
ANNUAL

TACOMA POWER

2018

**FINANCIAL
REPORT**



Public Utility Board

WOODROW JONES
Chair

KAREN LARKIN
Vice-Chair

BRYAN FLINT
Secretary

MARK PATTERSON
Member

CHRISTINE COOLEY
Member

JACKIE FLOWERS
Director of Utilities

CHRIS ROBINSON
Power Superintendent/COO

ANDREW CHERULLO
Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA POWER

TABLE OF CONTENTS

FINANCIAL DATA

INDEPENDENT AUDITOR'S REPORT.....	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3 - 12
STATEMENTS OF NET POSITION.....	13 - 14
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION.....	15
STATEMENTS OF CASH FLOW.....	17 - 18
NOTES TO FINANCIAL STATEMENTS.....	19 - 41

REQUIRED SUPPLEMENTARY INFORMATION

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY.....	43
SCHEDULE OF THE CITY OF TACOMA'S CONTRIBUTIONS.....	43
PROPORTIONATE SHARE OF THE COLLECTIVE OPEB LIABILITY.....	44

STATISTICAL DATA (UNAUDITED)

TEN-YEAR FINANCIAL REVIEW.....	47 - 48
TEN-YEAR POWER SUMMARY.....	49 - 50
GROSS GENERATION REPORT.....	51
DEBT SERVICE REQUIREMENTS.....	52
FUNDS AVAILABLE FOR DEBT SERVICE.....	53
RESOURCES.....	54
TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS.....	55
2018 ELECTRIC RATES.....	56
GRAPHS.....	57 - 62

SUPERINTENDENT'S REPORT (UNAUDITED).....	63 - 75
---	----------------

This page has been left blank intentionally.

FINANCIAL DATA

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Department of Public Utilities, Power Division (the Division), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Tacoma, Department of Public Utilities, Power Division as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data on pages 47 through 62 and the superintendent's report on pages 63 through 75 are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, on our consideration of the City of Tacoma, Department of Public Utilities, Power 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 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
May 28, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Power's financial performance provides an overview of the financial activities for the years ended December 31, 2018, 2017 and 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the Utility's financial activities, and identify changes in the Utility's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2018 and 2017, include the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. The Statements of Net Position present information on all of the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

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

Financial Highlights

- Tacoma Power reported an increase in total net position of \$33.1 million (294.5%) in 2018, compared to an increase of \$8.4 million (312.8%) in 2017.
- Operating revenues increased \$8.9 million (2.0%) in 2018. Operating revenues in 2017 increased \$27.7 million (6.6%).
- Utility Plant in Service increased \$63.9 million (3.1%) in 2018 and \$51.6 million (2.6%) in 2017.
- Construction work in progress increased \$12.4 million (38.5%) in 2018 and \$5.7 million (21.8%) in 2017.

Overview of Financial Statements

Tacoma Power reported net operating income of \$66.0, \$43.3 and \$30.4 million in 2018, 2017 and 2016 respectively. Operating revenues increased \$8.9 million during 2018 and operating expenses decreased \$13.8 million. For 2017, operating revenues increased \$27.7 million and operating expenses increased \$14.8 million compared to 2016. Tacoma Power reported an increase in net position of \$33.1 million in 2018 compared to an increase of \$8.4 million in 2017 and a decrease of \$3.9 million in 2016.

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

OPERATING RESULTS

(in thousands)

<u>Category</u>	<u>2017</u>			<u>18/17</u>	<u>17/16</u>
	<u>2018</u>	<u>(As Restated)</u>	<u>2016</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Operating Revenues	\$ 455,291	\$ 446,343	\$ 418,614	\$ 8,948	\$ 27,729
Operating Expenses	389,241	403,005	388,220	(13,764)	14,785
Net Operating Income	66,050	43,338	30,394	22,712	12,944
Net Non-Operating Expenses	(11,823)	(13,460)	(12,716)	1,637	(744)
Capital Contributions	9,390	8,956	5,162	434	3,794
BABs and CREBs subsidies	3,824	3,688	3,684	136	4
Transfers Out	(34,385)	(34,142)	(30,462)	(243)	(3,680)
Change in Net Position (Net Income)	\$ 33,056	\$ 8,380	\$ (3,938)	\$ 24,676	\$ 12,318

MEGAWATT-HOURS BILLED

(in thousands)

<u>Type of Customer</u>	<u>2017</u>			<u>18/17</u>	<u>17/16</u>
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Residential	1,871	1,975	1,856	(104)	119
Commercial/General/Industrial	2,744	2,777	2,772	(33)	5
Wholesale	2,159	2,836	2,731	(677)	105
Total	6,774	7,588	7,359	(814)	229

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.

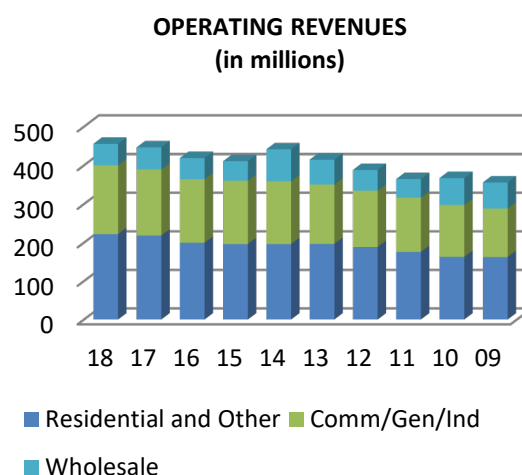
<u>Description</u>	<u>2018</u>	<u>2017</u> <u>(As Restated)</u>	<u>2016</u>	<u>18/17</u> <u>Increase</u> <u>(Decrease)</u>	<u>17/16</u> <u>Increase</u> <u>(Decrease)</u>
Net Utility and Non-Utility Plant	\$ 1,068,472	\$ 1,037,958	\$ 1,033,591	\$ 30,514	\$ 4,367
Current Assets, Other Assets and Special Funds	402,793	357,561	384,884	45,232	(27,323)
Total Assets	1,471,265	1,395,519	1,418,475	75,746	(22,956)
Deferred Outflows	20,843	38,821	39,469	(17,978)	(648)
Total Assets and Deferred Outflows	\$ 1,492,108	\$ 1,434,340	\$ 1,457,944	\$ 57,768	\$ (23,604)
Net Position:					
Net Investment in Capital					
Assets	\$ 602,011	\$ 613,307	\$ 581,629	\$ (11,296)	\$ 31,678
Restricted	51,758	14,031	15,225	37,727	(1,194)
Unrestricted	209,663	203,037	225,142	6,626	(22,105)
Total Net Position	863,432	830,375	821,996	33,057	8,379
Long-Term Debt	461,339	417,800	457,602	43,539	(39,802)
Other Liabilities	92,883	130,260	128,058	(37,377)	2,202
Total Liabilities	554,222	548,060	585,660	6,162	(37,600)
Deferred Inflows	74,454	55,905	50,288	18,549	5,617
Total Net Position, Liabilities and Deferred Inflows	\$ 1,492,108	\$ 1,434,340	\$ 1,457,944	\$ 57,768	\$ (23,604)

Revenues

2018 Compared to 2017

Operating revenues totaled \$455.3 million in 2018 compared to \$446.3 million in 2017, an increase of \$8.9 million (2.0%). Revenues from residential, commercial, general, and industrial customers increased \$13.4 million (3.9%). There was a 5.9% rate increase effective April 1, 2018 offset with a decrease in consumption of 137,000 in MWh billed.

In 2018 residential sales accounted for 43.2% of electric revenues, commercial and industrial revenues accounted for 43.3% and wholesale power revenues accounted for 13.5%.



2017 Compared to 2016

Operating revenues totaled \$446.3 million in 2017 compared to \$418.6 million in 2016, an increase of \$27.7 million (6.6%). Revenues from residential customers increased \$15.5 million (10.1%). There was a 5.9% rate increase effective April 16, 2017 coupled with an increase in consumption of 121,000 in MWh billed. Revenues from commercial, general, and industrial customers increased \$6.3 million (3.8%) primarily due to the rate increase effective April 16, 2017.

Wholesale revenues increased \$2.6 million (4.7%) as compared to 2016. The majority of the increase was due to higher volume.

In 2017 residential sales accounted for 43.2% of electric revenues, commercial and industrial revenues accounted for 42.6% and wholesale power revenues accounted for 14.2%.

Expenses

2018 Compared to 2017

Total operating expenses decreased \$13.8 million or 3.4% compared to 2017.

Generation expenses decreased \$6.9 million (29.7%). External contract services decreased \$4.7 million due to accrual estimates in 2017 that did not occur in 2018.

Pension expense attributed to \$2.8 million of the decrease. The remaining variance was representative of a minor increase in salaries and wages.

Distribution expenses decreased \$3.9 million (19.8%). Pension expense attributed to \$7.1 million of the decrease while professional services increased \$1.0 million. The primary reason for the increase was for new charges related to the implementation of the new SCADA system. The remaining variance of an increase of \$2.2 million was spread out among salaries and wages, education and training, and software and license maintenance.

Telecommunications expense decreased \$2.5 million (9.9%). Pension expense attributed to \$1.7 million of the decrease. Salaries and wages accounted for the remaining decrease of \$0.8 million due to a reduction in staff.

Pension expense resulted in a decrease in expense that allocated across the remaining Power sections as follows: Transmission \$1.1 million, Other \$2.0 million, Maintenance \$3.5 million, and Admin & General \$5.9 million.

2017 Compared to 2016

Total operating expenses increased \$14.8 million or 3.8% compared to 2016.

Purchased power increased \$9.0 million (7.1%). In 2016 Energy Conservation Agreement (ECA) credits were received in the amount of \$7.1 million. In 2017 only \$1.3 million in credits were received resulting in an increase of purchased power expense of \$5.8 million. The ECA credits are available in 2 year allotments beginning October 1 of odd years. In even years more is received than odd years. Other portfolio purchases also increased \$2.7 million to support the increased load and wholesale sales.

Generation expenses increased \$3.8 million (20.0%). Fish operations costs have had a sizable increase in 2017 as a result of operating two newly constructed fish hatcheries and expanded operations at three fish collection facilities. Also associated with the fish facilities are new studies to determine performance and identify necessary improvements.

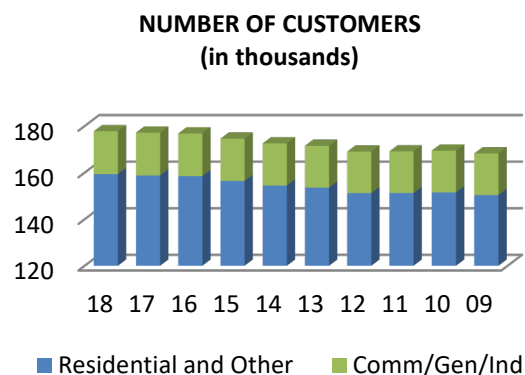
Other expenses increased \$1.4 million (7.5%) primarily due an increase of the amortization of deferred conservation costs. These costs are amortized over a 10 year period and year 8 of 10 was added to the 2017 schedule.

Maintenance expenses decreased \$2.3 million (7.0%). Large-scale maintenance projects were completed in 2016 that did not carry over into 2017 accounted for \$1.5 million of the change. A decrease of \$0.8 million was due to the discontinuation of contributions to the Fleet Internal Service Fund during 2017. An analysis of future purchase needs is currently underway.

Administration and general expenses increased \$2.3 million (5.7%). These were primarily due to an increase in assessments of \$1.2 million, claims of \$0.9 million, and bad debt write-off's of \$0.7 million.

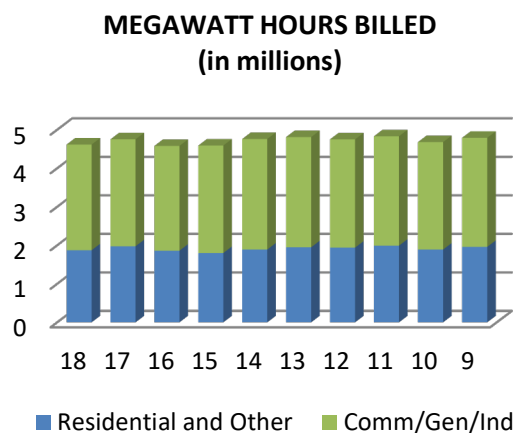
Customer Counts

Tacoma Power's overall customer growth during the past 10 years has been relatively steady averaging between less than 1% and 2% per year. The customer count for 2018 is 177,723 compared to 177,153 in 2017 and 176,784 in 2016.



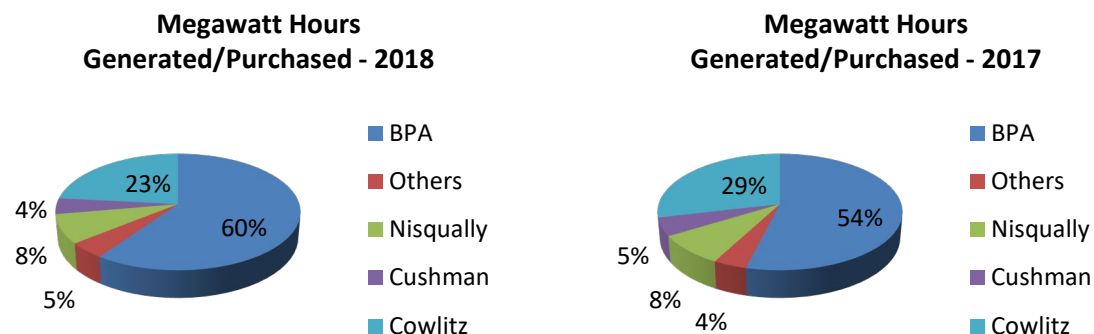
Megawatt-hours Billed

Megawatt-hours billed to residential and other customers decreased 5.2% in 2018 and commercial / general / industrial billings decreased 1.2%. Wholesale power billed in 2018 was 2,159,004 megawatt-hours compared to 2,835,719 in 2017, a decrease of 676,715 megawatt-hours or 23.9%. Streamflows into Tacoma Power's system were 90% of average in 2018 compared to 115% of average in 2017.



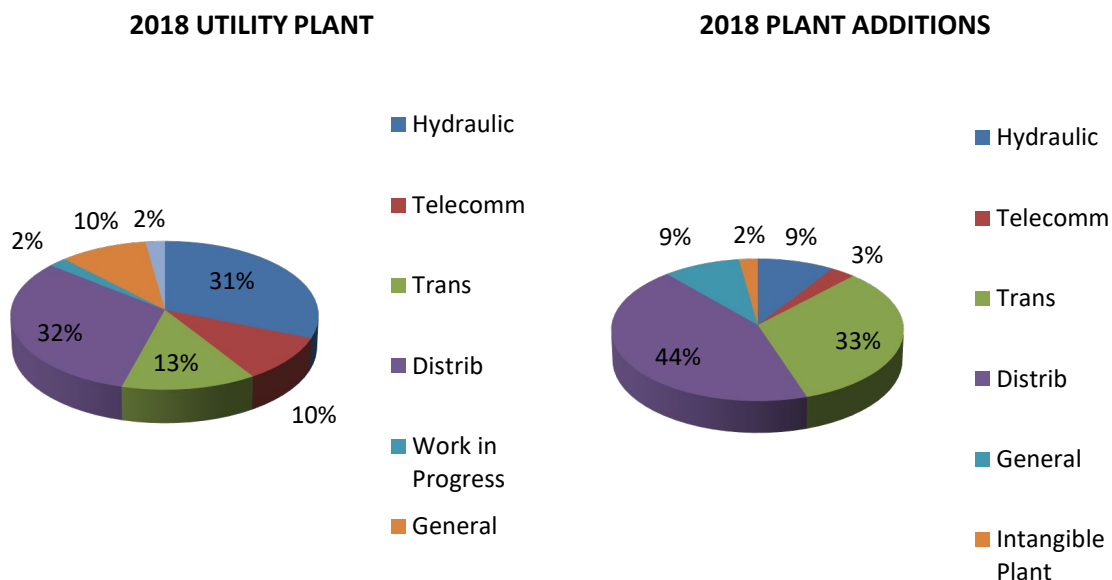
Sources of Power

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



Utility Plant and Plant Additions

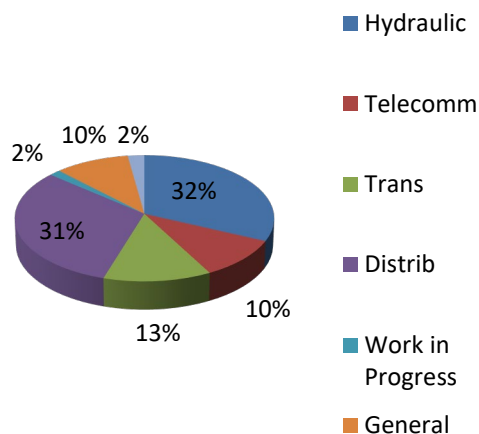
Tacoma Power has \$2.1 billion invested in its utility plant assets on a cost basis. The largest portion is for the generation (hydroelectric) business unit followed by the combined distribution and transmission business unit. The following graphs show the total investment in plant and allocation of plant additions.



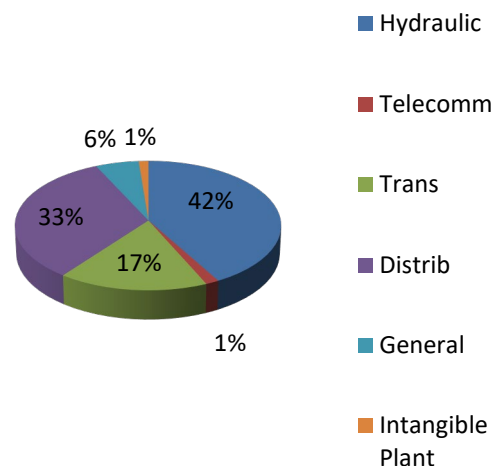
Additions to Intangible Plant in 2018 were \$1.6 million which primarily included an IT service management tool. Additions to Hydraulic Plant in 2018 were \$6.4 million, which mainly included replacement for generation breakers at Cushman, the boat ramp at Mossyrock, security upgrade at Alder Park, and replacements of hydro exciters, hydro governors, turbines, and generators.

Transmission additions were \$11.8 million, which included Pearl Cushman upgrades, Henderson Bay Tower replacement, and replacements of circuits, high-voltage switches, and other devices. Distribution additions were \$31 million, which included construction of Taylor substation, LED street lights, addition and replacement programs for new services, pole and cable, road related additions and replacements, distribution transformers and meters and devices. Regional Transmission additions were \$11.5 million, which primarily included EMS Hardware and Software. Additions to General Plant were \$6.5 million, which included the permanent decant facility, pay station kiosks, Voice Solutions system, security system in the administration building and parking lots, and other servers and systems. Click! additions were \$2.1 million, which included aerial and underground coax cables, enhancements and replacements of network infrastructure, and upgrades of security and network.

2017 UTILITY PLANT



2017 PLANT ADDITIONS



Additions to Hydraulic plant in 2017 were \$22.8 million, which included the Cowlitz license implementation and the hydro governor and exciter replacement program. Distribution plant additions were \$17.9 million, which included addition and replacement programs for new services, pole and cable, road related additions and replacements, distribution transformers and meters and devices. Transmission plant additions were \$9.2 million, which included Potlatch system ring bus, substation additions and replacements, Henderson Bay tower replacement, Pearl Cushman upgrade and protection and controls additions and replacements.

General plant additions were \$3.1 million, which included the auditorium upgrade, communication tower upgrades, and the wellness center.

Interest during construction for prior years was applied to Hydraulic plant for \$9.1 million and Transmission plant for \$1.1 million.

The following table summarizes Tacoma Power's capital assets, net of accumulated depreciation, for the years ended December 31, 2018 through 2016.

<u>Net Utility Plant</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>18/17</u> <u>Increase</u> <u>(Decrease)</u>	<u>17/16</u> <u>Increase</u> <u>(Decrease)</u>
Intangible Plant	\$ 31,705	\$ 31,448	\$ 32,030	\$ 257	\$ (582)
Hydraulic Plant	450,965	454,498	441,163	(3,533)	13,335
Transmission Facilities	140,163	125,610	125,357	14,553	253
Distribution Facilities	298,738	286,735	290,766	12,003	(4,031)
General Plant	73,329	73,509	77,081	(180)	(3,572)
Telecommunications Plant	28,862	33,819	40,600	(4,957)	(6,781)
Construction Work in Progress	44,528	32,157	26,412	12,371	5,745
Total Net Utility Plant	<u>\$ 1,068,290</u>	<u>\$ 1,037,776</u>	<u>\$ 1,033,409</u>	<u>\$ 30,514</u>	<u>\$ 4,367</u>

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

Debt Administration

At December 31, 2018 Tacoma Power had outstanding revenue bonds of \$393.0 million, a reduction of \$11.6 million compared to 2017. In December 2018 Tacoma Power took a draw of \$75 million on the line of credit agreement with Wells Fargo. In December 2018 Tacoma Power paid \$20 million on the line of credit agreement with Wells Fargo.

At December 31, 2017 Tacoma Power had outstanding revenue bonds of \$404.6 million, an increase of \$33.5 million compared to 2016. Tacoma Power issued \$70.6 million of Electric System Revenue Bonds, Series 2017 in September 2017. The proceeds of the issuance and operating funds were used to pay down \$80 million of the Wells Fargo line of credit. In October 2017 Tacoma Power defeased \$24.3 million of 2013 Series A Electric System Revenue and Refunding Bonds.

No draws were taken in 2017 on the line of credit agreement with Wells Fargo. No draws have been taken on the 3-year line of credit agreement with Key Bank.

All bonds are rated AA by Standard and Poor's and AA- by Fitch, Inc. Bonds prior to 2017 are rated Aa3 by Moody's Investors Service.

Additional information on Tacoma Power's long-term debt can be found in Note 5 of the financial statements.

Debt Service Coverage

Tacoma Power is required by its bond covenants to maintain a debt service coverage ratio of 1.25. In 2018, principal and interest were covered 4.27 times compared to 3.44 times in 2017 and 2.94 times in 2016.

