to reduce its deliveries to amounts equal to its scheduled amounts, or to revise its schedules to reflect the level of deliveries it is receiving.

If the Participant receiving deliveries in excess of its scheduled amounts has not taken action to revise its schedules or to reduce its deliveries to a level equal to its scheduled amounts within twenty-four hours of receiving notice from Tacoma, Tacoma may take any action it deems necessary to reduce the deliveries to a level equal to the Participant's scheduled amounts.

For any Participant that has received deliveries of Project Water in excess of its scheduled amount, Tacoma is to deduct from such Participant's balance of water remaining in Storage an amount equal to such excess delivery. If such excess deliveries exceed the water remaining in Storage for such Participant, Tacoma is to charge such Participant the Surcharge Rate for such excess deliveries that cannot be deducted from the Participant's Storage balance.

For any Participant that takes delivery of Project Water in excess of scheduled amounts, and does so in a manner that deprives any other Participant of their right to receive delivery of their Participant Share of Project Water without the agreement of such Participant, then if any Participant protests, or if Tacoma deems appropriate, Tacoma is to submit said matter to the Project Committee for its consideration on whether such excess deliveries be subject to the Surcharge Rate. If approved by the Project Committee, Tacoma is to charge such Participant the Surcharge Rate for such deliveries in excess of scheduled amounts.

### ***Project Annual Budgets***

At each quarterly meeting of the Project Committee, Tacoma will be required to present to the Participants a comparison of actual expenditures to expenditures projected in the Project Annual Budget for the then current calendar year, with an explanation of any material variations between budget and actual amounts.

Not later than each July 1<sup>st</sup>, Tacoma will be required to prepare and submit to the Project Committee a proposed Project Annual Budget for the next calendar year, the work papers supporting each of the elements set forth in such proposed Project Annual Budget and a comparison of actual expenditures to the expenditures projected Project Annual Budget for the then current calendar year. Each such proposed Project Annual Budget shall contain, at a minimum, the following elements:

- amounts necessary to operate and maintain the Project;

- for Variable O&M Costs, the cost per million gallons (“MG”);
- proposed Capital Expenditures including proposed Capital Expenditures for any renewals, replacements, additions or improvements to the Project;
- amounts necessary to replenish any Project contingency fund;
- amounts and timing of any payments due on outstanding Project Bonds;
- amounts and timing of any proposed Project Bond issuances; and
- payment schedules for all elements in the Project Annual Budget.

Each proposed Project Annual Budget is to be prepared generally in the form set forth in the Second Supply Project Agreement. In preparing each proposed Project Annual Budget, Tacoma is to take into account any funds expected to remain, or liabilities left unfunded, which are expected to remain at the end of the then current calendar year.

The Project Committee will have until October 15<sup>th</sup> to approve the Project Annual Budget as submitted by Tacoma, or to approve a Project Annual Budget as revised by the Project Committee. If the Project Committee has not approved a Project Annual Budget by the first day of any calendar year, then Tacoma may operate the Project and expend funds in accordance with the Project Annual Budget from the immediately prior calendar year, and the Participants shall be obligated to pay invoices issued by Tacoma in accordance with such Project Annual Budget unless and until the Project Committee approves a Project Annual Budget for the then current calendar year.

At any time during any calendar year, Tacoma may submit to the Project Committee a proposed revision to any Project Annual Budget then in effect if, in Tacoma’s judgment, the Project Annual Budget then in effect will not be adequate to fund the operation of the Project. The proposed revision, as proposed by Tacoma or as revised by the Project Committee, are to take effect upon approval by the Project Committee.

The Project Committee may modify the deadlines for the submission of the proposed Project Annual Budget, and any action relating thereto.

### ***Payments***

Pursuant to the Second Supply Project Agreement, Tacoma is required to prepare and forward to each Participant invoices for the payment of costs as set forth in the Project Annual Budget then in effect. Each such invoice is to also set forth the operations and maintenance costs that vary with use based on the use of the Project by the Participant in the preceding month or months calculated using the rate for such use contained in the Project Annual Budget then in effect. Such invoices are to be prepared and forwarded to the Participants no more frequently than once each calendar month.

Any Participant may request from Tacoma, and Tacoma is to promptly provide to the requesting Participant, any documentation or other information that the requesting Participant may reasonably require to understand the nature of the costs contained in any invoice.

Payment of any and all invoices forwarded to each Participant by Tacoma shall be due and payable by the Participant receiving such invoice on or before the Due Date, with payment to be made by wire transfer or such other means as agreed to by Tacoma and the Participant, subject to the following:

- For any and all amounts set forth in any such invoice that are required to be paid to satisfy principal and interest obligations set forth in Project Bonds and related covenants, payment shall be made to the Project Bond escrow agent or fiscal agent specified in the Project Annual Budget for such Operating Year.

- For any and all amounts set forth in such invoice, other than those amounts described in the preceding clause, payment is to be made to the bank and account designated by Tacoma; provided however, in the event that a Participant desires to make a cash payment towards its Participant Share of Project Costs (e.g. a capital contribution in aid to construction for Project Costs), said payment are to be made to the Project escrow agent, which is then, as a common paymaster and subject to the approval of Tacoma or Project Committee, as appropriate, to direct said payment for Project Costs.

If full payment of any invoice is not received by Tacoma on or before the Due Date, such payment will be considered past due, and the unpaid amount of such invoice will accrue a late payment charge for each day that the invoice remains unpaid in an amount equal to the product of the unpaid amount of the invoice and the Interest Rate. Such charge will continue to accumulate until the unpaid amount of the invoice and all late payment charges are paid in full to Tacoma. Further, if an invoice or any portion thereof remains unpaid for a period of thirty (30) days after the Due Date, Tacoma may elect to suspend deliveries of Project Water scheduled by any Participant who has failed to make full payment until such Participant has paid all amounts due and owing, and any late payment charges due thereon.

If any Participant disputes all or any portion of an invoice issued by Tacoma, the Participant will be required to pay such invoice in full, and shall indicate in writing to Tacoma the portions of the invoice that the Participant disputes and the reasons therefore. The Participants is to make a good faith effort to resolve such dispute. If such efforts are unsuccessful, either Participant to the dispute may seek resolution of the dispute pursuant to the provisions of the Second Supply Project Agreement summarized below under “SECOND SUPPLY PROJECT AGREEMENT—*Dispute Resolution*.”

If the resolution of any dispute over an invoice, whether by agreement of the Participants or by dispute resolution, results in the payment of money from Tacoma to the Participant disputing a bill, such payment is to include an interest payment for the period commencing with the date the disputed invoice was paid, and ending on the date the payment resolving the dispute is made to the Participant, calculated using the Interest Rate.

Each Participant covenants and agrees in the Second Supply Project Agreement that it shall establish, maintain and collect rates or charges for water and other services, facilities and commodities sold, furnished or supplied by it which shall be adequate to provide revenues sufficient to enable the Participant to make the payments required to be made pursuant to the terms of the Second Supply Project Agreement, and to pay all other charges and obligations payable from or constituting a charge or lien upon such revenues.

Each Participant is required to make the payments required under the Second Supply Project Agreement whether or not the Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment in the operation of the Project for any reason whatsoever, in whole or in part. Such payments will not be subject to any reduction, whether by offset or otherwise, and will not be conditioned upon the performance or nonperformance of any Participant to the Second Supply Project Agreement, including without limitation the Project Operator, or of any entity under the Second Supply Project Agreement or any other agreement or instrument.

### ***True-Up of Variable O&M Costs***

The Second Supply Project Agreement provides that if the cost or costs per MG as calculated as described in the preceding paragraph vary from the cost per MG set forth in the Project Annual Budget for the immediately prior calendar year for such Project uses, Tacoma is to calculate for each Participant either the additional payment required or the credit due based on the actual usage of Project Water by each Participant during the prior calendar year. If any additional payment is due from a Participant, Tacoma is to issue an invoice for such payment. If a credit is due to a Participant, Tacoma is to first apply the credit to the reimbursement of the Regional Water Supply System Operating Reserve Account, in the event such payment is needed pursuant to the provisions of the Second Supply Project Agreement described below under “SECOND SUPPLY PROJECT AGREEMENT—*Regional Water Supply System Operating Reserve Account*.” No interest is to be paid on any such adjustment.

Not later than sixty (60) days after the first day of each calendar year, Tacoma is to calculate the difference between the actual Fixed O&M Costs incurred during the previous calendar year and the Fixed O&M Costs billed to each Participant.

If the Fixed O&M Costs actually incurred as calculated as described in the preceding paragraph varies from that billed, Tacoma is to calculate for each Participant either the additional payment required or the credit due. If any additional payment is due from a Participant, Tacoma is to issue an invoice for such payment. If a credit is due to a Participant, Tacoma is to first apply the credit to the reimbursement of the Regional Water Supply System Operating Reserve Account in the event such payment is needed pursuant to the provisions of the Second Supply Project Agreement described below under “SECOND SUPPLY PROJECT AGREEMENT—*Regional Water Supply System Operating Reserve Account*.” No interest is to be paid on any such adjustment.

### ***Dispute Resolution***

Except as otherwise provided in the Second Supply Project Agreement, any and all disputes arising under the Second Supply Project Agreement are to be resolved by binding arbitration.

Pursuant to the Second Supply Project Agreement, the Participants are to make good faith efforts to resolve by informal discussion any dispute arising under or in connection with the Second Supply Project Agreement. If at any time a Participant to a dispute determines that such informal discussions will not result in a resolution, such Participant may initiate binding arbitration of any dispute arising under or in connection with the Second Supply Project Agreement. Any such arbitration shall be conducted pursuant to the rules for commercial arbitration of the American Arbitration Association or the rules of such other non-judicial dispute resolution service as agreed to by the Participants to the dispute. In any such arbitration proceeding, the Participants to such dispute are to have the rights of discovery available to parties in civil litigation under the Federal Rules of Civil Procedure.

The Second Supply Project Agreement provides that the award of the arbitrators will be final, and may be enforced in any court having jurisdiction. In making any such award, the arbitrators shall have the authority to grant such relief as they deem appropriate, including without limitation the award of damages and the granting of specific performance.

Pending the decision in any binding arbitration process pursuant to the Second Supply Project Agreement, the Participants to such process are to continue to fulfill their respective duties under the Second Supply Project Agreement.

### ***Uncontrollable Forces***

A Participant will not be in breach of the Second Supply Project Agreement as a result of such Participant's failure to perform its obligations under the Second Supply Project Agreement when such failure is due to an Uncontrollable Force, to the extent that such Participant, despite the exercise of due diligence, is unable to remove such Uncontrollable Force. Nothing in the Second Supply Project Agreement will be construed to require any Participant to prevent or settle any strike or labor dispute in order to obtain relief under the provisions of the Second Supply Project Agreement summarized in this section.

Any Participant subject to an Uncontrollable Force that may impair its performance under the Second Supply Project Agreement is required to notify all other Participants as soon as practicable. Any Participant subject to an Uncontrollable Force is to be excused from performance under the Second Supply Project Agreement only for the duration of and to the extent of the Uncontrollable Force. Any Participant subject to an Uncontrollable Force will be required to take all reasonable actions to remove the Uncontrollable Force. Neither the occurrence of an Uncontrollable Force nor the provisions of the Second Supply Project Agreement summarized in this section will relieve any Participant of its obligation to pay money when due under the terms of the Second Supply Project Agreement.

### ***Default of Obligation***

If any Participant fails to make any payment in full when due under the Second Supply Project Agreement for a period of forty-five (45) days or more, Tacoma will be required to make written demand upon such Participant to make payment in full within ten (10) days of the date of such written demand. If the failure to pay is not cured with the ten (10) day time period, the Participant shall be deemed to be in default.

The Second Supply Project Agreement provides that in addition to the remedies summarized above under “SECOND SUPPLY PROJECT AGREEMENT—*Payments*,” if the Participant has been in default of payment for a period of sixty (60) days or more, and the payment in default includes any amounts necessary to make payment on any Project Bonds, then the Project Committee is to offer for assignment to the non-defaulting Participants a pro rata share of the Participant Share of the defaulting Participant. The assignment of the defaulting Participant’s Participant Share is to vest in the assignee all of the rights and obligations under the Second Supply Project Agreement that the defaulting Participant could have exercised by virtue of such Participant Share, including without limitation, the right to use a pro rata share of the Second Diversion Water. If any non-defaulting Participant declines to accept all or any portion of the defaulting Participant’s Participant Share under the Second Supply Project Agreement, such Participant Share (or the remaining portion thereof) is to be reoffered to the remaining non-defaulting Participants until there is no unassigned Participant Shares of the defaulting Participant remaining, or no Participant wishes to accept any additional assignment. Any Participant accepting the assignment of all or any portion of the defaulting Participant’s Participant Shares is upon acceptance of such assignment to cure a proportionate share of any existing default in payment, and is to be responsible for the payment of any and all obligations associated with the Participant Share so assigned under the Project Agreement. For purposes of the provisions of the Second Supply Project Agreement summarized in this paragraph, pro rata share shall mean for each non-defaulting Participant the ratio obtained by dividing its Participant share by the sum of the Participant Shares of the non-defaulting Participants.

If after following the process described in the preceding paragraph there remains unassigned all or a portion of the Participant Share of the defaulting Participant, then Tacoma will be required to have its Participant Share increased in an amount equal to the defaulting Participant’s Participant Share remaining after any reassignment.

The Second Supply Project Agreement provides that the fact that other Participants have assumed the obligation to make payments which were due and owing from the defaulting Participant will not relieve the defaulting Participant of its liability for such payments, and the Participants assuming such obligations, whether individually or as a member of a group, will have a right of recovery from the defaulting Participant. Any Participant, as its interests may appear, whether jointly or severally, may commence such suits, actions or proceedings, at law or in equity, including suits for specific performance, as may be necessary or appropriate to enforce the obligations of the Second Supply Project Agreement against any defaulting Participant. To the extent that a Participant in said litigation is successful, then said Participant is entitled to recover its reasonable attorney fees and costs against the defaulting Participant.

In the event that the Participant Share of a defaulting Participant is assigned to another Participant(s) as described above, the non-defaulting Participants will be required to enter into good faith negotiations to revise by mutual agreement the apportionment of votes and the approval requirements described above under “SECOND SUPPLY PROJECT AGREEMENT—*Project Committee*.” Any such revision are to be done in a manner that recognizes the change in Participant Share as a result of such assignment, while maintaining the initial intentions of the Participants as expressed therein. Absent a mutual agreement to such revision, notwithstanding any assignment pursuant to the Second Supply Project Agreement, no Participant will be entitled to cast the votes allocated to the defaulting Participant.

Pursuant to the Second Supply Project Agreement, taking the actions described in this section, including without limitation a determination of default, will not be subject to dispute resolution provisions described above under “SECOND SUPPLY PROJECT AGREEMENT—*Dispute Resolution*.”

### ***Assignment and Other Arrangements***

Except as otherwise provided in the Second Supply Project Agreement, the rights and obligations of the Second Supply Project Agreement may not be sold, assigned or, otherwise transferred in whole or in part by a Participant to a party that is not a Participant without the prior written consent of all other Participants, which consent shall not be unreasonably withheld.

The Second Supply Project Agreement provides that nothing in the Project Agreement will prohibit a Participant from transferring to any other Participant for a period longer than an Operating Year any right or privilege of such Participant under the Second Supply Project Agreement. Prior to consummating any such transfer, the Participant transferring the right or privilege will be required to provide to all other Participants the contract under which the transfer will occur, and permit the other Participants a reasonable period of time to comment on the proposed transfer. Any such agreement between two or more Participants is not to change the rights and duties of such Participants under the Second Supply Project Agreement.

### ***Waivers***

Except as otherwise provided in the Second Supply Project Agreement or as agreed to by the Participants, no provision of the Second Supply Project Agreement may be waived except as documented or confirmed in writing. Any waiver at any time by a Participant of its rights with respect to a default under the Second Supply Project Agreement or with any other matter arising in connection therewith, will not be deemed a waiver with respect to any subsequent default or matter. Any Participant may waive any notice or agree to accept a shorter notice than specified in the Second Supply Project Agreement. Such waiver of notice or acceptance of shorter notice by a Participant at any time regarding a notice will not be considered a waiver with respect to any subsequent notice required by the Second Supply Project Agreement.

### ***Disposition of Funds Upon Termination of the Project***

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

### ***Amendments***

No change, amendment or modification of any provision of the Second Supply Project Agreement will be valid unless set forth in a written amendment to the Second Supply Project Agreement signed by all Participants. Those changes, amendments or modifications considered by unanimous vote of the Project Committee to be non-substantive in nature may be preliminarily adopted and temporarily implemented by said vote but do not become official until executed as a written amendment signed by all Participants.

### ***Liability***

The Second Supply Project Agreement provides that with respect to actions approved by the Project Committee, any liability, loss, cost, damages or expense suffered by the Project are to be deemed a Project Cost and are to be shared by all Participants in accordance with their respective Participant Share. With respect to actions or omissions by Tacoma, if related to Tacoma's duties in operating and managing the Project pursuant to the Second Supply Project Agreement, then any liability, loss, cost, damages or expense suffered by the Project as a result of such actions or omissions are to be deemed a Project Cost, and are to be shared by each Participant in accordance with their respective Participant Share, excepting only those resulting from actions or omissions by Tacoma that are determined to be inconsistent with Prudent Utility Practice.

### ***Regional Water Supply System Operating Reserve Account***

Pursuant to the Second Supply Project Agreement, to provide for operating cash to cover Regional Water Supply System Fixed O&M Costs and Variable O&M Costs during the period of time from when expenses are incurred by Tacoma until the costs are reimbursed, Tacoma is required to maintain an operating reserve account equal to two-months Fixed O&M Costs and Variable O&M Costs as projected in the current Project Annual Budget. Each Participant is required to pay into the operating reserve account an amount equal to its two-month Participant Share of Fixed O&M Costs and, for Variable O&M Costs, an amount equal to two-months of its Variable O&M Costs as projected in the current Project Annual Budget.

Not later than sixty (60) days after the first day of each calendar year, Tacoma is to calculate the funds necessary to maintain the Regional Water Supply System Operating Reserve Account equal to two months' Fixed O&M Costs and Variable O&M Costs as projected in the current year Project Annual Budget for each Participant, consistent with the payment requirements of the Second Supply Project Agreement described in the preceding paragraph.

If the funds necessary to maintain the Regional Water Supply System Operating Reserve Account equal to two months' Fixed O&M Costs and Variable O&M Costs as projected in the Project Annual Budget vary from the actual amount in the Regional Water Supply System Operating Reserve Account after the above calculation is made, Tacoma will be required to calculate for each Participant either the additional payment required or the credit due to maintain the Regional Water Supply System Operating Reserve Account equal to two months' Fixed O&M Costs and Variable O&M Costs of the current Project Annual Budget. If a payment is required, Tacoma is to issue an invoice for such payment pursuant. No interest is to be paid on any such adjustment.

Any interest earned on the Regional Water Supply System Operating Reserve Account is to be used as a credit, based on each Participant's cash balance in the Regional Water Supply System Operating Reserve Account, in the annual calculation performed as described above.

Pursuant to the Second Supply Project Agreement, should the Regional Water System Reserve Account be dissolved for any reason, the funds are to be returned to the Project Participants consistent with each Participant's cash balance in the Regional Water Supply System Operating Reserve Account.

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Certificate”) is executed and delivered by the City of Tacoma, Washington (the “City”), in connection with the issuance by the City of its Water System Revenue Refunding Bonds, Series 2024 (Green Bonds) (the “Bonds”) pursuant to Ordinance No. 28899, passed by the City Council on August 1, 2023 (the “Bond Ordinance”). Pursuant to the Bond Ordinance, the City hereby covenants and agrees as follows:

Section 1. Purpose of this Certificate. This Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (each as defined below).

Section 2. Definitions. In addition to the definitions set forth herein, in the Bond Ordinance or in the Official Statement, which apply to any capitalized term used in this Certificate unless otherwise defined herein, the following capitalized terms shall have the following meanings:

*Commission* means the Securities and Exchange Commission.

*Financial obligation* means a (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of clause (A) or (B) of this definition. The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

*MSRB* means the Municipal Securities Rulemaking Board.

*Official Statement* means the Official Statement related to the Bonds.

*Participating Underwriters* mean the original underwriters of the Bonds required to comply with the Rule in connection with offering the Bonds.

*Rule* means Section (b)(5) of Commission’s Rule 15c2-12 under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provisions of Annual Information.

(a) *Financial Statements/Operating Data.* The City agrees to provide or cause to be provided to the MSRB, the following annual financial information and operating data for the prior fiscal year (commencing in 2024 for the fiscal year ended December 31, 2023):

- (1) annual financial statements of Tacoma Public Utilities Water Division, which statements will include the Water Division Fund, prepared (except as otherwise noted therein) in accordance with the Budget Accounting and Reporting System presented by the State Auditor pursuant to RCW 43.09.200 (or any successor statute), which statements may be unaudited, provided that if and when audited financial statements are otherwise prepared and available to the City, they will be provided;
- (2) principal amount of outstanding Parity Bonds and debt service coverage;
- (3) water rates; and
- (4) number of customers and water sales.

Items (2)-(4) shall be required only to the extent that such information is not included in the annual financial statements. The annual financial information may be provided in a single or multiple documents and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

The information and data described above shall be provided on or before the last day of the ninth month after the end of the City's fiscal year. The City's fiscal year currently ends on December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the City may cross refer to other documents available to the public on the MSRB's internet website or filed with the Commission.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with the Budgeting Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) when and if available to the MSRB.

(b) *Listed Events.* The City further agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- Modifications to the rights of Bondholders, if material;
- Optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856, if material, and tender offers;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the Bonds, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the City;
- The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- Incurrence of a financial obligation of the City, if material, or agreements to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

Section 4.        Notification Upon Failure to Provide Financial Data. The City agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information described in above on or prior to the date set forth in above.