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 Power'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 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.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF NET POSITION

	DECEMBER 31,	
	2018	2017
ASSETS AND DEFERRED OUTFLOWS		(As Restated)
UTILITY PLANT		
In Service, at Original Cost	\$2,119,742,172	\$2,055,844,322
Less - Accumulated Depreciation	(1,095,980,097)	(1,050,225,152)
Total	1,023,762,075	1,005,619,170
Construction Work in Progress	44,527,965	32,156,858
Net Utility Plant	1,068,290,040	1,037,776,028
NON-UTILITY PROPERTY	182,051	182,051
SPECIAL FUNDS		
Construction Funds	-	6,849
Debt Service Funds	20,073,911	21,208,267
Special Bond Reserve Funds	4,973,506	4,967,361
Wynoochee Reserve Funds	2,622,534	2,578,307
Fish and Wildlife Reserves.....	23,626,260	-
Total Special Funds	51,296,211	28,760,784
CURRENT ASSETS		
Operating Funds Cash and Equity in		
Pooled Investments	198,826,677	195,175,918
Accounts Receivable	33,550,566	34,993,074
(Net of Allowance for Doubtful Accounts of		
\$1,429,832 in 2018 and \$3,093,046 in 2017)		
Accrued Unbilled Revenue	30,730,773	30,701,425
Materials and Supplies	7,007,263	6,987,004
Interfund Receivables	1,845,652	1,820,401
Prepayments and Other	10,225,143	6,808,178
Total Current Assets	282,186,074	276,486,000
OTHER ASSETS		
Regulatory Asset - Conservation		
(Net of Amortization of \$40,874,139 in 2018		
and \$32,641,091 in 2017)	51,171,116	49,689,386
Net Pension Asset	15,506,238	-
Conservation Loans Receivable	2,633,418	2,625,268
Total Other Assets	69,310,772	52,314,654
Total Assets	1,471,265,148	1,395,519,517
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow for Pensions.....	19,885,557	38,426,742
Deferred Outflow for OPEB.....	957,357	393,890
Total Deferred Outflows	20,842,914	38,820,632
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$1,492,108,062</u>	<u>\$1,434,340,149</u>

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

NET POSITION, LIABILITIES AND DEFERRED INFLOWS	DECEMBER 31,	
	2018	2017 (As Restated)
NET POSITION		
Net Investment in Capital Assets	\$602,011,131	\$613,307,151
Restricted for:		
Wynoochee Reserve Funds	2,622,534	2,578,307
Fish and Wildlife Reserves	23,626,260	-
Debt Service Funds	10,002,356	11,453,009
Net Pension Asset	15,506,238	-
Unrestricted	209,663,265	203,037,027
Total Net Position	863,431,784	830,375,494
LONG-TERM DEBT		
Revenue Bonds	406,089,467	417,800,137
Revolving Line of Credit	55,250,000	-
Total Long-Term Debt	461,339,467	417,800,137
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	10,095,000	11,825,000
Taxes and Other Payables	24,749,795	22,677,276
Purchased Power Payable	12,522,509	13,219,076
Salaries, Wages and Compensated Absences Payable ...	3,459,722	3,036,398
Interest Payable	10,071,555	9,755,258
Unearned Revenue.....	2,752,999	5,470,140
Customers' Deposits	2,708,008	2,791,006
Interfund Payables	207,273	67,461
Total Current Liabilities	66,566,861	68,841,615
LONG-TERM LIABILITIES		
Long Term Accrued Compensated Absences	9,821,955	9,398,115
Net Pension Liability	-	36,687,245
Net OPEB Liability	12,272,355	11,471,098
Other Long Term Liabilities	4,221,625	3,861,581
Total Long Term Liabilities	26,315,935	61,418,039
Total Liabilities	554,222,263	548,059,791
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow for Pensions	26,395,236	7,904,864
Deferred Inflow for OPEB	58,779	-
Rate Stabilization	48,000,000	48,000,000
Total Deferred Inflows	74,454,015	55,904,864
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS.	<u>\$1,492,108,062</u>	<u>\$1,434,340,149</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2018	2017 (As Restated)
OPERATING REVENUES		
Sales of Electric Energy	\$411,393,120	\$401,631,506
Other Operating Revenue	18,539,960	18,192,038
Click! Network Operating Revenue	25,358,403	26,519,861
Total Operating Revenue	455,291,483	446,343,405
OPERATING EXPENSES		
Operations		
Purchased and Interchanged Power	134,618,445	135,822,340
Generation	16,241,304	23,118,677
Transmission	29,394,316	27,562,757
Distribution	15,781,781	19,675,524
Other	20,140,445	20,077,132
Maintenance	31,200,935	30,074,370
Telecommunications Expense	22,791,699	25,309,470
Administrative and General	43,716,689	43,377,927
Depreciation	53,869,012	57,231,313
Taxes	21,486,970	20,755,847
Total Operating Expenses	389,241,596	403,005,357
Net Operating Income	66,049,887	43,338,048
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	3,719,705	2,251,477
Contribution to Family Need	(100,000)	(100,000)
Other	1,776,333	(1,534,389)
Interest on Long-Term Debt (Net of AFUDC)	(18,834,946)	(18,209,650)
Amortization of Debt Premium	1,615,670	4,132,856
Total Non-Operating Expenses	(11,823,238)	(13,459,706)
Net Income Before Capital Contributions and Transfers	54,226,649	29,878,342
Capital Contributions		
Cash	8,771,749	8,806,311
Donated Fixed Assets	618,713	149,323
BABs and CREBs Interest Subsidies	3,824,135	3,687,700
Transfers		
City of Tacoma Gross Earnings Tax	(34,384,956)	(34,141,875)
CHANGE IN NET POSITION	33,056,290	8,379,801
TOTAL NET POSITION - BEGINNING OF YEAR	830,375,494	821,995,693
TOTAL NET POSITION - END OF YEAR	<u>\$863,431,784</u>	<u>\$830,375,494</u>

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

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	December 31, 2018	December 31, 2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$ 456,704,641	\$ 439,257,628
Cash Paid to Suppliers	(214,903,047)	(203,113,067)
Cash Paid to Employees	(119,301,602)	(113,410,727)
Taxes Paid	(21,414,705)	(19,994,454)
Conservation Loans	(8,150)	(82,798)
Net Cash from Operating Activities	101,077,137	102,656,582
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer Out for Gross Earnings Tax	(34,384,956)	(34,141,875)
Transfer to Family Need Fund	(100,000)	(100,000)
Net Cash from Non-Capital Financing Activities..	(34,484,956)	(34,241,875)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures	(82,222,692)	(60,000,285)
Proceeds from Issuance of Long-Term Debt and LOC .	75,000,000	70,575,000
Debt Issuance Costs	-	(250,578)
Principal Payments on Long-Term Debt and LOC	(31,575,000)	(92,730,000)
Payments for Early Extinguishment of Debt	-	(24,300,000)
Premium on Sale of Bonds	-	9,881,268
Interest Paid	(20,060,269)	(19,415,965)
BABs and CREBs Interest Subsidies	3,824,135	3,687,700
Contributions in Aid of Construction	8,771,749	8,806,311
Other Long-Term Liabilities	360,044	718,784
Net Cash from Capital and Related Financing Activities	(45,902,033)	(103,027,765)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	3,719,705	2,251,477
Other Non-Op Revenues and Deductions	1,776,333	(1,283,810)
Net Cash from Investing Activities	5,496,038	967,667
Net Change in Cash and Equity in Pooled Investments	26,186,186	(33,645,391)
Cash and Equity in Pooled Investments at January 1..	223,936,702	257,582,093
Cash and Equity in Pooled Investments at December 31	<u>\$250,122,888</u>	<u>\$223,936,702</u>

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

	December 31, 2018	December 31, 2017 (As Restated)
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income	\$66,049,887	\$43,338,048
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	53,869,012	57,231,313
Amortization of Regulatory Assets	8,233,048	7,519,282
Pension Expenses (Credits)	(15,161,926)	9,169,545
Net OPEB Obligation	296,569	186,218
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable and Accrued Unbilled Revenue..	1,413,160	(7,085,780)
Conservation Loans Receivable	(8,150)	(82,798)
Interfund Receivables	(25,251)	405,819
Materials and Supplies, and Other	(3,437,224)	57,908
Taxes and Other Payables	(644,622)	689,734
Purchased Power Payable	(696,567)	579,934
Salaries, Wages and Compensated Absences Payable..	423,324	123,685
Long Term Accrued Compensated Absences	423,840	(283,826)
Customers' Deposits	(82,998)	18,611
Regulatory Asset - Conservation	(9,714,777)	(7,137,663)
Interfund Payables	139,812	(2,073,448)
Total Adjustments	35,027,250	59,318,534
Net Cash from Operating Activities	<u>\$101,077,137</u>	<u>\$102,656,582</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$51,296,211	\$28,760,784
Cash and Equity in Pooled Investments in Operating Funds	198,826,677	195,175,918
Cash and Equity in Pooled Investments at December 31	<u>\$250,122,888</u>	<u>\$223,936,702</u>

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA POWER - The Light Division, doing business as Tacoma Power (Tacoma Power or the Division), is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department) and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations, such as system expansion, issuance of bonds and setting of utility rates and charges, are initiated and executed by the Board, but also require formal City Council approval. Tacoma Power owns and operates the City's electrical generation and distribution facilities and telecommunication infrastructure. Tacoma Power serves approximately 178,000 of retail customers and has 813 employees. Tacoma Power is organized into six business units: Generation, Power Management, Transmission and Distribution, Rates, Planning and Analysis, Click! Network, and Utility Technology Services.

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

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

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

ACCOUNTING CHANGES - Effective for the fiscal year 2018, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions. It replaces the requirement of GASB statements No. 45 and No. 57. Specifically, this statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. It identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefits payments to their actuarial present value, and attribute that present value to periods of employee service. Requirements were also established for note disclosures and required supplemental information. The Division has made the required adjustments as prescribed by GASB Statement No. 75. As a result of this implementation the Net OPEB Obligation was replaced by the total OPEB Liability resulting in a restatement of the December 31, 2017 balances. For further information please see Note 11 Restatements of 2017 Balances.

GASB Statement No. 85 – *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (both pensions and other postemployment benefits other than pensions). Where applicable, the Division has made the required adjustments as prescribed by GASB Statement No. 85.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which existing resources are placed into an irrevocable trust for the sole purpose of extinguishing debt. It improves the accounting and financial reporting for prepaid insurance on debt that is extinguished and improves the required note disclosures for debt that is defeased in substance. The Division has made the required adjustments as prescribed by GASB Statement No. 86.

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

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

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

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2018 and 2017 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 FDIC insurance up to \$250,000.

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

SPECIAL FUNDS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. Generally, restricted assets include bond construction, reserve and debt service funds and customer deposits. In 2018 four sub-funds for each fish and wildlife FERC license requirement were established.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

The economic lives for plant in service are as follows:

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

ASSET VALUATION - The Division periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based on discounted future cash flows.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) - AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense.

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

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

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

Employees in the original policy accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees receive 25% of the value at retirement or 10% upon termination for any other reason. In the event of death, beneficiaries receive 25% of the value. Sick leave pay is recorded as a liability and an expense in the year earned.

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

The Hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

These guidelines recognize a three-tiered fair value hierarchy, as follows:

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

The fair value evaluations are provided by Interactive Data.

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 12/31/2018	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 282,822,308	\$ -	\$ 282,822,308	\$ -
Supranational Securities	19,814,100	-	19,814,100	-
Municipal Bonds	35,748,647	-	35,748,647	-
Agency Securities	447,015,280	-	447,015,280	-
Corporate Securities	24,607,491	-	24,607,491	-
Total	\$ 810,007,826	\$ -	\$ 810,007,826	\$ -

	As of 12/31/2017	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	218,142,864	-	\$ 218,142,867	\$ -
U.S. Agency Securities	517,345,818	-	517,345,818.00	-
Supranational Securities	19,966,040	-	19,966,040.00	-
Municipal Bonds	40,760,727	-	40,760,727.00	-
Total	\$ 796,215,449	\$ -	\$ 796,215,452	\$ -

Tacoma Power's share of the City investments shown in the table above is 23.56% and 24.19% for 2018 and 2017.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 UTILITY PLANT

A summary of the balances and changes in utility plant for 2018 and 2017 follows:

	Balance December 31, 2017	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2018
Intangible Plant	\$ 46,075,662	\$ 1,576,809	\$ (48,781)	\$ -	\$ 47,603,690
Hydraulic Production Plant	666,714,640	6,422,357	(250,000)	-	672,886,997
Transmission Plant	238,078,697	11,814,631	(666,345)	-	249,226,983
Distribution Plant	657,716,068	31,005,996	(4,271,436)	-	684,450,628
Regional Transmission	25,207,125	11,474,752	-	-	36,681,877
General Plant	208,637,775	6,473,163	(394,811)	(32,115)	214,684,012
Telecommunications Plant	213,414,355	2,116,607	(1,322,977)	-	214,207,985
Total Utility Plant in Service	2,055,844,322	70,884,315	(6,954,350)	(32,115)	2,119,742,172
Less Accumulated Depreciation	(1,050,225,152)	(53,869,012)	6,905,569	1,208,498	(1,095,980,097)
	1,005,619,170	17,015,303	(48,781)	1,176,383	1,023,762,075
Construction Work In Progress	32,156,858	91,610,344	-	(79,239,237)	44,527,965
Net Utility Plant	<u>\$ 1,037,776,028</u>	<u>\$ 108,625,647</u>	<u>\$ (48,781)</u>	<u>\$ (78,062,854)</u>	<u>\$ 1,068,290,040</u>

	Balance December 31, 2016	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2017
Intangible Plant	\$ 45,432,098	\$ 690,906	\$ (47,342)	\$ -	\$ 46,075,662
Hydraulic Production Plant	643,897,651	22,816,989	-	-	666,714,640
Transmission Plant	229,380,382	8,922,577	(224,262)	-	238,078,697
Distribution Plant	642,437,552	17,886,641	(2,608,125)	-	657,716,068
Regional Transmission	24,923,858	283,267	-	-	25,207,125
General Plant	205,551,865	3,085,910	-	-	208,637,775
Telecommunications Plant	212,581,376	832,979	-	-	213,414,355
Total Utility Plant in Service	2,004,204,782	54,519,269	(2,879,729)	-	2,055,844,322
Less Accumulated Depreciation	(997,207,625)	(57,231,313)	2,832,387	1,381,399	(1,050,225,152)
	1,006,997,157	(2,712,044)	(47,342)	1,381,399	1,005,619,170
Construction Work In Progress	26,411,907	66,166,265	-	(60,421,314)	32,156,858
Net Utility Plant	<u>\$ 1,033,409,064</u>	<u>\$ 63,454,221</u>	<u>\$ (47,342)</u>	<u>\$ (59,039,915)</u>	<u>\$ 1,037,776,028</u>

Total Utility Plant in Service includes non-depreciable assets of \$77,148,845 for 2018 and \$76,906,141 for 2017.

The total amount of interest cost incurred and capitalized is \$1,541,619 for 2018 and \$1,448,668 for 2017.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 LONG-TERM DEBT

Tacoma Power's long-term debt is primarily for capital improvements. Long-term liability activity for the years ended December 31, 2018 and December 31, 2017 was as follows:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Revenue Bonds	\$ 404,610,000	\$ -	\$ (11,575,000)	\$ 393,035,000	\$10,095,000
Plus: Unamortized Premium	24,765,137	-	(1,615,670)	23,149,467	-
Net Revenue Bonds	429,375,137	-	(13,190,670)	416,184,467	10,095,000
Line of Credit	250,000	75,000,000	(20,000,000)	55,250,000	-
Total Long-Term Debt	<u>\$ 429,625,137</u>	<u>\$ 75,000,000</u>	<u>\$ (33,190,670)</u>	<u>\$ 471,434,467</u>	<u>\$ 10,095,000</u>

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
Revenue Bonds	\$ 371,065,000	\$ 70,575,000	\$ (37,030,000)	\$ 404,610,000	\$11,575,000
Plus: Unamortized Premium	19,016,726	9,881,268	(4,132,857)	24,765,137	-
Net Revenue Bonds	390,081,726	80,456,268	(41,162,857)	429,375,137	11,575,000
Line of Credit	80,250,000	-	(80,000,000)	250,000	250,000
Total Long-Term Debt	<u>\$ 470,331,726</u>	<u>\$ 80,456,268</u>	<u>\$ (121,162,857)</u>	<u>\$ 429,625,137</u>	<u>\$ 11,825,000</u>

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

	<u>2018</u>	<u>2017</u>
2010B Revenue Bonds, with interest rates ranging from 5.791% to 5.966%, with a Build America Bond (BAB) rebate at 35% of interest, due in yearly installments of \$27,310,000 to \$31,630,000 from 2031 to 2035.		
Original Issue: \$147,070,000	\$ 147,070,000	\$ 147,070,000
Current Portion: \$0		
2010C Revenue Bonds, with an interest rate of 5.641%, with Clean Renewal Energy Bond rebate at 67% of interest, due in one payment of \$24,185,000 in 2027.		
Original Issue: \$24,185,000	24,185,000	24,185,000
Current Portion: \$0		
2013A Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$7,470,000 to \$14,310,000 from 2019 to 2042.		
Original Issue: \$181,610,000	115,585,000	127,160,000
Current Portion: \$10,095,000		
2013B Refunding Bonds, with interest rates ranging from 3.05% to 5.0%, due in yearly installments of \$3,795,000 to \$5,155,000 from 2022 to 2030.		
Original Issue: \$35,620,000	35,620,000	35,620,000
Current Portion: \$0		
2017 Revenue Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$2,150,000 to \$5,225,000 from 2022 to 2047.		
Original Issue: \$70,575,000	<u>70,575,000</u>	<u>70,575,000</u>
Current Portion: \$0		
	393,035,000	404,610,000
Unamortized premium	23,149,467	24,765,137
Current Portion of Revenue Bond Debt	<u>(10,095,000)</u>	<u>(11,575,000)</u>
Long-term Portion of Revenue Bond Debt	406,089,467	417,800,137
Revolving Line of Credit	<u>55,250,000</u>	<u>-</u>
Total Long Term Debt	<u>\$ 461,339,467</u>	<u>\$ 417,800,137</u>

In 2015 Tacoma Power entered into a \$100 million line-of-credit agreement with Wells Fargo for working capital. The line matured in May 2018. An amendment was executed in May 2018 to extend the line-of-credit which will mature in August 2020. Each advance will bear interest at the London Interbank Offered Rate (LIBOR) of 3.13819% at December 31, 2018. Each advance is secured by Revenues as set forth in the Note Ordinance. The balance outstanding is \$55.3 million as of December 31, 2018.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

	<u>Principal</u>	<u>Interest</u>
2019	10,095,000	19,915,735
2020	9,365,000	19,454,235
2021	7,470,000	19,035,860
2022	5,945,000	18,702,985
2023	6,240,000	18,398,360
2024-2028	52,180,000	85,906,186
2029-2033	100,945,000	67,720,295
2034-2038	106,740,000	31,228,690
2039-2043	74,330,000	10,809,575
2044-2047	19,725,000	1,616,700
	<u>\$ 393,035,000</u>	<u>\$ 292,788,621</u>

Tacoma Power's revenue bonds are secured by the net revenue of Tacoma Power and all cash and investments held in the bond and construction funds. The bonds are also subject to certain financial and non-financial covenants. The Division was in compliance with all loan covenants at December 31, 2018 and 2017.

As of December 31, 2018, the following outstanding bonds were considered defeased in substance:

<u>Issue</u>	<u>Amount</u>
2013 Electric System Revenue Refunding Bonds - Series A	25,411,262
	<u>\$ 25,411,262</u>

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

NOTE 6 PURCHASED POWER

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The power received under this contract averaged approximately 454,352 and 459,284 kilowatts per hour for 2018 and 2017, respectively. Charges for the BPA purchased power were approximately \$117.0 million and \$120.0 million for 2018 and 2017, respectively, and are based on the total amount of energy delivered and the monthly peak power demand.

Tacoma Power entered into an Energy Conservation Agreement (ECA) with BPA in 2009. Under this agreement, funds are collected in wholesale power rates to support regional energy efficiency programs. As utilities implement conservation programs and activities, BPA reimburses these funds per program specifications. For the years 2018 and 2017, Tacoma Power recovered \$7,794,368 and \$1,263,968 respectively through the ECA. Receipt of these funds is cyclical, resulting in a greater amount recovered in the even years of Tacoma Power's biennium.

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

Information for the year ended December 31, 2018 pertaining to these contracts is summarized as follows:

Tacoma Power's Current Share of	Grand Coulee Project Hydro Authority	Grant County PUD - Priest Rapids Project
Energy Output	241,233 mWh	26,974 mWh
Megawatt Capacity	-	5 mW
Operating Costs	\$ 3,600,913	\$9,534
Incentive Payments	\$ 2,892,834	-
Contract Expiration Date	5/9/2024	4/1/2052

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

Total expenses under the above contracts for the years 2018 and 2017 were \$6,722,989 and \$6,830,417, respectively, for Grand Coulee Project Hydro Authority, however, proceeds under the contract exceeded expenses in 2018 and 2017 for Grant County PUD - Priest Rapids resulting in a gain of \$9,534 and \$481,320, respectively.

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Tacoma Power records applicable energy contracts using accrual accounting and recognizes the revenue or expense at the time of contract performance, settlement or termination. As of December 31, 2018 Tacoma Power had forward sales contracts totaling \$22.7 million dollars extending out to June 2020 with a fair market value of \$27.6 million. These contracts meet the normal purchase normal sales scope exception for derivative reporting under GASB 53.

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

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

<u>Interchange Summary</u>	<u>2018</u> (in kWh)	<u>2017</u> (in kWh)
Secondary Sales	(2,159,004,000)	(2,835,719,000)
Portfolio Purchases	356,043,000	369,775,000
Miscellaneous Exchanges	(1,202,000)	(1,193,000)
Other	<u>(7,743,000)</u>	<u>(8,093,000)</u>
Net Interchange	<u>(1,811,906,000)</u>	<u>(2,475,230,000)</u>

NOTE 7 FLEET SERVICES FUND

The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of Department vehicles and related equipment.

Tacoma Power pays the Fleet Services Fund for its use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Power in 2018 and 2017 were \$4,792,374 and \$4,241,637 respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle. The solvency of the Replacement Fund allowed Fleet Services to return a portion of interest earned on fund investments for the year to their customers. In 2018 and 2017, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was \$131,385 and \$108,119 for 2018 and 2017, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 8 SELF-INSURANCE FUND

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

Tacoma Power is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Power and administrative expenses of the Fund. Tacoma Power's premium payments totaled \$2.4 million and \$700,000 in 2018 and 2017 respectively. Assets in the Self-Insurance Fund total \$7.9 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Power's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

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

Other insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current property insurance policy has a deductible of \$250,000 for buildings and property within buildings and \$10,000 per vehicle. General government obtains coverage on general government's buildings and property within buildings with a limit of \$500,000 and a retention of \$150,000 with exceptions. For the Department, there is a self-insured retention of \$1.5 million for general liability. The public official liability policy has a \$250,000 deductible. The Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate.

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

NOTE 9 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS)

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

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

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

Administration of The System - The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and 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.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The breakdown of membership as of December 31, 2017 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits	2,396
Terminated vested and other terminated participants	715
Active members:	
City of Tacoma	2,677
Pierce Transit	8
South Sound 911	2
Tacoma-Pierce County Health Department	261
Total active members	<u>2,948</u>
Total membership	<u><u>6,059</u></u>

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.

At its November 28, 2017 meeting, the Tacoma City Council approved an increase in the total contribution rate from 20% of pay to 21% of pay effective February 1, 2018. The contribution rate continues to be 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.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

Measurement Date	December 31, 2017
Valuation Date	January 1, 2018
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. The amortization method for the ADC is as follows*: <ul style="list-style-type: none">• Level percent• Open periods• 25 year amortization period*• 3.75% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.

**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, 2018 valuation date and December 31, 2017 measurement date. Therefore, no adjustments were needed from the January 1, 2018 actuarial valuation date to the calculated liabilities as of December 31, 2017. There were changes between the January 1, 2017 and January 1, 2018 valuation dates. Those changes were reflected in the January 1, 2018 actuarial valuation and are discussed below.

The UAAL amortization period changed from 30 years to 25 years for years beginning January 1, 2018 and later.

At its June 8, 2017 meeting, the TERS Board approved updates to the service purchase factors and optional form factors effective January 1, 2018. The Board also approved updated factors for use in converting member contributions with interest into the unmodified benefit form for comparison to the service retirement benefit. This change will be effective January 1, 2020.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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, 2017. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	2.06%
US Inflation-Indexed Bonds	5.0%	1.36%
High Yield Bonds	9.0%	4.69%
Emerging Market Debt	5.0%	3.39%
Global Equity	41.5%	4.95%
Public Real Estate	2.0%	5.55%
Private Real Estate	2.5%	3.83%
Private Equity	10.0%	8.88%
Master Limited Partnerships	4.0%	4.20%
Timber	2.0%	4.04%
Infrastructure	2.0%	4.89%
Agriculture	2.0%	4.54%
Assumed Inflation - Mean		2.75%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Real Mean Return		4.56%
Portfolio Median Nominal Geometric Return		6.68%
Portfolio Standard Deviation		11.77%
Long-Term Expected Rate of Return, net of investment expenses		7.00%

Sensitivity Analysis - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 7%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability (asset)	\$ 63,045,584	\$ (15,506,238)	\$ (81,147,120)

As of December 31, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (8,592,323)	\$ -
Changes of assumptions	-	9,458,652
Net Difference Between Projected and Actual Earnings	(17,793,363)	-
Changes in Employer Proportion	(9,550)	10,993
Contributions Made Subsequent to the Measurement Date	-	10,415,912
Total	\$ (26,395,236)	\$ 19,885,557

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

Amounts will be recognized in pension expense as follows:

2019	\$(1,214,364)
2020	(214,326)
2021	(8,021,972)
2022	(7,076,053)
2023	(398,876)
Thereafter	-
	<u>\$(16,925,591)</u>

The proportionate share of the Power Division is 39.43% of total System's pension liability as of December 31, 2018 and 39.50% as of December 31, 2017. The proportionate share was based on the actual contributions for the year.

NOTE 10 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, 2017 for non-LEOFF 1 members includes 3,490 active participants, 476 deferred retirees, 150 retirees, and 105 spouses of current retirees. The membership as of January 1, 2018 for LEOFF 1 members includes 1 active participant and 406 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, 2017 for non-LEOFF 1 members and January 1, 2018 for 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, 2017. This is the date as of which the total OPEB liability is determined. The Reporting Date is December 31, 2018. This is the Division's fiscal year ending date.

There have been no significant changes between the January 1, 2017 (valuation date) and December 31, 2017 (measurement date). If there were significant changes, an additional analysis or valuation might be required.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2017 and January 1, 2018 furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date:	January 1, 2017
Census Date:	January 1, 2017
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:	3.44% for pay-as-you-go funding
----------------	---------------------------------

Medical Cost Trend:	2017	9.10%
	2018	6.40%
	2019	5.80%
	2020	5.30%
	2030	5.40%
	2040	5.50%
	2050	5.20%

Note that the trend for year 2017 reflects the amount by which 2018 medical cost are expected to exceed 2017 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.40% 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. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions -

Discount Rate (Liabilities):	3.44%
------------------------------	-------

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.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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 3.44% from 3.78%. The actuarial cost method is the individual entry age normal 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, 2018 the Division reporting a liability of \$12,272,355 for its proportionate share of the collective total OPEB liability of \$220.8 million. The OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of January 1, 2017. At December 31, 2016 the participating Division's proportion was 5.48260% as compared to 5.55783% at December 31, 2017. For the year ended December 31, 2018 the participating Division recognized an OPEB expense of \$296,569.