Section 5.        EMMA; Format for Filings with the MSRB. Until otherwise designated by the MSRB or the Commission, any information or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at [www.emma.msrb.org](http://www.emma.msrb.org). All notices, financial information and operating data required by this undertaking to be

provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination/Modification. The City's obligations to provide annual financial information and notices of listed events with respect to the Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of such series of Bonds. Any provision of this undertaking shall be null and void if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds and (2) notifies the MSRB of such opinion and the cancellation of all or any portion of this undertaking.

Notwithstanding any other provision of this certificate, the City may amend this certificate, and any provision of the undertaking contained herein may be waived, in accordance with Rule, which, as currently interpreted by the Commission, requires that (i) the amendment or waiver be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted; (ii) the undertaking, as amended or waived, would have complied with the requirements of Rule at the time of the primary offering, after taking into account any amendments or interpretations of Rule, as well as any change in circumstances; and (iii) the amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by parties unaffiliated with the City (such as bond counsel) or by the approving vote of holders of the Bonds.

In the event of any amendment or waiver of the undertaking provided for in this certificate, the City shall describe such amendment or waiver in the next annual report, and shall include a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a listed event above, and (ii) the annual report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 7. Bond Owner's Remedies. The right of any bond owner or beneficial owner of Bonds to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the City's obligations under this undertaking, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds. For purposes of this Certificate, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 8. Responsible Officer; Dissemination Agent. The City Finance Director, or such individual's designee, is designated to carry out this undertaking in accordance with Rule 15c2-12. The City may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent.

DATED this 25th day of January, 2024.

CITY OF TACOMA, WASHINGTON

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## APPENDIX G

### PROPOSED FORM OF OPINION OF BOND COUNSEL

January 25, 2024

City of Tacoma  
Tacoma, Washington

Re: City of Tacoma, Washington  
Water System Revenue Refunding Bonds, Series 2024 (Green Bonds)  
\$63,800,000

To the Addressee:

We have acted as bond counsel to the City of Tacoma (the “City”), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Water System Revenue Refunding Bonds, Series 2024 (Green Bonds), in the principal amount of \$63,800,000 (the “Bonds”) issued pursuant to Ordinance No. 28899 (the “Bond Ordinance”), to refund, on a current basis, all of the outstanding Water System Revenue and Refunding Bonds, 2013, and to pay costs of issuing the Bonds. Capitalized terms used in this opinion have the meanings given such terms in the Bond Ordinance.

The Bonds are subject to redemption prior to maturity as provided in the Bond Ordinance and in the Official Statement prepared in connection with the issuance of the Bonds. The City has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Code”).

Regarding questions of fact material to our opinion, we have relied on representations of the City in the Bond Ordinance, the Tax Certificate executed by the City in connection with the issuance of the Bonds and the exhibits attached thereto, and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding special obligations of the City, payable from and secured solely by the sources identified in the Bond Ordinance, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The Bond Ordinance is a legal, valid and binding obligation of the City, has been duly authorized, executed and delivered and is enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The Bonds are special fund obligations of the City payable from the sources identified in the Bond Ordinance. The City has pledged that the payments to be made into the Bond Fund out of Gross Revenue of the Water System shall be a lien and charge thereon equal in rank to the lien and charge upon such Gross Revenue of the amounts required to pay and secure the payment of the Outstanding Parity Bonds and any Water System revenue bonds of the City hereafter issued on a parity with the Bonds, and superior to all other liens and charges except the Operation and Maintenance Expenses of the Water System and payments pursuant to Contract Resource

Obligations. The City has reserved the right to issue Future Parity Bonds on the terms set forth in the Bond Ordinance.

4. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, interest on the Bonds is taken into account in determining annual adjusted financial statement income for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Except as expressly stated above, we express no opinion regarding any tax consequences related to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material related to the Bonds (except to the extent, if any, stated in the Official Statement), and we express no opinion relating thereto, or relating to the undertaking by the City to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

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

Very truly yours,

PACIFICA LAW GROUP LLP

**APPENDIX H**

**CITY OF TACOMA WATER SYSTEM  
2022 FINANCIAL STATEMENTS**

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# 20 Tacoma Water 22 Annual Financial Report

FOR THE FISCAL YEAR ENDING  
**DECEMBER 31, 2022**  
PREPARED BY THE FINANCE DEPARTMENT

**TACOMA**  **WATER**  
TACOMA PUBLIC UTILITIES

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# Public Utility Board

CARLOS M. WATSON

Chair

JOHN O'LOUGHLIN

Vice-Chair

HOLLAND COHEN

Secretary

WILLIAM BRIDGES

Member

ELLY CLAUS-MCGAHAN

Member

JACKIE FLOWERS

Director of Utilities

SCOTT DEWHIRST

Water Superintendent

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

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City of Tacoma, Washington  
Department of Public Utilities, Water Division  
Doing Business as

# Tacoma Water

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# Financial Data

## **Report of Independent Auditors**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of the City of Tacoma, Department of Public Utilities, Water Division (the Division), which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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

#### ***Basis for Opinion***

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

#### ***Financial Reporting Entity***

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not, present fairly the financial position of City of Tacoma, Washington, as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### ***Emphasis of Matter***

As discussed in Note 3 of the financial statements, the Division adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective January 1, 2021. The financial statements have been retroactively restated in accordance with the requirements of the new accounting standard. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, Proportionate Share of Net Pension Liability Last 10 Years, Schedule of Contributions Last 10 Fiscal Years, and Proportionate Share of the Collective OPEB Liability Last 10 Years (the "required supplementary information"), as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Management is responsible for the other information included in the table of contents. The other information comprises the statistical data and graphs but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2023, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Tacoma, Washington  
June 5, 2023

# Management Discussion and Analysis

The following management discussion and analysis of Tacoma Water's (Utility) financial performance provides an overview of the financial activities for the years ended December 31, 2022, 2021 and 2020. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and the accompanying notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2022 and 2021, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of Tacoma Water's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

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

## Financial Highlights

- Tacoma Water reported an increase in net position of \$23.1 million or 3.5% in 2022 compared to an increase of \$16.5 million or 2.6% in 2021.
- Operating revenues increased by \$3.9 million or 3.5% in 2022. Operating revenues increased \$6.9 million or 6.6% in 2021.
- Utility Plant in Service increased \$23.6 million or 2.6% in 2022 and \$11.8 million or 1.3% in 2021.
- Construction work in progress decreased \$4.4 million or 21.3% in 2022 compared to a decrease of \$5.2 million or 20.3% in 2021.

## Overview of the Financial Statements

Tacoma Water reported net operating income of \$25.9, \$21.4, and \$21.2 million in 2022, 2021, and 2020, respectively. In 2022, operating revenues increased by \$3.9 million and operating expenses decreased by \$603,000. For 2021, operating revenues increased by \$6.9 million and operating expenses increased by \$6.7 million.

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

### Operating Results

(In thousands)

Category	2022	2021 (As Restated)	2020	22/21	21/20
				Increase (Decrease)	Increase (Decrease)
Operating Revenues	\$ 115,218	\$ 111,366	\$ 104,468	\$ 3,852	\$ 6,898
Operating Expenses	89,325	89,928	83,239	(603)	6,689
Net Operating Income	25,893	21,438	21,229	4,455	209
Net Non-Operating Expenses	(20,589)	(15,833)	(11,392)	(4,756)	(4,441)
Capital Grants and Contributions	20,742	15,398	16,459	5,344	(1,061)
Federal BAB Subsidies	3,622	3,630	3,651	(8)	(21)
Transfers	(6,586)	(8,103)	3,302	1,517	(11,405)
Change in Net Position	\$ 23,082	\$ 16,530	\$ 33,249	\$ 6,552	\$ (16,719)

### Gallons Billed

(In millions)

Type of Customer	2022	2021	2020	22/21	21/20
				Increase (Decrease)	Increase (Decrease)
Residential	8,568	9,353	8,912	(785)	441
Commercial & Industrial	8,950	9,266	9,047	(316)	219
Wholesale	696	922	728	(226)	194
Total	18,214	19,541	18,687	(1,327)	854

## Net Position

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

### Statements of Net Position (In thousands)

Description				22/21	21/20
	2022	2021 (As Restated)	2020	Increase (Decrease)	Increase (Decrease)
Net Utility & Non-Utility Plant	\$ 932,773	\$ 909,208	\$ 897,352	\$ 23,565	\$ 11,856
Current & Other Assets	227,346	231,587	243,589	(4,241)	(12,002)
Total Assets	1,160,119	1,140,795	1,140,941	19,324	(146)
Deferred Outflows	10,016	10,670	6,255	(654)	4,415
Total Assets & Deferred Outflows	<u>\$ 1,170,135</u>	<u>\$ 1,151,465</u>	<u>\$ 1,147,196</u>	<u>\$ 18,670</u>	<u>\$ 4,269</u>
Net Position:					
Net Investment in Capital Assets	\$ 551,436	\$ 512,097	\$ 484,405	\$ 39,339	\$ 27,692
Restricted for:					
Water Capital and Sys Dev Chg	56,719	73,158	79,233	(16,439)	(6,075)
Debt Service Funds	2,057	2,339	2,678	(282)	(339)
Net Pension Asset	14,153	-	1,637	14,153	(1,637)
Unrestricted	51,312	65,001	68,112	(13,689)	(3,111)
Total Net Position	<u>675,677</u>	<u>652,595</u>	<u>636,065</u>	<u>23,082</u>	<u>16,530</u>
Long-Term Debt	383,331	398,389	414,308	(15,058)	(15,919)
Current & Other LT Liabilities	59,032	63,244	54,659	(4,212)	8,585
Total Liabilities	442,363	461,633	468,967	(19,270)	(7,334)
Deferred Inflows	52,095	37,237	42,164	14,858	(4,927)
Total Net Position, Liabilities & Deferred Inflows	<u>\$ 1,170,135</u>	<u>\$ 1,151,465</u>	<u>\$ 1,147,196</u>	<u>\$ 18,670</u>	<u>\$ 4,269</u>

## Revenues

Tacoma Water's operating revenues were \$115.2 million in 2022, an increase of \$3.9 million or 3.5% compared to 2021. Sales of water increased in 2022 by a net of \$2.2 million of which \$10.7 million is due to an average service rate increase and \$8.5 million decrease is due to consumption. There was an average rate increase of 2.0% effective January 1, 2022. In addition, other operating revenues increased by \$989,000 and an increase in contract resource obligations revenues of \$674,000 from Regional Water Second Supply (RWSS) Partners to reimburse Tacoma Water for O&M related expenses.

Tacoma Water's operating revenues were \$111.4 million in 2021, an increase of \$6.9 million or 6.6% compared to 2020. Sales of water increased in 2021 by a net of \$6.3 million of which \$805,000 is due to an average service rate increase and \$5.5 million is due to an increase in consumption. There was an average of 1.5% effective January 1, 2021. In addition, other operating revenues increased by \$248,000 and an increase in contract resource obligations revenues of \$358,000 from Regional Water Second Supply (RWSS) Partners to reimburse Tacoma Water for O&M related expenses.

The following table highlights water sales by type of customer for 2022, 2021 and 2020.

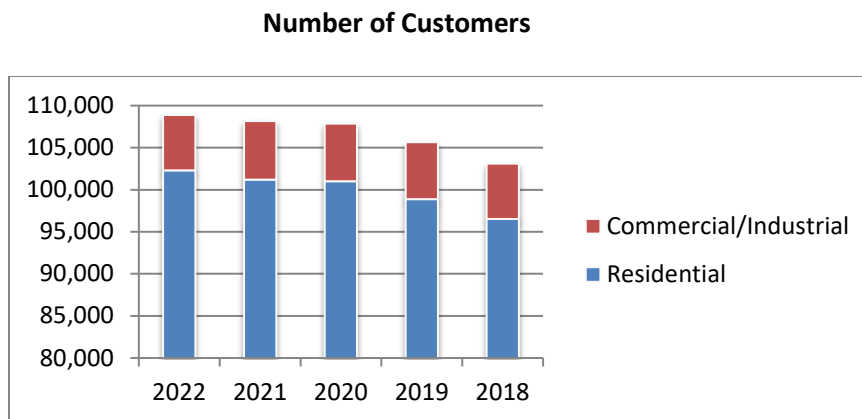
<b>Water Sales</b> (In thousands)					
Type of Customer	2022	2021	2020	22/21 Increase (Decrease)	21/20 Increase (Decrease)
Residential & Domestic	\$ 69,127	\$ 67,702	\$ 64,487	\$ 1,425	\$ 3,215
Commercial & Industrial	21,919	20,816	18,725	1,103	2,091
Special Rate	7,344	7,284	7,109	60	175
Wholesale	2,434	2,711	2,283	(277)	428
Unbilled Revenue	364	486	104	(122)	382
<b>Total</b>	<b>\$ 101,188</b>	<b>\$ 98,999</b>	<b>\$ 92,708</b>	<b>\$ 2,189</b>	<b>\$ 6,291</b>

Approximately 68.3%, 68.4% and 69.6% of water sales were to residential and domestic customers in 2022, 2021, and 2020, respectively. Commercial and industrial sales were 21.7%, 21.0%, and 20.2% total sales for each year. Special rate sales were 7.3%, 7.4%, and 7.7% of sales respectively.

### Customers

Over the last five years, the overall number of customers has remained relatively stable. In 2022, 94.0% of all customers were residential compared to 93.6% in 2021 and 2020. Commercial and industrial customers were 6.0% in 2022 and remained at 6.4% in 2021 and 2020.

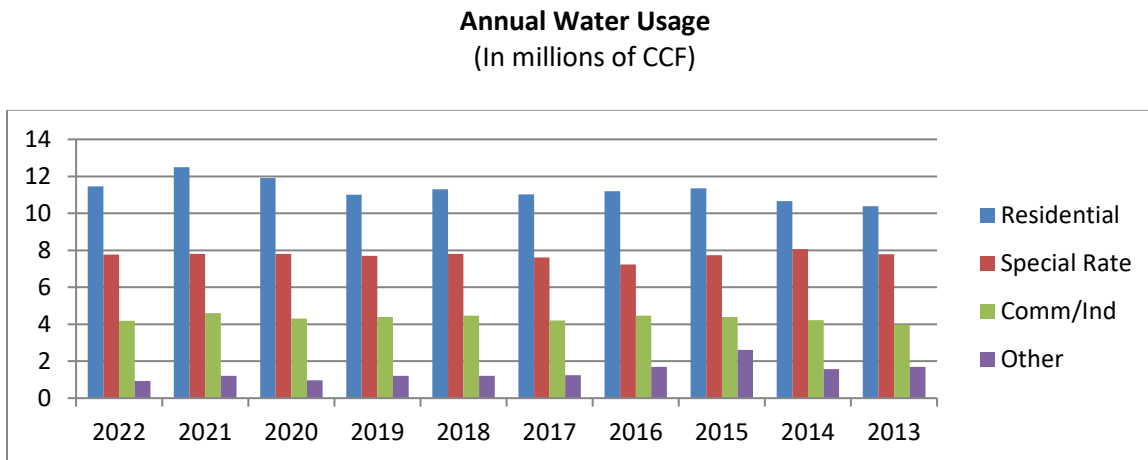
Below is a graphical representation of the number of customers by customer type for the last 5 years.



## Water Users

Tacoma Water generates the majority of its revenues from its residential and domestic customer base. Consumption is measured in 100 cubic feet (CCF). In the years 2022, 2021, and 2020 residential customers used 11.5 million CCF or 47.1%, 12.5 million CCF or 47.8% and 11.9 million CCF or 47.7% of total consumption, respectively. Special Rate customers used approximately 7.8 million CCF or 31.9%, 7.8 million CCF or 29.7% and 7.8 million CCF or 31.0%, respectively. Commercial and industrial customers used 4.2 million CCF or 17.2%, 4.6 million CCF or 17.8% and 4.3 million CCF or 17.4%, respectively. The remaining 931,000 CCF or 3.8%, 1.2 million CCF or 4.7% and 973,000 CCF or 4.0%, respectively was consumed by other customers.

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



## Expenses

### 2022 Compared to 2021

In 2022, operating expenses decreased \$603,000 or 0.7%, compared to an increase of \$6.7 million or 8.0% in 2021.

The decreases are mainly \$3.5 million decrease in bad debt expense due to lower aging accounts receivable and \$4.2 million decrease in GASB 68 pension adjustment. These decreases are off-set with the increases of \$2.3 million in labor costs due to general wage increases as well as additional filled positions, and \$3.5 million increase due to price increases, inflation, and supply chain issues. Taxes increased by \$718,000 due to University Place franchise administrative rate increase from 3% to 6% in 2022. Depreciation increased by \$673,000 due to a net increase in depreciable assets of \$11.8 million in 2021.

### 2021 Compared to 2020

In 2021, operating expenses increased \$6.7 million or 8.0%, compared to an increase of \$2.4 million or 3.0% in 2020.

Personnel expenses increased \$2.3 million primarily due to 18 additional full time employees filled in 2021 and cost of living adjustments compared to 2020. Interns were hired in 2021, but the intern program was cancelled in 2020. Depreciation increased by \$2.0 million primarily due to the transfer of fleet division assets to Water in 2020. Assessments from internal service funds increased by \$867,000 compared to 2020. Bad debt expense increased \$839,000 due to an increase in aging accounts receivable. An increase of \$648,000 is attributed to general increases on electricity, insurance, rent, and credit card fees.

The following table highlights Tacoma Water's operating expenses for 2022 – 2020.

<b>Operating Expenses</b> (In thousands)					
Category	2021			22/21	21/20
	2022	(As Restated)	2020	Increase (Decrease)	Increase (Decrease)
Operations Expense					
Power Pumping Expense	\$ 668	\$ 653	\$ 737	\$ 15	\$ (84)
Transmission & Storage Expense	3,669	3,953	1,715	(284)	2,238
Distribution Expense	15,747	16,324	17,359	(577)	(1,035)
Total Operations Expense	20,084	20,930	19,811	(846)	1,119
Production Expense					
Source of Supply	2,763	3,355	4,684	(592)	(1,329)
Water Treatment	10,641	9,914	9,637	727	277
Total Production Expense	13,404	13,269	14,321	135	(1,052)
Administrative and General					
Customer Accounting & Service	5,886	5,438	5,375	448	63
Other Administrative & General	14,963	16,693	12,610	(1,730)	4,083
Total Administrative and General	20,849	22,131	17,985	(1,282)	4,146
Depreciation	28,400	27,728	25,724	672	2,004
Lease Amortization	14	14	-	-	14
Taxes	6,574	5,856	5,398	718	458
Total Operating Expenses	\$ 89,325	\$ 89,928	\$ 83,239	\$ (603)	\$ 6,689

### Non-Operating Revenues (Expenses)

Interest income decreased \$1.5 million in 2022 primarily due to significant decrease in fair value of investments by \$2.2 million and lower interest rates brought down investment earnings by \$220,000. The City bought securities at a discount in 2022 compared to buying securities at a premium in 2021 and this partly offset decrease in income by \$910,000.

Other revenues/ (expenses) decreased by \$1.6 million primarily due to \$1.8 million expenses to assist overdue utility accounts receivable. The Division received \$1.8 million federal funds as pass-through federal funds from Neighborhood and Community Services (NCS) as part of Emergency Rental Assistance, Tenant Utility Assistance, and the corona virus state fiscal recovery fund federal appropriation programs. The fundings were applied to overdue utility accounts receivable for customers impacted by COVID-19.

Gain on Sale/Disposal of Capital Assets decreased by \$2.0 million because of the sale of land to the Puyallup School District in 2021.

### Capital Grants and Contributions

Capital Grants increased by \$778,000 representing the federal grant from the Department of Interior – Bureau of Reclamation for WaterSMART project (Sustain and Manage America's Resources for Tomorrow).

### Transfers

Transfers from/(to) Other Funds increased by \$1.9 million mainly due to \$1.8 million federal funds from NCS as discussed in the Non-operating Revenues (Expenses) section.

## Capital Assets

Tacoma Water invests in a broad range of utility assets and at the end of 2022 had \$932.3 million in net utility plant, an increase of \$23.6 million from 2021.

Plant in Service increased \$51.1 million compared to 2021. This increase is primarily due to the increase of \$18.9 million in cast iron mains, \$3.4 million in services, pipes and accessories, \$139,000 in meters, \$18.1 million in AMI (Advance Metering Infrastructure), \$1.7 million in hydrants, and \$6.2 million in miscellaneous intangible assets. Intangible assets additions mainly included advanced meter modules and software, workforce management software, and easements. Also in 2022, 15.77 miles of water main were added or replaced, 2.94 miles of water main were retired and construction was completed on 31 private contracts resulting in 12.83 net miles.

At the end of 2021, Tacoma Water had \$908.7 million in net utility plant, an increase of \$11.8 million compared to 2020.

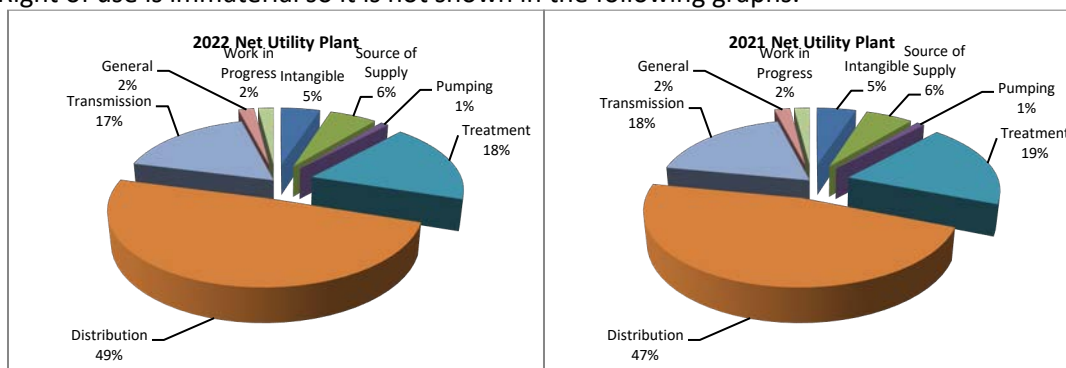
Plant in Service increased \$36.7 million compared to 2020. This increase is primarily due to the increase of \$11.3 million in cast iron mains, \$3.5 million in services, pipes and accessories, \$9.1 million in meters, \$1.8 million in hydrants, and \$6.4 million in miscellaneous intangible assets. Intangible assets additions mainly included advanced meter modules and software, workforce management software, and easements. Also in 2021, 13.56 miles of water main were added or replaced, 2.69 miles of water main were retired and construction was completed on 27 private contracts resulting in 10.87 net miles.

The following table summarizes Tacoma Water's capital assets, net of accumulated depreciation, for 2022 – 2020.

**Capital Assets, Net of Accumulated Depreciation**  
(In thousands)

		2021		22/21	21/20
Net Utility Plant	2022	(As Restated)	2020	Increase (Decrease)	Increase (Decrease)
Intangible Plant	\$ 51,114	\$ 45,495	\$ 38,971	\$ 5,619	\$ 6,524
Right to Use Lease Assets	25	39	-	(14)	39
Source of Supply Plant	51,185	52,878	54,171	(1,693)	(1,293)
Pumping Plant	7,665	5,216	5,389	2,449	(173)
Water Treatment Plant	166,385	175,000	183,532	(8,615)	(8,532)
Transmission Plant	158,485	161,850	165,638	(3,365)	(3,788)
Distribution Plant	460,422	430,184	406,452	30,238	23,732
General Plant	20,886	17,583	17,010	3,303	573
Construction Work In Progress	16,113	20,470	25,696	(4,357)	(5,226)
Total	\$ 932,280	\$ 908,715	\$ 896,859	\$ 23,565	\$ 11,856

The following graphs provide a visual presentation of the allocation of Tacoma Water's capital investments in 2022 and 2021. Right of use is immaterial so it is not shown in the following graphs.



Additional information on capital assets can be found in Note 5 of the financial statements.

## **Debt Administration**

At December 31, 2022 Tacoma Water had outstanding revenue bond obligations of \$338.6 million (inclusive of unamortized bond premiums), a decrease of \$9.7 million compared to 2021. As of year-end 2021, the Utility had outstanding revenue bond obligations of \$348.3 million (inclusive of unamortized bond premiums), a decrease of \$9.5 million compared to 2020.

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

Tacoma Water is required by bond covenants to maintain a debt service coverage ratio of 1.25 for principal and interest. Debt service coverage ratios (excluding RWSS) were 2.73, 2.74, and 2.74 in 2022, 2021 and 2020, respectively.

At the end of 2022, Tacoma Water had an outstanding State loan balance of \$58.7 million compared to \$64.8 million in 2021 and \$71.8 million in 2020.

Additional information on Tacoma Water's long-term debt can be found in Note 7 of the financial statements and in the supplementary statistical data.

## **Summary**

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray Tacoma Water's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information.

The financial statements have been audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

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

## **Request for Information**

Water financial statements are designed to provide a general overview of the Division's finances, as well as to demonstrate the Division's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.

# Financial Statements

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Statements of Net Position

	DECEMBER 31,	
	2022	2021 (As Restated)
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>UTILITY PLANT</b>		
In Service, at Original Cost	\$1,272,776,387	\$1,221,697,392
Less - Accumulated Depreciation	(356,634,343)	(333,491,315)
Total	916,142,044	888,206,077
Right to Use Lease Assets	52,613	52,613
Less - Accumulated Amortization	(27,548)	(13,725)
Total	25,065	38,888
Construction Work In Progress	16,113,019	20,469,919
Net Utility Plant	932,280,128	908,714,884
<b>NON-UTILITY PROPERTY</b>	492,963	492,963
<b>SPECIAL FUNDS</b>		
Debt Service Funds	3,646,592	3,970,318
Bond Reserve Funds	21,687,280	21,692,269
System Development Charge Fund	80,044,101	78,768,249
Other Cash & Equity in Pooled Investments	20,419,709	39,456,220
Total Special Funds	125,797,682	143,887,056
<b>CURRENT ASSETS</b>		
Operating Funds Cash and Equity in Pooled Investments	60,997,546	63,099,465
Grant Receivable	348,108	482,056
Accounts Receivable	6,360,358	7,920,878
(Net of Allowance for Doubtful Accounts of \$2,064,440 in 2022 and \$3,599,687 in 2021)		
BABs Interest Subsidies Receivable	2,112,742	301,820
Accrued Unbilled Revenues	6,771,474	6,407,783
Materials and Supplies	5,289,260	3,167,556
Prepayments	2,231,806	2,868,389
Total Current Assets	84,111,294	84,247,947
<b>OTHER ASSETS</b>		
Regulatory Asset-Surcharges	3,284,200	3,451,604
Net Pension Asset	14,152,644	-
Total Other Assets	17,436,844	3,451,604
<b>TOTAL ASSETS</b>	1,160,118,911	1,140,794,454
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Losses on Refunding Bonds	427,204	614,449
Deferred Outflows for Pensions	7,782,163	8,570,873
Deferred Outflows for OPEB	1,806,572	1,484,797
Total Deferred Outflows of Resources	10,015,939	10,670,119
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$1,170,134,850</u>	<u>\$1,151,464,573</u>

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

	DECEMBER 31,	
		2021
NET POSITION, LIABILITIES AND DEFERRED INFLOWS	2022	(As Restated)
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$551,436,437	\$512,096,580
Restricted for:		
Water Capital and System Development Charge	56,719,126	73,158,293
Debt Service Funds	2,056,732	2,339,098
Net Pension Asset	14,152,644	-
Unrestricted	51,311,959	65,000,909
Total Net Position	675,676,898	652,594,880
<b>LONG-TERM DEBT</b>		
Revenue Bonds	330,212,955	339,675,968
Public Works Trust Fund Loans	8,338,921	9,864,297
Drinking Water State Revolving Fund Loan	44,778,674	48,848,868
Total Long-Term Debt	383,330,550	398,389,133
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	14,014,913	14,745,235
Current Maturities of Long-Term Liabilities	160,291	164,300
Accrued Taxes	2,238,982	1,842,017
Accrued Expenses and Contracts Payable	5,220,571	3,434,544
Salaries, Wages and Fringe Benefits Payable	1,480,771	1,469,408
Interest Payable	1,589,860	1,631,220
Customers' Deposits	233,226	186,085
Current Lease Liability	14,098	14,098
Total Current Liabilities	24,952,712	23,486,907
<b>LONG-TERM LIABILITIES</b>		
Muckleshoot Agreements	5,919,906	6,080,198
Customer Advances for Construction	12,093,103	12,163,597
Unearned Revenue	6,037,349	6,048,610
Long-Term Accrued Compensated Absences	3,196,288	2,942,578
Net Pension Liability	-	6,337,863
Net OPEB Liability	5,350,651	4,780,773
Long Term Lease Liability	11,379	25,021
Other Long-Term Liabilities	1,470,678	1,378,409
Total Long-Term Liabilities	34,079,354	39,757,049
<b>TOTAL LIABILITIES</b>	442,362,616	461,633,089
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate Stabilization	35,575,447	35,575,447
Deferred Inflows for Pensions	16,189,221	1,356,280
Deferred Inflows for OPEB	330,668	304,877
Total Deferred Inflows of Resources	52,095,336	37,236,604
<b>TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS</b>	\$1,170,134,850	\$1,151,464,573

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City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Statements of Revenues, Expenses and Changes in Net Position

	YEAR ENDED DECEMBER 31,	
	2022	2021 (As Restated)
<b>OPERATING REVENUES</b>		
Sale of Water	\$101,188,399	\$98,999,183
Other Operating Revenues	8,201,778	7,213,114
Contract Resource Obligation Revenues	5,827,521	5,153,589
Total Operating Revenues	115,217,698	111,365,886
<b>OPERATING EXPENSES</b>		
Operations	20,083,968	20,930,455
Production	13,403,935	13,268,765
Administrative and General	20,848,806	22,130,866
Depreciation	28,400,190	27,727,624
Lease Amortization	13,823	13,725
Taxes	6,574,082	5,856,255
Total Operating Expenses	89,324,804	89,927,690
Net Operating Income	25,892,894	21,438,196
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment Income (Loss)	(2,687,718)	(1,182,910)
Interest Expense on Lease Activity	(456)	(604)
Operating Grants	16,500	3,400
Other	(1,250,616)	323,496
Gain on Sale/Disposal of Capital Asset	230,072	2,118,197
Interest on Long-Term Debt	(17,752,684)	(18,080,563)
Amortization of Premium and Loss on Refunding	856,425	986,172
Total Non-Operating Expenses	(20,588,477)	(15,832,812)
Net Income Before Capital Contributions and Transfers	5,304,417	5,605,384
Capital Contributions		
Cash	8,671,125	7,636,173
Capital Grants	1,256,942	478,656
Donated Capital Assets	10,813,613	7,283,053
Federal BAB Subsidies	3,621,843	3,629,294
Transfers		
City of Tacoma Gross Earnings Tax	(8,728,920)	(8,305,896)
Transfer from/(to) Other Funds	2,142,998	202,778
<b>CHANGE IN NET POSITION</b>	23,082,018	16,529,442
<b>NET POSITION - BEGINNING OF YEAR</b>	652,594,880	636,065,438
<b>TOTAL NET POSITION - END OF YEAR</b>	\$675,676,898	\$652,594,880

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

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2022	2021 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash from Customers	\$118,036,462	\$108,844,693
Cash Paid to Suppliers	(24,354,340)	(25,967,147)
Cash Paid to Employees	(34,011,352)	(31,636,565)
Taxes Paid	(6,177,117)	(5,782,320)
NET CASH FROM OPERATING ACTIVITIES	53,493,653	45,458,661
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from Other Funds	2,142,998	202,778
Transfer Out for Gross Earnings Tax	(8,728,920)	(8,305,896)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	(6,585,922)	(8,103,118)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Expenditures, net	(41,165,644)	(32,271,853)
Principal Payments on Leases	(14,098)	(14,098)
Proceeds from Sale of Capital Assets	179,150	2,020,080
Principal Payments on Long-term (LT) Debt	(14,745,235)	(15,292,775)
Principal Payments on Muckleshoot LT Liability	(164,299)	(168,406)
Interest Paid	(17,794,044)	(18,123,684)
BABs Federal Interest Subsidies	1,810,921	5,440,217
Contributions in Aid of Construction (Cash)	8,671,125	7,636,173
System Development Charges & Other LT Liabilities	10,513	1,816,017
NET CASH FROM CAPITAL FINANCING ACTIVITIES	(63,211,611)	(48,958,329)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments Income (Loss)	(2,687,718)	(1,182,910)
Other Net Non-Op Revenues and Expenses	(1,199,695)	432,207
NET CASH FROM INVESTING ACTIVITIES	(3,887,413)	(750,703)
NET CHANGE IN CASH AND EQUITY IN POOLED INVESTMENTS	(20,191,293)	(12,353,489)
CASH AND EQUITY IN POOLED INVESTMENTS AT JANUARY 1	206,986,521	219,340,010
CASH AND EQUITY IN POOLED INVESTMENTS AT DECEMBER 31	\$186,795,228	\$206,986,521

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

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2022	2021 (As Restated)
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Net Operating Income	\$25,892,894	\$21,438,196
Adjustments to Reconcile Net Operating Income to Net Cash From Operating Activities:		
Depreciation	28,400,190	27,727,624
Lease Amortization	13,823	13,725
Pension (Credits) Expense	(4,868,856)	(621,404)
OPEB (Credits) Expense	273,894	170,801
Cash from Changes in Operating Assets and Liabilities:		
Accounts Receivable and Unbilled Revenue	2,604,219	(2,634,917)
Regulatory Asset-Surcharges	167,404	192,262
Materials and Supplies	(2,121,704)	(393,326)
Prepayments	636,583	(480,637)
Accrued Taxes	396,965	73,935
Salaries, Wages and Fringe Benefits Payable	11,363	202,895
Long-Term Accrued Compensated Absences	253,710	242,356
Customers' Deposits	47,141	(63,020)
Accrued Expenses and Contracts Payable	1,786,027	(409,829)
Total Adjustments	27,600,759	24,020,465
NET CASH FROM OPERATING ACTIVITIES	\$53,493,653	\$45,458,661
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$125,797,682	\$143,887,056
Cash and Equity in Pooled Investments in Operating Funds	\$60,997,546	\$63,099,465
Cash and Equity in Pooled Investments at December 31	\$186,795,228	\$206,986,521
NON CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated Assets	\$10,813,613	\$7,283,053

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Notes to Financial Statements  
Years Ended December 31, 2022 and 2021

**NOTE 1 OPERATIONS**

**OPERATIONS OF TACOMA WATER** – The Division, doing business as Tacoma Water, is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department) and is included as an enterprise fund in the Annual Comprehensive Financial Report (ACFR) of the City. The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations such as system expansion, issuance of bonds and fixing of utility rates and charges are initiated and executed by the Board, but also require formal City Council approval.

Tacoma Water owns and operates the City's Water System which includes a surface water supply source (the Watershed); several extensive well fields; a water transmission system consisting of several pipelines, water treatment and quality facilities; various reservoirs, standpipes and pump stations; and an extensive distribution system. Tacoma Water had supplied water to approximately 108,897 customer accounts and had 281 employees as of December 31, 2022. Tacoma Water's service area includes the City of Tacoma and urbanized areas of Pierce and South King Counties. Water service outside the City limits is provided under franchises granted by both Pierce and King Counties and multiple other cities.

Prior to 2020, Tacoma Water was organized as Water Distribution Engineering, Water Distribution Operations, Water Quality, Water Supply, Water Asset and Information Management, and Water Finance and Analytics. In 2020, Tacoma Water reorganized to combine groups by functions in support of a 2020-2025 strategic plan. An overview of the functions included in each of these sections follows:

**The Superintendent Office** is responsible for all utility operations including Enterprise Safety and Strategy and an Assigned Projects Team. Safety is a high priority for the organization. The Safety Team is focused on the development, delivery, and administration of all safety program elements supporting Tacoma Water employees with safe work practices and compliance with all applicable regulations. The Strategy Manager oversees the development and management of the Tacoma Water Strategic Plan. The Assigned Projects Team currently leads the Advanced Metering Infrastructure Project.

**Customer & Employee Experience** is responsible for supporting new and existing Tacoma Water customers including development in our service area, facilitating services received, enterprise communications, education, and conservation activities. This section supports employee workforce development, workforce management, payroll administration, and knowledge management.

**Business Services** delivers customer value through integrated, strategic capabilities across the domains of finance, operational technology, project and portfolio management, data management and analytics. This section owns Tacoma Water's long-range financial planning strategy, cost of service ratemaking, special pricing development, debt management, financial reporting, and internal controls; it is responsible for managing Tacoma Water's data through governance and stewardship, deploying advanced analytics tools and associated training, process development, and data/technology/analytics project delivery. It also, owns Tacoma Water's technology strategy, and is responsible for application development, support, and solution architecture. Project and Portfolio Management is a new area of deliberate focus for this group, and this capability is responsible for connecting our project portfolio to Tacoma Water's strategy, and enabling portfolio-level capabilities like prioritization, portfolio health visibility, and enterprise resource management.

**Source Water and Treatment Operations** produces, delivers, and balances potable water across transmission and distribution systems to meet seasonal and short-term demand while protecting source water and providing natural resource stewardship. This section also ensures water quality and treatment meet all regulatory requirements through monitoring and reporting and cross-connection control.

**Maintenance and Construction** maintains and repairs all parts of the water system through effective logistics (including fleet and warehouse) and planning. This section supports economic development through the installation of new service connections and water quality by performing system flushing.

**Planning & Engineering** is responsible for all aspects of comprehensive strategic development and engineering planning across all technical and operational functions of Tacoma Water. This section provides technical support for system operations and maintenance and manages the planning, design, and construction of projects to improve the water system.

**The Regional Water Supply System (RWSS)** is a partnership formed by Tacoma, the City of Kent, Covington Water District and Lakehaven Water and Sewer District (the “Participants”) to permit, design, finance, construct, operate, maintain and receive delivery of water from the Second Supply Project. The Second Supply Project consists of the following components: (i) water from the exercise of Tacoma Water’s Second Diversion Water Right, (ii) the Second Supply Pipeline, (iii) improvements made at the Headworks diversion dam and intake, (iv) Second Supply Project fisheries and environmental enhancements, (v) the right to store water as a result of the Howard Hanson Dam Additional Storage Project, and (vi) associated Treatment Facilities. Participants’ rights and obligations with regard to the Second Supply Project are called out in the Second Supply Project Agreement. Tacoma, consistent with the Project Agreement, is the owner and operator of the Second Supply Project. Please refer to Note 8 for further information.

## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The Division generally follows the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners and the Division of Audits of the Washington State Auditor’s Office.

**ACCOUNTING CHANGES** – Effective for the fiscal year 2022, the Division implemented the following new accounting and reporting standard issued by the GASB):

GASB Statement No. 87 – *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Division implemented the provisions of GASB Statement No. 87 effective January 1, 2021 and restated financial results for the year ended December 31, 2021, as required by the standard (see Note 3).

GASB Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. GASB No. 91 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division's financial statements as a result of this statement.

GASB Statement No. 92 – *Omnibus 2020*. The primary objective of this statement is to enhance comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB No. 92 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division's financial statements as a result of this statement.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates (IBOR)*. The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of the London Interbank Offered Rate (LIBOR). GASB No. 93 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division's financial statements as a result of this statement.

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component unit in fiduciary fund financial statement; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meets the definition of a pension plan and for benefits provided through those plans. GASB No. 97 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division's financial statements as a result of this statement.

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

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

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

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2022 and 2021 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

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

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

**ACCOUNTS RECEIVABLE AND ACCRUED UNBILLED REVENUES** – Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed as of December 31, 2022 and 2021.

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

**INTERFUND AND INTERGOVERNMENTAL TRANSACTIONS** - Unsettled transactions between entities at year end are recorded as due to or due from either other funds or other governmental units as appropriate.

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

**BOND PREMIUM AND LOSS ON REFUNDING** – Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding, are presented as an offset to the long-term debt balance in the statement of net position. Losses on refunding are amortized on a straight-line basis over the applicable bond period, and are presented as deferred outflows in the statement of net position.

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

**REGULATORY ASSETS** – The Division has deferred Andrain Surcharges and Curran Road Surcharges to future periods matching the time when the revenues are included in rates. The deferred balance is reduced as fees and surcharges are recovered and amortized as expenses on the statements of revenues, expenses and changes in net position.

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

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

The economic lives for plant in service are as follows:

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

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

**ASSET VALUATION** – The Division periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based on discounted future cash flows.

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

**CAPITAL CONTRIBUTIONS** - In accordance with Generally Accepted Accounting Principles, capital grants and capital contributions are recorded as capital contributions.

**CONTRIBUTIONS IN AID OF CONSTRUCTION AND SYSTEM DEVELOPMENT CHARGES** – GASB Statement No. 33, which addresses accounting for contributed capital, requires that contributed capital be recognized as change in net position. Capital contributions include new service connections and system development charges. System development charges are collected on all new services prior to installation to ensure required new source, transmission and storage facilities needed to meet new demands are funded.

The charge was developed using a cost-of-service approach and includes a share of historical plant investment and projected future outlays that will increase system capacity. Because the funds collected for this charge can only be used for system expansion projects, the balance is reflected as restricted in the Division's net position.

System development charges on uncompleted projects are recorded in other long term liabilities.

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

Employees in the original policy accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees receive 25% of the value at retirement or 10% upon termination for any other reason. In the event of death, beneficiaries receive 25% of the value. Sick leave pay is recorded as a liability and an expense in the year earned.

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

**DEFERRED OUTFLOWS OF RESOURCES** - Deferred outflows of resources, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then. Deferred outflows of resources consist of losses on refunding of bonds, deferred outflows of resources related to pensions, and deferred outflows of resources related to other post-employment benefits other than pensions.

**DEFERRED INFLOWS OF RESOURCES** - Deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources consist of inflows for rate stabilization, deferred inflows of resources related to pensions, deferred inflows of resources related to other post-employment benefits other than pensions.

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

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

**NON-OPERATING REVENUES AND EXPENSES** – These are items that do not qualify as operating defined above such as interest and gain (loss) on disposition of property.

**TAXES** – The City charges the Division a Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Division also pays business and occupation tax to the State at the rate of 1.75% on certain other non-utility revenues. The Division is exempt from payment of federal income tax.

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

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

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

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

## **LEASES**

Division as a lessor - A lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease receivable is recognized at the net present value of the leased asset at a borrowing rate either explicitly described in the agreement or implicitly determined by the City, as is reduced by principal payments received. The deferred inflow of resources is recognized in an amount equal to the sum of the lease receivable and any payments relating to future periods which were received prior to the lease commencement. These deferred inflows of resources are amortized over the life of the lease. Key estimates and judgments related to lease include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The City uses an average incremental borrowing rate as the discount rate for leases. The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of future payments to be received from the lessee. The City monitors change in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Division as a lessee - A Lessee is required to recognize a lease payable and an intangible right-to-use lease asset. A lease payable is recognized at the net present value of future lease payments and is adjusted over time by interest and payments. Future lease payments include fixed payments, variable payments, based on index or rate, reasonably certain residual guarantees. The right-to-use lease asset is initially recorded at the amount of the lease liability plus prepayments less any lease incentives received prior to lease commencement, and is subsequently amortized over the life of the lease. Key estimates and judgments related to lease include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its average incremental borrowing rate as the discount rate for leases. The lease term includes noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise. The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

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

**ENVIRONMENTAL REMEDIATION COSTS** - The Division recognizes environmental obligations and accruals for expected pollution remediation outlays which are recorded when one of the five obligating events occurs and are adjusted as further information develops or circumstances change.