At December 31, 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ -
Changes of assumptions		421,012
Changes in Employer Proportion		131,598
Differences in Contributions	(58,779)	
Contributions Made Subsequent to the Measurement Date		404,747
Total	\$ (58,779)	\$ 957,357

The Division reported \$404,747 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2019	\$ 37,329
2020	\$ 37,329
2021	\$ 37,329
2022	\$ 37,329
2023	\$ 37,329
Thereafter	\$ 3,732
	<u>\$ 190,377</u>

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 3.44%, 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 (2.44%) or one percentage point higher (4.44%) than the current rate.

	1% Decrease 2.44%	Current Discount Rate 3.44%	1% Increase 4.44%
Net OPEB liability	\$ 13,956,206	\$ 12,272,355	\$ 10,876,443

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates

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
Net OPEB liability	\$10,798,616	\$ 12,272,355	\$ 14,036,473

Excise Tax for High Cost or "Cadillac" Health Plans in 2020 and Beyond – An excise tax for high cost health coverage or "Cadillac" health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The Consolidated Appropriations Act (CAA), which was signed into law in December 2015, delays the tax for two years, until 2020.

GASB Statement No. 75 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current "substantive" plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

There is significant uncertainty with respect to the excise tax at this time. President Trump recently signed an executive order which gives instruction to the leaders of the new administration to unwind certain aspects of the ACA, especially those components deemed "burdensome." It remains unclear how this would be implemented, especially due to the interconnected nature of the ACA. The City has continued to value the excise tax as it currently appears in the tax code, but will monitor this situation carefully going forward.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 11 RESTATEMENTS OF 2017 BALANCES

Due to the Divisions adoption of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, the 2017 financial statements and its net position as of December 31, 2017 were restated to conform to the reporting requirements.

Revised balances are shown in the following schedule:

	As Previously Reported	Restatement Adjustment	As Restated
STATEMENT OF NET POSITION			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow for OPEB	\$ -	\$ 393,890	\$ 393,890
LONG-TERM LIABILITIES			
Net OPEB Liability	11,282,029	189,069	11,471,098
NET POSITION - End of year	830,170,673	204,821	830,375,494
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING EXPENSES			
Administrative and General	\$ 43,582,748	\$ (204,821)	\$ 43,377,927

NOTE 12 COMMITMENTS AND CONTINGENCIES

Capital Improvements - The financial requirement for Tacoma Power's 2017/2018 biennial Capital Improvement Program is approximately \$190.5 million. As of December 31, 2018, the remaining financial requirement for the 2017/2018 biennial Capital budget was approximately \$50.4 million.

Ted Coates. et al. v. Tacoma On June 22, 2017, plaintiffs filed their suit in Pierce County Superior Court, alleging Tacoma Power has been unlawfully subsidizing the capital expenses and the operational and maintenance (O&M) expenses of its commercial telecommunications business (Click!). The plaintiffs have requested an immediate cessation of all such subsidies and to refund to the Tacoma Power electric utility customers funds spent subsidizing these operations for the past three years (alleged to be in excess of \$21 million). The law firm of K&L Gates has been retained by the City to defend Tacoma Power, Click! and the City. On March 2, 2018, the Court granted plaintiffs' motion for partial summary judgment ordering that Tacoma Power electric utility revenues and funds may not lawfully be used to pay for Click! Network expenses or capital improvements that are attributable or properly allocable to commercial telecommunications service rather than electric utility service. The City filed a motion for discretionary review of the Superior Court order, and the Court of Appeals granted a stay of the Superior Court proceedings. On June 14, 2018, the Court granted review of this matter. After the briefing is complete, the Court of Appeals will schedule a date for Oral Argument. We expect Oral Argument to take place sometime in the summer of 2019 with a decision toward the end of 2019.

Tacoma Public Utilities' Insurance carrier, Indian Harbor Insurance Company, is currently defending under a reservation of rights letter and has retained external legal counsel to handle the appeal. The parties have attempted to mediate the lawsuit and have completed two days of mediation. The City has also issued an RFI/Q seeking proposals from potential public and private collaborators regarding Click's future. The final result of the RFI/Q process could have an impact on the City's ability to resolve the lawsuit through mediation.

U.S. Oil v. Tacoma. On April 12 , 2018, U.S. Oil filed a lawsuit in Pierce County Superior Court, alleging that the electrical outage that occurred at the Lincoln substation on April 28, 2016, caused plaintiff \$9.1 million in lost revenue and damages . Indian Harbor Insurance Company has accepted the tender of defense subject to a full reservation of rights under the policy. External legal counsel is defending the City in connection with the lawsuit. We are currently in the discovery stage, and trial is scheduled for October 15, 2019. The insurance coverage is subject to a \$200,000 deductible, and the carrier has filed a declaratory relief action to determine the coverage issue as discussed below.

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

REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Net Pension Liability Last 10 Years*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset) as a percentage	39.43%	39.50%	39.47%	39.80%
Employer's proportion share of net pension liability (asset)	(\$15,506,238)	\$36,687,245	\$34,177,293	(\$3,823,476)
Employer's covered payroll (1)	\$95,163,955	\$91,704,363	\$93,063,240	\$86,312,354
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll (1)	-16.29%	40.01%	36.72%	-4.11%
Plan fiduciary net position as a percentage the total pension liability	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Contractually required employer contribution	10,415,912	\$9,528,899	\$9,322,005	\$9,053,341
Contributions in relation to the contractually required employer contribution	(10,415,912)	(9,528,899)	(9,322,005)	(9,053,341)
Employer contribution deficiency (excess)				
Employer's covered employee payroll	\$98,135,432	\$95,163,955	\$91,704,363	\$93,063,240
Employer contribution as a percentage of covered-employee payroll	10.61%	10.01%	10.17%	9.73%

(1) The 2016 covered payroll has been updated to accurately reflect the covered payroll, which therefore also updated the calculation for the Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll.

** 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*

	Fiscal Year Ended December 31st,	
	2018	2017
Employer's proportion of the collective OPEB liability (asset) as a percentage	5.56%	5.48%
Employer's proportion share of collective OPEB liability (asset)	\$12,272,355	\$11,471,098
Employer's covered-employee payroll	\$98,135,432	\$92,203,786
Employer's proportionate share of collective OPEB liability (asset) as a percentage of its covered-employee payroll	12.51%	12.44%

** 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.*

**Notes to Required Supplementary Information
For the Fiscal Year Ended December 31, 2018**

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 3.44% from 3.78%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

This page has been left blank intentionally.

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR FINANCIAL REVIEW

	2018	2017 (As Restated)	2016	2015
STATEMENTS OF NET POSITION				
ASSETS				
Utility Plant - Net	\$1,068,290,040	\$1,037,776,028	\$1,033,409,064	\$1,002,810,874
Special and Other Assets	120,789,034	81,257,489	95,903,332	125,203,792
Current Assets	282,186,074	276,486,000	289,162,319	267,460,091
Deferred Charges	-	-	-	-
Total Assets	1,471,265,148	1,395,519,517	1,418,474,715	1,395,474,757
Deferred Outflows	20,842,914	38,820,632	39,469,454	10,977,517
TOTAL ASSETS AND DEFERRED OUTFLOWS	1,492,108,062	1,434,340,149	1,457,944,169	1,406,452,274
NET POSITION	863,431,784	830,375,494	821,995,693	825,933,297
LIABILITIES				
Long-Term Debt	461,339,467	417,800,137	457,601,726	441,928,130
Current Liabilities	66,566,861	68,841,615	70,165,746	63,906,544
Long-Term Liabilities	26,315,935	61,418,039	57,893,021	22,647,914
Total Liabilities	554,222,263	548,059,791	585,660,493	528,482,588
Deferred Inflows	74,454,015	55,904,864	50,287,983	52,036,389
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,492,108,062	\$1,434,340,149	\$1,457,944,169	\$1,406,452,274
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential	\$175,979,684	\$169,583,337	\$154,091,270	\$149,195,092
Commercial	29,248,620	29,133,553	27,703,400	26,956,059
General	125,399,026	119,704,634	115,600,650	116,053,999
Contract Industrial	23,494,502	22,278,802	21,462,712	21,356,911
Bulk Power	55,486,697	57,062,247	54,506,535	50,380,147
Unbilled	29,348	2,114,131	(840,477)	677,091
Other	1,755,243	1,754,802	1,725,200	1,643,756
Total Electric Revenues	411,393,120	401,631,506	374,249,290	366,263,055
Other Operating Revenue	43,898,363	44,711,899	44,365,098	44,363,160
Total Operating Revenues	455,291,483	446,343,405	418,614,388	410,626,215
OPERATING EXPENSES				
Operation and Maintenance	313,885,614	325,018,197	312,790,388	299,200,704
Taxes	21,486,970	20,755,847	19,727,313	19,993,833
Depreciation	53,869,012	57,231,313	55,702,297	57,381,578
Loss on Asset Impairment	-	-	-	-
Total Operating Expenses	389,241,596	403,005,357	388,219,998	376,576,115
NET OPERATING INCOME	66,049,887	43,338,048	30,394,390	34,050,100
NON-OPERATING REVENUES (EXPENSES)				
Other Income and Expense (Net)	1,776,333	(1,534,389)	1,555,659	(1,923,329)
Interest Earned on Investments	3,719,705	2,251,477	2,405,144	1,796,071
Interest Charges (Net)	(17,219,276)	(14,076,794)	(16,196,734)	(19,428,673)
Contributions to Family Need ..	(100,000)	(100,000)	(480,000)	(480,000)
Net Income Before Contributions, Transfers & Extraordinary Items	54,226,649	29,878,342	17,678,459	14,014,169
Total Capital Contributions	13,214,597	12,643,334	8,846,216	9,383,844
Transfers Out	(34,384,956)	(34,141,875)	(30,462,279)	(24,969,422)
CHANGE IN NET POSITION	\$33,056,290	\$8,379,801	(\$3,937,604)	(\$1,571,409)

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

2014	2013	2012	2011	2010	2009
\$978,885,275	\$959,885,269	\$954,141,423	\$944,969,878	\$933,796,881	\$900,879,652
160,778,160	213,192,582	154,745,677	196,860,001	223,057,734	104,606,844
365,173,352	328,974,357	333,694,736	313,457,995	279,967,672	288,083,393
-	-	-	-	17,651,421	7,304,736
1,504,836,787	1,502,052,208	1,442,581,836	1,455,287,874	1,454,473,708	1,300,874,625
8,026,229	15,941,231	7,848,910	8,213,239	-	-
1,512,863,016	1,517,993,439	1,450,430,746	1,463,501,113	1,454,473,708	1,300,874,625
822,803,061	799,078,660	779,206,485	762,944,507	744,735,781	735,593,799
530,580,510	564,960,765	518,251,959	563,718,608	582,930,840	459,202,498
86,776,174	82,905,132	84,070,814	82,861,816	95,884,868	83,385,715
24,703,271	23,048,882	20,901,488	17,976,182	30,922,219	22,692,613
642,059,955	670,914,779	623,224,261	664,556,606	709,737,927	565,280,826
48,000,000	48,000,000	48,000,000	36,000,000	-	-
\$1,512,863,016	\$1,517,993,439	\$1,450,430,746	\$1,463,501,113	\$1,454,473,708	\$1,300,874,625
\$150,972,050	\$149,662,791	\$141,236,063	\$136,944,688	\$127,908,143	\$125,807,518
26,594,512	25,110,481	23,499,735	22,324,063	21,147,156	21,005,151
114,718,365	109,046,936	103,586,233	99,958,156	96,579,940	90,782,730
21,150,771	19,804,613	18,870,807	18,341,067	16,898,845	14,101,372
82,796,740	64,210,259	53,532,081	48,118,090	69,518,730	67,338,457
(666,187)	1,651,808	4,615,802	369,424	(3,564,337)	(411,080)
1,609,143	1,562,082	1,558,268	1,373,168	1,472,125	1,190,013
397,175,394	371,048,970	346,898,989	327,428,656	329,960,602	319,814,161
44,070,713	43,413,115	40,983,752	36,895,939	36,892,658	35,691,490
441,246,107	414,462,085	387,882,741	364,324,595	366,853,260	355,505,651
294,741,044	276,558,723	267,457,626	247,409,057	259,366,287	220,849,709
19,276,216	19,562,858	17,494,729	16,970,015	15,553,041	15,187,859
59,156,228	56,397,306	57,842,109	56,555,538	55,717,463	53,049,558
-	-	-	-	-	-
373,173,488	352,518,887	342,794,464	320,934,610	330,636,791	289,087,126
68,072,619	61,943,198	45,088,277	43,389,985	36,216,469	66,418,525
(728,908)	(252,363)	3,055,848	1,226,132	2,202,089	1,322,007
3,780,834	1,899,829	5,835,775	8,444,683	7,786,710	8,721,608
(27,290,021)	(25,688,219)	(22,859,967)	(21,917,623)	(22,773,604)	(22,804,261)
(900,000)	(900,000)	(450,000)	(450,000)	(900,000)	(1,229,676)
42,934,524	37,002,445	30,669,933	30,693,177	22,531,664	52,428,203
7,788,292	8,839,960	9,480,111	14,222,934	10,224,518	9,844,736
(26,998,415)	(25,970,230)	(23,888,066)	(23,913,077)	(23,614,200)	(21,984,399)
\$23,724,401	\$19,872,175	\$16,261,978	\$21,003,034	\$9,141,982	\$40,288,540

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR POWER SUMMARY

	2018	2017	2016	2015
MWh Available				
Generated				
Nisqually	538,674	631,627	630,483	511,592
Cushman	292,553	377,366	507,618	272,457
Cowlitz	1,556,232	2,138,980	1,989,438	1,630,130
Wynoochee	26,071	34,103	37,209	12,680
Hood Street	2,892	3,282	2,942	1,889
Grant Net Actual	-	-	-	-
Tacoma's Share of Priest Rapids	26,974	27,440	26,975	25,360
Tacoma's Share of GCPHA	241,233	228,781	253,625	258,679
Total Generated	2,684,629	3,441,579	3,448,290	2,712,787
Purchased	3,980,124	4,023,330	3,807,370	3,674,140
Interchange - Net	(1,804,434)	(2,458,785)	(2,438,369)	(1,569,981)
Losses - Net	5,073	27,919	(8,870)	10,340
Total System Load	4,865,392	5,034,043	4,808,421	4,827,286
MWh Billed				
Residential and Other.....	1,871,796	1,975,096	1,855,706	1,801,114
Commercial/General/Industrial....	2,743,659	2,777,190	2,771,822	2,786,233
Total Firm MWh Billed	4,615,455	4,752,286	4,627,528	4,587,347
MWh Available Over MWh Billed				
(Causes: Timing differences,				
internal use, and losses other				
than those reflected above.)	249,937	281,757	180,893	239,939
Percent of Power Generated	55.18%	68.37%	71.71%	56.20%
Average Load Factor	60.20%	57.27%	60.02%	62.71%
Average Number of Billings	177,723	177,153	176,784	174,562
Maximum Hourly Energy Load				
MWh	922	997	913	877
Date	2/23/18	1/5/17	12/17/16	12/31/15
Time	0800 hr	0800 hr	0900 hr	0900 hr
Maximum Daily Energy Load				
MWh	19,318	20,525	19,641	18,675
Date	2/23/18	1/5/17	12/17/16	12/31/15
Minimum Hourly Energy Load				
MWh	329	350	351	354
Date	6/7/18	7/2/17	7/5/16	6/21/15
Time	0400 hr	0600 hr	0400 hr	0600 hr
Minimum Daily Energy Load				
MWh	10,208	10,315	10,110	10,262
Date	9/2/18	6/4/17	9/4/16	5/24/15
Average Hourly Energy Load	555	571	548	550

2014	2013	2012	2011	2010	2009
635,121	572,932	699,104	663,345	586,433	553,062
358,509	239,528	261,735	410,723	393,563	246,898
2,111,686	1,792,975	2,322,875	2,157,106	1,725,424	1,677,554
14,272	24,404	38,149	35,692	36,320	25,298
2,281	3,503	4,029	3,313	4,133	3,243
(2,018)	(3,279)	(3,285)	-	-	-
22,733	34,846	37,355	34,417	30,705	-
272,846	254,570	255,564	237,794	240,845	-
3,415,430	2,919,479	3,615,526	3,542,390	3,017,423	2,506,055
3,845,666	3,756,763	4,167,263	3,799,037	4,132,049	4,235,019
(2,339,277)	(1,665,811)	(2,814,479)	(2,266,720)	(1,993,911)	(1,729,701)
14,057	7,398	20,718	(8,112)	10,599	4,210
4,935,876	5,017,829	4,989,028	5,066,595	5,166,160	5,015,583
1,890,970	1,950,829	1,935,518	1,997,714	1,925,549	1,994,692
2,838,966	2,855,932	2,812,769	2,838,424	2,794,406	2,829,425
4,729,936	4,806,761	4,748,287	4,836,138	4,719,955	4,824,117
205,940	211,068	240,741	230,457	446,205	191,466
69.20%	58.18%	72.47%	69.92%	58.41%	49.97%
55.31%	54.18%	61.47%	58.86%	52.82%	51.69%
172,531	171,506	169,012	169,123	169,413	168,207
1,016	980	924	931	992	1,062
2/6/14	12/9/13	1/16/12	1/3/11	11/23/10	12/10/09
800 hr	800 hr	1800 hr	0800 hr	1800 hr	800 hr
21,686	21,172	19,100	18,788	20,591	21,103
2/6/14	12/09/13	1/16/12	1/11/11	11/23/10	12/9/09
348	349	340	310	303	295
7/6/14	9/8/13	9/19/12	7/5/11	9/3/10	7/5/09
0600 hr	0500 hr	0400 hr	0400 hr	0300 hr	0700 hr
10,221	10,379	10,160	9,171	9,041	9,036
7/5/14	7/4/13	9/2/12	7/3/11	9/5/10	8/15/09
562	572	566	548	524	549

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

GROSS GENERATION REPORT - December 31, 2018 AND December 31, 2017

	YEAR ENDED		2018 OVER (UNDER) 2017	PERCENT CHANGE
	Dec 31 2018	Dec 31 2017		
KWH GENERATED, PURCHASED AND INTERCHANGED - Gross				
Generated - LaGrande	332,001,000	399,198,000	(67,197,000)	-16.8%
Generated - Alder	206,673,000	232,429,000	(25,756,000)	-11.1%
TOTAL NISQUALLY	538,674,000	631,627,000	(92,953,000)	-14.7%
Generated - Cushman No. 1	115,172,000	145,908,000	(30,736,000)	-21.1%
Generated - Cushman No. 2	177,381,000	231,458,000	(54,077,000)	-23.4%
TOTAL CUSHMAN	292,553,000	377,366,000	(84,813,000)	-22.5%
Generated - Mossyrock	909,192,000	1,267,003,000	(357,811,000)	-28.2%
Generated - Mayfield	647,040,000	871,977,000	(224,937,000)	-25.8%
TOTAL COWLITZ	1,556,232,000	2,138,980,000	(582,748,000)	-27.2%
Generated - Wynoochee	26,071,000	34,103,000	(8,032,000)	-23.6%
Generated - Hood Street	2,892,400	3,282,487	(390,087)	-11.9%
Tacoma's Share of Priest Rapids	26,974,000	27,440,000	(466,000)	-1.7%
Tacoma's Share of GCPHA	241,233,000	228,781,000	12,452,000	5.4%
TOTAL KWH GENERATED - TACOMA SYSTEM	2,684,629,400	3,441,579,487	(756,950,087)	-22.0%
Purchased Power				
BPA Slice Contract	2,449,625,000	2,475,180,000	(25,555,000)	-1.0%
BPA Block Contract	1,530,499,000	1,548,150,000	(17,651,000)	-1.1%
Interchange Net	(1,804,433,916)	(2,458,785,000)	654,351,084	-26.6%
TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED ..	4,860,319,484	5,006,124,487	(145,805,003)	-2.9%
Losses	39,681,195	37,621,097	2,060,098	5.5%
Baldi Replacement	606,072	1,172,164	(566,092)	-48.3%
Ketron	302,209	297,065	5,144	1.7%
NT PC Mutuals Schedules.....	(31,651,000)	(31,634,000)	(17,000)	0.1%
PC Mutual Inadvertent	(3,865,349)	20,462,383	(24,327,732)	-118.9%
TACOMA SYSTEM FIRM LOAD	4,865,392,611	5,034,043,196	(168,650,585)	-3.4%
PIERCE COUNTY MUTUAL LOAD	1,304,231,000	1,530,309,000	(226,078,000)	-14.8%
KWH BILLED				
Residential Sales	1,863,660,190	1,938,642,781	(74,982,591)	-3.9%
Commercial Sales	319,239,715	327,155,195	(7,915,480)	-2.4%
General	1,914,278,610	1,940,256,895	(25,978,285)	-1.3%
Contract Industrial	510,140,760	509,777,460	363,300	0.1%
Public Street and Highway Lighting	520,950	28,948,502	(28,427,552)	-98.2%
Sales to Other Electric Utilities	7,614,900	7,505,100	109,800	1.5%
TOTAL FIRM	4,615,455,125	4,752,285,933	(136,830,808)	-2.9%
Bulk Power Sales	2,159,004,000	2,835,719,000	(676,715,000)	-23.9%
TOTAL KWH BILLED	6,774,459,125	7,588,004,933	(813,545,808)	-10.7%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2019	10,095,000	19,915,735	30,010,735
2020	9,365,000	19,454,235	28,819,235
2021	7,470,000	19,035,860	26,505,860
2022	5,945,000	18,702,985	24,647,985
2023	6,240,000	18,398,360	24,638,360
2024	6,555,000	18,078,484	24,633,484
2025	6,885,000	17,785,335	24,670,335
2026	7,135,000	17,517,281	24,652,281
2027	24,185,000	16,696,362	40,881,362
2028	7,420,000	15,828,723	23,248,723
2029	7,785,000	15,448,598	23,233,598
2030	8,180,000	15,049,474	23,229,474
2031	27,310,000	14,054,213	41,364,213
2032	28,335,000	12,435,509	40,770,509
2033	29,335,000	10,732,501	40,067,501
2034	30,460,000	8,948,818	39,408,818
2035	31,630,000	7,096,673	38,726,673
2036	14,165,000	5,799,025	19,964,025
2037	14,870,000	5,073,150	19,943,150
2038	15,615,000	4,311,025	19,926,025
2039	16,395,000	3,574,375	19,969,375
2040	17,090,000	2,867,000	19,957,000
2041	17,810,000	2,129,425	19,939,425
2042	18,565,000	1,360,375	19,925,375
2043	4,470,000	878,400	5,348,400
2044	4,645,000	696,100	5,341,100
2045	4,830,000	506,600	5,336,600
2046	5,025,000	309,500	5,334,500
2047	5,225,000	104,500	5,329,500
	<u>\$393,035,000</u>	<u>\$292,788,621</u>	<u>\$685,823,621</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

FUNDS AVAILABLE FOR DEBT SERVICE

	2018	2017 (As Restated)	2016	2015	2014
Total Income	\$464,467,429	\$450,627,829	\$425,755,909	\$413,680,801	\$447,043,485
Less: Operating Exp	335,372,584	345,774,044	332,517,701	319,194,537	314,017,260
Income Available for Debt Service	<u>\$129,094,845</u>	<u>\$104,853,785</u>	<u>\$93,238,208</u>	<u>\$94,486,264</u>	<u>\$133,026,225</u>
Bond Redemption	\$10,095,000	\$11,575,000	\$12,730,000	\$14,735,000	\$32,115,000
Bond Interest	<u>20,143,110</u>	<u>18,949,910</u>	<u>19,025,810</u>	<u>22,420,035</u>	<u>26,626,411</u>
Debt Service Payable on All Debt	\$30,238,110	\$30,524,910	\$31,755,810	\$37,155,035	\$58,741,411
Times Debt Service Covered	4.27	3.44	2.94	2.54	2.26

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

RESOURCES
AS OF DECEMBER 31, 2018

GENERATING FACILITIES	GENERATING UNITS	AGGREGATE NAME PLATE RATING (kW)	APPROX. RATED 4-YR. AVERAGE ANNUAL OUTPUT (1,000 kWh)
Hydro:			
Alder	2	50,000	220,554
LaGrande	5	64,000	357,096
Cushman No. 1	2	43,200	138,447
Cushman No. 2	3	81,000	224,040
Mayfield	4	162,000	731,723
Mossyrock	2	300,000	1,096,880
Wynoochee	1	12,800	27,516
Total Hydro		713,000	2,796,256

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

CUSTOMERS BY CLASS	AVERAGE NUMBER BILLINGS	AVERAGE HOURLY ENERGY (kW)
Residential	158,427	1.338
Incidental	15,841	2.301
General	2,546	109.045
Public Streets and Highways	909	0.065
Total System	177,723	2.965
Circuit Miles of Transmission Lines		
115 kV		308
230 kV		44
Circuit Miles of Distribution Lines		
Overhead		1,174
Underground		853

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2018

FEDERAL

Power Social Security (FICA)	\$7,250,486	
Total		\$7,250,486

STATE OF WASHINGTON

Retail Sales and Use Taxes	4,084,377	
Power Utilities and Business Operations Tax	14,439,066	
Power State Employment Security	159,282	
Total		18,682,725

COUNTY

Lewis County - In Lieu of Taxes	1,593,920	
Mason County - In Lieu of Taxes	191,704	
Pierce County School Support - Eatonville	7,000	
White Pass School Support	127,074	
Mossyrock School Support	110,491	
Morton School Support	3,105	
Lewis County Fire Protection District	11,123	
Pierce County Fire Protection District	22,271	
Pierce County Drainage District	19,480	
Thurston County	2,051	
Total		2,088,219

MUNICIPALITIES

City of Tacoma Power Gross Earnings Tax	32,417,495	
Click!Network Gross Earnings Tax/Franchise Fees	3,122,181	
City of Fife Power Franchise Fee	1,256,990	
City of University Place Power Franchise Fee	1,182,082	
City of Lakewood Power Franchise Fee	1,090,176	
City of Fircrest Power Franchise Fee	269,940	
City of Steilacoom Power Franchise Fee	5,770	
Total		39,344,634
TOTAL TAXES		<u>\$67,366,064</u>

Taxes as a % of Operating Revenues of \$ 455,291,483 ..	14.80%
---	--------

EMPLOYEE WELFARE CONTRIBUTIONS

Power Industrial Insurance and Medical Aid.....	\$1,387,904	
Power City of Tacoma Pension Fund	10,298,298	
Power Medical/Life Insurance	17,553,605	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u>\$29,239,807</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

2018 ELECTRIC RATES
(Based on 2018 rate schedules)

RATE PER MONTH

Schedule A-1 - Residential Service

Customer Charge	\$16.50 per month
Customer Charge (for collectively metered apartments)	\$13.50 per month
Energy (all energy measured in kilowatt-hours)	\$0.045351 per kWh
Delivery (all energy delivered in kilowatt-hours) .	\$0.034435 per kWh

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

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

Schedule B - Small General Service

Customer Charge	\$22.50 per month
Customer Charge (for unmetered services)	\$17.50 per month
Energy (all energy measured in kilowatt-hours)	\$0.044616 per kWh
Delivery (all energy delivered in kilowatt-hours) ..	\$0.034587 per kWh

Schedule G - General Service

Customer Charge	\$76.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.044813 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$8.35 per kW

Schedule HVG - High Voltage General Service

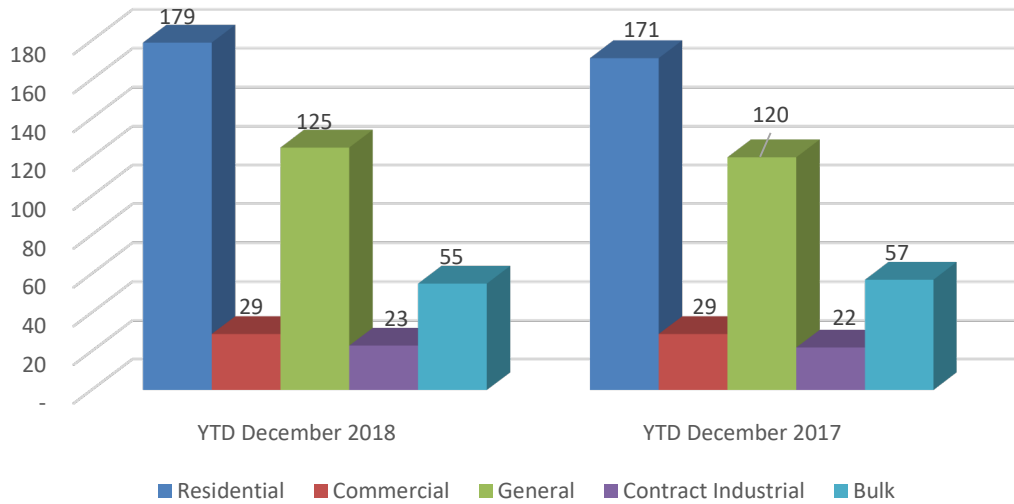
Customer Charge	\$1,490.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.041691 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$4.75 per kW

Other schedules also now in effect are:

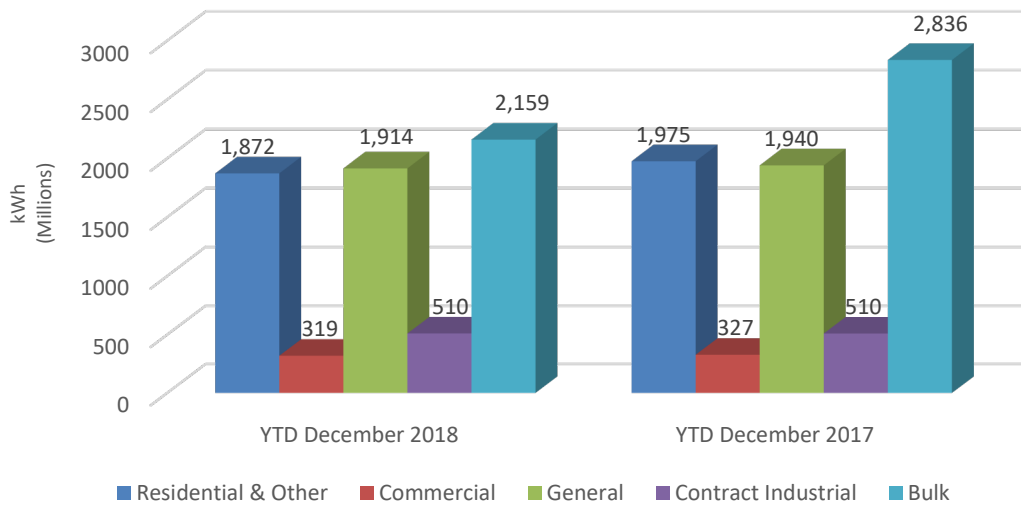
- CP - Contract Industrial Service (major industrial power use -
written contract required)
- H-1 - Street Lighting and Traffic Signal Service
- H-2 - Private Off-Street Lighting Service
- H-3 - Street Lighting Service

Electric rates were established by Ordinance No. 28489 passed February 13, 2018
and became effective April 1, 2018.

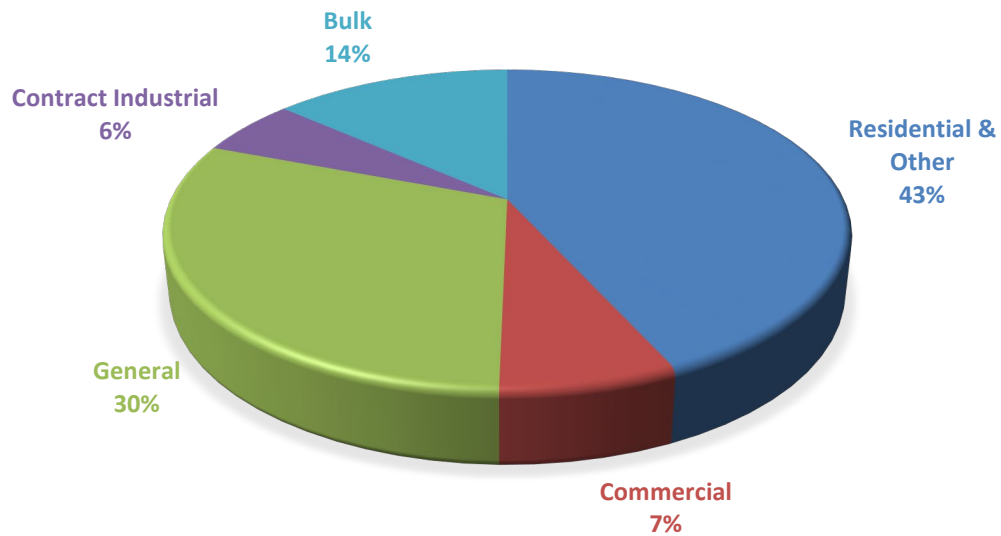
Sales of Electric Energy Year to Date - December 2018 & 2017



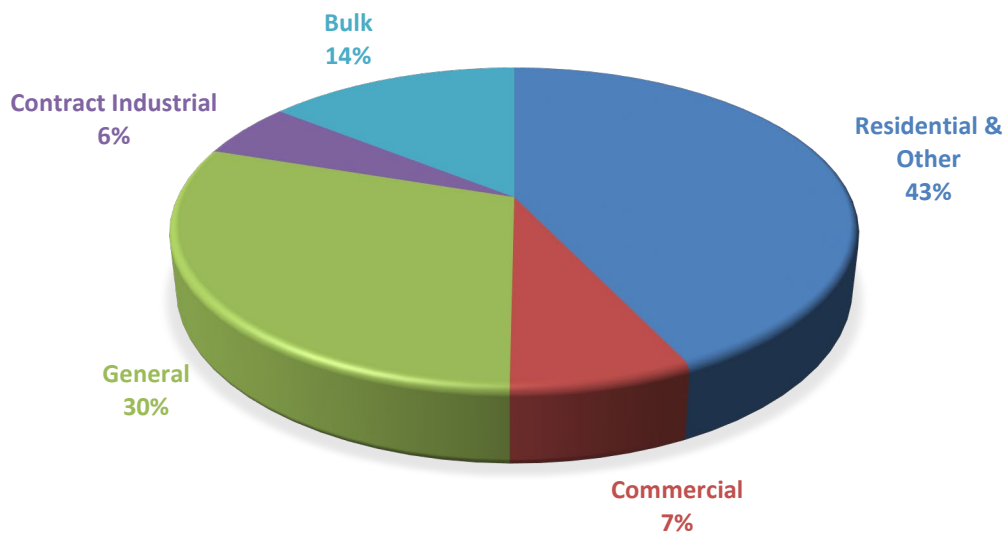
Total Power Billed Year to Date - December 2018 & 2017



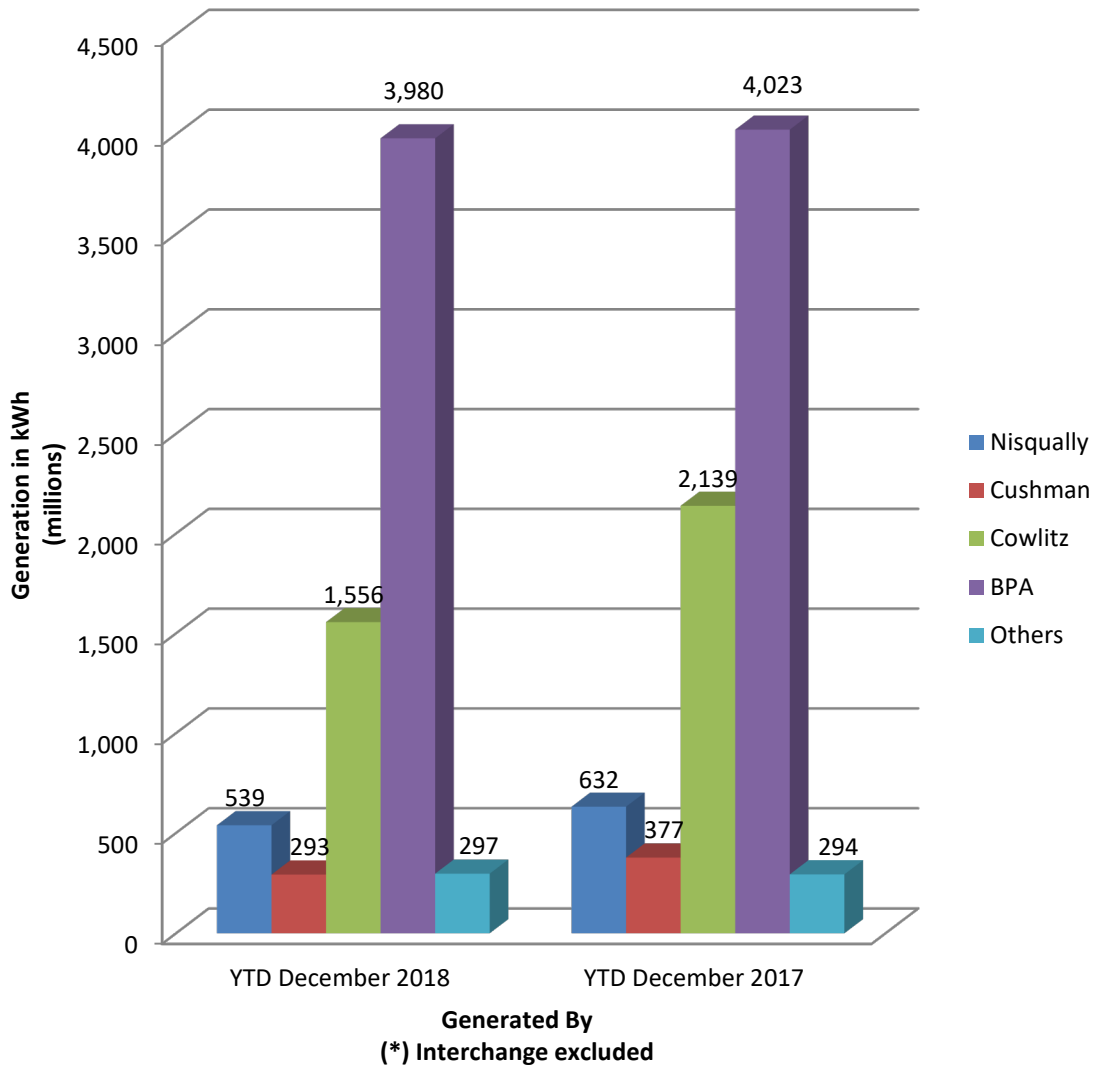
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - DECEMBER 2018 (\$411,393,120)**



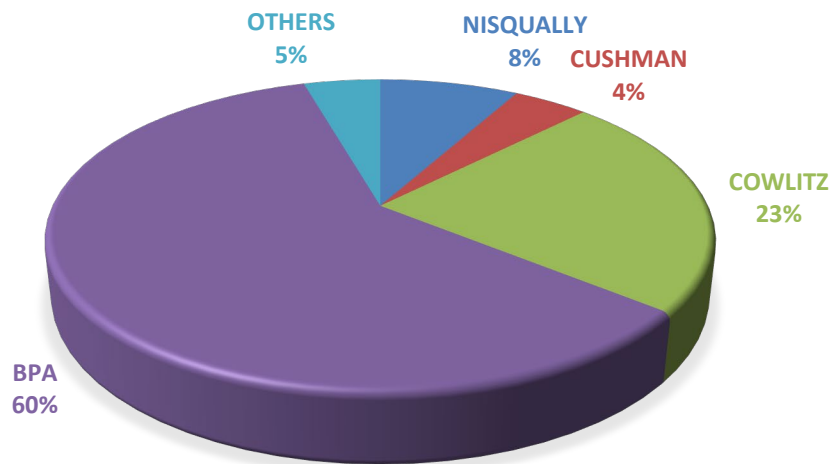
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - DECEMBER 2017 (\$401,631,506)**



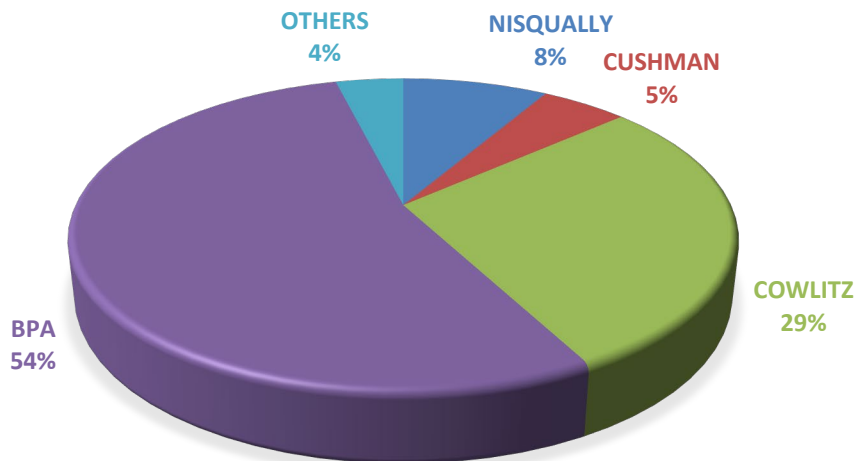
Power Sources (*) **Year to Date December 2018 & 2017**



POWER SOURCES (*)
YEAR TO DATE - DECEMBER 2018

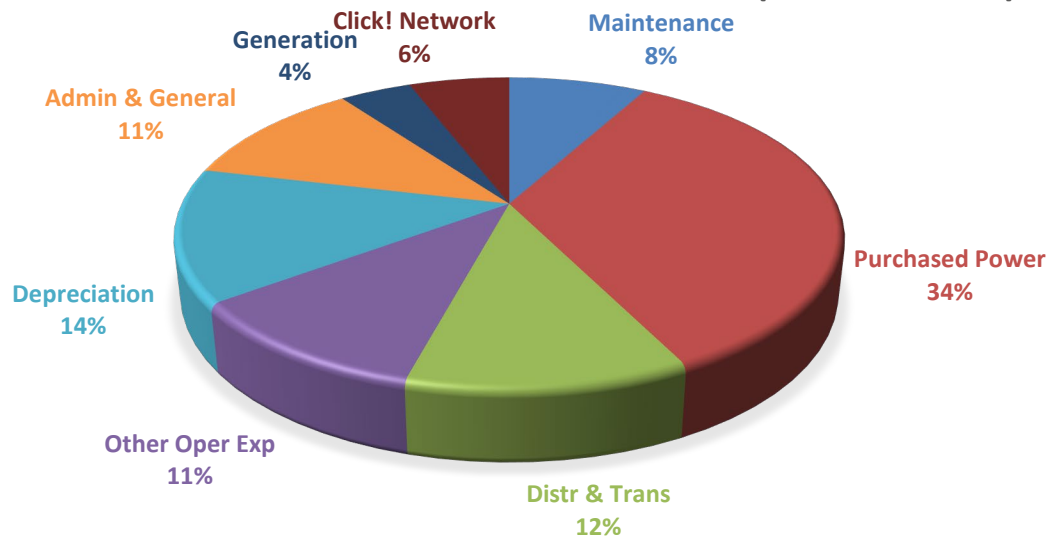


POWER SOURCES (*)
YEAR TO DATE - DECEMBER 2017

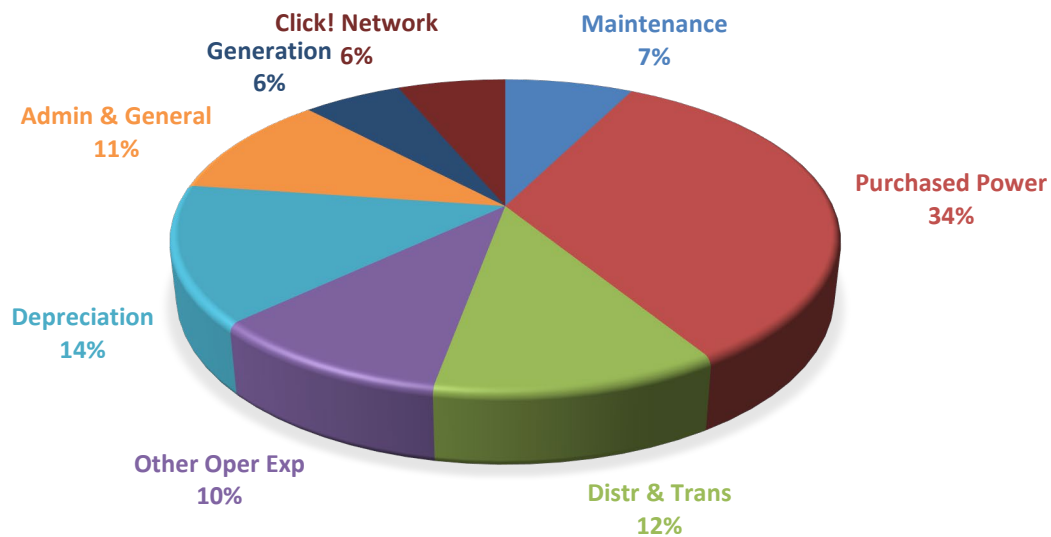


(*) Interchange excluded

TOTAL OPERATING EXPENSES *
YEAR TO DATE - DECEMBER 2018 (\$389,241,596)

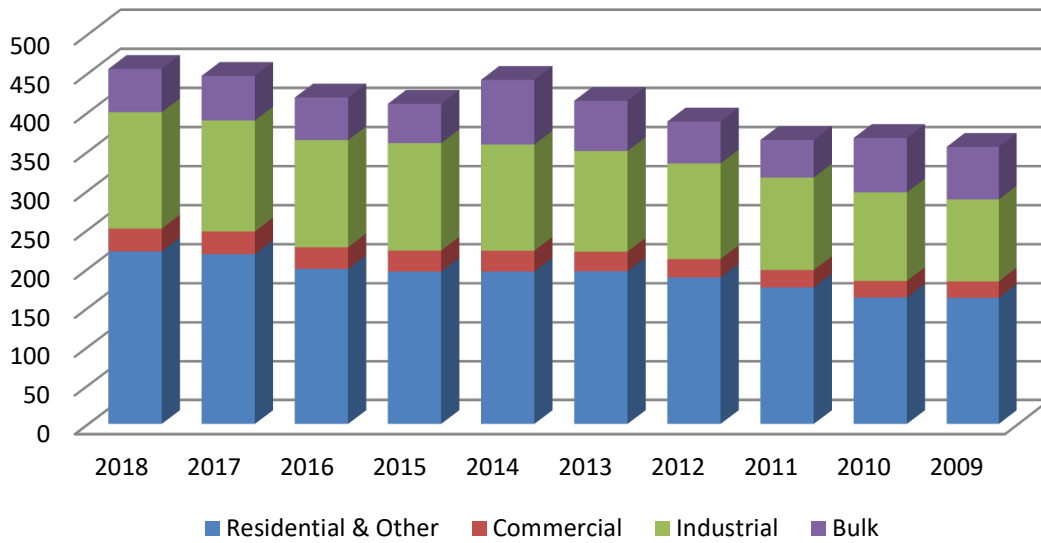


TOTAL OPERATING EXPENSES *
YEAR TO DATE - DECEMBER 2017 (\$403,005,357)

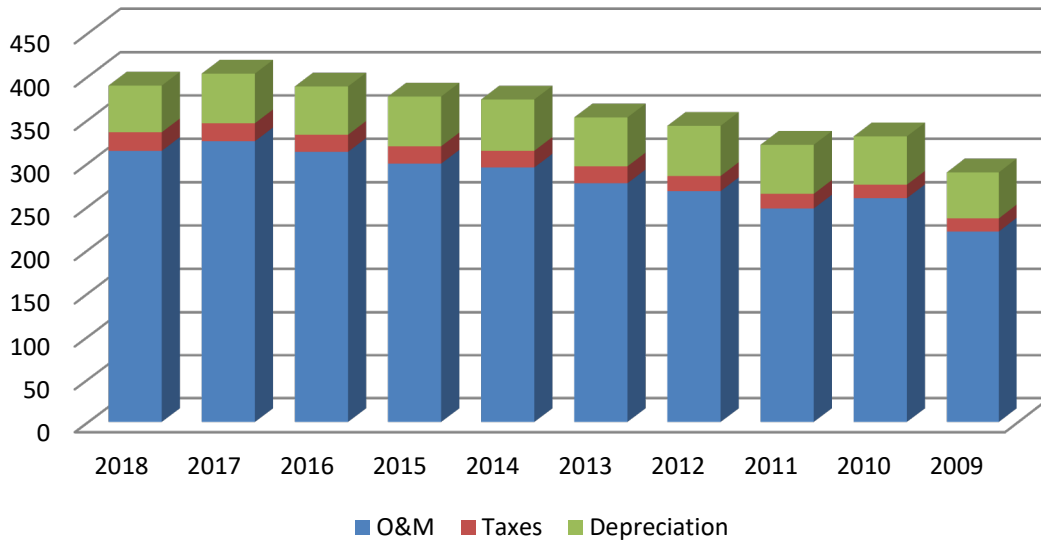


* City Gross Earnings Taxes are not included in Total Operating Expenses.