The five obligating events are applied when the Division is: 1) compelled to take action because of an imminent endangerment, 2) the Division is in violation of a pollution prevention-related permit or license, 3) the Division is named or evidence indicates that it will be named by a regulator as a responsible party or potentially responsible party, 4) named in a lawsuit to compel participation in pollution remediation or 5) the Division commences or legally obligates itself to commence pollution remediation.

Costs related to environmental remediation are charged to operating expense when the liability is recognized; outlays are capitalized when goods and services are acquired under specific circumstances. Measurement is based on the current value of the outlays for the individual remediation components using the expected cash flow technique, adjusted for recoveries from other parties and insurance.

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

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

**INCURRED BUT NOT REPORTED CLAIMS** – Liabilities for incurred but not reported claims are initially recorded when the expected loss is both probable and reasonably estimated in Self-Insurance Fund. Equity in the Self-Insurance Fund is transferred to the Division in accordance with GASB 10 and reported under Prepayments and Other Long-Term Liabilities on the Statement of Net Position.

**SIGNIFICANT RISKS AND UNCERTAINTIES** – The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations and federal government regulations.

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

**NOTE 3 RESTATEMENT AND RECLASSIFICATION**

The Division restated and reclassified the December 31, 2021, financial statements for the adoption of GASB Statement No. 87 – Leases as summarized below:

	<b>2021 (As previously reported)</b>	<b>Effect of Restatement related to adoption of GASB No. 87</b>	<b>2021 (As Restated)</b>
<b>Statement of Net Position</b>			
Net Utility & Non-Utility Plant:			
Net Utility & Non-Utility Plant, excluding lease assets	\$ 909,168,959	\$ -	\$ 909,168,959
Right-to-use lease assets	-	52,613	52,613
Less accumulated amortization	-	(13,725)	(13,725)
Current & Other Assets	231,586,607	-	231,586,607
Total Assets	1,140,755,566	38,888	1,140,794,454
Deferred Outflows	10,670,119	-	10,670,119
Total Assets & Deferred Outflows	1,151,425,685	38,888	1,151,464,573
Net Position:			
Net Investment in Capital Assets	\$512,096,811	(231)	512,096,580
Restricted for:			
Water Capital and System Development Charge	73,158,293	-	73,158,293
Debt Service Funds	2,339,098	-	2,339,098
Net Pension Asset	-	-	-
Unrestricted	65,000,909	-	65,000,909
Total Net Position	652,595,111	(231)	652,594,880
Long-Term Debt	398,389,133	-	398,389,133
Current Liabilities:			
Current Liabilities, excluding lease liability	23,472,809	-	23,472,809
Current leases liability	-	14,098	14,098
Long-term liabilities:			
Long-term Liabilities, excluding lease liability	39,732,028	-	39,732,028
Long-term leases liability	-	25,021	25,021
Total Liabilities	461,593,970	39,119	461,633,089
Deferred Inflows	37,236,604	-	37,236,604
Total Net Position, Liabilities & Deferred Inflows	\$1,151,425,685	\$ 38,888	\$1,151,464,573

Notes to the Financial Statements (continued)

	2021	December Year-to-Date			2021
	(As previously reported)	Effect of Restatement related to adoption of GASB No. 87	Reclassification *		(As Restated)
<b>Statement of Revenues, Expenses, and Changes in Net Position</b>					
Operating revenues	\$ 111,365,886	\$ -	\$ -		\$ 111,365,886
Operating expenses:					
Operating expenses, excluding lease amortization	89,928,063	(14,098)	-		89,913,965
Lease amortization	-	13,725	-		13,725
Net Operating Income	21,437,823	373	-		21,438,196
Nonoperating revenues (expenses):					
Nonoperating expenses, excluding interest expense on lease activity	(15,353,552)	-	(478,656)		(15,832,208)
Interest expense on lease activity	-	(604)	-		(604)
Net income before capital contributions and transfers	6,084,271	(231)	(478,656)		5,605,384
Capital Contributions	14,919,226	-	478,656		15,397,882
Federal BAB Subsidies	3,629,294	-	-		3,629,294
Transfers	(8,103,118)	-	-		(8,103,118)
Change in Net Position	16,529,673	(231)	-		16,529,442
Net position - Beginning of year	636,065,438	-	-		636,065,438
Net position - Ending	\$ 652,595,111	\$ (231)	\$ -		\$ 652,594,880

\* \$478,656 capital grants was re-classified from Nonoperating revenues (expenses) to Capital Contributions.

#### NOTE 4 INVESTMENTS MEASURED AT FAIR VALUE

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

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

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

The fair value evaluations are provided by Interactive Data.

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

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

	As of			
	12/31/2022	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 683,653,733	\$ -	\$ 683,653,733	\$ -
U.S. Agency Securities	555,411,908	-	555,411,908	-
Supranational Securities	19,561,285	-	19,561,285	-
Municipal Bonds	20,114,217	-	20,114,217	-
Corporate Securities	61,142,820	-	61,142,820	-
	<u>\$ 1,339,883,963</u>	<u>\$ -</u>	<u>\$ 1,339,883,963</u>	<u>\$ -</u>

	As of			
	12/31/2021	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 549,528,777	\$ -	\$ 549,528,777	\$ -
U.S. Agency Securities	375,740,028	-	375,740,028	-
Supranational Securities	25,416,670	-	25,416,670	-
Municipal Bonds	5,094,110	-	5,094,110	-
Corporate Securities	56,527,275	-	56,527,275	-
	<u>\$ 1,012,306,860</u>	<u>\$ -</u>	<u>\$ 1,012,306,860</u>	<u>\$ -</u>

Tacoma Water's share of the City Investments shown in the table above is 12.81% and 17.22% for 2022 and 2021.

## Notes to the Financial Statements (continued)

### NOTE 5 UTILITY PLANT

A summary of the balances and changes in utility plant for 2022 and 2021 follows:

	Balance December 31, 2021 (Restated)			Transfers & Adjustments	Balance December 31, 2022
Intangible Plant	\$ 45,587,916	\$ 546,455	\$ (164,300)	\$ 5,523,576	\$ 51,493,647
Right to Use Lease Assets	52,613	-	-	-	52,613
Source of Supply Plant	88,134,903	-	(2,894)	378,307	88,510,316
Pumping Plant	10,587,280	-	-	2,720,020	13,307,300
Water Treatment Plant	243,544,396	-	-	40,519	243,584,915
Transmission Facilities	232,702,290	-	-	1,440,451	234,142,741
Distribution Facilities	541,428,778	10,267,158	(2,329,960)	27,659,211	577,025,187
General Plant	59,711,829	-	(1,331,383)	6,331,835	64,712,281
Total Water Plant in Service	1,221,750,005	10,813,613	(3,828,537)	44,093,919	1,272,829,000
Less Accumulated Depreciation	(333,491,315)	(28,400,190)	3,651,758	1,605,404	(356,634,343)
Amortization	(13,725)	(13,823)	-	-	(27,548)
	888,244,965	(17,600,400)	(176,779)	45,699,323	916,167,109
Construction Work in Progress	20,469,919	42,332,006	-	(46,688,906)	16,113,019
Net Utility Plant	\$ 908,714,884	\$ 24,731,606	\$ (176,779)	\$ (989,583)	\$ 932,280,128

	Balance December 31, 2020			Transfers & Adjustments	Balance December 31, 2021 (Restated)
Intangible Plant	\$ 39,027,963	\$ 393,887	\$ (198,343)	\$ 6,364,409	\$ 45,587,916
Right to Use Lease Assets	-	52,613	-	-	52,613
Source of Supply Plant	87,375,103	-	-	759,800	88,134,903
Pumping Plant	10,491,629	-	-	95,651	10,587,280
Water Treatment Plant	243,424,754	-	-	119,642	243,544,396
Transmission Facilities	232,656,909	-	-	45,381	232,702,290
Distribution Facilities	515,540,055	6,889,166	(4,839,769)	23,839,326	541,428,778
General Plant	56,481,464	-	(524,657)	3,755,022	59,711,829
Total Water Plant in Service	1,184,997,877	7,335,666	(5,562,769)	34,979,231	1,221,750,005
Less Accumulated Depreciation	(313,835,003)	(27,727,624)	5,364,426	2,706,886	(333,491,315)
Amortization	-	(13,725)	-	-	(13,725)
	871,162,874	(20,405,683)	(198,343)	37,686,117	888,244,965
Construction Work in Progress	25,696,434	35,138,858	-	(40,365,373)	20,469,919
Net Utility Plant	\$ 896,859,308	\$ 14,733,175	\$ (198,343)	\$ (2,679,256)	\$ 908,714,884

Total Water Plant in Service includes non-depreciable assets of \$63,136,826 for 2022 and \$61,848,171 for 2021.

**NOTE 6 LEASES**

Lease Liability

In December 2009, the Division entered into a real estate lease for space for equipment within an existing communications building, and space on an existing communications tower at the Grass Mountain Communication Site located in King County, Washington. The lease term is 15 years which will end October 31, 2024. Tacoma Water is required to make an annual rent payment of \$14,098 for the duration of the lease.

The City used its average incremental borrowing rate of 2.264% as of December 31, 2021 in calculation of net present value of lease liability, as the interest rate is not stated in the agreement.

Lease liability for the year ended December 31, 2022 and 2021 is as follows:

	<u>Lease Liability</u>
Beginning balance, January 1, 2022	\$ (39,119)
Additions	(456)
Reductions	14,098
Ending Balance, December 31, 2022	<u>\$ (25,477)</u>
Beginning balance, January 1, 2021	\$ (52,613)
Additions	(604)
Reductions	14,098
Ending Balance, December 31, 2021	<u>\$ (39,119)</u>

Current lease liability as of December 31, 2022 is \$14,098 which includes accrued interest payable of \$275 compared to \$14,098 as of December 31, 2021 which includes accrued interest payable of \$456.

Interest expense on lease activity of \$456 was recorded in 2022 and \$604 in 2021.

Future annual lease liability as of December 31, 2022 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 13,823	\$ 275	\$ 14,098
2024	11,654	77	11,731
<u>Total</u>	<u>\$ 25,477</u>	<u>\$ 352</u>	<u>\$ 25,829</u>

**NOTE 7 LONG-TERM DEBT**

The Division's Long-term Liabilities are primarily for capital improvements. Long-term debt activities for the years ended December 31, 2022 and 2021, were as follows:

	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Due Within One Year
Revenue Bonds	\$ 341,652,758	\$ -	\$ (8,618,415)	\$ 333,034,343	\$ 8,419,343
Plus: Unamortized Premium	6,641,625	-	(1,043,670)	5,597,955	-
Net Revenue Bonds	348,294,383	-	(9,662,085)	338,632,298	8,419,343
Public Works Trust Fund Loans	11,920,923	-	(2,056,626)	9,864,297	1,525,376
Drinking Water State Revolving Fund Loans	52,919,062	-	(4,070,194)	48,848,868	4,070,194
Total Long-Term Debt	<u>\$ 413,134,368</u>	<u>\$ -</u>	<u>\$ (15,788,905)</u>	<u>\$ 397,345,463</u>	<u>\$ 14,014,913</u>

	Balance December 31, 2020	Additions	Reductions	Balance December 31, 2021	Due Within One Year
Revenue Bonds	\$ 350,017,516	\$ -	\$ (8,364,758)	\$ 341,652,758	\$ 8,618,415
Plus: Unamortized Premium	7,815,042	-	(1,173,417)	6,641,625	-
Net Revenue Bonds	357,832,558	-	(9,538,175)	348,294,383	8,618,415
Public Works Trust Fund Loans	14,617,694	-	(2,696,771)	11,920,923	2,056,626
Drinking Water State Revolving Fund Loans	57,150,308	-	(4,231,246)	52,919,062	4,070,194
Total Long-Term Debt	<u>\$ 429,600,560</u>	<u>\$ -</u>	<u>\$ (16,466,192)</u>	<u>\$ 413,134,368</u>	<u>\$ 14,745,235</u>

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

**SENIOR LIEN BONDS**

	2022	2021
2005 Water System Revenue and Refunding Bonds, with interest rate of 5.0%, due in 2025. Original Issue: \$46,550,000 Current Portion: \$0	\$ 5,000	\$ 5,000
2009 Water System Revenue Bonds, with interest rate at 5.751%, with Build America Bond (BAB) rebate ranging from 32.45% to 32.62%, due in yearly installments starting in 2033 ranging from \$9,800,000 to \$12,210,000 through 2039. Original Issue: \$76,775,000 Current Portion: \$0	76,775,000	76,775,000

Notes to the Financial Statements (continued)

**SENIOR LIEN BONDS CONTINUED**

	2022	2021
2010B Water System Revenue Bonds, with interest rates ranging from 4.581% to 5.621%, with Build America Bond (BAB) Rebate ranging from 32.45% to 32.62% of interest, due in yearly installments starting in 2024 ranging from \$2,115,000 to \$15,390,000 through 2040. Original Issue: \$74,985,000 Current Portion: \$0	74,985,000	74,985,000
2010A Regional Water Supply System Revenue Bonds, with interest rates ranging from 3.0% to 4.0%, due in yearly installments ranging from \$345,000 to \$355,000 through 2024. (See Note 6) Original Issue: \$3,595,000 Current Portion: \$345,000	700,000	1,030,000
2010B Regional Water Supply System Revenue Bonds, with interest rates ranging from 5.371% to 5.621%, with Build America Bond (BAB) rebate ranging from 32.45% to 32.62% of interest, due in yearly installments starting in 2025 ranging from \$370,000 to \$5,775,000 through 2040. (See Note 8) Original Issue: \$44,245,000 Current Portion: \$0	44,245,000	44,245,000
2013 Water System Revenue and Refunding Bonds, with interest rates of 4.0%, due in yearly installments starting in 2041 ranging from \$23,820,000 to \$25,765,000 through 2043. Original Issue: \$78,305,000 Current Portion: \$0	74,355,000	74,355,000
2013 Regional Water Supply System Revenue and Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$1,985,000 to \$6,425,000 through 2032. (See Note 8) Original Issue: \$64,795,000 Current Portion: \$2,110,000	52,045,000	54,030,000
2015A Water System Refunding Bonds with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$1,755,000 to \$2,025,000 through 2025. Original Issue: \$16,645,000 Current Portion: \$1,845,000	5,805,000	7,560,000
2020 Water System Refunding Bonds with interest of 1.4% due in yearly installments ranging from \$4,119,343 to \$4,548,415 through 2023. Original Issue: \$17,466,514 Current Portion: \$4,119,343	4,119,343	8,667,758

Notes to the Financial Statements (continued)

**SENIOR LIEN BONDS CONTINUED**

	2022	2021
Subtotal Senior Lien Debt	\$ 333,034,343	\$ 341,652,758
Unamortized Premium	5,597,955	6,641,625
Less Current Portion of Revenue Bond Debt	(8,419,343)	(8,618,415)
Long-term Portion of Revenue Bond Debt	<u>\$ 330,212,955</u>	<u>\$ 339,675,968</u>

As of December 31, 2022, scheduled principal maturities on the bonds and interest payments are as follows:

Year	Principal	Interest
2023	\$ 8,419,343	\$ 16,738,540
2024	9,230,000	16,469,319
2025	9,655,000	16,021,278
2026	10,350,000	15,544,923
2027	10,785,000	15,031,862
2028-2032	60,640,000	66,446,937
2033-2037	88,350,000	47,711,156
2038-2042	109,840,000	20,934,445
2043	25,765,000	1,030,600
	<u>\$ 333,034,343</u>	<u>\$ 215,929,060</u>

Tacoma Water's revenue bonds are secured by the net revenue of Tacoma Water and all cash and investments held in the bond funds and construction funds. The bonds are also subject to certain financial and non-financial covenants. The Division was in compliance with all debt covenants at December 31, 2022.

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

	2022	2021
<b>Public Works Trust Fund Loans</b>		
2002 Public Works Trust Fund construction loan for the Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$531,250 through 2022.	\$ -	\$ 531,250
2004 Public Works Trust Fund pre-construction loan for the design of the Green River Ozone Facility with interest of .5% per annum, due in yearly installments of \$53,363 through 2024.	106,725	160,088
2006 Public Works Trust Fund construction loan for the Green River Ozone Treatment Plant, with interest of .5% per annum, due in yearly installments of \$370,588 through 2026.	1,482,353	1,852,941
2008 Public Works Trust Fund construction loan for the McMillin Reservoir Reconstruction, with interest of .5% per annum, due in yearly installments of \$545,870 through 2028.	3,275,219	3,821,089
2012 Public Works Trust Fund construction loan for the Green River Filtration Facility, with interest of .5% per annum, due in yearly installments of \$555,555 through 2031.	5,000,000	5,555,555

**Notes to the Financial Statements (continued)**

	<u>2022</u>	<u>2021</u>
<b>Drinking Water State Revolving Fund Loans</b>		
2008 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$215,108 through 2028.	\$ 1,290,651	\$ 1,505,759
2009 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.0% per annum, due in yearly installments of \$367,088 through 2032.	3,670,879	4,037,967
2010 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2032.	3,030,000	3,333,000
2010 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$304,579 through 2034.	3,654,947	3,959,526
2011 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$121,524 through 2033.	1,336,760	1,458,284
2011 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2035.	3,939,000	4,242,000
2012 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$606,000 through 2035.	7,878,000	8,484,000
2013 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$606,000 through 2035.	7,878,000	8,484,000
2013F construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$606,000 through 2035.	7,878,000	8,484,000
2015 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$637,895 through 2035.	<u>8,292,631</u>	<u>8,930,526</u>
Subtotal Junior Lien Debt	\$ 58,713,165	\$ 64,839,985
Less Current Portion of Debt	<u>(5,595,570)</u>	<u>(6,126,820)</u>
Long-term Portion of Junior Lien Debt	<u>\$ 53,117,595</u>	<u>\$ 58,713,165</u>

As of December 31, 2022, scheduled principal maturities of junior lien debt and interest payments are as follows:

Year	Principal	Interest
2023	\$ 5,595,570	\$ 722,237
2024	5,595,570	658,582
2025	5,542,207	594,927
2026	5,542,207	531,539
2027	5,171,619	468,151
2028-2032	22,258,626	1,453,464
2033-2035	9,007,366	244,693
	<u>\$ 58,713,165</u>	<u>\$ 4,673,593</u>

#### NOTE 8 SECOND SUPPLY PROJECT AGREEMENT

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

#### NOTE 9 SIGNIFICANT CUSTOMER

Contracted sales to WestRock CP LLC accounted for 7.2% of Tacoma Water's total water sales in 2022 and 7.4% in 2021. There were no outstanding accounts receivables from WestRock at year-end 2022 or 2021.

Tacoma Water has contracted with WestRock to supply certain quantities of water at a specified rate through July 31, 2023.

#### NOTE 10 FLEET SERVICES FUND

The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of Department vehicles and related equipment.

Tacoma Water pays the Fleet Services Fund to cover fleet operating expenses. Per Ordinance No. 28688, in 2020 Fleet Services Fund transferred operating division fleet assets to Power, Rail, and Water for funding flexibility. Fleet Services Fund maintains the purchasing and maintenance responsibilities. Starting Jan 1, 2021, Tacoma Water no longer pays operating capital assets recovery revenues to Fleet Services Fund, but still pays for capital recovery revenues on pool vehicles and other operating revenues including maintenance, administrative overhead, fuel and fuel loading, and pool car rentals. Payments made by Tacoma Water in 2022 and 2021 were \$2,273,442 and \$2,093,971, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle.

#### **NOTE 11 SELF-INSURANCE FUND**

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

Tacoma Water is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Water and administrative expenses of the Fund. Tacoma Water's premium payments were \$240,000 in 2022 and 2021. Assets in the Self-Insurance Fund total \$11.5 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Water's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchased a Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. A separate deductible of \$1.0 million applies to Excessive Fees Claims. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee benefit programs. The coverage also provides a Government Crime policy with a \$5.0 million limit and \$200,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.25 million per occurrence. Coverage also has a Cybersecurity policy with a limit of \$2.0 million and a deductible of \$250,000. An Excess Cyber policy is maintained with a limit of \$2.0 million in excess of the primary policy.

Separate from General Government, the Department of Public Utilities maintains Property insurance and Excess Liability insurance. The Property insurance policy has a deductible of \$250,000 per occurrence applies to the buildings and contents while a deductible of \$10,000 per vehicle applies to motor vehicles. Coverage also provides a Wrongful Acts Liability policy with a limit of \$2.25 million for each wrongful act and a \$2.25 million aggregate. Excess Liability policies provide coverage in excess of the previously noted Wrongful Acts liability policy and include General liability and Automobile liability coverage. These policies have a limit of \$52.5 million each occurrence with a \$52.5 million aggregate in excess of a \$2.5 million retention. Coverage also includes Aviation Liability - Unmanned aircraft liability for drones with a limit of \$1.0 million.

**NOTE 12 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS OR THE SYSTEM)**

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

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

Or the TERS ACFR may be downloaded from the TERS website at [www.cityoftacoma.org/retirement](http://www.cityoftacoma.org/retirement).

**Administration of The System** - TERS is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments, are also members.

The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

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

The breakdown of membership as of December 31, 2021 and 2020 (measurement dates) is as follows:

	Measurement date as of December 31,	
	2021	2020
Retirees and beneficiaries currently receiving benefits	2,695	2,653
Terminated vested and other terminated participants	842	790
Active members:		
City of Tacoma	2,790	2,740
Pierce Transit	12	10
South Sound 911	2	2
Tacoma-Pierce County Health Department	292	285
Total active members	3,096	3,037
Total membership	6,633	6,480

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

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

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

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

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

The total contribution rate continues to be 21%, divided as 54% for the employer and 46% for the employee, for a new total of 11.34% from the employer and 9.66% from the employee. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

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

Measurement Date	December 31, 2021
Valuation Date	January 1, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution (ADC). The amortization method for the ADC is as follows*:
	<ul style="list-style-type: none"> <li>• Level percent</li> <li>• Open periods</li> <li>• 25 year amortization period*</li> <li>• 3.25% amortization growth rate</li> </ul>
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.50%
Salary Increases	Varies by service
Investment Rate of Return	6.75%

## Notes to the Financial Statements (continued)

Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	105% of the Male and 100% of the Female PubG-2010 Amount-Weighted Mortality Tables, sex distinct. Generational improvements with unisex projection scale based on Social Security Administration Data 1957-2017.