TEN-YEAR SUMMARY OF OPERATING REVENUES



TEN-YEAR SUMMARY OF OPERATING EXPENSES





2018

Tacoma Power Superintendent's Report

CLICK!

Ratepayer Lawsuit

The case is currently in appellate court. The City continues to pursue a settlement in the case. The City directed staff to produce a fully self-funded Click! budget for the 2019-2020 biennium to mitigate the basis of the ratepayer lawsuit. To achieve a fully self-funded Click! budget, various expenditures were either eliminated or significantly curtailed and the workforce was reduced to minimum staffing levels. The City is expected to file appellate briefs in early 2019. The appellate court is expected to hear oral arguments during Summer 2019 and issue a decision in Fall 2019.

Public Private Partnership Model

In January 2018, the City set aside the Click! All-In model (i.e. business model to provide both retail Cable TV and Internet services) and focused on evolving the existing public private partnership model for the future of the Click! network. The City retained CTC Technology and Energy ("CTC") in February 2018 to seek potential partners and to negotiate a contract. The City issued an RFI/Q and after vetting the responses, the City directed CTC to pursue discussions with three qualifying respondents: Yomura Fiber, Wave Broadband and Rainier Connect. At the end of 2018, CTC was in the midst of developing high-level term sheets and scheduling negotiation meetings with the prospective private partners.

Community Stakeholder Collaboratives

As part of the City's decision to pursue the public-private partnership model, the City adopted a set of 12 policy goals to shape the future of the Click! network. The City hired the Center for Dialog and Resolution (CDR) to conduct a series of community stakeholder collaboratives pertaining to these goals. CDR conducted seven collaboratives with a diverse set of community stakeholders and issued its report at the Joint Utility Board and City Council meeting in December 2018.

Employee Transition Plan

Given the City's decision to pursue the public-private partnership model, Click! employees were advised of the adverse impact to their employment. The management team took steps to encourage the placement of a large number of Click! Employees in alternative work within the utility. These efforts have resulted in reducing Click! FTEs from 92 to 49 at the end of 2018. The City also began negotiations with the labor unions on retention and severance packages for impacted employees.

Product Enhancement

The TiVo whole-home set-top box solution was enhanced in 2018 by the addition of voice recognition technology. Voice activated remote control units became available for a one-time activation fee of \$1.99.

GENERATION

Fisheries

Tacoma's new Cowlitz Falls juvenile fish collector operated for its first full year after initial startup and successfully improved the spring chinook collection rate from 10% prior to 2017 to 70% in 2018. At Cushman the first spring chinook adults in 92 years returned to Cushman 2 dam from eggs obtained from the Skagit River. This led to the first egg take at the North Fork Hatchery and begins the full cycle of spring chinook recovery. Cushman sockeye production continued in 2018 with 500,000 eggs obtained from the Baker River Project for hatching and rearing and release in 2019.

Wildlife and Lands

Generation commercially thinned 180 acres of maturing forest for total net revenue to Tacoma of \$147,500. The Cushman shoreline management program continued with 52 structures permitted and 63 structures removed.

Hydropower

Changes were made within the hydro fleet in order to improve operating flexibility in support of new market opportunities and renewables in the region. At Mossyrock additional load operating zones were studied and implemented to increase the operating range and at Cushman the maximum operating capacity was increased by 3,000 kilowatts. At Cushman 1 turbine repair was performed using a new innovative method that successfully reduces the outage time for the work by two weeks. At Cushman 2 all voltage regulators, generator breakers and the electrical bus was replaced and new high voltage circuit switchers were installed for increased reliability. At Wynoochee and LaGrande digital governor systems were replaced. Tacoma Power's hydro fleet was available 99.1 percent of the time when call upon in 2018.

Recreation

There were 350,000 visitors to Tacoma Power parks in 2018. At Mossyrock Park a new swim beach and boat launch were added to provide improved access and recreation at lower lake levels. At the Cowlitz Project 10 miles of additional public trail were constructed to complement the existing 10 miles of trail already present.

POWER MANAGEMENT

- Tacoma Power became a certified California Independent System Operator (CAISO) Scheduling Coordinator which allows Tacoma Power to transact directly with the CAISO wholesale electric market. We anticipate that this will enable better integration of renewable generation and increase revenue in the future by over a million dollars a year.
- Wholesale electric prices were low, but Tacoma Power sold nearly \$5 million in non-traditional wholesale products, which reduces the need for increasing retail rates.
- Net wholesale power sales in 2018 were 1.8 million MWh, exceeding the budget estimates of 1.4 million MWh. Annual revenue was \$47.1 million compared to budget estimates of \$33 million.
- Power Management acquired over 8 MW of conservation in 2018, more than double the target at a substantially lower cost than budgeted.
- In collaboration with the City of Tacoma's Public Works Division, we completed installation of over 16,000 cobra-head LED street lights. The two-year project saves energy, provides better and safer lighting, and reduces costs for the City.
- Tacoma Power successfully completed its residential solar plan, including better information for customers considering rooftop installations and our second announced Evergreen Options grant for a solar project with Tacoma Housing Authority that will benefit low-income customers.
- Tacoma Power made significant efforts to advance electrification of transportation, including:
 - Development of a special pilot rate for DC Fast charging providers – which will incentivize additional investment in electric vehicle charging in the service territory
 - The construction and opening of DC Fast charging station at the LeMay Car Museum
 - Customer outreach and education efforts including two "Ride and Drive Electric Vehicle Events" and five "EV 101" events
 - Collaboration with Pierce Transit to pilot eight plug-in hybrid electric commuter vans that will charge at TPU campus and reduce fuel expense and maintenance for Pierce Transit.

RATES, PLANNING, AND ANALYSIS

Budget and Retail Rates

Tacoma Power completed an expedited budget and rate process, including increased public outreach, for the 2019/2020 rate adjustments; the first 2.0% system-average rate adjustment is effective April 1, 2019, and the second 2.0% system-average rate adjustment is effective April 1, 2020. A new tariff was introduced to facilitate publically-available stations for rapid charging of electric vehicles. The electric vehicle tariff will be available January 1, 2019.

Energy Risk Management

RPA staff collaborated with Power Management Resource Operations staff to develop and implement a model of Tacoma Power's hydro system to enhance the Net-Revenue-at-Risk model. Staff also developed enhancements to the retail revenue simulation model.

Tacoma Power reviewed draft revisions of the Energy Risk Management Policy and Procedures with internal stakeholders and the Risk Management Committee. These revisions are expected to be finalized in 2019.

Finance

A new Long-Range Financial Plan (LRFP) report was finalized, presented to policy makers, and used to determine the revenue requirement for the 2019/2020 biennium. In May, Tacoma Power amended and extended the current short-term Note Purchase Agreement (NPA) until August 8, 2020, to provide interim financing for capital improvements in advance of a long-term bond issue. Tacoma Power drew \$75 million on the NPA in 2018 to finance construction projects that occurred during the 2017/2018 biennium.

Tacoma Power Bonds are rated as AA and AA- by Standard & Poor's and Fitch, respectively, as part of the previous bond issue in 2017. These ratings allow Tacoma Power to access low interest rates for future borrowing needs. Tacoma Power's credit rating of Aa3 was confirmed by Moody's for Tacoma Power's bonds issued prior to 2017.

Strategic Asset Management

Tacoma Power's Strategic Asset Management program was formed in 2017 with the purpose of providing tools and processes across the utility to advance the maturity of asset management principles as outlined in the international standard ISO 55000.

Construction Project Management Office (PMO)

The Construction PMO is being developed consistent with Tacoma Power's Strategic Plan to create and implement a consistent and transparent project management culture that provides value to our organization. In 2018, the PMO completed the hiring and onboarding of the program manager and support team.

The program also completed the Power wide Project Management Maturity Assessment (PMMA), established the PMO steering committee (PMOSC) and established the Project Management Community of Learning and a Program Roadmap.

TRANSMISSION & DISTRIBUTION

System Reliability

On average, there were 77 customers without service per outage (ACO). The average outage duration for each customer served (SAIDI) was 54 outage minutes per customer. The average frequency of sustained interruption per customer (SAIFI) was 0.51 interruptions per customer.

Rolling 6-Year Average¹	SAIDI	SAIFI	ACO
01/1/13-12/31/19	53.9	0.51	76.8
2018 Performance Target	≤ 75	≤ 0.95	≤ 150

The Tacoma native peak load was 921 MW on Friday, February 23, 2018. The transmission peak was 1,263 MW and occurred on the same day as the native peak.

System Planning and Operations

On July 17, 2018, Tacoma Power cut over from an older ABB Ranger Energy Management System (EMS) to the new OSI Monarch EMS system. The multi-year effort required close coordination between Transmission & Distribution, Power Management, Utility Technology Solutions, Generation, and Power Shared Services. On December 3, 2018, Tacoma Power and CAISO executed the Reliability Coordinator Services Agreement as part of the decision to transition our service provider from Peak Reliability to California ISO's Reliability Coordinator services.

Transmission Service

Tacoma Power continues to provide transmission to three entities, as shown in the table below. Estimated annual revenue from the three entities is about \$8.2 million.

Customer	Reason for Service	MW	Term of Service
Bonneville Power Administration (BPA)	Delivery of BPA power to the Pierce County Mutuels (PCMs)	398	2028
Avangrid Renewables	Delivery of WestRock biomass generation to California	45	2021
Lewis County PUD	Delivery of Cowlitz Falls generation to BPA	70	Concurrent with FERC hydro license

¹ The reliability performance measures of the transmission and distribution system are based on a six-year average, from January 1, 2013 through December 31, 2018.

Asset Management

The T&D Asset Management program continues to develop in line with the Power Strategic Asset Management team, with the creation of the T&D Asset Data Quality Team. The T&D Asset Management team coordinates the capital budget process for all of T&D, while recommending intervention strategies based on economic modeling for programs to replace poles and power transformers.

System Improvements

Taylor Substation, Tacoma Tideflats, was constructed and energized. This substation will serve Puget Sound Energy's liquefied natural gas plant. Initial plant loading is anticipated in 2019.

Tacoma Power installed distribution cable across the Murray-Morgan Bridge to support economic development and reliability in the Downtown Tacoma area.

In coordination with the City of Tacoma, Tacoma Power and the local community, the 17 lattice structures along North 21st Street, and two steel pole structures in the Westgate Shopping Center were replaced with 12 new steel mono-pole structures.

Electrical Services

In 2018, the New Services Engineering (NSE) group completed designs, agreements, and work orders for a variety of projects, generating revenue in the process.

Work	Amount	Revenue Generated
New primary underground commercial projects	46	\$1,133,000
New primary underground residential projects	32	\$745,400 (+ \$531,400 for secondary projects)
Electrical permits issued	11,502	\$1,885,500
Electrical inspections	17,539	

Business and Financial Management

In January of 2018, a standardized set of contract templates for wireline, wireless and streetlight pole attachments were approved by the Public Utility Board. The process included the evaluation and revision of pole attachment fee schedules. The B&FM group processed the highest historical number of pole attachment applications in 2018.

The work group participated in an effort to incorporate audit data from a 2014 pole survey into the Smallworld GIS mapping system. This effort met a Tacoma Power initiative milestone to address the use of a centralized data management system for inventory and billing purposes.



Safety and Work Practices

Caterpillar Safety Services conducted a Safety Culture Survey for all TPU employees and made recommendations to the Utility for a path forward in injury reduction. The Public Utility Board approved a contract amendment with Caterpillar Safety Services to provide safety training throughout 2019.

UTILITY TECHNOLOGY SERVICES

Financial Management

In 2018 UTS instituted a more rigorous approach to the stewardship of both finances and how employees within UTS invest their time. Processes and tools were created to ensure the Technology Project Portfolio is accurately forecasted, appropriate fiscal treatment is applied, discrete financial assets are created and commissioned, and funding partners across the Utility are informed of spending expectations against the authorized funding amounts.

Project Management

During the budget planning process UTS worked closely with cost center managers across TPU to develop a detailed capital resource plan and mitigation strategy in support of the 2019/2020 TPU Technology Portfolio. The mitigation strategy established the need for UTS to amend existing Staff Augmentation bench contracts, request additional FTEs with specialized expertise and establish the designation of 3 Special Project of limited duration in the 19/20 biennium.

A significant number of projects were completed across the UTS technology portfolio during the 2017/2018 biennium along with key contracting milestones being delivered, including:

- 24% base system price reduction and prepayments adding over \$430,000 value as part of the Land Mobile Radio (LMR) project negotiations,
- 5% reduction in annual maintenance and reduction in user license costs (\$1,250 per user to \$500) as part of the Workforce Connect (WFC) project negotiations,
- 20.6% discount from NASPO pricing and additional \$360,000 value of software and maintenance services added as a result of Wide Area Network (WAN) project

Technology Advancements

The Energy Management System upgrade was successfully completed in partnership with Transmission and Distribution and Power Management. The new system improved access to data, greater security, and better tools to assist in more effectively achieving CIP and NERC compliance.

Other successful projects included:

- Paybox replacement, providing customers with additional payment options and ensuring Payment Card Industry (PCI) compliance.
- Network Backbone, providing additional network bandwidth and improving security

The Workforce Connect project hit key milestones as well, with vendor selection, contract agreements, project kickoff and completing the first sprint using the Scrum methodology.

Cybersecurity

A new secure remote interactive access platform was deployed to both the utility operational and control system environments. The system provides greater security and monitoring for instances where employees or contractors are required to access systems remotely.

Next generation firewalls were deployed within the utility operational networks to provide greater segregation of different system environments.

POWER SHARED SERVICES

Training and Apprenticeship Programs

In 2018, 100% of Tacoma Power's leads, managers and supervisors attended a 5-day workshop focused on Leadership, Engagement and Development. The group managed the apprenticeship programs, providing training and work experiences to 35 apprentices and trainees in five areas - line, substation, meter, advanced meter/relay, and system dispatcher.

Strategy

Tacoma Power advanced several strategic priorities in 2018 under our guiding principle of Community Value First. We completed strategic initiatives that focused on improving the services to our customers, supporting our employees, strengthening our finances, and taking care of the environment. Our strategic priorities included improving our safety culture, developing our employees, and pursuing opportunities for new revenue thanks to our innovative and dedicated staff.

Reliability and Compliance

R&C coordinated SME and vendor change requirements for 59 compliance documents associated with the new EMS.

R&C pioneered Tacoma Information Management System (TIMS) and CIP On-Prem (an on premise version) document management solutions for Tacoma Power to store compliance documentation and evidence.

R&C facilitated a Peer-to-Peer Mock Audit using peers from other utilities versus consultants which resulted in a cost savings of approximately \$85k.

Facilities

Facilities established a Facility Operations Conservation Team for all TPU divisions and joined the Tacoma Power CSEM Program to help guide future energy conservation efforts at TPU properties.

- Building Maintenance modified the solid waste pick-up schedule for the TPU Admin Complex, so far resulting in a sustained cost reduction of 45% over previous 2 years (\$68k).
- Grounds Maintenance updated the TPU Admin Complex Snow and Ice Management Plan to improve response and help provide a safer working environment for TPU employees.

- Mechanical Maintenance provided significant labor resources towards ECC Power and Data Center upgrade projects that improved power reliability and updated data center facilities.
- Security completed perimeter upgrades and re-keying at all sites containing NERC-CIP Low-Impact assets, reassigned keys for all Tacoma Power staff, and trained Generation Hydro project staff on new security protocols that meet NERC-CIP Low-Impact requirements.



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.

ANNUAL

TACOMA WATER

2018

**FINANCIAL
REPORT**



Public Utility Board

WOODROW JONES

Chair

KAREN LARKIN

Vice-Chair

BRYAN FLINT

Secretary

MARK PATTERSON

Member

CHRISTINE COOLEY

Member

JACKIE FLOWERS

Director of Utilities

SCOTT DEWHIRST

Water Superintendent

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA WATER

TABLE OF CONTENTS

FINANCIAL DATA

INDEPENDENT AUDITOR'S REPORT.....	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3 - 10
STATEMENTS OF NET POSITION.....	11 - 12
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION.....	13
STATEMENTS OF CASH FLOWS.....	15 - 16
NOTES TO FINANCIAL STATEMENTS.....	17 - 43

REQUIRED SUPPLEMENTARY INFORMATION

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY.....	45
SCHEDULE OF THE CITY OF TACOMA'S CONTRIBUTIONS.....	45
PROPORTIONATE SHARE OF THE COLLECTIVE OPEB LIABILITY	46

STATISTICAL DATA (UNAUDITED)

TEN-YEAR FINANCIAL REVIEW.....	49 - 50
TEN-YEAR FINANCIAL REVIEW RWSS.....	51 - 52
STATEMENTS OF NET POSITION WATER/RWSS.....	53 - 54
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION WATER/RWSS.....	55
BOND DEBT SERVICE REQUIRED WATER/RWSS.....	56
FUNDS AVAILABLE FOR DEBT SERVICE	57
SUMMARY OF WATER SALES.....	58
2018 STATISTICAL INFORMATION.....	59
TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS.....	60
2018 WATER RATES.....	61
2018 FIRE PROTECTION RATES.....	62
GRAPHS.....	63 - 68

SUPERINTENDENT'S REPORT (UNAUDITED).....	69 - 78
---	----------------

This page has been left blank intentionally.

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 Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Department of Public Utilities, Water Division (the Division), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Tacoma, Department of Public Utilities, Water Division as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data on pages 49 through 68 and the superintendent's report on pages 69 through 78 are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, on our consideration of the City of Tacoma, Department of Public Utilities, Water 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 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
May 28, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Water's financial performance provides an overview of the financial activities for the years ended December 31, 2018, 2017 and 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2018 and 2017, 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

- The net position of Tacoma Water was \$581.7 million in 2018, \$556.8 million in 2017 and \$549.7 million in 2016. Of these amounts, \$61.7 million in 2018, \$58.2 million in 2017, and \$57.1 million in 2016 is reported as Unrestricted net position and is available to finance day-to-day operations without constraints established by debt covenants or other legal requirements.
- Tacoma Water's total net positions increased by \$24.9 (4.5%) million in 2018, \$7.2 (1.3%) million in 2017 and \$7.2 (1.3%) million in 2016.
- Operating revenues were \$102.0 million in 2018, an increase of \$7.3 million (7.7%) compared to 2017 which is primarily due to an average rate increase of 4.0% and an increase in consumption. Operating revenues were \$94.6 million in 2017, an increase of \$1.8 million (2.0%) compared to 2016. While sales and other revenue increased by \$2.1 million from 2016 to 2017, contract resource obligation revenue decreased by \$0.2 million. The decrease in contract resource revenue is primarily due to a shift in focus from building the Green River Filtration Facility to operating the facility and the partners were billed accordingly.

- In 2018, Tacoma Water's net utility plant of \$871.0 million represented a decrease of \$2.5 million (0.3%) compared to the 2017 \$873.5 million balance. This is primarily due to a net increase of \$23.8 million in plant in service offset by an increase in accumulated depreciation of \$21.9 million and a decrease in construction work in progress of \$4.4 million. In 2017, Tacoma Water's net utility plant of \$873.5 million represented a decrease of \$6.0 million (0.7%) compared to the 2016 \$879.5 million balance. This is primarily due to a net increase of \$24.4 million in plant in service offset by an increase in accumulated depreciation of \$21.8 million and a decrease in construction work in progress of \$8.7 million.

Overview of the Financial Statements

Tacoma Water reported net operating income of \$24.7, \$16.9, and \$17.4 million in 2018, 2017 and 2016 respectively. In 2018, operating revenues increased by \$7.3 million and operating expenses decreased by \$0.5 million. For 2017, operating revenues increased by \$1.8 million and operating expenses increased \$2.4 million.

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

Operating Results (In thousands)

Category	2018	2017 (As Restated)	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Operating Revenues	\$ 101,941	\$ 94,644	\$ 92,802	\$ 7,297	\$ 1,842
Operating Expenses	77,284	77,736	75,356	(452)	\$ 2,380
Net Operating Income	24,657	16,908	17,446	7,749	\$ (538)
Net Non-Operating Income (Expense)	(12,178)	(15,342)	(17,395)	3,164	\$ 2,053
Capital Contributions	16,441	9,139	10,274	7,302	\$ (1,135)
Federal BAB Subsidies & Grants	3,596	3,582	3,579	14	\$ 3
Transfers Out	(7,625)	(7,093)	(6,754)	(532)	\$ (339)
Change in Net Position	\$ 24,891	\$ 7,194	\$ 7,150	\$ 17,697	\$ 44

Gallons Billed (In millions)

Type of Customer	2018	2017	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Residential	8,469.9	8,251.3	8,371.3	218.6	(120.0)
Commercial & Industrial	9,169.6	8,838.2	8,763.4	331.4	74.8
Wholesale	885.9	935.5	1,275.6	(49.6)	(340.1)
Total	18,525.4	18,025.0	18,410.3	500.4	(385.3)

Net Position

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

Statements of Net Position (In thousands)

Description	2018	2017 (As Restated)	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Net Utility & Non-Utility Plant	\$ 871,501	\$ 874,012	\$ 880,041	\$ (2,511)	\$ (6,029)
Current & Other Assets	244,134	229,630	228,621	14,504	1,009
Total Assets	1,115,635	1,103,642	1,108,662	11,993	(5,020)
Deferred Outflows	5,882	10,114	10,623	(4,232)	(509)
Total Assets & Deferred Outflows	\$ 1,121,517	\$ 1,113,756	\$ 1,119,285	\$ 7,761	\$ (5,529)
Net Position:					
Net Investment in Capital Assets	\$ 449,840	\$ 445,995	\$ 446,518	\$ 3,845	\$ (523)
Restricted for:					
Water Capital and Sys Dev Chg	64,770	50,149	43,534	14,621	6,615
Debt Service Funds	1,995	2,506	2,496	(511)	10
Net Pension Asset	3,438	-	-	3,438	-
Unrestricted	61,695	58,196	57,104	3,499	1,092
Total Net Position	581,738	556,846	549,652	24,892	7,194
Long-Term Debt	447,563	463,619	478,617	(16,056)	(14,998)
Current & Other LT Liabilities	50,734	55,931	54,919	(5,197)	1,012
Total Liabilities	498,297	519,550	533,536	(21,253)	(13,986)
Deferred Inflows	41,482	37,360	36,097	4,122	1,263
Total Net Position, Liabilities & Deferred Inflows	\$ 1,121,517	\$ 1,113,756	\$ 1,119,285	\$ 7,761	\$ (5,529)

Revenues

Tacoma Water's operating revenues were \$102.0 million in 2018, an increase of \$7.3 million (7.7%) compared to 2017. Sales of water increased in 2018 by a net of \$6.0 million of which \$3.8 million is due to an average rate increase of 4.0% effective January 1, 2018 and an increase in usage of \$2.2 million. This is offset by a decrease in contract resource obligations of \$0.2 million from Regional Water Second Supply (RWSS) Partners to reimburse Tacoma Water for O&M related expenses.

Tacoma Water's operating revenues were \$94.6 million in 2017, an increase of \$1.8 million (2.0%) compared to 2016. Sales of water increased in 2017 by a net of \$2.0 million of which \$3.7 million is due to an average rate increase of 4.0% effective April 1, 2017 and a decrease in usage of \$1.7 million. This is offset by a decrease in contract resource obligations of \$0.2 million 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 2018, 2017 and 2016.

Water Sales
(In thousands)

Type of Customer	2018	2017	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Residential & Domestic	\$ 56,391	\$ 52,540	\$ 50,742	\$ 3,851	\$ 1,798
Commercial & Industrial	19,056	17,409	17,559	1,647	(150)
Special Rate	6,874	6,322	5,846	552	476
Wholesale	3,253	3,069	3,972	184	(903)
Unbilled Revenue	473	660	(138)	(187)	798
Total	<u>\$ 86,047</u>	<u>\$ 80,000</u>	<u>\$ 77,981</u>	<u>\$ 6,047</u>	<u>\$ 2,019</u>

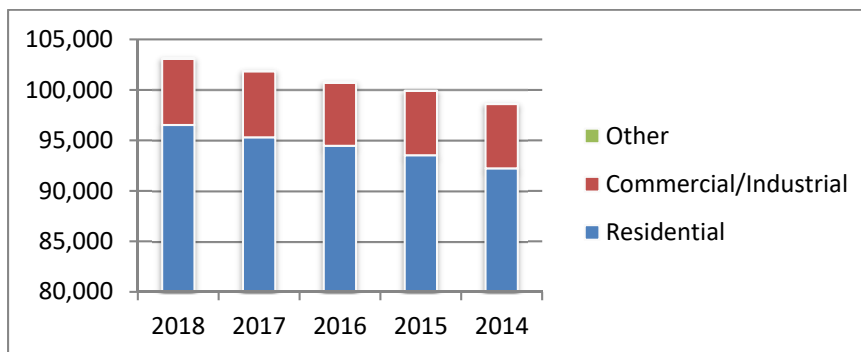
Approximately 65.5%, 65.7% and 65.1% of water sales were to residential and domestic customers in 2018, 2017, and 2016 respectively. Commercial and industrial sales were 22.2%, 21.8%, and 22.5% total sales for each year. Special rate sales were 8.0%, 7.9%, and 7.5% of sales respectively.