*\*The actual contribution is used if that rate is greater than the rate necessary to amortize the UAAL. Note that the UAAL amortization period is 30 years for years 2017 and earlier and 25 for years beginning January 1, 2018 and later.*

**Benefit and Assumption Changes** - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2022, valuation date and December 31, 2021, the measurement date. Therefore, no adjustments were needed from the January 1, 2022, actuarial valuation date to the calculated liabilities as of December 31, 2021, measurement date for reporting date of December 31, 2022. There were no changes between the January 1, 2021, and January 1, 2022, valuation dates.

**Target Allocations** - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2021 and December 31, 2020 for reporting date December 31, 2022 and December 31, 2021, respectively. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated November 2021 and March 2019 for reporting date December 31, 2022, and December 31, 2021, respectively.

Asset Class	Reporting date			
	December 31, 2022		December 31, 2021	
	Target	Long-term Expected Arithmetic Real Rate of Return	Target	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	19.5%	2.00%	19.5%	1.30%
US Bank/ Leveraged Loans	3.0%	3.14%	3.0%	2.39%
US Long Government Bonds	3.0%	2.30%	3.0%	1.75%
High Yield Bonds	6.0%	3.60%	6.0%	3.10%
Emerging Market Debt	5.0%	3.20%	5.0%	2.65%
Global Equity	34.5%	5.15%	34.5%	5.55%
Private Real Estate	10.0%	5.90%	10.0%	6.20%
Private Equity	10.0%	8.10%	10.0%	6.95%
Master Limited Partnerships	4.0%	6.60%	4.0%	7.30%
Timber	1.5%	3.88%	1.5%	6.15%
Infrastructure	2.0%	7.55%	2.0%	6.25%
Agriculture	1.5%	4.23%	1.5%	3.72%
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.23%		1.65%
Portfolio 30 year Arithmetic Rate of Return		7.26%		7.13%
Portfolio 30 year Geometric Rate of Return		6.71%		6.58%
Portfolio Standard Deviation		10.97%		10.89%
Long-Term Expected Rate of Return, net of investment expenses		6.75%		6.75%

## Notes to the Financial Statements (continued)

**Sensitivity Analysis** - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 6.75% as of December 31, 2022 and 2021, as well as what the System's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower, 5.75%, or 1 percentage point higher, 7.75%, than the current rate.

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
As of December 31, 2022			
Net pension liability (asset)	\$9,391,856	\$(14,152,644)	\$(33,773,289)
	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
As of December 31, 2021			
Net pension liability (asset)	\$28,056,796	\$6,337,863	\$(11,762,666)

As of December 31, 2022 and 2021, the deferred inflows and outflows of resources are as follows:

	December 31, 2022		December 31, 2021	
	Deferred Inflows of Resources	Deferred of Outflows Resources	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (511,727)	\$ 1,146,869	\$ (887,406)	\$ 1,147,061
Changes of assumptions	-	3,618,007	-	4,713,329
Net Difference Between Projected and Actual Earnings	(15,665,822)	-	(464,683)	-
Changes in Employer Proportion	(11,672)	66	(4,191)	86
Contributions Made Subsequent to the Measurement Date	-	3,017,221	-	2,710,397
Total	<u>\$ (16,189,221)</u>	<u>\$ 7,782,163</u>	<u>\$ (1,356,280)</u>	<u>\$ 8,570,873</u>

The Division reported \$3.0 million as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total pension liability in the fiscal year ending December 31, 2023.

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

Amounts will be recognized in pension expense as follows:

2023	\$ (1,555,533)
2024	(4,634,961)
2025	(1,921,664)
2026	(3,338,421)
2027	26,300
	<u>\$ (11,424,279)</u>

At December 31, 2022, the Division reported a pension asset of \$14,152,644 for its proportionate share of the total System, compared to a pension liability of \$6,337,863 at December 31, 2021. The proportionate share of the Water Division is 9.65% of total System's pension liability as of December 31, 2022, and 9.14% as of December 31, 2021. The proportionate share was based on the actual contributions for the year as of December 31, 2022 and 2021.

**NOTE 13 OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**Plan Description** - The City provides the opportunity to receive medical benefits to most of its retirees until age 65. Eligibility and the amount of benefits paid by the City vary by group (TERS, LEOFF 1, LEOFF 2, or Rail employees). The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of both actives and retirees. Since health claims costs generally increase with age, retiree health premiums would be significantly higher if they were determined without regard to active claims experience. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2022 for non-LEOFF 1 members includes 3,819 active participants, 584 vested terminated participants, 176 retirees and surviving spouses, and 115 spouses of current retirees. The membership as of January 1, 2022 for LEOFF 1 members includes 1 active participant and 348 retirees.

This plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

**Actuarial Assumptions and Other Inputs** - The valuation date is January 1, 2022 for both non-LEOFF 1 and LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The measurement date is December 31, 2021. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2022.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2022, furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date:	January 1, 2022	
Census Date:	January 1, 2022	
Actuarial Cost Method:	Individual Entry Age Normal Cost Method	
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.	
Actuarial Assumptions:		
Discount Rate:	2.00% for pay-as-you-go funding	
Medical Cost Trend:	2022	5.50%
	2023	5.30%
	2024	5.00%
	2030	4.50%
	2040	4.50%
	2050	4.40%
	2060	4.40%
	2070	4.10%
	2080	3.90%

Note that the trend for year 2022 reflects the percent by which 2023 medical costs are expected to exceed 2022 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 3.90% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase.

Discount Rate (Liabilities): 2.00%  
 Demographic Assumptions: Eligibility:  
 Disability - Five years of service are required for non-service connected disability.

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

- 30 years of service
- 60 years of age
- Age + Service = 80 years
- Age 55 with 10 years of service
- Age 40 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are also eligible to receive medical benefits after pension benefit commencement.

Survivors of members who die prior to retirement are eligible for medical benefits.

The discount rate was based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

**Changes of Assumptions:** The discount rate was updated to 2.00% from 2.12%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

#### **OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources**

At December 31, 2022 the Division reported a liability of \$5,350,651 for its proportionate share of the collective total City liability of \$227.4 million compared to \$4,780,773 at December 31, 2021. At December 31, 2022, the participating Division's proportion was 2.35274% as compared to 2.08528% at December 31, 2021. For the year ended December 31, 2022, the participating Division recognized an OPEB expense of \$273,894.

## Notes to the Financial Statements (continued)

At December 31, 2022 and 2021, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	December 31, 2022		December 31, 2021	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ (43,638)	\$ 61,232	\$ (51,158)	\$ 7,204
Changes of assumptions	(217,833)	467,120	(200,771)	533,835
Changes in Employer Proportion	-	1,032,099	-	677,828
Differences in Contributions	(69,197)	68,598	(52,948)	87,316
Contributions Made Subsequent to the Measurement Date	-	177,523	-	178,614
Total	<u>\$ (330,668)</u>	<u>\$ 1,806,572</u>	<u>\$ (304,877)</u>	<u>\$ 1,484,797</u>

The Division reported \$177,523 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2023	\$ 257,053
2024	225,164
2025	289,735
2026	265,165
2027	206,827
Thereafter	<u>54,437</u>
	<u>\$ 1,298,381</u>

### Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

As of December 31, 2022, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.00%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.00%, or one percentage point higher, 3.00%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2022	1.00%	2.00%	3.00%
Net OPEB liability	\$ 6,032,560	\$ 5,350,651	\$ 4,778,945

As of December 31, 2021, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.12%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.12%, or one percentage point higher, 3.12%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2021	1.12%	2.12%	3.12%
Net OPEB liability	\$ 5,409,869	\$ 4,780,773	\$ 4,255,093

**Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates**

As of December 31, 2022, the following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Trend Rates	1% Increase
As of December 31, 2022	4.50%	5.50%	6.50%
Net OPEB liability	\$ 4,574,128	\$ 5,350,651	\$ 6,056,133

As of December 31, 2021, the following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Trend Rates	1% Increase
As of December 31, 2021	5.00%	6.00%	7.00%
Net OPEB liability	\$ 4,204,834	\$ 4,780,773	\$ 5,466,132

**NOTE 14 COMMITMENTS AND CONTINGENCIES**

**Capital Improvements** - The financial requirement for Tacoma Water's 2021-2022 biennial Capital Improvement program is approximately \$79.3 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2022 the remaining financial requirement for Capital Improvement Programs relating to the current biennium is \$21 million.

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

**General Legal Matters** - The Water Division has received several other miscellaneous claims or litigation that either do not allege material amounts or that the Legal Department has determined do not pose a risk of liability to the Utility.

# Required Supplementary Information

### Proportionate Share of the Net Pension Liability Last 10 Years\*

	As of Measurement Date December 31,							
	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	9.65%	9.14%	8.80%	8.77%	8.74%	8.91%	8.99%	9.17%
Employer's proportion share of net pension liability (asset)	\$(14,152,644)	\$ 6,337,863	\$(1,636,678)	\$10,264,957	\$(3,438,481)	\$ 8,278,522	\$ 7,788,151	\$(881,279)
Employer's covered payroll	\$ 26,693,208	\$24,449,314	\$23,537,115	\$21,819,996	\$20,914,658	\$20,220,795	\$21,148,347	\$20,099,527
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	-53.02%	25.92%	-6.95%	47.04%	-16.44%	40.94%	36.83%	-4.17%
Plan fiduciary net position as a percentage the total pension liability	107.74%	96.22%	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%

### Schedule of Contributions Last 10 Fiscal Years\*

	Fiscal Year Ended December 31,							
	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$3,017,221	\$2,710,397	\$2,518,860	\$2,451,307	\$2,309,710	\$2,150,205	\$2,124,252	\$2,086,719
Contributions in relation to the contractually required employer contribution	(3,017,221)	(2,710,397)	(2,518,860)	(2,451,307)	(2,309,710)	(2,150,205)	(2,124,252)	(2,086,719)
Employer contribution deficiency (excess)	-	-	-	-	-	-	-	-
Employer's covered employee payroll	\$28,341,901	\$26,693,208	\$24,449,314	\$23,537,115	\$21,819,996	\$20,914,658	\$20,220,795	\$21,148,347
Employer contribution as a percentage of covered-employee payroll	10.65%	10.15%	10.30%	10.41%	10.59%	10.28%	10.51%	9.87%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Division will present information for available years.

## Proportionate Share of the Collective OPEB Liability Last 10 Years\*

	As of Measurement Date December 31,					
	2021	2020	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	2.35%	2.09%	1.76%	1.75%	1.71%	1.67%
Employer's proportion share of collective OPEB liability	\$5,350,651	\$4,780,773	\$3,675,963	\$3,565,886	\$3,780,897	\$3,492,067
Employer's covered-employee payroll**	\$26,693,208	\$24,449,314	\$23,537,115	\$21,819,996	\$20,914,658	\$20,432,705
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	20.04%	19.55%	15.62%	16.34%	18.08%	17.09%

\* The above schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Division will present information for available years.

\*\* The Division's covered employee payroll has been restated for the measurement date ended December 31, 2017.

### Notes to Required Supplementary Information For the Fiscal Year Ended December 31, 2022

There are no assets accumulated in a trust to pay related benefits.

**Changes of benefit terms:** There have been no changes to the benefit provisions since the prior actuarial valuation.

**Changes of Assumptions:** The discount rate was updated to 2.00% from 2.12%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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# Statistical Data (Unaudited)

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water  
Ten-Year Financial Review

	2022	2021 (As Restated)	2020	2019
<b>STATEMENTS OF NET POSITION</b>				
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
Utility Plant - Net	\$932,280,128	\$908,714,884	\$896,859,308	\$874,659,681
Non-Utility Plant	492,963	492,963	492,963	492,963
Special Funds	125,797,682	143,887,056	151,998,322	155,002,719
Current Assets	84,111,294	84,247,947	86,310,156	84,942,679
Other Assets	17,436,844	3,451,604	5,280,544	2,058,552
Total Assets	1,160,118,911	1,140,794,454	1,140,941,293	1,117,156,594
Deferred Outflows	10,015,939	10,670,119	6,255,109	13,609,381
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>1,170,134,850</b>	<b>1,151,464,573</b>	<b>1,147,196,402</b>	<b>1,130,765,975</b>
<b>NET POSITION</b>	<b>675,676,898</b>	<b>652,594,880</b>	<b>636,065,438</b>	<b>602,816,562</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>				
Long-Term Debt	383,330,550	398,389,133	414,307,785	431,269,870
Current Liabilities	24,952,712	23,486,907	24,263,595	21,087,589
Long-Term Liabilities	34,079,354	39,757,049	30,395,281	38,297,146
Total Liabilities	442,362,616	461,633,089	468,966,661	490,654,605
Deferred Inflows	52,095,336	37,236,604	42,164,303	37,294,808
<b>TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS</b>	<b>\$1,170,134,850</b>	<b>\$1,151,464,573</b>	<b>\$1,147,196,402</b>	<b>\$1,130,765,975</b>
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>				
<b>OPERATING REVENUES</b>				
Residential and Domestic	\$69,127,333	\$67,702,012	\$64,487,335	\$60,847,540
Commercial and Industrial	21,918,842	20,816,460	18,724,562	19,836,364
Special Rate-WestRock/Other	7,344,132	7,283,918	7,109,384	6,883,021
Municipal	-	-	-	-
Wholesale	2,434,401	2,711,269	2,282,638	2,787,239
Unbilled	363,691	485,524	103,821	(111,782)
Total Water Sales	101,188,399	98,999,183	92,707,740	90,242,382
Other Operating Revenues	14,029,299	12,366,703	11,760,454	12,302,372
<b>Total Operating Revenues</b>	<b>115,217,698</b>	<b>111,365,886</b>	<b>104,468,194</b>	<b>102,544,754</b>
<b>OPERATING EXPENSES</b>				
Operation and Maintenance	54,336,709	56,330,086	52,116,679	50,339,168
Taxes	6,574,082	5,856,255	5,398,410	5,188,882
Lease Amortization	13,823	13,725	-	-
Depreciation	28,400,190	27,727,624	25,723,865	25,295,078
Total Operating Expenses	89,324,804	89,927,690	83,238,954	80,823,128
<b>NET OPERATING INCOME (LOSS)</b>	<b>25,892,894</b>	<b>21,438,196</b>	<b>21,229,240</b>	<b>21,721,626</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Other Income	(1,004,044)	2,445,093	651,209	1,802,296
Interest Income	(2,687,718)	(1,182,910)	5,522,409	7,370,377
Interest Expense on Lease Activity	(456)	(604)	-	-
Interest Charges (Net)	(16,896,259)	(17,094,391)	(17,565,824)	(18,181,445)
<b>Net Income (Loss) Before Contributions &amp; Transfers</b>	<b>5,304,417</b>	<b>5,605,384</b>	<b>9,837,034</b>	<b>12,712,854</b>
Total Capital Grants and Contributions	20,741,680	15,397,882	16,459,062	12,775,630
Federal BAB Subsidies	3,621,843	3,629,294	3,651,006	3,609,359
Transfers In/ (Out)	(6,585,922)	(8,103,118)	3,301,774	(8,019,638)
<b>CHANGE IN NET POSITION</b>	<b>\$23,082,018</b>	<b>\$16,529,442</b>	<b>\$33,248,876</b>	<b>\$21,078,205</b>

In accordance with Governmental Accounting Standards Board Statement No. 65 2012 was restated for comparative purposes.

2018	2017 (As Restated)	2016	2015	2014	2013
\$871,008,433	\$873,518,773	\$879,547,650	\$884,721,107	\$872,083,357	\$813,050,518
492,963	492,963	492,963	492,963	492,963	492,963
160,004,945	153,962,378	156,827,483	143,309,769	146,440,207	156,819,016
79,459,959	73,857,244	68,927,643	64,476,112	58,737,269	63,568,675
4,669,297	1,810,430	2,866,478	4,689,200	3,769,208	4,679,599
1,115,635,597	1,103,641,788	1,108,662,217	1,097,689,151	1,081,523,004	1,038,610,771
5,881,479	10,113,888	10,623,174	4,002,699	1,587,851	1,813,858
1,121,517,076	1,113,755,676	1,119,285,391	1,101,691,850	1,083,110,855	1,040,424,629
581,738,357	556,846,481	549,652,226	542,501,823	516,673,245	480,288,973
447,562,815	463,619,285	478,617,199	478,400,742	483,542,005	455,876,975
23,031,002	20,524,364	20,986,727	18,261,548	20,767,576	42,478,805
27,703,192	35,406,357	33,932,418	26,021,937	26,552,582	26,204,429
498,297,009	519,550,006	533,536,344	522,684,227	530,862,163	524,560,209
41,481,710	37,359,189	36,096,821	36,505,800	35,575,447	35,575,447
\$1,121,517,076	\$1,113,755,676	\$1,119,285,391	\$1,101,691,850	\$1,083,110,855	\$1,040,424,629
\$59,624,491	\$52,539,643	\$50,742,135	\$48,263,128	\$44,655,076	\$40,928,355
19,225,528	17,408,529	17,558,905	17,233,617	15,406,078	13,507,899
6,873,675	6,322,195	5,845,719	5,951,348	5,801,842	5,242,359
-	-	-	-	-	445,844
3,253,029	3,069,448	3,971,839	5,192,149	3,718,315	3,519,409
472,999	660,078	(137,857)	318,945	121,346	468,030
89,449,722	79,999,893	77,980,741	76,959,187	69,702,657	64,111,896
12,491,739	14,644,528	14,820,869	21,179,637	28,617,297	32,007,524
101,941,461	94,644,421	92,801,610	98,138,824	98,319,954	96,119,420
45,892,214	48,921,970	46,894,363	41,804,233	37,993,563	35,906,356
5,273,751	4,776,164	4,639,031	4,681,114	3,779,373	3,918,944
-	-	-	-	-	-
26,117,843	24,038,103	23,822,527	17,102,664	16,783,698	16,072,243
77,283,808	77,736,237	75,355,921	63,588,011	58,556,634	55,897,543
24,657,653	16,908,184	17,445,689	34,550,813	39,763,320	40,221,877
3,215,049	1,216,295	(221,125)	(30,042)	537,052	(1,246,053)
3,876,762	1,762,813	1,826,299	1,112,850	1,718,226	807,466
-	-	-	-	-	-
(19,269,514)	(18,321,085)	(19,000,536)	(16,677,645)	(11,911,850)	(14,141,036)
12,479,950	1,566,207	50,327	18,955,976	30,106,748	25,642,254
16,440,749	9,138,434	10,274,030	9,052,674	8,670,639	7,175,575
3,596,241	3,582,475	3,579,107	3,609,706	3,959,446	3,535,426
(7,625,062)	(7,092,861)	(6,753,061)	(6,873,467)	(6,352,561)	(5,922,418)
\$24,891,878	\$7,194,255	\$7,150,403	\$24,744,889	\$36,384,272	\$30,430,837

City of Tacoma, Washington  
Department of Public Utilities  
Regional Water Supply System

Ten-Year Financial Review (RWSS)

<b>STATEMENTS OF NET POSITION</b>	2022	2021	2020	2019
<b>ASSETS</b>				
Utility Plant - Net	\$237,965,466	\$245,786,121	\$253,438,437	\$261,815,181
Current Assets	10,099,311	9,766,278	10,343,200	10,493,887
Total Assets	248,064,777	255,552,399	263,781,637	272,309,068
Deferred Outflows	159,693	175,797	191,900	208,004
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>248,224,470</b>	<b>255,728,196</b>	<b>263,973,537</b>	<b>272,517,072</b>
<b>NET POSITION</b>	<b>146,220,643</b>	<b>150,738,557</b>	<b>156,173,719</b>	<b>161,888,944</b>
<b>LIABILITIES AND EQUITY</b>				
Long-Term Debt	98,177,211	101,259,957	104,226,180	107,104,701
Current Liabilities	2,870,245	2,743,499	2,633,541	2,544,840
Total Liabilities	101,047,456	104,003,456	106,859,721	109,649,541
Deferred Inflows	956,371	986,183	940,097	978,587
<b>TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS</b>	<b>248,224,470</b>	<b>255,728,196</b>	<b>263,973,537</b>	<b>272,517,072</b>
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>				
<b>OPERATING REVENUES</b>				
CRO - Debt Service	\$6,459,139	\$6,445,519	\$6,359,276	\$6,365,634
CRO - O&M	5,044,883	4,191,992	4,044,665	3,869,205
CRO - Capital	698,283	233,873	108,780	266,010
Other Operating Revenue	-	-	-	-
Total Operating Revenues	12,202,305	10,871,384	10,512,721	10,500,849
<b>OPERATING EXPENSES</b>				
Operation and Maintenance	4,712,030	4,218,612	4,261,822	3,928,423
Depreciation	8,542,323	8,524,386	8,521,426	8,507,090
Total Operating Expenses	13,254,353	12,742,998	12,783,248	12,435,513
<b>NET OPERATING INCOME (LOSS)</b>	<b>(1,052,048)</b>	<b>(1,871,614)</b>	<b>(2,270,527)</b>	<b>(1,934,664)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Other Income	-	6,586	-	-
Interest Income	(110,285)	(39,563)	252,531	346,329
Interest Charges (Net)	(4,416,196)	(4,500,797)	(4,579,890)	(4,645,692)
Net Income (Loss) Before Contributions & Transfers	(5,578,529)	(6,405,388)	(6,597,886)	(6,234,027)
Total Capital Contributions	241,782	151,393	57,235	(163,022)
Grants & Federal BAB Subsidies	818,833	818,833	825,426	816,007
Transfers Out	-	-	-	-
<b>CHANGE IN NET POSITION</b>	<b>(\$4,517,914)</b>	<b>(\$5,435,162)</b>	<b>(\$5,715,225)</b>	<b>(\$5,581,042)</b>

In accordance with Governmental Accounting Standards Board Statement No. 65 2012 was restated for comparative purposes.

2018	2017	2016	2015	2014	2013
\$270,292,252	\$279,190,310	\$287,187,547	\$295,780,351	\$293,110,553	\$264,883,717
10,420,340	10,442,765	10,395,435	9,274,080	11,321,557	20,473,681
280,712,592	289,633,075	297,582,982	305,054,431	304,432,110	285,357,398
224,106	240,210	256,313	272,417	288,520	304,624
280,936,698	289,873,285	297,839,295	305,326,848	304,720,630	285,662,022
167,469,986	174,701,516	180,852,158	186,712,448	183,898,541	154,285,209
109,899,314	112,594,314	114,364,416	116,113,730	117,798,157	120,006,348
2,558,764	1,564,360	1,601,549	1,496,773	1,993,880	10,436,851
112,458,078	114,158,674	115,965,965	117,610,503	119,792,037	130,443,199
1,008,634	1,013,095	1,021,172	1,003,897	1,030,052	933,614
280,936,698	289,873,285	297,839,295	305,326,848	304,720,630	285,662,022
\$5,610,671	\$5,554,208	\$5,582,030	\$6,047,314	\$6,008,599	\$6,208,432
3,764,605	3,858,622	3,858,714	2,840,435	2,706,023	2,740,645
93,191	202,255	483,498	7,621,901	15,132,508	18,535,695
-	-	-	1,675	-	-
9,468,467	9,615,085	9,924,242	16,511,325	23,847,130	27,484,772
3,718,890	3,881,686	3,871,737	2,864,326	2,735,246	2,895,385
9,199,706	8,266,685	8,263,267	4,582,300	4,542,912	4,505,158
12,918,596	12,148,371	12,135,004	7,446,626	7,278,158	7,400,543
(3,450,129)	(2,533,286)	(2,210,762)	9,064,699	16,568,972	20,084,229
-	-	-	(120,564)	(18,732)	(373,899)
182,850	91,554	87,696	64,497	114,387	51,743
(4,907,255)	(4,697,999)	(4,715,565)	(4,072,780)	(880,966)	(2,665,310)
(8,174,534)	(7,139,731)	(6,838,631)	4,935,852	15,783,661	17,096,763
129,958	179,156	456,685	(2,924,135)	13,024,297	148,865
813,046	809,933	808,775	802,190	805,374	799,296
-	-	(287,119)	-	-	40,079
(\$7,231,530)	(\$6,150,642)	(\$5,860,290)	\$2,813,907	\$29,613,332	\$18,085,003

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Statements of Net Position (RWSS)

ASSETS AND DEFERRED OUTFLOWS	WATER W/O RWSS	RWSS	ADJUSTMENTS	TACOMA WATER STATEMENTS
<b>UTILITY PLANT</b>				
In Service, at Original Cost	\$ 927,107,589	\$ 345,668,798	\$ -	\$ 1,272,776,387
Less - Accumulated Depreciation	(247,620,632)	(109,013,711)	-	(356,634,343)
Total	679,486,957	236,655,087	-	916,142,044
Right to Use Lease Assets	52,613	-	-	52,613
Less - Accumulated Amortization	(27,548)	-	-	(27,548)
Total	25,065	-	-	25,065
Construction Work In Progress	14,802,640	1,310,379	-	16,113,019
Net Utility Plant	694,314,662	237,965,466	-	932,280,128
<b>NET UTILITY PROPERTY</b>	492,963	-	-	492,963
<b>SPECIAL FUNDS</b>				
Debt Service Funds	3,269,546	377,046	-	3,646,592
Bond Reserve Funds	13,227,327	8,459,953	-	21,687,280
System Development Charge Fund	80,044,101	-	-	80,044,101
Other Cash & Equity in Pooled Investments	20,519,837	-	(100,128)	20,419,709
Total Special Funds	117,060,811	8,836,999	(100,128)	125,797,682
<b>CURRENT ASSETS</b>				
Operating Funds Cash & Equity in				
Pooled Investments	60,997,546	(100,128)	100,128	60,997,546
Grant Receivable	348,108	-	-	348,108
Accounts Receivable	5,600,145	760,213	-	6,360,358
(Net of Allowance for Doubtful Accounts of \$2,064,440 in 2022)				
BABs Interest Subsidies Receivable	1,635,089	477,653	-	2,112,742
Accrued Unbilled Revenues	6,771,474	-	-	6,771,474
Materials and Supplies	5,289,260	-	-	5,289,260
Prepayments	2,107,232	124,574	-	2,231,806
	82,748,854	1,262,312	100,128	84,111,294
<b>OTHER ASSETS</b>				
Regulatory Asset - Surcharges	3,284,200	-	-	3,284,200
Pension Asset	14,152,644	-	-	14,152,644
Total Other Assets	17,436,844	-	-	17,436,844
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Unamortized Losses on Refunding Bonds	267,511	159,693	-	427,204
Pension Contributions	7,782,163	-	-	7,782,163
OPEB	1,806,572	-	-	1,806,572
Total Deferred Outflows	9,856,246	159,693	-	10,015,939
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 921,910,380</u>	<u>\$ 248,224,470</u>	<u>\$ -</u>	<u>\$ 1,170,134,850</u>

NET POSITION, LIABILITIES AND DEFERRED INFLOWS	WATER W/O RWSS	RWSS	ADJUSTMENTS	WATER STATEMENTS
<b>NET POSITION</b>				
Invested in Capital Assets, Net of Related Debt	\$ 405,483,536	\$ 145,952,901	\$ -	\$ 551,436,437
Restricted for:				
Water Capital and System Development Charge	56,719,126	-	-	56,719,126
Debt Service Funds	2,056,732	-	-	2,056,732
Net Pension Asset	14,152,644	-	-	14,152,644
Unrestricted	51,044,217	267,742	-	51,311,959
Total Net Position	529,456,255	146,220,643	-	675,676,898
<b>LONG-TERM DEBT</b>				
Revenue Bonds	232,035,744	98,177,211	-	330,212,955
Public Works Trust Fund Loans	8,338,921	-	-	8,338,921
Drinking Water State Revolving Fund Loan	44,778,674	-	-	44,778,674
Total Long-Term Debt	285,153,339	98,177,211	-	383,330,550
<b>CURRENT LIABILITIES</b>				
Current Maturities of Long-Term Debt	11,559,913	2,455,000	-	14,014,913
Current Maturities of Long-Term Liabilities	160,291	-	-	160,291
Accrued Taxes	2,238,982	-	-	2,238,982
Accrued Expenses and Contracts Payable	5,215,616	4,955	-	5,220,571
Salaries, Wages and Fringe Benefits Payable	1,480,771	-	-	1,480,771
Interest Payable	1,179,570	410,290	-	1,589,860
Customers' Deposits	233,226	-	-	233,226
Current Lease Liability	14,098	-	-	14,098
Total Current Liabilities	22,082,467	2,870,245	-	24,952,712
<b>LONG-TERM LIABILITIES</b>				
Muckleshoot Agreements	5,919,906	-	-	5,919,906
Customer Advances for Construction	12,093,103	-	-	12,093,103
Unearned Revenue	5,080,978	956,371	-	6,037,349
Long-Term Accrued Compensated Absences	3,196,288	-	-	3,196,288
OPEB Liability	5,350,651	-	-	5,350,651
Long Term Lease Liability	11,379	-	-	11,379
Other Long-Term Liabilities	1,470,678	-	-	1,470,678
Total Long-Term Liabilities	33,122,983	956,371	-	34,079,354
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Rate Stabilization	35,575,447	-	-	35,575,447
Pension Contribution	16,189,221	-	-	16,189,221
OPEB Contribution	330,668	-	-	330,668
Total Inflows of Resources	52,095,336	-	-	52,095,336
<b>TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS</b>	<u>\$ 921,910,380</u>	<u>\$ 248,224,470</u>	<u>\$ -</u>	<u>\$ 1,170,134,850</u>

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Statements of Revenues, Expenses, and Changes in Net Position (RWSS)

	WATER W/O RWSS	RWSS	ADJUSTMENTS	TACOMA WATER STATEMENTS
<b>OPERATING REVENUES</b>				
Sale of Water	\$ 101,188,399	\$ -	\$ -	\$ 101,188,399
Other Operating Revenues	8,201,778	-	-	8,201,778
Contract Resource Obligation Revenues	-	12,202,305	(6,374,784)	5,827,521
Total Operating Revenues	109,390,177	12,202,305	(6,374,784)	115,217,698
<b>OPERATING EXPENSES</b>				
Operations	19,889,599	194,369	-	20,083,968
Production	9,261,586	4,142,349	-	13,403,935
Administrative and General	26,848,278	375,312	(6,374,784)	20,848,806
Depreciation	19,857,867	8,542,323	-	28,400,190
Lease Amortization	13,823	-	-	13,823
Taxes	6,574,082	-	-	6,574,082
Total Operating Expenses	82,445,235	13,254,353	(6,374,784)	89,324,804
Net Operating Income	26,944,942	(1,052,048)	-	25,892,894
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest Income	(2,577,433)	(110,285)	-	(2,687,718)
Interest Expense on Lease Activity	(456)	-	-	(456)
Operating Grant	16,500	-	-	16,500
Other	(1,020,544)	-	-	(1,020,544)
Interest on Long-Term Debt	(12,724,845)	(5,027,839)	-	(17,752,684)
Amortization of Premium and Loss on Refunding	244,782	611,643	-	856,425
Total Non-Operating Expenses	(16,061,996)	(4,526,481)	-	(20,588,477)
Net Income Before Capital Contributions and Transfers	10,882,946	(5,578,529)	-	5,304,417
Capital Grants and Contributions				
Cash	8,429,343	241,782	-	8,671,125
Capital Grant	1,256,942	-	-	1,256,942
Donated Fixed Assets	10,813,613	-	-	10,813,613
Federal BABs Subsidies	2,803,010	818,833	-	3,621,843
City of Tacoma Gross Earnings Tax	(8,728,920)	-	-	(8,728,920)
Transfer to/from Other Funds	2,142,998	-	-	2,142,998
<b>CHANGE IN NET POSITION</b>	27,599,932	(4,517,914)	-	23,082,018
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	501,856,323	150,738,557	-	652,594,880
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 529,456,255</u>	<u>\$ 146,220,643</u>	<u>\$ -</u>	<u>\$ 675,676,898</u>

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Bond Debt Service Requirements  
December 31, 2022

YEAR	WATER W/O RWSS		RWSS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2023	\$5,964,343	\$11,815,054	\$2,455,000	\$4,923,486	\$25,157,883
2024	4,300,000	11,665,133	4,930,000	4,804,186	25,699,319
2025	4,465,000	11,460,042	5,190,000	4,561,236	25,676,278
2026	4,930,000	11,244,560	5,420,000	4,300,363	25,894,923
2027	5,085,000	11,003,926	5,700,000	4,027,936	25,816,862
2028	5,265,000	10,730,810	5,970,000	3,741,452	25,707,262
2029	5,445,000	10,448,028	6,300,000	3,441,430	25,634,458
2030	5,640,000	10,155,577	6,595,000	3,124,853	25,515,430
2031	5,835,000	9,852,652	6,880,000	2,855,022	25,422,674
2032	6,050,000	9,524,668	6,660,000	2,572,445	24,807,113
2033	11,915,000	9,184,597	4,495,000	2,298,427	27,893,024
2034	12,360,000	8,502,114	4,655,000	2,045,763	27,562,877
2035	12,820,000	7,794,145	4,830,000	1,784,105	27,228,250
2036	13,295,000	7,059,824	5,005,000	1,512,611	26,872,435
2037	13,790,000	6,298,290	5,185,000	1,231,280	26,504,570
2038	14,305,000	5,508,406	5,375,000	939,831	26,128,237
2039	14,835,000	4,689,021	5,570,000	637,702	25,731,723
2040	15,390,000	3,839,272	5,775,000	324,613	25,328,885
2041	23,820,000	2,974,200	-	-	26,794,200
2042	24,770,000	2,021,400	-	-	26,791,400
2043	25,765,000	1,030,600	-	-	26,795,600
	<u>\$236,044,343</u>	<u>\$166,802,319</u>	<u>\$96,990,000</u>	<u>\$49,126,741</u>	<u>\$548,963,403</u>

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water  
Without RWSS

Funds Available for Debt Service

	2022	2021 (As Restated)	2020 (As Restated)	2019	2018
Total Income	\$112,331,475	\$113,860,266	\$110,377,311	\$111,675,882	\$113,090,167
Less: Operating Exp	62,587,368	63,705,835	58,970,799	57,193,541	52,488,595
Income Available for Debt Service	<u>\$49,744,107</u>	<u>\$50,154,431</u>	<u>\$51,406,512</u>	<u>\$54,482,341</u>	<u>\$60,601,572</u>
Bond Redemption	6,275,159	6,171,729	6,279,811	5,639,167	5,413,750
Bond Interest	11,953,863	12,100,641	12,502,629	13,072,833	13,290,645
Tacoma Water	11,953,863	12,100,641	12,502,629	13,072,833	13,290,645
Debt Service Payable	<u>\$18,229,022</u>	<u>\$18,272,370</u>	<u>\$18,782,440</u>	<u>\$18,712,000</u>	<u>\$18,704,395</u>
Times Debt Service Covered	2.73	2.74	2.74	2.91	3.24

Bond covenants requires debt service coverage of 1.25

All In Debt Service Coverage  
(In thousands)

	2022	2021 (As Restated)	2020 (As Restated)	2019	2018	2017 (As Restated)
Operating Revenue	\$109,390	\$106,206	\$99,673	\$97,638	\$97,515	\$90,060
Non-Operating Revenue (Expense)	(1,770)	1,298	5,801	8,826	6,909	2,888
Build America Bond Subsidy	2,803	2,810	2,825	2,793	2,783	2,773
System Development Charge	1,908	3,546	2,078	2,418	5,883	2,586
<b>Total Revenue Available</b>	<b>\$112,331</b>	<b>\$113,860</b>	<b>\$110,377</b>	<b>\$111,675</b>	<b>\$113,090</b>	<b>\$98,307</b>
Tacoma Share of RWSS Debt Service (CRO Operating Expense)	3,754	3,734	3,683	3,669	3,274	3,239
Other Operating Expenses less Depreciation	58,833	59,972	55,288	53,525	49,215	51,608
<b>Net Revenue Available for Debt Service Senior Lien</b>	<b>\$49,744</b>	<b>\$50,154</b>	<b>\$51,406</b>	<b>\$54,481</b>	<b>\$60,601</b>	<b>\$43,460</b>
<b>Senior Debt Service (Water Bonds)</b>	<b>18,229</b>	<b>18,272</b>	<b>18,782</b>	<b>18,712</b>	<b>18,704</b>	<b>18,664</b>
Gross Earnings Tax Transfer to City of Tacoma	8,729	8,307	7,816	8,020	7,695	7,144
Tacoma Share of RWSS Debt Service (CRO Operating Expense)	3,754	3,734	3,683	3,669	3,274	3,239
Net Revenue Available for Debt Service All-In	44,769	45,581	47,273	50,130	56,180	39,555
Subordinate Debt Service	6,630	7,408	7,438	7,946	8,645	8,062
Total All-In Debt Service (Senior + Tacoma Share of RWSS Debt Service + Subordinate)	28,613	29,414	29,903	30,327	30,623	29,965
<b>Debt Service Coverage - Senior Lien</b>	<b>2.73</b>	<b>2.74</b>	<b>2.74</b>	<b>2.91</b>	<b>3.24</b>	<b>2.33</b>
Debt Service Coverage - All-In	1.56	1.55	1.58	1.65	1.83	1.32

As stated in the Tacoma Water Rate and Financial Policy, Senior Debt Service Coverage will be maintained above 1.50, exceeding Tacoma Water's bond covenant requirement of net revenue at least 1.25 times annual senior debt service. This calculation excludes transfers to the City of Tacoma and subordinate debt, and includes transfers from the Rate Stabilization Account and Tacoma Share of RWSS debt service payments as a CRO operating expense.

The Policy also states that All-In Debt Service Coverage will be maintained above 1.25 except when cash reserves are budgeted to meet the annual revenue requirement, when it will be maintained above 1.00. This calculation includes transfers to the City of Tacoma and subordinate debt, and excludes transfers from the Rate Stabilization Account. Tacoma Share of RWSS debt service payments are included as debt service rather than CRO operating expense.

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Summary of Water Sales – 2022

	AVERAGE MONTHS BILLED	CONSUMPTION (CCF)	REVENUE	% of TOTAL REVENUE	MGD	% of TOTAL MGD
<b>RESIDENTIAL AND DOMESTIC SERVICE</b>						
<b>Inside City</b>						
Single and Multiple House	57,262	4,547,090	\$ 28,406,293	28.1%	9.32	18.7%
Multiple Unit Dwellings	3,486	1,702,823	7,092,005	7.0%	3.49	7.0%
Parks & Irrigation Services	193	78,615	462,350	0.5%	0.16	0.3%
Private Fire Services	111	752	111,612	0.1%	0.00	0.0%
	<b>61,052</b>	<b>6,329,280</b>	<b>36,072,260</b>	<b>35.7%</b>	<b>12.97</b>	<b>26.0%</b>
<b>Outside City</b>						
Single and Multiple Houses	38,962	3,975,250	26,736,821	26.4%	8.15	16.3%
Multiple Unit Dwellings	1,936	1,035,793	5,403,629	5.3%	2.12	4.3%
Parks & Irrigation Services	281	113,788	866,711	0.9%	0.23	0.5%
Private Fire Services	77	7	47,912	0.0%	0.00	0.0%
	<b>41,256</b>	<b>5,124,838</b>	<b>33,055,073</b>	<b>32.6%</b>	<b>10.50</b>	<b>21.1%</b>
<b>COMMERCIAL AND INDUSTRIAL SERVICE</b>						
<b>Inside City</b>						
Large Volume Service	2	326,651	712,828	0.7%	0.67	1.3%
General Service	3,720	2,031,356	8,335,161	8.2%	4.16	8.3%
Parks & Irrigation Services	387	262,199	1,578,535	1.6%	0.54	1.1%
Private Fire Services	1,133	15,157	2,857,315	2.8%	0.03	0.1%
	<b>5,242</b>	<b>2,635,363</b>	<b>13,483,839</b>	<b>13.3%</b>	<b>5.40</b>	<b>10.8%</b>
<b>Outside City</b>						
Large Volume Service	4	710,395	1,847,676	1.8%	1.46	2.9%
General Service	934	643,454	3,940,421	3.9%	1.32	2.6%
Parks & Irrigation Services	133	189,314	1,328,062	1.3%	0.39	0.8%
Private Fire Services	258	13,161	1,318,844	1.3%	0.03	0.1%
	<b>1,329</b>	<b>1,556,324</b>	<b>8,435,003</b>	<b>8.3%</b>	<b>3.19</b>	<b>6.4%</b>
<b>WESTROCK</b>	<b>1</b>	<b>7,772,053</b>	<b>7,344,132</b>	<b>7.3%</b>	<b>15.93</b>	<b>31.9%</b>
<b>WHOLESALE</b>	<b>17</b>	<b>930,770</b>	<b>2,434,401</b>	<b>2.4%</b>	<b>1.91</b>	<b>3.8%</b>
Unbilled Revenue			363,691	0.4%		
<b>TOTAL WATER SALES</b>	<b>108,897</b>	<b>24,348,628</b>	<b>\$ 101,188,399</b>	<b>100.0%</b>	<b>49.90</b>	<b>100.0%</b>

MGD defined as Millions of Gallons Per Day

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

2022 Statistical Information  
As of December 31, 2022

Tacoma Water System:

Average daily delivery exclusive of pulp mill	37.92	MG
Average daily delivery of pulp mill	15.93	MG
Total average daily delivery	53.85	MG

Maximum daily production	7/26/2022	87.90	MG
Minimum daily production	10/28/2022	36.88	MG

Total water produced in 2022*	19,719	MG
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Regional Water Supply System (RWSS):

Total average daily delivery	12.55	MG
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Average daily consumption per single family residential service (Inside City)	162.6	GPD
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Miles of transmission and wells supply mains - 28" to 96" diameter (includes North Fork wells system)	150	mi
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Miles of distribution mains - 2" to 24" in diameter	1,318.19	mi
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Fire Hydrants (Inside)	6,211
Fire Hydrants (Outside)	5,356

The primary source of Tacoma's water supply is the Green River. Additionally the North Fork well field provides blending options during periods of excessive river turbidity. The Green River source consists of a 73 million gallons per day (MGD) water right. Tacoma is also partner in the Regional Water Supply System (RWSS) and holds a 27 MGD average share of that 64.6 MGD interruptible, junior water right on the Green River. Tacoma also has ground water rights totaling 87 MGD with an installed pumping capacity of 47 MGD.

Tacoma's water supply is robust and of very high quality, benefiting from decades of source protection and substantial investment in treatment. City of Tacoma business and residents continued to receive extraordinary service reliability while meeting or exceeding all regulatory requirements of the United States Environmental Protection Agency and the Washington Department of Health.

Storage facilities are provided at 15 locations. These facilities consist of 10 concrete tanks and 12 steel standpipes. The combined storage capacity is equal to approximately 140.7 million gallons. Of this storage capacity 67.6 million gallons are located at the McMillin Reservoir approximately 14 miles southeast of Tacoma.