Customers

Over the last five years, the overall number of customers has remained relatively stable. In 2018, 93.6% of all customers were residential compared to 93.6% in 2017 and 93.8% in 2016. Commercial and industrial customers were 6.4% of all customers in 2018, 6.4% in 2017 and 6.2% in 2016.

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

Number of Customers



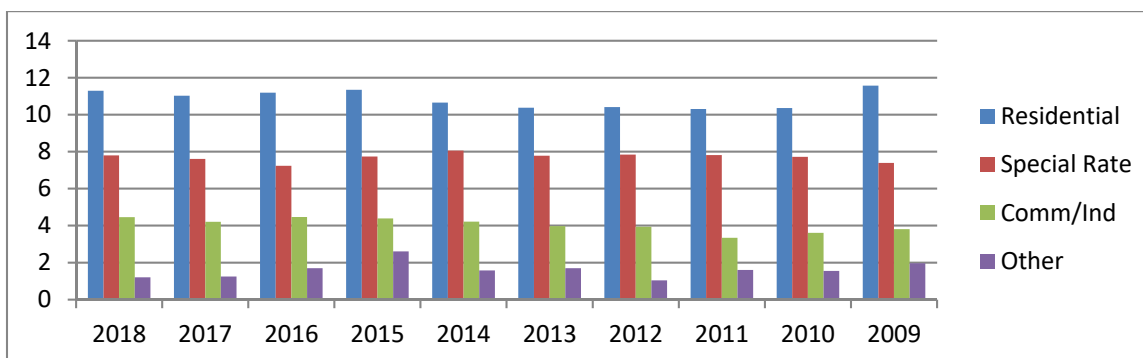
Water Users

Tacoma Water generates the majority of its revenues from its residential and domestic customer base. Consumption is measured in 100 cubic feet (CCF). In the years 2018, 2017, and 2016 residential customers used 11.3 million CCF (45.7%), 11.0 million CCF (45.8%) and 11.2 million CCF (45.5%) of total sales respectively. Special Rate customers used approximately 7.8 million CCF (31.5%), 7.6 million CCF (31.6%) and 7.2 million CCF (29.4%) respectively. Commercial and industrial customers used 4.5 million CCF (18.0%), 4.2 million CCF (17.4%) and 4.5 million CCF (18.2%) respectively. The remaining 1.2

million CCF (4.8%), 1.3 million CCF (5.2%) and 1.7 million CCF (6.9%) respectively was consumed by other customers.

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

Annual Water Usage
(In millions of CCF)



Expenses

2018 Compared to 2017

In 2018, operating expenses decreased \$0.5 million (0.6%), compared to an increase of \$2.4 million (3.2%) in 2017.

Contributing to the decrease in operating expense related to adjustments from pension items causing a decrease of \$5.4 million allocated across the Division in labor expense as follows: Source \$1.1 million, Treatment \$0.8 million, Transmission \$0.2 million, Distribution \$2.5 million, and Admin & General \$0.8 million.

While overall expenses decreased, professional services increased \$1.6 million due to the completion of the Integrated Resource Plan (IRP) as well as various condition assessments and the completion of the Puyallup River Bridge Crossing. The increase affected Source of Supply by \$0.7 million, Transmission by \$0.2 million, Distribution by \$0.2 million, and Admin & General by \$0.5 million.

Depreciation expense increased by \$2.1 million (8.7%) in 2018 due to a net increase in depreciable assets of \$24.4 million during 2017.

2017 Compared to 2016

In 2017, operating expenses increased \$2.4 million (3.2%), compared to an increase of \$11.8 million (18.5%) in 2016.

Two major projects totaling \$0.8 million took place in 2017 contributing to the increase in operating expense: the IRP and the Water System Plan. The IRP will be used by Tacoma Water to enhance the ability to manage water resources. The plan will evaluate Tacoma Water's groundwater sources and help to decide where additional focus may be needed. In addition, the IRP will develop a water supply yield model that will look at both short and

long-term use and be able to look at yield under several different scenarios. The Department of Health requires the creation of a Water System Plan every 10 years. Tacoma Water uses input from stakeholders and the public to create the plan which is meant to provide an overview of the system as well as outline the different parts of the system, changes from the last plan and projects planned for the future. The increase affected Source of Supply by \$0.3 million, Treatment by \$0.1 million, and Admin & General by \$0.4 million.

Depreciation expense increased by \$0.2 million (0.9%) in 2017 due to a net increase in depreciable assets of \$15.5 million during 2016.

In 2017, adjustments related to pension items resulted in an increase in expense of \$0.6 million. This expense was allocated across the Division causing increases in labor expense as follows: Source \$0.1 million, Treatment \$0.1 million, Distribution \$0.3 million, and Admin & General \$0.1 million.

The remaining \$0.9 million was not attributable to a specific project but an overall increase in various expenses.

The following table highlights Tacoma Water's operating expenses for 2018 – 2016.

Operating Expenses (In thousands)					
Category	2018	2017 (As Restated)	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Production Expense					
Source of Supply	\$ 7,878	\$ 7,657	\$ 7,541	\$ 221	\$ 116
Water Treatment	6,548	7,144	6,794	(596)	350
Total Production Expense	14,426	14,801	14,335	(375)	466
Power Pumping Expense	598	558	559	40	(1)
Transmission & Storage Expense	2,493	2,633	2,770	(140)	(137)
Distribution Expense	12,305	14,691	13,882	(2,386)	809
Customer Accounting & Service	5,240	5,017	4,830	223	187
Taxes	5,274	4,776	4,639	498	137
Depreciation	26,118	24,038	23,823	2,080	215
Administrative & General	10,830	11,222	10,518	(392)	704
Total Operating Expenses	<u>\$ 77,284</u>	<u>\$ 77,736</u>	<u>\$ 75,356</u>	<u>\$ (452)</u>	<u>\$ 2,380</u>

Capital Assets

Tacoma Water invests in a broad range of utility assets and at the end of 2018 had \$871.0 million in net utility plant, a decrease of \$2.5 million from 2017.

Plant in Service increased \$23.8 million compared to 2017. This increase is primarily due to the increase of \$12.0 million in cast iron mains, \$3.8 million in services, pipes and accessories, \$2.7 million in meters, \$1.4 million in hydrants, \$1.5 million in the permanent decant facility, and \$1.0 million in structure and improvements for pipeline number 1 at Deep Creek. Also in 2018, 10.6 net miles of water main were added or replaced and construction was completed on 27 private contracts resulting in 10.9 net miles.

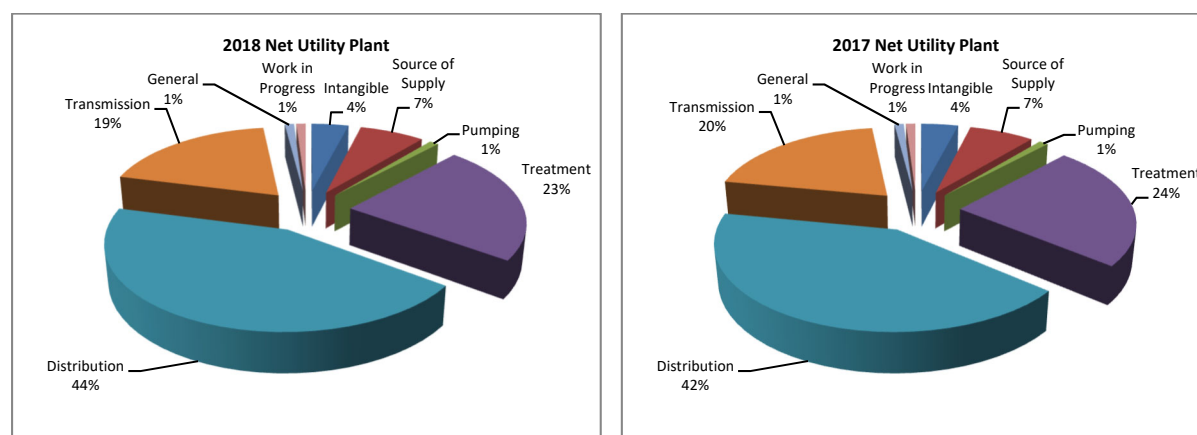
At the end of 2017 Tacoma Water had \$873.5 million in net utility plant, a decrease of \$6.0 million from 2016. Plant in Service increased \$24.4 million compared to 2016. In 2017, 9.5 miles of water main were added or replaced and construction was completed on 25 private contracts resulting in 7.34 miles. The \$21.8 million increase in accumulated depreciation is due to the net increase in Plant in Service in 2016 of \$15.5 million.

The following table summarizes Tacoma Water's capital assets, net of accumulated depreciation, for 2018 – 2016.

Capital Assets, Net of Accumulated Depreciation
(In thousands)

	2018	2017	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Net Utility Plant					
Intangible Plant	\$ 37,358	\$ 36,922	\$ 36,581	\$ 436	\$ 341
Source of Supply Plant	57,048	58,872	60,348	(1,824)	(1,476)
Pumping Plant	5,488	5,362	5,448	126	(86)
Water Treatment Plant	200,493	210,052	206,273	(9,559)	3,779
Transmission Plant	170,388	172,672	176,439	(2,284)	(3,767)
Distribution Plant	379,876	365,830	361,693	14,046	4,137
General Plant	12,834	11,907	12,194	927	(287)
Construction Work In Progress	7,523	11,902	20,572	(4,379)	(8,670)
Total	<u>\$ 871,008</u>	<u>\$ 873,519</u>	<u>\$ 879,548</u>	<u>\$ (2,511)</u>	<u>\$ (6,029)</u>

The following graphs provide a visual presentation of the allocation of Tacoma Water's capital investments in 2018 and 2017.



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

Debt Administration

At December 31, 2018 Tacoma Water had outstanding revenue bond obligations of \$376.5 million (net of unamortized bond premiums), a decrease of \$7.9 million compared to 2017. As of year-end 2017, the Utility had outstanding revenue bond obligations of \$384.4 million (net of unamortized bond premiums), a decrease of \$7.8 million compared to 2016.

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 3.24, 2.33, and 2.29 in 2018, 2017 and 2016 respectively.

At the end of 2018, Tacoma Water had an outstanding State loan balance of \$85.6 million compared to \$92.6 million in 2017 and \$99.5 million in 2016.

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

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.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION

	DECEMBER 31,	
	2018	2017 (As Restated)
ASSETS AND DEFERRED OUTFLOWS		
UTILITY PLANT		
In Service, at Original Cost	\$1,122,191,727	\$1,098,436,212
Less - Accumulated Depreciation	(258,706,369)	(236,819,423)
Total	863,485,358	861,616,789
Construction Work In Progress	7,523,075	11,901,984
Net Utility Plant	871,008,433	873,518,773
NON-UTILITY PROPERTY	492,963	492,963
SPECIAL FUNDS		
Construction Funds	24,023,847	32,591,351
Debt Service Funds	3,829,716	4,366,165
Bond Reserve Funds	22,001,861	21,969,849
System Development Charge Fund	68,588,649	61,645,713
Other Cash & Equity in Pooled Investments	41,560,872	33,389,300
Total Special Funds	160,004,945	153,962,378
CURRENT ASSETS		
Operating Funds Cash and Equity in Pooled Investments	62,263,679	59,076,540
Accounts Receivable	5,677,615	5,312,300
(Net of Allowance for Doubtful Accounts of \$235,119 in 2018 and \$526,979 in 2017)		
BABs Interest Subsidies Receivable	300,223	298,940
Accrued Unbilled Revenues	5,930,220	5,457,221
Materials and Supplies	2,469,505	2,403,305
Interfund Receivable	756,845	69,262
Prepayments.....	2,061,872	1,239,676
Total Current Assets	79,459,959	73,857,244
OTHER ASSETS		
Regulatory Asset-Public Fire Protection Fees	-	456,635
Regulatory Asset-Surcharges	1,230,816	1,353,795
Net Pension Asset	3,438,481	-
Total Other Assets	4,669,297	1,810,430
TOTAL ASSETS	1,115,635,597	1,103,641,788
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Losses on Refunding Bonds	1,176,183	1,363,428
Deferred Outflows for Pensions	4,409,587	8,671,039
Deferred Outflows for OPEB	295,709	79,421
Total Deferred Outflows of Resources	5,881,479	10,113,888
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$1,121,517,076</u>	<u>\$1,113,755,676</u>

The accompanying notes are an integral part of these financial statements

	DECEMBER 31,	
	2018	2017 (As Restated)
NET POSITION, LIABILITIES AND DEFERRED INFLOWS		
NET POSITION		
Net Investment in Capital Assets	\$449,840,004	\$445,995,256
Restricted for:		
Water Capital and System Development Charge	64,770,212	50,149,083
Debt Service Funds	1,995,011	2,506,278
Net Pension Asset	3,438,481	-
Unrestricted	61,694,649	58,195,864
Total Net Position	581,738,357	556,846,481
LONG-TERM DEBT		
Revenue Bonds	368,866,796	377,995,249
Public Works Trust Fund Loans	17,314,465	20,011,236
Drinking Water State Revolving Fund Loan	61,381,554	65,612,800
Total Long-Term Debt	447,562,815	463,619,285
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	14,538,017	13,378,017
Current Maturities of Long-Term Liabilities	176,932	181,355
Accrued Taxes	1,819,063	1,556,338
Accrued Expenses and Contracts Payable	1,952,946	1,369,234
Salaries, Wages and Fringe Benefits Payable	800,231	725,775
Interest Payable	1,834,705	1,859,887
Customers' Deposits	343,367	356,929
Interfund Payables	1,565,741	1,096,829
Total Current Liabilities	23,031,002	20,524,364
LONG-TERM LIABILITIES		
Muckleshoot Agreements	6,585,519	6,762,451
Customer Advances for Construction	6,779,253	5,905,910
Unearned Revenue	7,270,183	7,609,819
Long-Term Accrued Compensated Absences	2,197,439	2,068,503
Net Pension Liability	-	8,278,522
Net OPEB Liability	3,780,897	3,492,067
Other Long-Term Liabilities	1,089,901	1,289,085
Total Long-Term Liabilities	27,703,192	35,406,357
TOTAL LIABILITIES	498,297,009	519,550,006
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization	35,575,447	35,575,447
Deferred Inflows for Pensions	5,853,098	1,783,742
Deferred Inflows for OPEB	53,165	-
Total Deferred Inflows of Resources	41,481,710	37,359,189
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,121,517,076	\$1,113,755,676

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2018	2017 (As Restated)
OPERATING REVENUES		
Sale of Water	\$86,047,481	\$79,999,893
Other Operating Revenues	11,467,031	10,059,774
Contract Resource Obligation Revenues	4,426,947	4,584,754
Total Operating Revenues	101,941,459	94,644,421
OPERATING EXPENSES		
Operations	15,396,131	17,881,176
Production	14,426,404	14,801,501
Administrative and General	16,069,679	16,239,293
Depreciation	26,117,843	24,038,103
Taxes	5,273,751	4,776,164
Total Operating Expenses	77,283,808	77,736,237
Net Operating Income	24,657,651	16,908,184
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	3,876,762	1,762,813
Other	3,215,049	1,216,295
Interest on Long-Term Debt (Net of AFUDC)	(20,600,723)	(19,675,339)
Amortization of Premium and Loss on Refunding ..	1,331,209	1,354,254
Total Non-Operating Expenses	(12,177,703)	(15,341,977)
Net Income Before Capital Contributions and Transfers	12,479,948	1,566,207
Capital Contributions		
Cash	11,114,722	5,510,752
Donated Fixed Assets	5,326,027	3,627,682
Federal BAB Subsidies	3,596,241	3,582,475
Transfers		
City of Tacoma Gross Earnings Tax	(7,695,412)	(7,143,861)
Transfer to/from Other Funds	70,350	51,000
CHANGE IN NET POSITION	24,891,876	7,194,255
NET POSITION - BEGINNING OF YEAR	556,846,481	549,652,226
TOTAL NET POSITION - END OF YEAR	<u>\$581,738,357</u>	<u>556,846,481</u>

The accompanying notes are an integral part of these financial statements

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2018	2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$101,669,197	\$95,231,637
Cash Paid to Suppliers	(23,224,687)	(21,982,429)
Cash Paid to Employees	(26,247,978)	(26,055,764)
Taxes Paid	(5,011,026)	(4,712,302)
Net Cash From Operating Activities	47,185,506	42,481,142
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	70,350	51,000
Transfer Out for Gross Earnings Tax	(7,695,412)	(7,143,861)
Net Cash From Non-Capital Financing Activities	(7,625,062)	(7,092,861)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(19,129,503)	(14,041,704)
Principal Payments on Long-Term Debt	(13,378,017)	(13,153,019)
Principal Payments on Muckleshoot LT Liability ...	(181,355)	(185,889)
Interest Paid	(19,777,878)	(20,053,586)
BABs Federal Interest Subsidies	3,594,958	3,581,515
Contributions in Aid of Construction	11,114,722	5,510,752
System Development Charges & Other LT Liabilities.	334,524	1,417,379
Net Cash From Capital and Related Financing Activities	(37,422,549)	(36,924,552)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	3,876,762	1,762,813
Other Net Non-Op Revenues and Expenses	3,215,049	1,216,295
Net Cash From Investing Activities	7,091,811	2,979,108
Net Change in Cash and Equity in Pooled Investments	9,229,706	1,442,837
Cash & Equity in Pooled Investments at January 1 ...	213,038,918	211,596,081
Cash & Equity in Pooled Investments at December 31 .	\$222,268,624	\$213,038,918

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

	YEAR ENDED DECEMBER 31,	
	2018	2017 (As Restated)
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$24,657,651	\$16,908,184
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	26,117,843	24,038,103
Pension (Credits) Expense	(3,386,195)	2,075,803
OPEB (Credits) Expense	125,707	27,997
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	(838,314)	(476,036)
Interfund Receivables	(687,583)	38,708
Regulatory Asset-Public Fire Protection Fees	456,635	840,366
Regulatory Asset-Surcharges.....	122,979	215,682
Materials and Supplies	(66,200)	(61,757)
Prepayments	(822,196)	(121,614)
Accrued Taxes	262,725	63,862
Salaries, Wages and Fringe Benefits Payable	74,456	45,128
Long-Term Accrued Compensated Absences	128,936	(359,872)
Customers' Deposits	(13,562)	7,204
Accrued Expenses and Contracts Payable	583,712	(178,556)
Interfund Payables	468,912	(582,060)
Total Adjustments	22,527,855	25,572,958
Net Cash From Operating Activities	<u>\$47,185,506</u>	<u>\$42,481,142</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$160,004,945	\$153,962,378
Cash and Equity in Pooled Investments in Operating Funds	62,263,679	59,076,540
Cash and Equity in Pooled Investments at December 31	<u>\$222,268,624</u>	<u>\$213,038,918</u>

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA WATER – The Division, doing business as Tacoma Water, is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department) and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations such as system expansion, issuance of bonds and fixing of utility rates and charges are initiated and executed by the Board, but also require formal City Council approval.

Tacoma Water owns and operates the City's Water System which includes a surface water supply source (the Watershed); several extensive well fields; a water transmission system consisting of several pipelines, water treatment and quality facilities; various reservoirs, standpipes and pump stations; and an extensive distribution system. Tacoma Water supplies water to approximately 103,116 customers and had 247 employees as of December 31, 2018. Tacoma Water's service area includes the City of Tacoma and urbanized areas of Pierce and South King Counties. Water service outside the City limits is provided under franchises granted by both Pierce and King Counties and multiple other cities. Tacoma Water is organized functionally as Water Distribution Engineering, Water Distribution Operations, Water Quality, Water Supply, Asset and Information Management, and Water Finance and Analytics.

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

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

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

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

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

WATER FINANCE AND ANALYTICS – Is responsible for the utility's long range financial plan, rate and charge development, budget development and reporting, and rate and financial policies. This group provides financial, supply and demand, and customer analytics and reports to support decision-making by executive management, policymakers and the RWSS Partners. It also develops and administers special retail and wholesale water supply agreements in pursuit of the utility's strategic objectives. Starting in 2018, the group set up a Programs and Analytics group that is currently engaged in enterprise efforts to improve the organization's maturity in the areas of performance management and analytics.

REGIONAL WATER SUPPLY SYSTEM – The Regional Water Supply System (RWSS) is a partnership formed by Tacoma, the City of Kent, Covington Water District and Lakehaven Utility District (the "Participants") to permit, design, finance, construct, operate, maintain and receive delivery of water from the Second Supply Project. The Second Supply Project consists of the following components: (i) water from the exercise of Tacoma Water's Second Diversion Water Right, (ii) the Second Supply Pipeline, (iii) improvements made at the Headworks diversion dam and intake, (iv) Second Supply Project fisheries and environmental enhancements, (v) the right to store water as a result of the Howard Hanson Dam Additional Storage Project, and (vi) associated Treatment Facilities. Participants' rights and obligations with regard to the Second Supply Project are called out in the Second Supply Project Agreement. Tacoma has a 15/36 Participant Share and each of the others have a 7/36 Participant Share. A Participant Share represents a Participant's proportional right to receive water delivered by the Second Supply Project and represents a Participant's obligation to pay project costs, including Fixed and Variable Operation & Maintenance Costs, Initial Project Construction Costs and ongoing Capital Expenditures. Tacoma, consistent with the Project Agreement, is the owner and operator of the Second Supply Project.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Division generally follows the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners and the Division of Audits of the State Auditor's Office.

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, East West Bank and Opus Bank.

The Division’s equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2018 and 2017 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

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

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

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

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

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

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

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

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

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

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

The economic lives for plant in service are as follows:

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

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

ASSET VALUATION – The Division periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based on discounted future cash flows.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) – AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense.

CONTRIBUTIONS IN AID OF CONSTRUCTION AND SYSTEM DEVELOPMENT CHARGES – GASB Statement No. 33, which addresses accounting for contributed capital, requires that contributed capital be recognized as change in net position. Capital contributions include new service connections and system development charges. System development charges are collected on all new services prior to installation to ensure required new source, transmission and storage facilities needed to meet new demands are funded. The charge was developed using a cost-of-service approach and includes a share of historical plant investment and projected future outlays that will increase system capacity. Because the funds collected for this charge can only be used for system expansion projects, the balance is reflected as restricted in the Division's net position. System development charges on uncompleted projects are recorded in other long term liabilities.

REGULATORY ASSETS – The Division has deferred Public Fire Protection Fees, Hyada Surcharges, Andrain Surcharges and Curran Road Surcharges to future periods matching the time when the revenues and expenses are included in rates. The deferred balance is reduced as fees and surcharges are recovered and amortized as expenses on the statements of revenues, expenses and changes in net position.

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

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

Employees in the original policy accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees receive 25% of the value at retirement or 10% upon termination for any other reason. In the event of death, beneficiaries receive 25% of the value. Sick leave pay is recorded as a liability and an expense in the year earned.

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

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

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

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 1.5% on certain other non-utility revenues. The Division is exempt from payment of federal income tax.

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

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

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

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

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

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

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

SIGNIFICANT RISKS AND UNCERTAINTIES – The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations and federal government regulations.

ACCOUNTING CHANGES – Effective for the fiscal year 2018, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions. It replaces the requirement of GASB statements No. 45 and No. 57. Specifically, this statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. It identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefits payments to their actuarial present value, and attribute that present value to periods of employee service. Requirements were also established for note disclosures and required supplemental information. The Division has made the required

adjustments as prescribed by GASB Statement No. 75. As a result of this implementation the Net OPEB Obligation was replaced by the total OPEB Liability resulting in a restatement of the December 31, 2017 balances. For further information, please see Note 12 Restatements of 2017 Balances.

GASB Statement No. 85 – *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (both pensions and other postemployment benefits other than pensions). Where applicable, the Division has made the required adjustments as prescribed by GASB Statement No. 85.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which existing resources are placed into an irrevocable trust for the sole purpose of extinguishing debt. It improves the accounting and financial reporting for prepaid insurance on debt that is extinguished and improves the required note disclosures for debt that is defeased in substance. The Division has made the required adjustments as prescribed by GASB Statement No. 86.

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

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

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

The fair value evaluations are provided by Interactive Data.