*\*Includes losses and water for self-consumption excludes RWSS*

*MG equals million gallons*

*GPD equals gallons per day*

*mi equals miles*

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

Taxes and Employee Welfare Contributions  
For the Year 2022

**FEDERAL**

Social Security (FICA)	\$2,122,781	
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**STATE OF WASHINGTON**

Retail Sales Tax	2,586,535	
Utilities and Business Activities Tax	<u>5,238,424</u>	
Total		7,824,959

**COUNTY**

Real Property	<u>82,441</u>	
Total		82,441

**MUNICIPALITIES**

City of Tacoma Gross Earnings Tax	8,728,920	
City of Fircrest Administrative Fee	7,277	
City of Lakewood Administrative Fee	6,458	
City of Puyallup Administrative Fee	24,620	
City of University Place Administrative Fee	747,778	
City of University Place Utility Tax	<u>503,589</u>	
		<u>10,018,642</u>

TOTAL TAXES		<u><u>\$20,048,823</u></u>
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Taxes as a % of Non-CRO Revenues of \$109,390,177		18.33%
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**EMPLOYEE WELFARE CONTRIBUTIONS**

Industrial Insurance and Medical Aid	\$374,819	
Pensions	2,978,744	
Medical Insurance	5,434,978	
Dental Insurance	<u>431,418</u>	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u><u>\$9,219,959</u></u>
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City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

2022 Water Rates

METER SIZE	READY TO SERVE CHARGE PER MONTH		Effective 4/1/22
	INSIDE TACOMA	OUTSIDE TACOMA	University Place
5/8 inch	\$25.83	\$31.28	\$33.60
3/4 inch	\$37.25	\$44.98	\$48.32
1 inch	\$60.08	\$72.38	\$77.75
1-1/2 inch	\$117.15	\$140.86	\$151.30
2 inch	\$185.64	\$223.05	\$239.58
3 inch	\$345.45	\$414.82	\$445.56
4 inch	\$573.75	\$688.78	\$739.82
6 inch	\$1,144.50	\$1,373.68	\$1,475.47
8 inch	\$1,829.40	\$2,195.56	\$2,358.25
10 inch	\$2,628.45	\$3,154.42	\$3,388.17
12 inch	\$3,855.56	\$4,626.95	\$4,969.81
	CHARGE FOR WATER USED PER MONTH PER 100 CUBIC FEET		Effective 4/1/22
	INSIDE TACOMA	OUTSIDE TACOMA	University Place
<u>Residential Service</u>			
Each 100 cubic ft of water consumption during the winter months of October through May	\$2.207	\$2.648	\$2.844
First 500 cubic ft of water consumption per month during the summer months of June through September	\$2.207	\$2.648	\$2.844
Each 100 cubic ft of water consumption over 500 cubic ft during the summer months of June through September	\$2.759	\$3.310	\$3.555
<u>Commercial and Industrial</u>			
General Service	\$2.379	\$2.855	\$3.067
Large Volume Service (over 65,000 cubic feet annually)	\$1.850	\$2.220	\$2.385
<u>Parks and Irrigation Service</u>			
Each 100 cubic feet of water consumption	\$4.628	\$5.554	\$5.966

City of Tacoma water services are 100% metered.

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

Water rates were established by Ordinance No. 28711 and were effective January 1, 2022.  
Updated University Place rates were established by Ordinance No. 28736 and were effective April 1, 2022.

Residential service rate for outside Tacoma does not include University Place.

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Water

2022 Fire Protection Rates

METER SIZE	READY TO SERVE CHARGE PER MONTH		Effective 4/1/22 University Place	WATER INCLUDED FOR MONTHLY LEAKAGE AND TESTING PURPOSES (100 Cubic Feet)
	INSIDE TACOMA	OUTSIDE TACOMA		
2 inch	\$29.79	35.75	38.40	2.99
3 inch	\$43.39	52.07	55.93	2.99
4 inch	\$72.48	86.98	93.43	2.99
6 inch	\$162.59	195.11	209.57	2.99
8 inch	\$289.44	347.33	373.07	2.99
10 inch	\$452.72	543.26	583.52	2.99
12 inch	\$724.12	868.94	933.33	2.99

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

MONTHLY CHARGE

12 times the monthly service charge (minimum).

CONSUMPTION

Rates per 100 cubic feet per month \$3.960

The above rates for fire service shall apply where City water is used for all purposes on such premises exclusive of that amount allowed for testing and leakage.

Costs associated with fire hydrant services are currently recovered from customers in two different ways, depending on their location in the service area. Customers outside the City of Tacoma with residential and commercial accounts pay a flat monthly franchise "Franchise Hydrant Service Fee" as shown below:

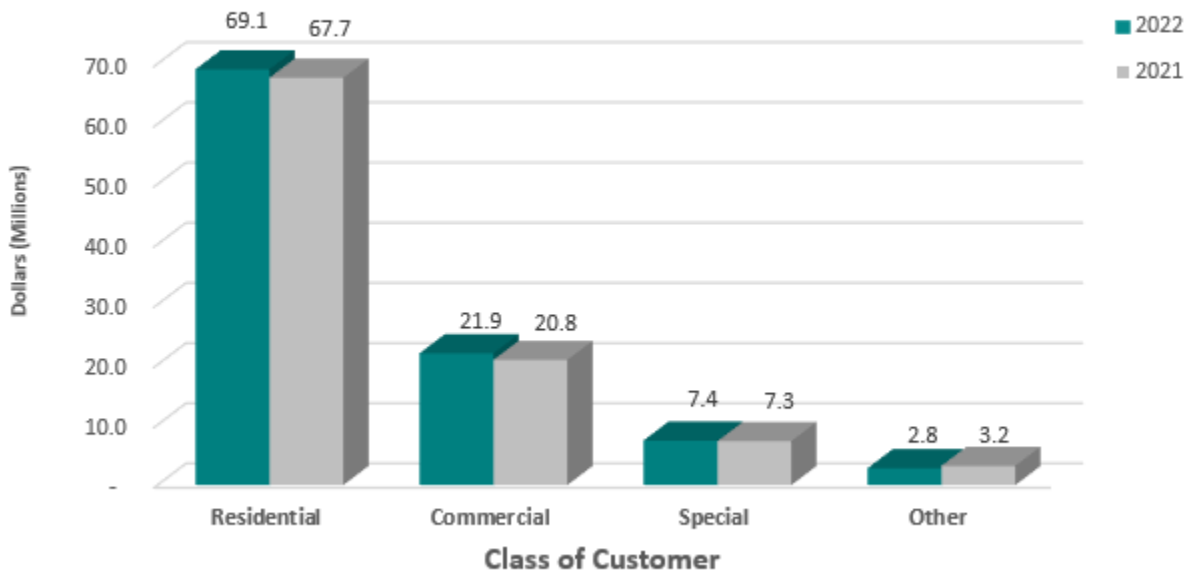
Outside City, other contract	\$4.752	
University Place	\$5.104	Effective 4/1/22
Outside Including Lakewood, Puyallup, and Fircrest Franchises	\$4.752	

Water rates were established by Ordinance No. 28711 and were effective January 1, 2022.  
Updated University Place rates were established by Ordinance No. 28736 and were effective April 1, 2022.

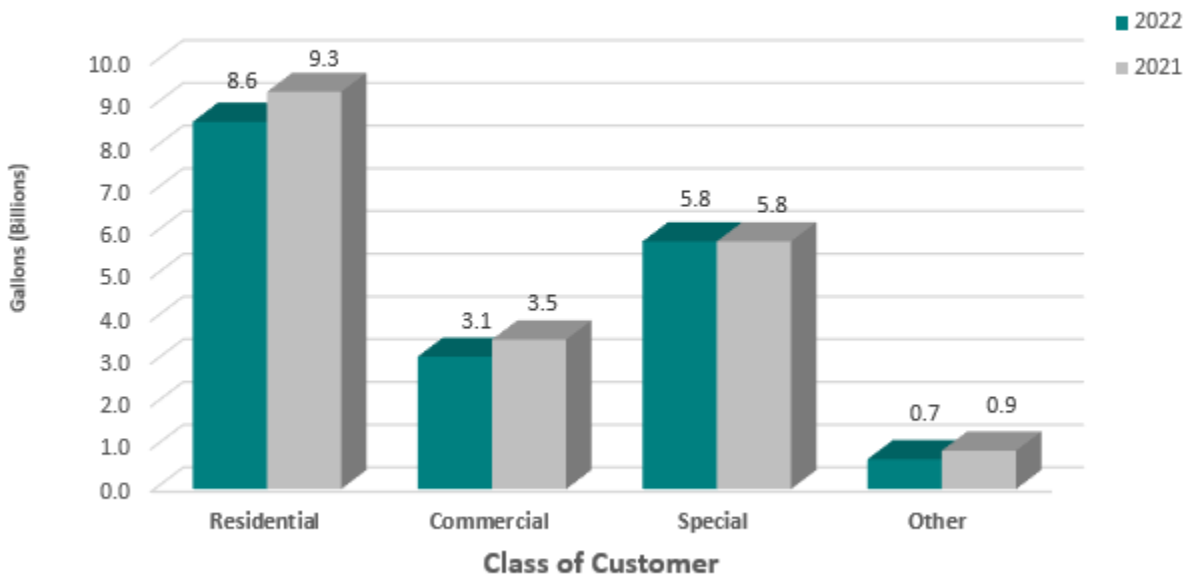
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# Graphs

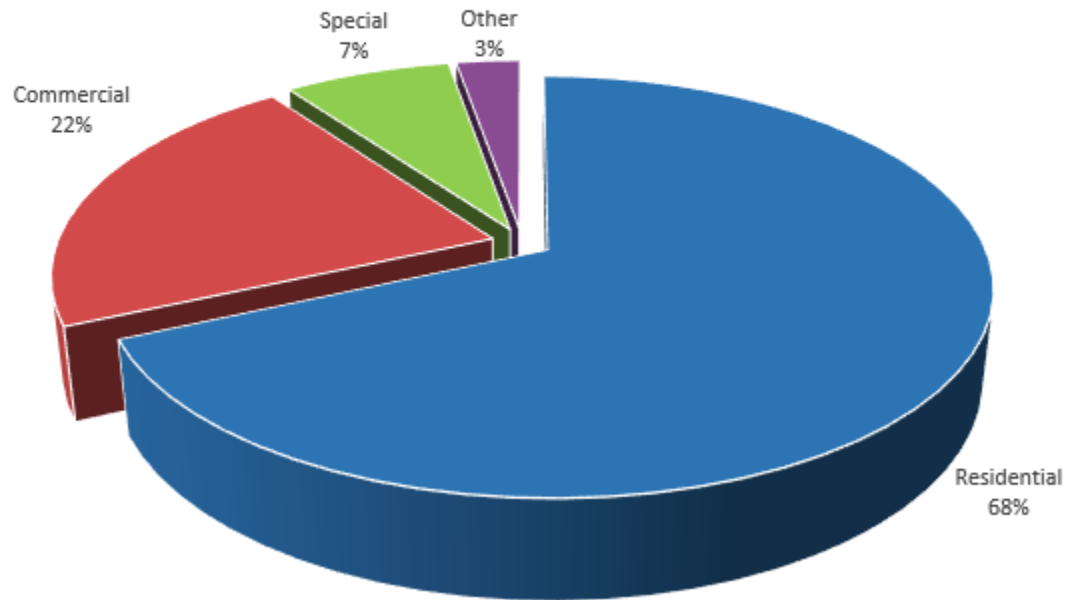
## WATER SALES Year to Date - December 2022 & 2021



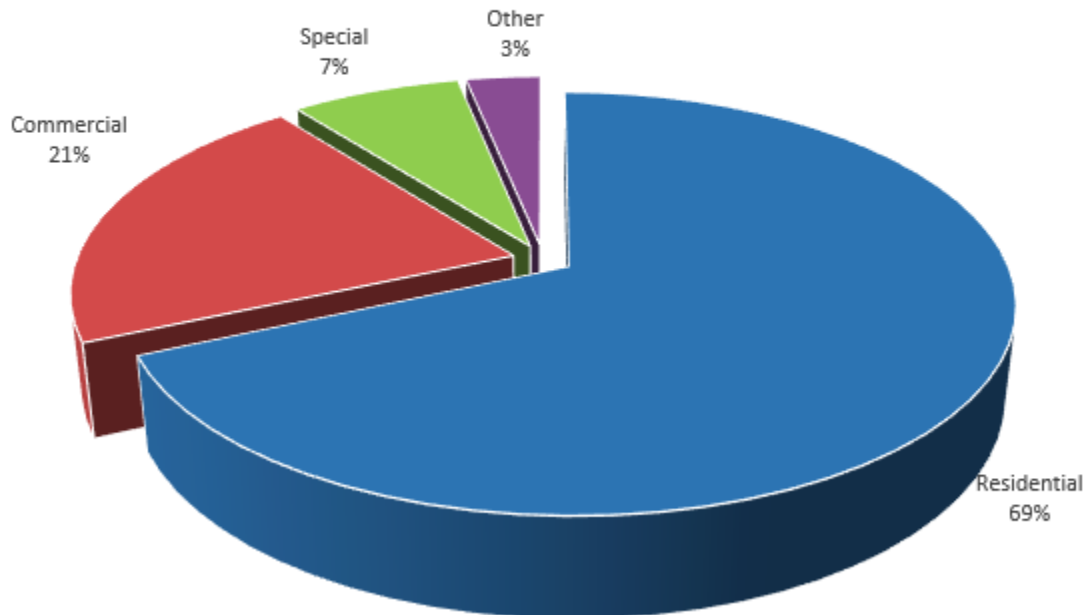
## WATER CONSUMPTION Year to Date - December 2022 & 2021



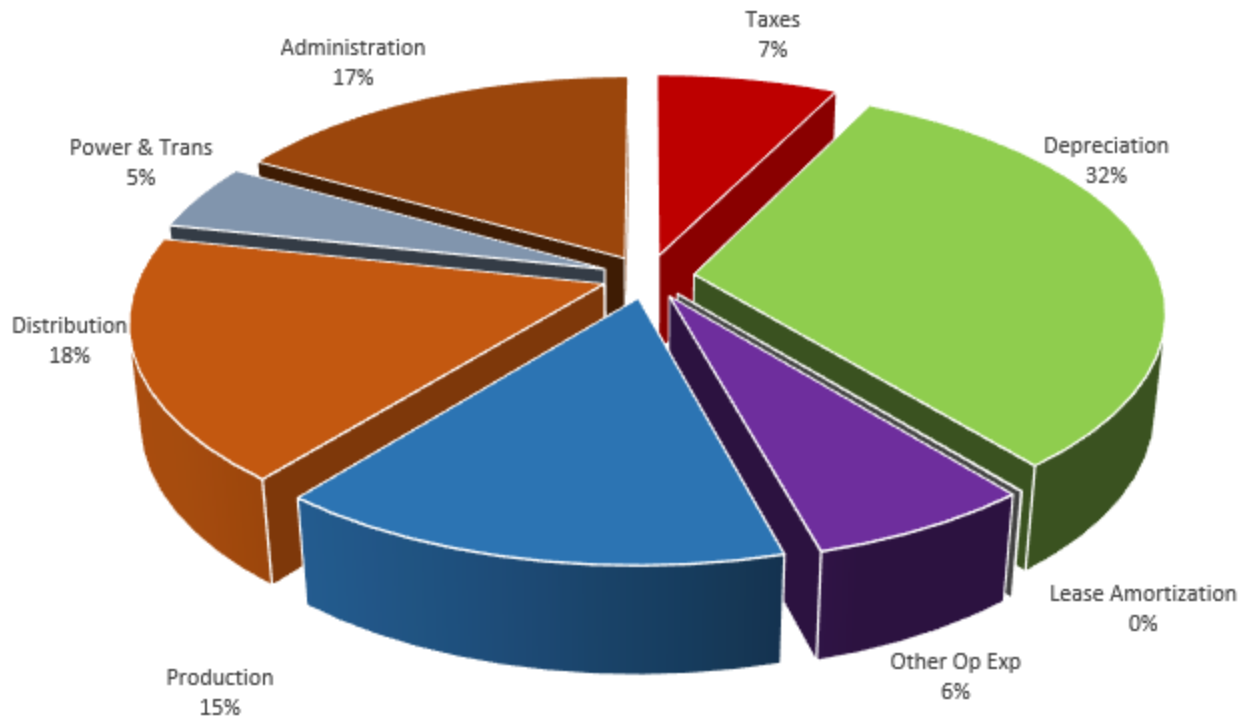
**WATER SALES**  
**Year to Date - December 2022**  
**(\$101,188,399)**



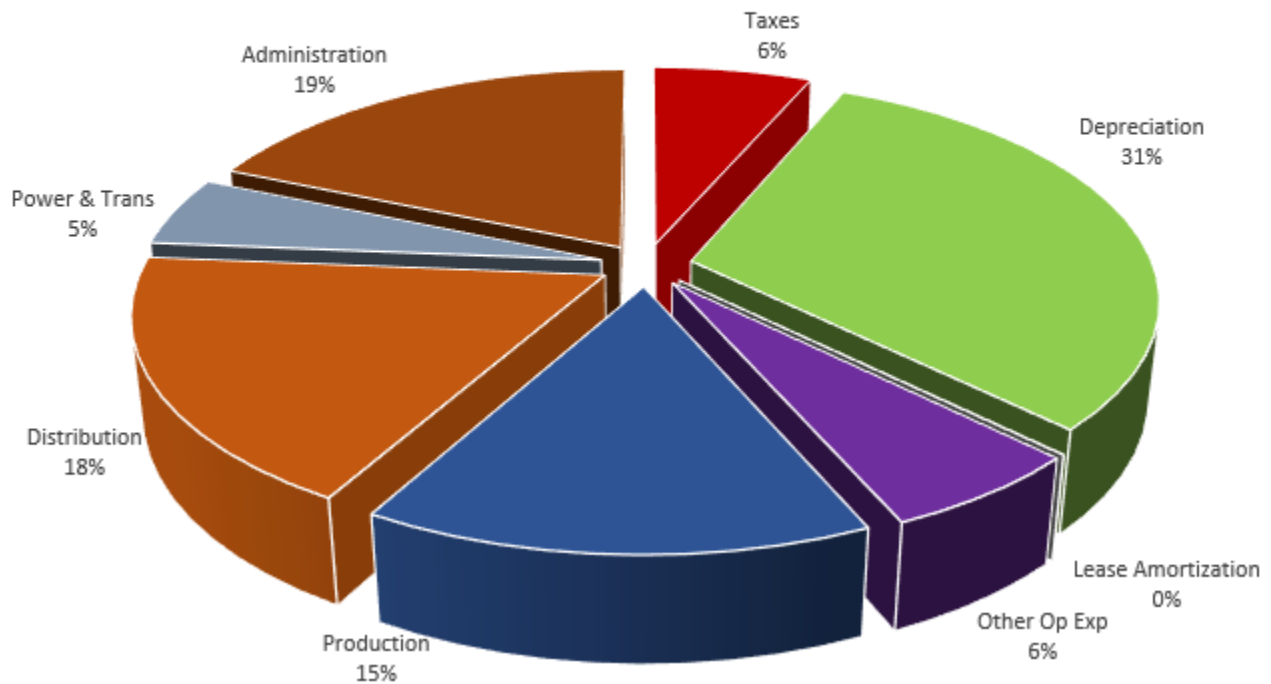
**WATER SALES**  
**Year to Date - December 2021**  
**(\$98,999,183)**



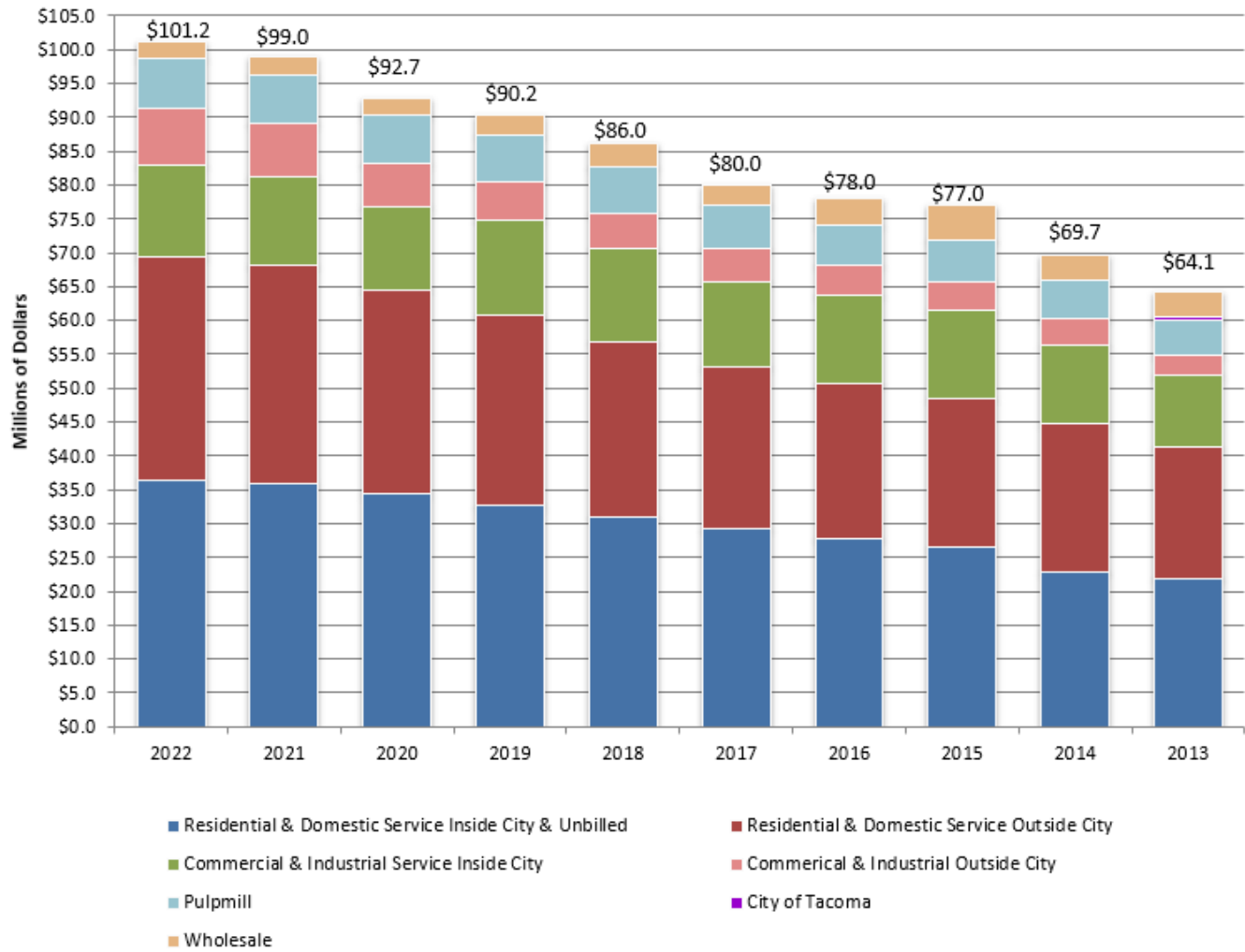
**TOTAL OPERATING EXPENSES**  
**Year to Date - December 2022**  
**(\$89,324,804)**



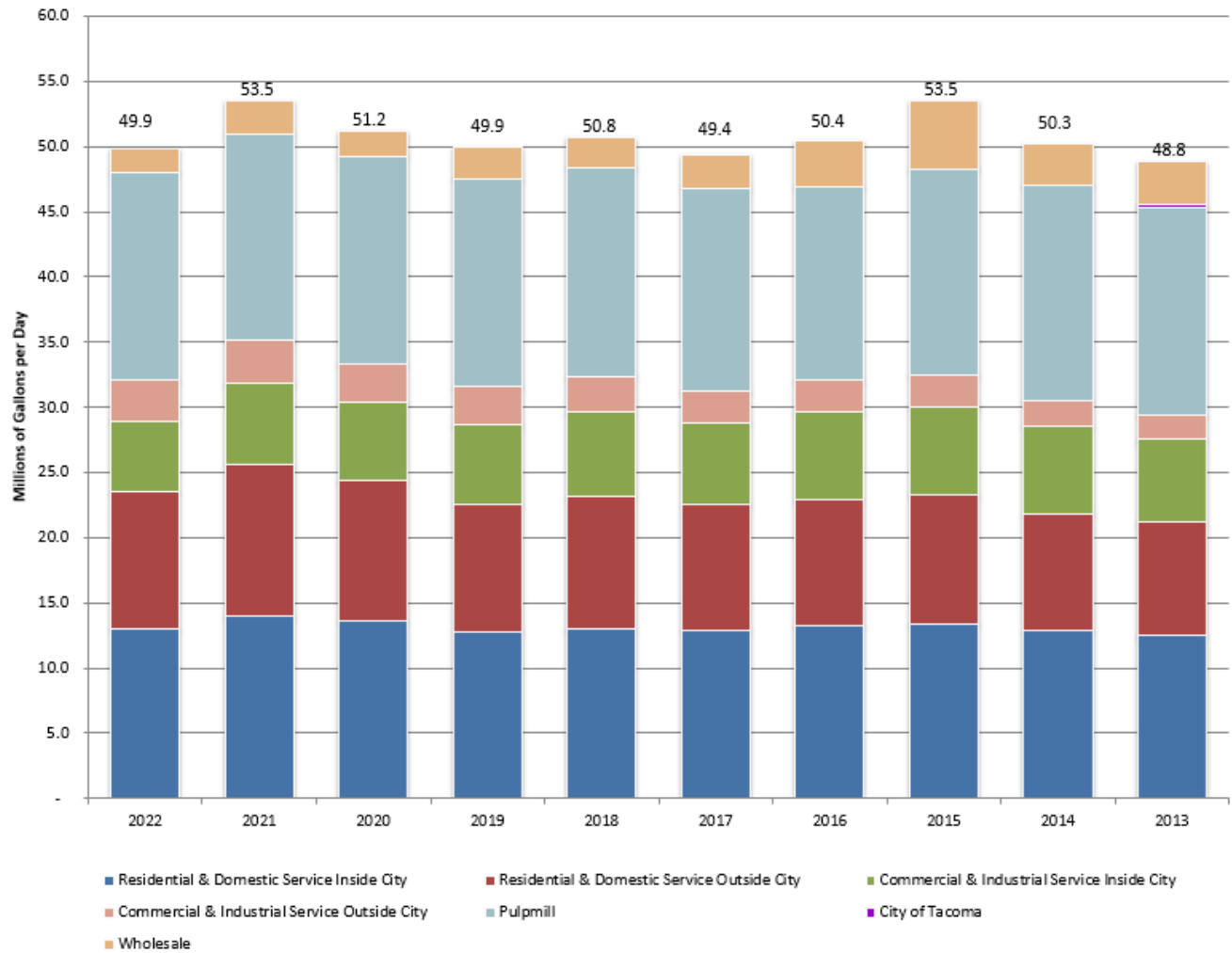
**TOTAL OPERATING EXPENSES**  
**Year to Date - December 2021 (Restated)**  
**(\$89,927,690)**



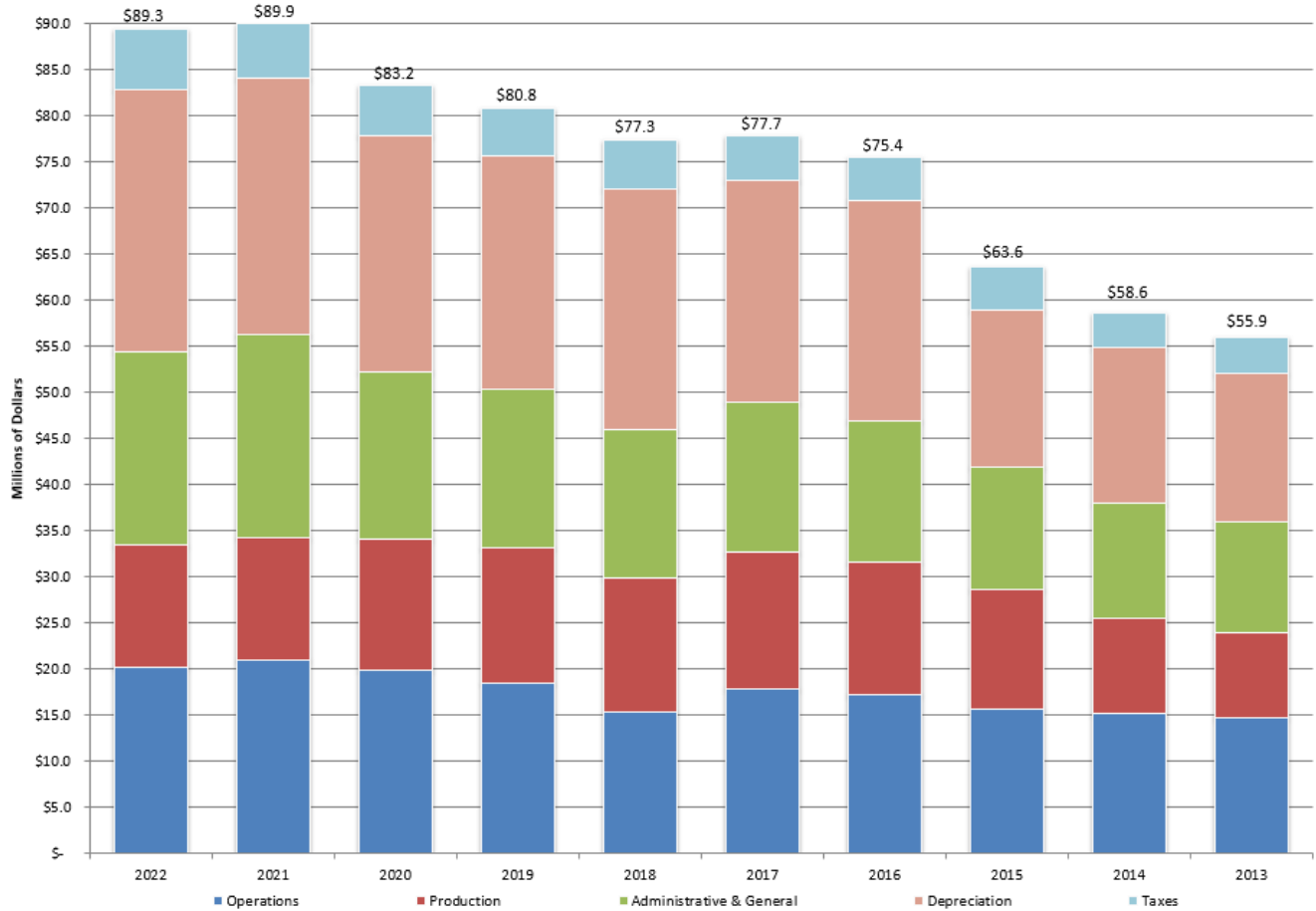
## TEN-YEAR SUMMARY OF WATER SALES (MILLIONS OF \$)



## TEN-YEAR SUMMARY OF WATER DEMAND (MGD)



### TEN-YEAR SUMMARY OF O&M EXPENSE (MILLIONS OF \$)





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.

## **APPENDIX I**

### **GREEN BOND SECOND PARTY OPINION**

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## Second Party Opinion

<b>Issuer:</b>	<b>City of Tacoma, Washington</b>
<b>Issue Description:</b>	Water System Revenue Refunding Bonds, Series 2024 (Green Bonds)
<b>Project:</b>	Water System Capital Improvements
<b>Green Standard:</b>	ICMA Green Bond Principles
<b>Green Category:</b>	Sustainable Water Management
<b>Keywords:</b>	Drinking water, advanced metering infrastructure, leak detection, water transmission and distribution system, resiliency, Washington
<b>Par:</b>	\$63,800,000
<b>Evaluation Date:</b>	December 26, 2023

### GREEN BONDS DESIGNATION

Kestrel, an Approved Verifier accredited by the Climate Bonds Initiative, conducted an independent external review of the City of Tacoma, Washington, Water System Revenue Refunding Bonds, Series 2024 (Green Bonds) ("Bonds") to evaluate conformance with the Green Bond Principles (June 2021 with June 2022 Appendix 1) established by the International Capital Market Association. Our team for this engagement included analysts with backgrounds in environmental science and social science.

This Second Party Opinion reflects our review of the uses and allocation of proceeds, oversight, and conformance of the Bonds with the Green Bond Principles. In our opinion, the Bonds are impactful and conform with the four core components of the Green Bond Principles, and qualify for Green Bonds designation.

### ABOUT THE ISSUER

Tacoma, Washington, is located 32 miles south of Seattle and has a population of nearly 221,000. The City of Tacoma (the "City") provides drinking water services through the Water Division of the Department of Public Utilities ("Tacoma Water"), which serves approximately 375,000 people in the city and nearby communities of Pierce and King Counties. Tacoma Water provides potable drinking water to residential, commercial, and industrial accounts, and serves 15 wholesale customers in the Puget Sound region. The City has also established a separate utility system known as the Regional Water Supply System ("Regional System") in partnership with the City of Kent, Lakehaven Water and Sewer District, and Covington Water District. The Regional System was formed to construct and operate the Second Supply Project, an additional supply pipeline from the Green River. The City has water rights on the Green River, including for the Second Supply Project. Under the terms of the 2002 Second Supply Project Agreement, each

participant in the Regional System has a right to project capacity share. Water is primarily sourced from the Green River, with a watershed that consists of approximately 230 square miles of forested and mountainous terrain located northeast of Tacoma in the Cascade Range. Drinking water from the watershed is treated at the Green River Filtration Facility, which has a treatment capacity of up to 150 million gallons per day. Tacoma Water also owns and operates groundwater wells that provide approximately 8% of the supply, used primarily in the summer or fall when demand increases.<sup>1</sup>

Tacoma Water plans for drought and climate change resiliency through data modeling and has an Integrated Resource Plan to guide decisions related to physical supply security. Tacoma Water proactively plans for declines in water supply due to climate change and explores alternative options, such as enhancing groundwater production, implementing demand management strategies, and developing a water storage project at Eagle Gorge Reservoir. Additionally, the City published the 2030 Tacoma Climate Action Plan which describes a pathway for Tacoma to reach net zero greenhouse gas emissions by 2050.

Tacoma Water ensures high water quality for customers through watershed stewardship. Tacoma Water owns a portion of the upper Green River watershed and implements watershed monitoring and protection programs upstream of the diversion.<sup>2</sup> Green River diversions are managed under a Habitat Conservation Plan and an agreement with the Muckleshoot Indian Tribe. Key strategies of this plan include fish and wildlife habitat conservation, including upland forest and riparian management.

In 2020, Tacoma Water began upgrading and replacing water meters with Advanced Metering Infrastructure (“AMI”) to capture water data remotely, improve billing, and better manage outages and leak detection. To implement AMI projects, Tacoma Water utilizes the City of Tacoma Equity Index<sup>3</sup> to identify underserved communities and areas with historically low investments in drinking water infrastructure. Tacoma Water offers grants and deferred loans to help customers finance water line repairs.

## ALIGNMENT TO GREEN STANDARDS<sup>4</sup>

### Use of Proceeds

The Bonds refund the Water System Revenue and Refunding Bonds, 2013, that financed improvements to the Tacoma drinking water system (collectively, “Projects”). Refinanced upgrades and improvements promote water conservation, encourage environmental protection and restoration, and improve aging infrastructure.<sup>5</sup> The Projects are substantially complete and are eligible projects as defined by the Green Bond Principles in the *Sustainable Water Management* project category.



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<sup>1</sup> Groundwater and surface water supplies are treated separately for drinking water.

<sup>2</sup> A diversion is a structure designed to divert river water for drinking water treatment and distribution.

<sup>3</sup> The Equity Index is a data-driven tool used to identify locations, projects, and policies where there are opportunities to address disparities in community conditions.

<sup>4</sup> Green Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or refinance eligible Green Projects which are aligned with the four core components of ICMA Green Bond Principles.

<sup>5</sup> Tacoma Water received a state loan for construction of the Green River Filtration Facility and therefore bond proceeds were primarily allocated to transmission, distribution, and supply projects rather than treatment systems.

Improvements to water use efficiency and investment in critical infrastructure projects are integral to the long-term sustainability of a water system. In Kestrel's view, the Projects have supported water conservation goals, improved resiliency of Tacoma's water supply, and provided critical maintenance to aging drinking water infrastructure. The improvements support a holistic approach to sustainable water system management that also includes watershed stewardship. Major bond-financed project categories are described below.

- **Water Transmission and Distribution System:** Projects include distribution system upgrades such as replacement of meters and valves, replacement of a transmission main, and improvements to water infrastructure that were done in conjunction with public road projects. These infrastructure improvements are essential for efficient operations, maintaining a state of good repair and system resilience, and providing a reliable water supply to customers and regional partners.
- **Advanced Metering Infrastructure & Leak Prevention:** Proceeds also financed infrastructure that supports Tacoma Water's proactive water savings and conservation initiatives. The primary focus was to minimize unaccounted-for water by replacing outdated water service lines and failing meters. Proceeds financed advanced metering infrastructure and expansion of supervisory control and data acquisition systems ("SCADA"). These systems enable granular monitoring and metering, which allows operators to detect leaks quickly, identify efficiencies, maximize water conservation efforts, and reduce energy and chemical use.
- **Lead Pipe (Gooseneck) Removal:** The Bonds partially financed Tacoma Water's program to remove and replace all lead goosenecks in the system. Goosenecks are relatively small, curved pipes that connect a service line to a water main. The program was a proactive effort to protect against potential public health concerns. These replacements are substantially complete.

#### Advancing the Just Transition

The Bonds also finance activities which align with the *just transition*, characterized by the equitable inclusion and accommodation of all individuals, with a special focus on disadvantaged groups who may be directly or indirectly affected by the structural changes necessary for the transition to a low-carbon economy. By refinancing proactive projects that ensure a long-term, reliable source of drinking water for all residents, the Bonds support the just transition. The Projects address climate transition risks by planning for variability in water supply and adding redundancy in a region experiencing unique water resource challenges amidst rapid population growth.

#### **Process for Project Evaluation and Selection**

Tacoma Water uses several key planning documents to identify and prioritize projects that support a resilient, reliable, and sustainable water system. The Integrated Resource Plan (2018) also provides a framework for prioritizing projects that support and advance the Comprehensive Water System Plan (2018).<sup>6</sup>

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<sup>6</sup> The Washington State Department of Health requires Tacoma Water to update this water system plan every ten years. This plan includes a capital program needs assessment based on various analyses of the system and regional water supply. Other key documents which inform Tacoma Water's activities include the Water Conservation Plan and the Water Shortage Response Plan.

Tacoma Water leadership ensures that all bond-financed projects are aligned with and advance the goals of the Tacoma Water Habitat Conservation Plan, the 2020-2025 Tacoma Water Strategic Plan, and regional water infrastructure goals laid out in the Tacoma Climate Change Resilience Study (2016).

**Management of Proceeds**

Bond proceeds will solely be used to refund all or a portion of the Water System Revenue and Refunding Bonds, 2013, and to pay costs of issuance. Proceeds will not be held in temporary investments prior to refunding the outstanding bonds. The Finance Department is responsible for disbursement of funds and the City Treasurer will oversee the refunding.

**Reporting**

Tacoma Water provides multiple forms of ongoing reporting. A long-range financial plan is produced annually and includes updates on the water system and ongoing capital projects. The most recent long-range financial plan is available here: [mytpu.org/about-tpu/investors/water-investor-information](https://mytpu.org/about-tpu/investors/water-investor-information). Tacoma Water reports quarterly on Strategic Directives, which are made publicly available. The Tacoma Public Utilities annual report includes a dedicated Tacoma Water section with information about environmental stewardship. These Tacoma Public Utilities annual reports are available at [mytpu.org/about-tpu/tpu-publications](https://mytpu.org/about-tpu/tpu-publications).

In addition to these reporting efforts, Kestrel will provide one update report on the Bonds within 12 months of issuance. This report is expected to be produced after all proceeds have been spent and will include confirmation of continued alignment with the Green Bond Principles and relevant updates on financed projects including allocation of proceeds.

Tacoma Water will also submit continuing financial disclosures to the Municipal Securities Rulemaking Board (“MSRB”) as long as the Bonds are outstanding, as well as reports in the event of material developments. This reporting will be done annually on the Electronic Municipal Market Access (“EMMA”) system operated by the MSRB.

**ALIGNMENT WITH UN SDGs**



The Bonds support and advance the vision of the United Nations Sustainable Development Goals (“UN SDGs”), including:



**Clean Water and Sanitation (Targets 6.1, 6.5)**

Provide access to clean and reliable drinking water and use integrated water resource planning



**Industry, Innovation and Infrastructure (Target 9.4)**

Implement capital improvements to improve resilience and resource-use efficiency



**Responsible Consumption and Production (Target 12.2)**

Sustainable management of the Green River watershed and regional water supplies

Full text of the Targets for Goals 6, 9, and 12 is available in Appendix A, with additional information available on the United Nations website: [un.org/sustainabledevelopment](https://un.org/sustainabledevelopment)

## CONCLUSION

Based on our independent external review, the City of Tacoma, Washington, Water System Revenue Refunding Bonds, Series 2024 (Green Bonds) are impactful and conform, in all material respects, with the Green Bond Principles (2021) and are in complete alignment with the *Sustainable Water Management* project category. Refinanced upgrades and improvements illustrate Tacoma Water's commitment to sustainability, and will promote water conservation, encourage environmental protection and restoration, and improve aging infrastructure.

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## About

Kestrel provides Sustainability Intelligence and verification services designed to bring greater transparency and insight to fixed income, helping to set the market standard for sustainable finance.

Kestrel is a leading provider of external reviews for green, social and sustainability bond transactions. We are qualified to evaluate corporate and municipal bonds in all asset classes worldwide for conformance with international green and social bond standards.

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## Disclaimer

This Opinion aims to explain how and why the discussed financing meets the ICMA Green Bond Principles based on the information that was provided by Tacoma Water or made publicly available by Tacoma Water and relied upon by Kestrel only during the time of this engagement (July – August 2023), and only for purposes of providing this Opinion.

We have relied on information obtained from sources believed to be reliable, and assumed the information to be accurate and complete. However, Kestrel can make no warranty, express or implied, nor can we guarantee the accuracy, comprehensive nature, merchantability, or fitness for a particular purpose of the information we were provided or obtained.

By providing this Opinion, Kestrel is neither addressing nor certifying the credit risk, liquidity risk, market value risk or price volatility of the projects financed by the Green Bonds. It was beyond Kestrel's scope of work to review for regulatory compliance, and no surveys or site visits were conducted by us. Furthermore, we are not responsible for surveillance, monitoring, or implementation of the project, or use of proceeds.

The Opinion delivered by Kestrel is for informational purposes only, is current as of the date of issuance, and does not address financial performance of the Green Bonds or the effectiveness of allocation of its proceeds. This Opinion does not make any assessment of the creditworthiness of Tacoma Water, nor its ability to pay principal and interest when due. This Opinion does not address the suitability of a Bond as an investment, and contains no offer, solicitation, endorsement of the Bonds nor any recommendation to buy, sell or hold the Bonds. Kestrel accepts no liability for direct, indirect, special, punitive, consequential or any other damages (including lost profits), for any consequences when third parties use this Opinion either to make investment decisions or to undertake any other business transactions.

This Opinion may not be altered without the written consent of Kestrel. Kestrel reserves the right to revoke or withdraw this Opinion at any time. Kestrel certifies that there is no affiliation, involvement, financial or non-financial interest in Tacoma Water or the projects discussed. We are 100% independent. Language in the offering disclosure supersedes any language included in this Second Party Opinion.

Use of the United Nations Sustainable Development Goal (SDG) logo and icons does not imply United Nations endorsement of the products, services, or bond-financed activities. The logo and icons are not being used for promotion or financial gain. Rather, use of the logo and icons is primarily illustrative, to communicate SDG-related activities.

# Appendix A.

## UN SDG TARGET DEFINITIONS

### **Target 6.1**

By 2030, achieve universal and equitable access to safe and affordable drinking water for all

### **Target 6.5**

By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate

### **Target 9.4**

By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

### **Target 12.2**

By 2030, achieve the sustainable management and efficient use of natural resources

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