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

	As of 12/31/2018	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 282,822,308	\$ -	\$ 282,822,308	\$ -
Supranational Securities	19,814,100	-	19,814,100	-
Municipal Bonds	35,748,647	-	35,748,647	-
Agency Securities	447,015,280	-	447,015,280	-
Corporate Securities	24,607,491	-	24,607,491	-
Total	<u>\$ 810,007,826</u>	<u>\$ -</u>	<u>\$ 810,007,826</u>	<u>\$ -</u>

	As of 12/31/2017	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 218,142,864	\$ -	\$ 218,142,864	\$ -
U.S. Agency Securities	517,345,818	-	517,345,818	-
Supranational Securities	19,966,040	-	19,966,040	-
Municipal Bonds	40,760,727	-	40,760,727	-
Total	<u>\$ 796,215,449</u>	<u>\$ -</u>	<u>\$ 796,215,449</u>	<u>\$ -</u>

Tacoma Water's share of the City Investments shown in the table above is 20.94% and 23.01% for 2018 and 2017.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 UTILITY PLANT

A summary of the balances and changes in utility plant for 2018 and 2017 follows:

	Balance December 31, 2017	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2018
Intangible Plant	\$ 36,922,339	\$ 661,712	\$ (226,071)	\$ -	\$ 37,357,980
Source of Supply Plant	85,952,371	214,174	-	-	86,166,545
Pumping Plant	9,702,016	371,417	-	-	10,073,433
Water Treatment Plant	242,847,739	243,886	-	-	243,091,625
Transmission Facilities	229,573,258	1,503,770	-	-	231,077,028
Distribution Facilities	456,556,957	20,004,147	(1,278,794)	-	475,282,310
General Plant	36,881,532	2,373,846	(144,687)	32,115	39,142,806
Total Water Plant in Service	1,098,436,212	25,372,952	(1,649,552)	32,115	1,122,191,727
Less Accumulated Depreciation	(236,819,423)	(26,117,843)	1,423,481	2,807,416	(258,706,369)
	861,616,789	(744,891)	(226,071)	2,839,531	863,485,358
Construction Work in Progress	11,901,984	23,367,912	-	(27,746,821)	7,523,075
Net Utility Plant	\$ 873,518,773	\$ 22,623,021	\$ (226,071)	\$ (24,907,290)	\$ 871,008,433

	Balance December 31, 2016	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2017
Intangible Plant	\$ 36,581,485	\$ 561,168	\$ (220,314)	\$ -	\$ 36,922,339
Source of Supply Plant	85,484,873	467,498	-	-	85,952,371
Pumping Plant	9,543,873	158,143	-	-	9,702,016
Water Treatment Plant	230,820,998	12,026,741	-	-	242,847,739
Transmission Facilities	230,989,672	7,250	(1,423,664)	-	229,573,258
Distribution Facilities	444,794,626	12,355,245	(592,914)	-	456,556,957
General Plant	35,782,039	1,107,115	-	(7,622)	36,881,532
Total Water Plant in Service	1,073,997,566	26,683,160	(2,236,892)	(7,622)	1,098,436,212
Less Accumulated Depreciation	(215,021,698)	(24,038,103)	2,005,998	234,380	(236,819,423)
	858,975,868	2,645,057	(230,894)	226,758	861,616,789
Construction Work in Progress	20,571,782	20,188,617	-	(28,858,415)	11,901,984
Net Utility Plant	\$ 879,547,650	\$ 22,833,674	\$ (230,894)	\$ (28,631,657)	\$ 873,518,773

Total Water Plant in Service includes non-depreciable assets of \$60,017,820 for 2018 and \$59,468,271 for 2017. The total amount of interest incurred and capitalized is \$468,833 for 2018 and \$492,012 for 2017.

NOTE 5 LONG-TERM DEBT

The Division's Long-term Liabilities are primarily for the purpose of capital improvements. Long-term debt activities for 2018 and 2017 were as follows:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Revenue Bonds	\$ 372,400,000	\$ -	\$ (6,450,000)	\$ 365,950,000	\$ 7,610,000
Plus: Unamortized Premium	12,045,249	-	(1,518,453)	10,526,796	-
Net Revenue Bonds	384,445,249	-	(7,968,453)	376,476,796	7,610,000
Public Works Trust Fund Loans	22,708,007	-	(2,696,771)	20,011,236	2,696,771
Drinking Water State Revolving Fund Loans	69,844,046	-	(4,231,246)	65,612,800	4,231,246
Total Long-Term Debt	<u>\$ 476,997,302</u>	<u>\$ -</u>	<u>\$ (14,896,470)</u>	<u>\$ 462,100,832</u>	<u>\$ 14,538,017</u>
	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
Revenue Bonds	\$ 378,625,000	\$ -	\$ (6,225,000)	\$ 372,400,000	\$ 6,450,000
Plus: Unamortized Premium	13,665,146	-	(1,619,897)	12,045,249	-
Net Revenue Bonds	392,290,146	-	(7,844,897)	384,445,249	6,450,000
Public Works Trust Fund Loans	25,404,777	-	(2,696,770)	22,708,007	2,696,771
Drinking Water State Revolving Fund Loans	74,075,293	-	(4,231,247)	69,844,046	4,231,246
Total Long-Term Debt	<u>\$ 491,770,216</u>	<u>\$ -</u>	<u>\$ (14,772,914)</u>	<u>\$ 476,997,302</u>	<u>\$ 13,378,017</u>

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

SENIOR LIEN BONDS

	2018	2017
2005 Water System Revenue and Refunding Bonds, with interest rate of 5.0%, due in 2025. Original Issue: \$46,550,000 Current Portion: \$0	\$ 5,000	\$ 5,000
2009 Water System Revenue Bonds, with interest rate at 5.751%, with Build America Bond (BAB) rebate ranging from 32.45% to 32.62%, due in yearly installments starting in 2033 ranging from \$9,800,000 to \$12,210,000 through 2039. Original Issue: \$76,775,000 Current Portion: \$0	76,775,000	76,775,000
2010A Water System Revenue Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$3,935,000 to \$4,655,000 through 2023. Original Issue: \$29,100,000 Current Portion: \$4,100,000	21,890,000	25,825,000
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 \$290,000 to \$355,000 through 2024. (See Note 6) Original Issue: \$3,595,000 Current Portion: \$300,000	1,955,000	2,245,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

SENIOR LIEN BONDS CONTINUED

	<u>2018</u>	<u>2017</u>
2010B Regional Water Supply System Revenue Bonds, with interest rates ranging from 5.371% to 5.621%, with Build America Bond (BAB) rebate ranging from 32.45% to 32.62% of interest, due in yearly installments starting in 2025 ranging from \$370,000 to \$5,775,000 through 2040. (See Note 6)		
Original Issue: \$44,245,000	44,245,000	44,245,000
Current Portion: \$0		
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	74,355,000	74,355,000
Current Portion: \$0		
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 \$765,000 to \$6,425,000 through 2032. (See Note 6)		
Original Issue: \$64,795,000	59,400,000	60,165,000
Current Portion: \$1,690,000		
2015A Water System Refunding Bonds with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$1,460,000 to \$2,025,000 through 2025.		
Original Issue: \$16,645,000	12,340,000	13,800,000
Current Portion: \$1,520,000		
2015B Water System Refunding Bonds with interest rate of 1.15%, final installment due in the amount of \$1,785,000 in 2017.		
Original Issue: \$6,365,000	-	-
Current Portion: \$0		
Subtotal Sr. Lien Debt	\$ 365,950,000	\$ 372,400,000
Unamortized Premium	10,526,796	12,045,249
Less Current Portion of Revenue Bond Debt	(7,610,000)	(6,450,000)
Long-term Portion of Revenue Bond Debt	<u>\$ 368,866,796</u>	<u>\$ 377,995,249</u>

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

Year	Principal	Interest
2019	7,610,000	18,428,169
2020	7,950,000	18,094,669
2021	8,355,000	17,703,369
2022	8,725,000	17,333,569
2023	8,695,000	16,900,619
2024-2028	51,255,000	77,539,644
2029-2033	65,815,000	63,457,699
2034-2038	91,620,000	42,676,369
2039-2043	115,925,000	15,516,808
	\$ 365,950,000	\$ 287,650,915

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, 2018.

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.

JUNIOR LIEN DEBT

	2018	2017
Public Works Trust Fund Loans		
2001 Public Works Trust Fund pre-construction loan for the Second Supply Project (SSP) Howard Hanson Dam Additional Storage Project, with interest of .5% per annum, due in yearly installments of \$52,632 through 2021.	\$ 157,894	\$ 210,526
2001 Public Works Trust Fund construction loan for the SSP, with interest of .5% per annum, due in yearly installments of \$533,333 through 2021.	1,600,000	2,133,334
2002 Public Works Trust Fund pre-construction loan for Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$54,180 through 2021.	162,538	216,718

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT CONTINUED

	2018	2017
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.	2,125,000	2,656,250
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.	320,175	373,538
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.	2,964,706	3,335,294
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.	5,458,699	6,004,569
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.	7,222,222	7,777,778
Drinking Water State Revolving Fund Loans		
2002 construction loan for the Portland Avenue Reservoir, with interest of 2.5% per annum, due in yearly installments of \$161,052 through 2021.	483,158	644,211
2008 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$215,108 through 2028.	2,151,084	2,366,192
2009 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.0% per annum, due in yearly installments of \$367,088 through 2032.	5,139,231	5,506,318
2010 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2032.	4,242,000	4,545,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT CONTINUED

	<u>2018</u>	<u>2017</u>
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.	4,873,263	5,177,842
2011 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$121,524 through 2033.	1,822,855	1,944,378
2011 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2035.	5,151,000	5,454,000
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.	10,302,000	10,908,000
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.	10,302,000	10,908,000
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.	10,302,000	10,908,000
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>10,844,211</u>	<u>11,482,105</u>
Subtotal Junior Lien Debt	85,624,036	92,552,053
Less Current Portion of Debt	<u>(6,928,017)</u>	<u>(6,928,017)</u>
Long-term Portion of Junior Lien Debt	<u><u>\$ 78,696,019</u></u>	<u><u>\$ 85,624,036</u></u>

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

Year	Principal	Interest
2019	6,928,017	1,009,163
2020	6,928,017	935,624
2021	6,928,017	862,086
2022	6,126,820	788,548
2023	5,595,570	722,237
2024-2028	27,023,222	2,659,816
2029-2033	20,272,005	1,172,391
2034-2035	5,822,368	119,150
	<u>\$ 85,624,036</u>	<u>\$ 8,269,015</u>

NOTE 6 SECOND SUPPLY PROJECT AGREEMENT

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

NOTE 7 SIGNIFICANT CUSTOMER

Contracted sales to WestRock CP LLC accounted for 8.0% and 7.9% of Tacoma Water's total water sales in 2018 and 2017, respectively. There were no outstanding accounts receivables from WestRock at year-end 2018 or 2017.

Tacoma Water has contracted with WestRock to supply certain quantities of water at a specified rate through July 31, 2020.

NOTE 8 FLEET SERVICES FUND

Tacoma Water pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Water in 2018 and 2017 were \$3,585,220 and \$3,354,191, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle. The solvency of the Replacement Fund allowed Fleet Services to return a portion of interest earned on Fund investments for the year to their customers. In 2018 and 2017, Fleet Services returned 75% of the

interest earned on the capital replacement reserve to Tacoma Water's replacement fund. The amounts refunded in 2018 and 2017 were \$50,160 and \$38,840, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 9 SELF-INSURANCE FUND

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

Tacoma Water is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Water and administrative expenses of the Fund. Tacoma Water's premium payments were \$240,000 in 2018 and 2017. Assets in the Self-Insurance Fund total \$7.9 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Water's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

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

Other insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current property insurance policy has a deductible of \$250,000 for buildings and property within buildings and \$10,000 per vehicle. General government obtains coverage on general government's buildings and property within buildings with a limit of \$500,000 and a retention of \$150,000 with exceptions. For the Department there is a self-insured retention of \$1.5 million for general liability. The public official liability policy has a \$250,000 deductible. The Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate. The general government general liability and public official liability policies provide \$20 million of excess coverage with a \$3 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit and a self-insured retention of \$1 million per occurrence and an additional \$250,000 for each 12-month policy period.

NOTE 10 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS)

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

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

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

Administration of The System - The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are

covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and 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, 2017 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits	2,396
Terminated vested and other terminated participants	715
Active members:	
City of Tacoma	2,677
Pierce Transit	8
South Sound 911	2
Tacoma-Pierce County Health Department	261
Total active members	<u>2,948</u>
Total membership	<u><u>6,059</u></u>

Membership – Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighter, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the South Sound 911 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.

At its November 28, 2017 meeting, the Tacoma City Council approved an increase in the total contribution rate from 20% of pay to 21% of pay effective February 1, 2018. The contribution rate continues to be 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, 2017
Valuation Date	January 1, 2018
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. The amortization method for the ADC is as follows*: <ul style="list-style-type: none"> • Level percent • Open periods • 25 year amortization period* • 3.75% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.

**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, 2018 valuation date and December 31, 2017 measurement date. Therefore, no adjustments were needed from the January 1, 2018 actuarial valuation date to the calculated liabilities as of December 31, 2017 (measurement date). There were changes between the January 1, 2017 and January 1, 2018 valuation dates. Those changes were reflected in the January 1, 2018 actuarial valuation and are discussed below.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

The UAAL amortization period changed from 30 years to 25 years for years beginning January 1, 2018 and later.

At its June 8, 2017 meeting, the TERS Board approved updates to the service purchase factors and optional form factors effective January 1, 2018. The Board also approved updated factors for use in converting member contributions with interest into the unmodified benefit form for comparison to the service retirement benefit. This change will be effective January 1, 2020.

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, 2017. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	2.06%
US Inflation-Indexed Bonds	5.0%	1.36%
High Yield Bonds	9.0%	4.69%
Emerging Market Debt	5.0%	3.39%
Global Equity	41.5%	4.95%
Public Real Estate	2.0%	5.55%
Private Real Estate	2.5%	3.83%
Private Equity	10.0%	8.88%
Master Limited Partnerships	4.0%	4.20%
Timber	2.0%	4.04%
Infrastructure	2.0%	4.89%
Agriculture	2.0%	4.54%
Assumed Inflation - Mean		2.75%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Real Mean Return		4.56%
Portfolio Median Nominal Geometric Return		6.68%
Portfolio Standard Deviation		11.77%
Long-Term Expected Rate of Return, net of investment expenses		7.00%

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Sensitivity Analysis – The following presents the net pension liability (asset) of the System, calculated using the discount rate of 7%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability (asset)	\$ 13,980,247	\$ (3,438,481)	\$ (17,994,231)

As of December 31, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (1,905,333)	\$ -
Changes of assumptions	-	2,097,439
Net Difference Between Projected and Actual Earnings	(3,945,647)	-
Changes in Employer Proportion	(2,118)	2,438
Contributions Made Subsequent to the Measurement Date	-	2,309,710
Total	\$ (5,853,098)	\$ 4,409,587

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

Amounts will be recognized in pension expense as follows:

2019	\$ (269,283)
2020	(47,526)
2021	(1,778,858)
2022	(1,569,102)
2023	(88,452)
Thereafter	-
	<u>\$ (3,753,221)</u>

The proportionate share of the Water Division is 8.74% of total System's pension liability as of December 31, 2018 and 8.91% as of December 31, 2017. The proportionate share was based on the actual contributions for the year.

NOTE 11 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, 2017 for non-LEOFF 1 members includes 3,490 active participants, 476 deferred retirees, 150 retirees, and 105 spouses of current retirees. The membership as of January 1, 2018 for LEOFF 1 members includes 1 active participant and 406 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, 2017 for non-LEOFF 1 members and January 1, 2018 for 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, 2017. This is the date as of which the total OPEB liability is determined. The Reporting Date is December 31, 2018. This is the Division's fiscal year ending date.

There have been no significant changes between the January 1, 2017 valuation date and the December 31, 2017 measurement date. If there were significant changes, an additional analysis or valuation might be required.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2017 and January 1, 2018 furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Valuation Date:	January 1, 2017
Census Date:	January 1, 2017
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:	3.44% for pay-as-you-go funding
Medical Cost Trend:	2017 9.10%
	2018 6.40%
	2019 5.80%
	2020 5.30%
	2030 5.40%
	2040 5.50%
	2050 5.20%
	Note that the trend for year 2017 reflects the amount by which 2018 medical cost are expected to exceed 2017 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.40% 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. The trends above do not reflect increases in costs due to the excise tax.
Economic Assumptions - Discount Rate (Liabilities):	3.44%
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). <ul style="list-style-type: none">• 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 3.44% from 3.78%. The actuarial cost method is the individual entry age normal 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, 2018 the Division reporting a liability of \$3,780,897 for its proportionate share of the collective total OPEB liability of \$220.8 million. The OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of January 1, 2017. At December 31, 2016 the participating Division's proportion was 1.66903% as compared to 1.71227% at December 31, 2017. For the year ended December 31, 2018 the participating Division recognized an OPEB expense of \$125,707.

At December 31, 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ -
Changes of assumptions	-	129,706
Changes in Employer Proportion	-	75,639
Differences in Contributions	(53,165)	-
Contributions Made Subsequent to the Measurement Date	-	90,364
Total	\$ (53,165)	\$ 295,709

The Division reported \$90,364 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2019	\$ 25,255
2020	\$ 25,255
2021	\$ 25,255
2022	\$ 25,255
2023	\$ 25,255
Thereafter	\$ 2,529
	<u>\$ 128,804</u>

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 3.44%, 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 (2.44%) or one percentage point higher (4.44%) than the current rate.

	1% Decrease 2.44%	Current Discount Rate 3.44%	1% Increase 4.44%
Net OPEB liability	\$ 4,299,662	\$ 3,780,897	\$ 3,350,842

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates

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
Net OPEB liability	\$ 3,326,864	\$ 3,780,897	\$ 4,324,391

Excise Tax for High Cost or "Cadillac" Health Plans in 2020 and Beyond – An excise tax for high cost health coverage or "Cadillac" health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The Consolidated Appropriations Act (CAA), which was signed into law in December 2015, delays the tax for two years, until 2020.

GASB Statement No. 75, indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current "substantive" plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

There is significant uncertainty with respect to the excise tax at this time. President Trump recently signed an executive order which gives instruction to the leaders of the new administration to unwind certain aspects of the ACA, especially those components deemed "burdensome." It remains unclear how this would be implemented, especially due to the interconnected nature of the ACA. The City has continued to value the excise tax as it currently appears in the tax code, but will monitor this situation carefully going forward.

NOTE 12 RESTATEMENTS OF 2017 BALANCES

Due to the Division's adoption of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, the 2017 financial statements and its net position as of December 31, 2017 were restated to conform to the reporting requirements.

Revised balances are shown in the following schedule:

	As Previously Reported	Restatement Adjustment	As Restated
STATEMENT OF NET POSITION			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows for OPEB	\$ -	\$ 79,421	\$ 79,421
NONCURRENT LIABILITIES			
Net OPEB Liability	3,542,492	(50,425)	3,492,067
NET POSITION - End of year	556,716,635	129,846	556,846,481
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING EXPENSES			
Administrative and General	\$ 16,369,139	\$ (129,846)	\$ 16,239,293

NOTE 13 ACQUISITION OF WATER ASSOCIATION

The Curran Road Mutual Water Association (Curran Road) provided services to more than 620 customers in the vicinity of 128th Street East and Canyon Road East in Pierce County. Curran Road was a Tacoma Water wholesale customer and had received all of its water from Tacoma Water since the 1940's. As a requirement of the Washington State Department of Health, Curran Road was due to develop a new water system plan. In-lieu of developing a water system plan and securing financing to make system improvements, Curran Road requested Tacoma Water acquire the Curran Road service area and provide direct retail service to its members.

In 2017, Tacoma Water acquired Curran Road and over a period of 8-10 years will replace more than 6-miles of asbestos cement water main and complete other system improvements. The asbestos main will be abandoned in place and no liability has been recorded for remediation. The estimated cost of this water system improvement work is \$12 million, which will be paid for by those customers within the boundaries of the Curran Road water system through a customer surcharge over an estimated 33-year period, in accordance with the City Council's Expansion Policy.

The acquired balances of Curran Road's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the beginning of the period, were determined on the basis of carrying values reported in their financial statements as of December 31, 2017. Tacoma Water acquired \$196,000 in current assets and \$4,316 in capital assets.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Capital Improvements – The financial requirement for Tacoma Water's 2017-2018 biennial Capital Improvement program is approximately \$48.1 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2018 the remaining financial requirement for Capital Improvement Programs relating to all prior biennia is approximately \$9.1 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*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset) as a percentage	8.74%	8.91%	8.99%	9.17%
Employer's proportion share of net pension liability (asset)	(\$3,438,481)	\$8,278,522	\$7,788,151	(\$881,279)
Employer's covered payroll	\$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	-16.44%	40.94%	36.83%	-4.17%
Plan fiduciary net position as a percentage the total pension liability	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Contractually required employer contribution	\$2,309,710	\$2,150,205	\$2,124,252	\$2,086,719
Contributions in relation to the contractually required employer contribution	(2,309,710)	(2,150,205)	(2,124,252)	(2,086,719)
Employer contribution deficiency (excess)	-	-	-	-
Employer's covered employee payroll	\$21,819,996	\$20,914,658	\$20,220,795	\$21,148,347
Employer contribution as a percentage of covered-employee payroll	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*

	Fiscal Year Ended December 31st,	
	2018	2017
Employer's proportion of the collective OPEB liability as a percentage	1.71%	1.67%
Employer's proportion share of collective OPEB liability	\$3,780,897	\$3,492,067
Employer's covered-employee payroll	\$21,819,996	\$20,432,705
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	17.33%	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.*

**Notes to Required Supplementary Information
For the Fiscal Year Ended December 31, 2018**

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 3.44% from 3.78%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

This page has been left blank intentionally.

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TEN-YEAR FINANCIAL REVIEW

	2018	2017 (As Restated)	2016	2015
STATEMENTS OF NET POSITION				
ASSETS				
Utility Plant - Net	\$871,008,433	\$873,518,773	\$879,547,650	\$884,721,107
Special Funds & Non-Util Prop	160,497,908	154,455,341	157,320,446	143,802,732
Current Assets	79,459,959	73,857,244	68,927,643	64,476,112
Other Assets	4,669,297	1,810,430	2,866,478	4,689,200
Total Assets	1,115,635,597	1,103,641,788	1,108,662,217	1,097,689,151
Deferred Outflows	5,881,479	10,113,888	10,623,174	4,002,699
TOTAL ASSETS AND DEFERRED OUTFLOWS .	1,121,517,076	1,113,755,676	1,119,285,391	1,101,691,850
 NET POSITION	 581,738,357	 556,846,481	 549,652,226	 542,501,823
LIABILITIES AND EQUITY				
Long-Term Debt	447,562,815	463,619,285	478,617,199	478,400,742
Current Liabilities	23,031,002	20,524,364	20,986,727	18,261,548
Long-Term Liabilities	27,703,192	35,406,357	33,932,418	26,021,937
Total Liabilities	498,297,009	519,550,006	533,536,344	522,684,227
Deferred Inflows	41,481,710	37,359,189	36,096,821	36,505,800
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,121,517,076	\$1,113,755,676	\$1,119,285,391	\$1,101,691,850
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential and Domestic	\$56,391,501	\$52,539,643	\$50,742,135	\$48,263,128
Commercial and Industrial	19,056,277	17,408,529	17,558,905	17,233,617
Special Rate-WestRock/Other	6,873,675	6,322,195	5,845,719	5,951,348
Municipal	-	-	-	-
Wholesale	3,253,029	3,069,448	3,971,839	5,192,149
Unbilled	472,999	660,078	(137,857)	318,945
Total Water Sales	86,047,481	79,999,893	77,980,741	76,959,187
Other Operating Revenues	15,893,978	14,644,528	14,820,869	21,179,637
Total Operating Revenues	101,941,459	94,644,421	92,801,610	98,138,824
 OPERATING EXPENSES				
Operation and Maintenance	45,892,214	48,921,970	46,894,363	41,804,233
Taxes	5,273,751	4,776,164	4,639,031	4,681,114
Depreciation	26,117,843	24,038,103	23,822,527	17,102,664
Total Operating Expenses	77,283,808	77,736,237	75,355,921	63,588,011
NET OPERATING INCOME (LOSS)	24,657,651	16,908,184	17,445,689	34,550,813
NON-OPERATING REVENUES (EXPENSES)				
Other Income	3,215,049	1,216,295	(221,125)	(30,042)
Interest Income	3,876,762	1,762,813	1,826,299	1,112,850
Gain from Disposition of Property	-	-	-	-
Interest Charges (Net)	(19,269,514)	(18,321,085)	(19,000,536)	(16,677,645)
Net Income (Loss) Before Contributions & Transfers	12,479,948	1,566,207	50,327	18,955,976
Total Capital Contributions	16,440,749	9,138,434	10,274,030	9,052,674
Grants & Federal BAB Subsidies	3,596,241	3,582,475	3,579,107	3,609,706
Transfers Out	(7,625,062)	(7,092,861)	(6,753,061)	(6,873,467)
CHANGE IN NET POSITION	\$24,891,876	\$7,194,255	\$7,150,403	\$24,744,889

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

2014	2013	2012	2011	2010	2009
\$872,083,357	\$813,050,518	\$722,852,270	\$661,153,297	\$636,592,771	\$604,657,775
146,933,170	157,311,979	161,863,075	214,619,106	240,132,895	133,949,294
58,737,269	63,568,675	56,407,560	31,403,521	30,200,303	35,753,843
3,769,208	4,679,599	5,300,185	4,664,090	4,654,608	3,654,494
1,081,523,004	1,038,610,771	946,423,090	911,840,014	911,580,577	778,015,406
1,587,851	1,813,858	1,764,332	2,056,555.00	-	-
1,083,110,855	1,040,424,629	948,187,422	913,896,569	911,580,577	778,015,406
516,673,245	480,288,973	449,858,136	425,932,810	417,695,083	412,592,671
483,542,005	455,876,975	401,465,338	419,800,757	421,228,553	292,165,406
20,767,576	42,478,805	35,106,590	18,201,697	20,548,451	15,167,938
26,552,582	26,204,429	26,181,911	19,385,858	52,108,490	58,089,391
530,862,163	524,560,209	462,753,839	457,388,312	493,885,494	365,422,735
35,575,447	35,575,447	35,575,447	30,575,447.00	-	-
\$1,083,110,855	\$1,040,424,629	\$948,187,422	\$913,896,569	\$911,580,577	\$778,015,406
\$44,655,076	\$40,928,355	\$38,737,505	\$36,730,275	\$35,503,069	\$36,695,919
15,406,078	13,507,899	12,478,932	11,868,976	11,703,099	11,467,636
5,801,842	5,242,359	5,031,760	4,774,237	3,798,922	4,153,327
-	445,844	383,385	400,322	364,357	380,267
3,718,315	3,519,409	2,090,430	1,625,163	1,530,116	1,776,686
121,346	468,030	416,986	478,594	(648,438)	187,966
69,702,657	64,111,896	59,138,998	55,877,567	52,251,125	54,661,801
28,617,297	32,007,524	21,541,733	9,526,467	10,735,630	9,331,955
98,319,954	96,119,420	80,680,731	65,404,034	62,986,755	63,993,756
37,993,563	35,906,356	32,602,452	32,821,611	34,453,742	34,055,463
3,779,373	3,918,944	3,485,243	3,106,516	3,142,772	3,093,311
16,783,698	16,072,243	15,262,686	14,389,681	14,474,964	13,845,799
58,556,634	55,897,543	51,350,381	50,317,808	52,071,478	50,994,573
39,763,320	40,221,877	29,330,350	15,086,226	10,915,277	12,999,183
537,052	(1,246,053)	288,182	(12,371)	33,795	497,331
1,718,226	807,466	2,320,753	3,141,374	2,370,993	1,955,385
-	-	-	-	-	26,100
(11,911,850)	(14,141,036)	(14,462,441)	(14,867,263)	(15,175,660)	(9,076,156)
30,106,748	25,642,254	17,476,844	3,347,966	(1,855,595)	6,401,843
8,670,639	7,175,575	7,834,345	9,250,677	9,713,596	7,120,993
3,959,446	3,535,426	3,840,767	4,006,209	2,355,132	244,683
(6,352,561)	(5,922,418)	(5,226,630)	(4,960,736)	(5,110,721)	(5,185,152)
\$36,384,272	\$30,430,837	\$23,925,326	\$11,644,116	\$5,102,412	\$8,582,367

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
REGIONAL WATER SUPPLY SYSTEM

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2018	2017	2016	2015
ASSETS				
Utility Plant - Net	\$270,292,252	\$279,190,310	\$287,187,547	\$295,780,351
Current Assets	10,420,340	10,442,765	10,395,435	9,274,080
Total Assets	280,712,592	289,633,075	297,582,982	305,054,431
Deferred Outflows	224,106	240,210	256,313	272,417
TOTAL ASSETS AND DEFERRED OUTFLOWS .	280,936,698	289,873,285	297,839,295	305,326,848
 NET POSITION	167,469,986	174,701,516	180,852,158	186,712,448
LIABILITIES AND EQUITY				
Long-Term Debt	109,899,314	112,594,314	114,364,416	116,113,730
Current Liabilities	2,558,764	1,564,360	1,601,549	1,496,773
Total Liabilities	112,458,078	114,158,674	115,965,965	117,610,503
Deferred Inflows	1,008,634	1,013,095	1,021,172	1,003,897
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	280,936,698	289,873,285	297,839,295	305,326,848
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
CRO - Debt Service	\$5,610,671	\$5,554,208	\$5,582,030	\$6,047,314
CRO - O&M	3,764,605	3,858,622	3,858,714	2,840,435
CRO - Capital	93,191	202,255	483,498	7,621,901
Other Operating Revenue	-	-	0	1,675
Total Operating Revenues	9,468,467	9,615,085	9,924,242	16,511,325
 OPERATING EXPENSES				
Operation and Maintenance	3,718,890	3,881,686	3,871,737	2,864,326
Depreciation	9,199,706	8,266,685	8,263,267	4,582,300
Total Operating Expenses	12,918,596	12,148,371	12,135,004	7,446,626
NET OPERATING INCOME (LOSS)	(3,450,129)	(2,533,286)	(2,210,762)	9,064,699
NON-OPERATING REVENUES (EXPENSES)				
Other Income	-	-	-	(120,564)
Interest Income	182,850	91,554	87,696	64,497
Interest Charges (Net)	(4,907,255)	(4,697,999)	(4,715,565)	(4,072,780)
Net Income (Loss) Before Contributions & Transfers	(8,174,534)	(7,139,731)	(6,838,631)	4,935,852
Total Capital Contributions	129,958	179,156	456,685	(2,924,135)
Grants & Federal BAB Subsidies	813,046	809,933	808,775	802,190
Transfers Out	-	-	(287,119)	-
CHANGE IN NET POSITION	(\$7,231,530)	(\$6,150,642)	(\$5,860,290)	\$2,813,907

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

2014	2013	2012	2011	2010	2009
\$293,110,553	\$264,883,717	\$223,896,711	\$203,938,358	\$207,242,527	\$206,708,069
11,321,557	20,473,681	41,256,611	55,640,447	59,811,400	15,845,604
304,432,110	285,357,398	265,153,322	259,578,805	267,053,927	222,553,673
288,520	304,624	-	-	1,194,533	807,387
304,720,630	285,662,022	265,153,322	259,578,805	268,248,460	223,361,060
183,898,541	154,285,209	136,200,206	132,830,089	138,246,799	142,801,029
117,798,157	120,006,348	122,882,652	124,045,739	124,890,764	77,694,584
1,993,880	10,436,851	5,253,742	1,931,325	5,110,897	2,865,447
119,792,037	130,443,199	128,136,394	125,977,064	130,001,661	80,560,031
1,030,052	933,614	816,722	771,652	-	-
304,720,630	285,662,022	265,153,322	259,578,805	268,248,460	223,361,060
\$6,008,599	\$6,208,432	\$6,272,476	\$6,239,797	\$5,119,047	\$4,293,912
2,706,023	2,740,645	2,478,238	1,778,186	2,732,956	2,517,129
15,132,508	18,535,695	5,665,557	274,081	1,301,346	(339,930)
-	-	-	-	-	-
23,847,130	27,484,772	14,416,271	8,292,064	9,153,349	6,471,111
2,735,246	2,895,385	2,510,085	2,485,977	2,458,379	2,629,850
4,542,912	4,505,158	4,495,971	4,482,820	4,426,113	4,792,037
7,278,158	7,400,543	7,006,056	6,968,797	6,884,492	7,421,887
16,568,972	20,084,229	7,410,215	1,323,267	2,268,857	(950,776)
(18,732)	(373,899)	-	-	-	-
114,387	51,743	407,622	396,391	861,775	184,332
(880,966)	(2,665,310)	(4,901,784)	(7,574,948)	(4,833,300)	(3,918,240)
15,783,661	17,096,763	2,916,053	(5,855,290)	(1,702,668)	(4,684,684)
13,024,297	148,865	(414,376)	(508,791)	(4,593,787)	8,085,876
805,374	799,296	868,328	868,328	306,327	-
-	40,079	112	79,043	1,435,898	(12,181,224)
\$29,613,332	\$18,085,003	\$3,370,117	(\$5,416,710)	(\$4,554,230)	(\$8,780,032)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS

UTILITY PLANT

In Service, at Original Cost
Less - Accumulated Depreciation
Total
Construction Work In Progress
Net Utility Plant

	WATER		RWSS		TACOMA WATER STATEMENTS	
	W/O	RWSS			ADJUSTMENTS	
\$	778,123,795	\$	344,067,932	\$	-	\$ 1,122,191,727
	(183,768,496)		(74,937,873)		-	(258,706,369)
	594,355,299		269,130,059		-	863,485,358
	6,360,882		1,162,193		-	7,523,075
	600,716,181		270,292,252		-	871,008,433

NET UTILITY PROPERTY

	492,963	-	-	-	-	492,963
--	---------	---	---	---	---	---------

SPECIAL FUNDS

Construction Funds
Debt Service Funds
Bond Reserve Funds
System Development Charge Fund
Other Cash & Equity in Pooled Investments
Total Special Funds

	24,023,847	-	-	-	-	24,023,847
	3,481,010	-	-	-	-	3,481,010
	13,592,334	-	-	-	-	13,592,334
	68,588,649	-	-	-	-	68,588,649
	40,570,704	-	-	-	-	40,570,704
	150,256,544	8,758,233	990,168	990,168	-	160,004,945

CURRENT ASSETS

Operating Funds Cash & Equity in
Pooled Investments
Accounts Receivable
(Net of Allowance for Doubtful Accounts
of \$526,979 in 2017)
BABs Interest Subsidies Receivable
Accrued Unbilled Revenues
Materials and Supplies
Interfund Receivable
Prepayments

	62,263,679	990,168	(990,168)	62,263,679
	5,208,357	469,258	-	5,677,615
	205,429	94,794	-	300,223
	5,930,220	-	-	5,930,220
	2,469,505	-	-	2,469,505
	716,424	40,421	-	756,845
	1,994,406	67,466	-	2,061,872
	78,788,020	1,662,107	(990,168)	79,459,959

OTHER ASSETS

Regulatory Asset - Surcharges
Pension Asset
Total Other Assets

	1,230,816	-	-	1,230,816
	3,438,481	-	-	3,438,481
	4,669,297	-	-	4,669,297

DEFERRED OUTFLOWS OF RESOURCES

Unamortized Losses on Refunding Bonds
Pension Contributions
OPEB
Total Deferred Outflows

	952,077	224,106	-	1,176,183
	4,409,587	-	-	4,409,587
	295,709	-	-	295,709
	5,657,373	224,106	-	5,881,479

TOTAL ASSETS AND DEFERRED OUTFLOWS

\$	840,580,378	\$	280,936,698	\$	-	\$ 1,121,517,076
----	-------------	----	-------------	----	---	------------------

NET POSITION, LIABILITIES AND DEFERRED INFLOWS

NET POSITION

Invested in Capital Assets, Net of Related Debt
 Restricted for:
 Water Capital and System Development Charge
 Debt Service Funds
 Net Pension Asset
 Unrestricted
 Total Net Position

	WATER W/O RWSS	RWSS	ADJUSTMENTS	WATER STATEMENTS
	\$ 282,803,433	\$ 167,036,571	\$ -	\$ 449,840,004
	64,770,212	-	-	64,770,212
	2,091,643	(96,632)	-	1,995,011
	3,438,481	-	-	3,438,481
	61,164,602	530,047	-	61,694,649
	414,268,371	167,469,986	-	581,738,357

LONG-TERM DEBT

Revenue Bonds
 Public Works Trust Fund Loans
 Drinking Water State Revolving Fund Loan
 Total Long-Term Debt

	258,967,482	109,899,314	-	368,866,796
	17,314,465	-	-	17,314,465
	61,381,554	-	-	61,381,554
	337,663,501	109,899,314	-	447,562,815

CURRENT LIABILITIES

Current Maturities of Long-Term Debt
 Current Maturities of Long-Term Liabilities
 Accrued Taxes
 Accrued Expenses and Contracts Payable
 Salaries, Wages and Fringe Benefits Payable
 Interest Payable
 Customers' Deposits
 Interfund Payables
 Total Current Liabilities

	12,548,017	1,990,000	-	14,538,017
	176,932	-	-	176,932
	1,819,063	-	-	1,819,063
	1,952,992	(46)	-	1,952,946
	800,231	-	-	800,231
	1,389,369	445,336	-	1,834,705
	343,367	-	-	343,367
	1,442,267	123,474	-	1,565,741
	20,472,238	2,558,764	-	23,031,002

LONG-TERM LIABILITIES

Muckleshoot Agreements
 Customer Advances for Construction
 Unearned Revenue
 Long-Term Accrued Compensated Absences
 Pension Liability
 OPEB Liability
 Other Long-Term Liabilities
 Total Long-Term Liabilities

	6,585,519	-	-	6,585,519
	6,779,253	-	-	6,779,253
	6,261,549	1,008,634	-	7,270,183
	2,197,439	-	-	2,197,439
	-	-	-	-
	3,780,897	-	-	3,780,897
	1,089,901	-	-	1,089,901
	26,694,558	1,008,634	-	27,703,192

DEFERRED INFLOWS OF RESOURCES

Rate Stabilization
 Pension Contribution
 OPEB Contribution
 Total Inflows of Resources

	35,575,447	-	-	35,575,447
	5,853,098	-	-	5,853,098
	53,165	-	-	53,165
	41,481,710	-	-	41,481,710

TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS

	\$ 840,580,378	\$ 280,936,698	\$ -	\$ 1,121,517,076
--	----------------	----------------	------	------------------

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	WATER		RWSS		ADJUSTMENTS		TACOMA WATER
	W/O RWSS						STATEMENTS
OPERATING REVENUES							
Sale of Water	\$	86,047,481	\$	-	\$	-	\$ 86,047,481
Other Operating Revenues		11,467,031		-		-	11,467,031
Contract Resource Obligation Revenues		-		9,468,467		(5,041,520)	4,426,947
Total Operating Revenues		97,514,512		9,468,467		(5,041,520)	101,941,459
OPERATING EXPENSES							
Operations		15,266,824		129,307		-	15,396,131
Production		11,043,590		3,382,814		-	14,426,404
Administrative and General		20,904,430		206,769		(5,041,520)	16,069,679
Depreciation		16,918,137		9,199,706		-	26,117,843
Taxes		5,273,751		-		-	5,273,751
Total Operating Expenses		69,406,732		12,918,596		(5,041,520)	77,283,808
Net Operating Income		28,107,780		(3,450,129)		-	24,657,651
NON-OPERATING REVENUES (EXPENSES)							
Interest Income		3,693,912		182,850		-	3,876,762
Other		3,215,049		-		-	3,215,049
Interest on Long-Term Debt		(14,344,528)		(5,408,168)		-	(19,752,696)
Amortization of Premium and Loss on Refunding		642,312		688,897		-	1,331,209
Interest Charged to Construction		(660,043)		(187,984)		-	(848,027)
Total Non-Operating Expenses		(7,453,298)		(4,724,405)		-	(12,177,703)
Net Income Before Capital Contributions and Transfers		20,654,482		(8,174,534)		-	12,479,948
Capital Contributions							
Cash		10,984,764		129,958		-	11,114,722
Donated Fixed Assets		5,326,027		-		-	5,326,027
Federal BABs Subsidies		2,783,195		813,046		-	3,596,241
Transfers							
City of Tacoma Gross Earnings Tax		(7,695,412)		-		-	(7,695,412)
Transfer to/from Other Funds		70,350		-		-	70,350
CHANGE IN NET POSITION		32,123,406		(7,231,530)		-	24,891,876
TOTAL NET POSITION - BEGINNING OF YEAR		382,144,965		174,701,516		-	556,846,481
TOTAL NET POSITION - END OF YEAR		\$ 414,268,371		\$ 167,469,986		\$ -	\$ 581,738,357

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

BOND DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

YEAR	WATER W/O RWSS		RWSS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2019	5,620,000	13,092,833	1,990,000	5,335,336	26,038,169
2020	5,850,000	12,852,833	2,100,000	5,241,836	26,044,669
2021	6,150,000	12,560,333	2,205,000	5,143,036	26,058,369
2022	6,410,000	12,297,633	2,315,000	5,035,935	26,058,568
2023	6,240,000	11,977,133	2,455,000	4,923,486	25,595,619
2024	4,300,000	11,665,133	4,930,000	4,804,186	25,699,319
2025	4,465,000	11,460,042	5,190,000	4,561,236	25,676,278
2026	4,930,000	11,244,560	5,420,000	4,300,364	25,894,924
2027	5,085,000	11,003,926	5,700,000	4,027,936	25,816,862
2028	5,265,000	10,730,811	5,970,000	3,741,451	25,707,262
2029	5,445,000	10,448,028	6,300,000	3,441,430	25,634,458
2030	5,640,000	10,155,577	6,595,000	3,124,854	25,515,431
2031	5,835,000	9,852,652	6,880,000	2,855,021	25,422,673
2032	6,050,000	9,524,667	6,660,000	2,572,446	24,807,113
2033	11,915,000	9,184,597	4,495,000	2,298,427	27,893,024
2034	12,360,000	8,502,115	4,655,000	2,045,763	27,562,878
2035	12,820,000	7,794,144	4,830,000	1,784,105	27,228,249
2036	13,295,000	7,059,824	5,005,000	1,512,611	26,872,435
2037	13,790,000	6,298,290	5,185,000	1,231,280	26,504,570
2038	14,305,000	5,508,406	5,375,000	939,831	26,128,237
2039	14,835,000	4,689,020	5,570,000	637,703	25,731,723
2040	15,390,000	3,839,272	5,775,000	324,613	25,328,885
2041	23,820,000	2,974,200	-	-	26,794,200
2042	24,770,000	2,021,400	-	-	26,791,400
2043	25,765,000	1,030,600	-	-	26,795,600
	<u>\$260,350,000</u>	<u>\$217,768,029</u>	<u>\$105,600,000</u>	<u>\$69,882,886</u>	<u>\$653,600,915</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER
without RWSS
FUNDS AVAILABLE FOR DEBT SERVICE

	2018	2017 (As Restated)	2016	2015	2014
Total Income	\$113,090,167	\$98,305,474	\$94,688,383	\$92,203,086	\$86,134,608
Less: Operating Exp	52,488,595	54,846,779	52,762,243	48,438,968	43,722,021
Income Available for Debt Service	<u>\$60,601,572</u>	<u>\$43,458,695</u>	<u>\$41,926,140</u>	<u>\$43,764,118</u>	<u>\$42,412,587</u>
Bond Redemption	5,413,750	5,216,251	5,140,416	4,873,754	5,551,250
Bond Interest	13,290,645	13,447,439	13,156,254	13,913,407	14,303,864
Debt Service Payable	<u>\$18,704,395</u>	<u>\$18,663,690</u>	<u>\$18,296,670</u>	<u>\$18,787,161</u>	<u>\$19,855,114</u>
Times Debt Service Covered	3.24	2.33	2.29	2.33	2.14

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER SALES - 2018

	AVERAGE MONTHS BILLED	CONSUMPTION (CCF)	REVENUE	% of TOTAL REVENUE	MGD	% of TOTAL MGD
RESIDENTIAL AND DOMESTIC SERVICE						
Inside City						
Single and Multiple House	55,685	4,635,865	\$ 23,982,528	27.9%	9.50	18.8%
Multiple Unit Dwellings	3,241	1,639,423	\$ 5,929,340	6.9%	3.36	6.6%
Parks & Irrigation Services	181	97,823	\$ 423,989	0.5%	0.20	0.4%
Private Fire Services	108	267	\$ 84,541	0.1%	0.00	0.0%
	59,215	6,373,378	\$ 30,420,398	35.4%	13.06	25.8%
Outside City						
Single and Multiple Houses	35,093	3,723,820	\$ 20,434,839	23.7%	7.63	15.0%
Multiple Unit Dwellings	1,874	1,063,764	\$ 4,707,007	5.5%	2.18	4.3%
Parks & Irrigation Services	263	161,658	\$ 791,449	0.9%	0.33	0.7%
Private Fire Services	78	9	\$ 37,808	0.0%	0.00	0.0%
	37,308	4,949,251	\$ 25,971,103	30.1%	10.14	20.0%
COMMERCIAL AND INDUSTRIAL SERVICE						
Inside City						
Large Volume Service	2	369,802	\$ 659,584	0.8%	0.76	1.5%
General Service	3,760	2,309,439	\$ 8,631,507	10.0%	4.73	9.3%
Parks & Irrigation Services	391	453,048	\$ 1,876,733	2.2%	0.93	1.8%
Private Fire Services	1,072	7,826	\$ 2,499,705	2.9%	0.02	0.0%
	5,225	3,140,115	\$ 13,667,529	15.9%	6.44	12.6%
Outside City						
Large Volume Service	4	632,210	\$ 1,346,677	1.6%	1.30	2.6%
General Service	1,015	528,686	\$ 2,259,547	2.6%	1.08	2.1%
Parks & Irrigation Services	103	155,288	\$ 727,229	0.9%	0.32	0.6%
Private Fire Services	230	1,450	\$ 1,055,295	1.2%	0.00	0.0%
	1,352	1,317,634	\$ 5,388,748	6.3%	2.70	5.3%
WESTROCK	1	7,800,282	\$ 6,873,675	8.0%	15.99	31.5%
WHOLESALE	15	1,184,264	\$ 3,253,029	3.8%	2.43	4.8%
Unbilled Revenue			\$ 472,999	0.5%		
TOTAL WATER SALES	103,116	24,764,924	\$ 86,047,481	100.0%	50.76	100.0%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATISTICS
AS OF DECEMBER 31, 2018

Tacoma Water System:

Average daily delivery exclusive of pulp mill	38.64	MG
Average daily delivery of pulp mill	16.01	MG
Total average daily delivery	54.65	MG

Maximum daily production	7/27/2018	89.48	MG
Minimum daily production	2/7/2018	29.98	MG

Total water produced in 2018*	19,949	MG
-------------------------------	--------	----

Regional Water Supply System (RWSS):

Total average daily delivery	11.61	MG
------------------------------	-------	----

Average daily consumption per single family residential service (Inside City)	169.9	GPD
---	-------	-----

Miles of transmission and wells supply mains - 28" to 96" diameter (includes North Fork wells system)	150	mi
---	-----	----

Miles of distribution mains - 2" to 24" in diameter	1,270.35	mi
---	----------	----

Fire Hydrants (Inside)	6,131	
Fire Hydrants (Outside)	4,871	

The primary source of Tacoma's water supply is the Green River. Additionally the North Fork well field provides blending options during periods of excessive river turbidity. The Green River source consists of a 73 million gallons per day (MGD) water right. Tacoma is also partner in the Regional Water Supply System (RWSS) and holds a 27 MGD average share of that 64.6 MGD interruptible, junior water right on the Green River. Tacoma also has ground water rights totaling 87 MGD with an installed pumping capacity of 55 MGD.

Tacoma's water supply is robust and of very high quality, benefiting from decades of source protection and substantial investment in treatment. City of Tacoma business and residents continued to receive extraordinary service reliability while meeting or exceeding all regulatory requirements of the United States Environmental Protection Agency and the Washington Department of Health.

Storage facilities are provided at 15 locations. These facilities consist of 10 concrete tanks and 12 steel standpipes. The combined storage capacity is equal to approximately 140.7 million gallons. Of this storage capacity 67.6 million gallons are located at the McMillin Reservoir approximately 14 miles southeast of Tacoma.

**Includes losses and water for self-consumption excludes RWSS*

MG equals million gallons

GPD equals gallons per day

mi equals miles

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2018

FEDERAL

Social Security (FICA)		<u>\$1,632,391</u>
------------------------------	--	--------------------

STATE OF WASHINGTON

Retail Sales Tax	774,749	
Utilities and Business Activities Tax	<u>4,600,477</u>	
Total		5,375,226

COUNTY

Real Property	<u>47,992</u>	
Total		47,992

MUNICIPALITIES

City of Tacoma Gross Earnings Tax	7,695,412	
City of Fircrest Administrative Fee	7,016	
City of Lakewood Administrative Fee	6,214	
City of Puyallup Administrative Fee	20,310	
City of University Place Administrative Fee	<u>626,555</u>	
		<u>8,355,507</u>

TOTAL TAXES		<u>\$15,411,116</u>
-------------------	--	---------------------

Taxes as a % of Non-CRO Revenues of \$97,514,512 ..		15.80%
---	--	--------

EMPLOYEE WELFARE CONTRIBUTIONS

Industrial Insurance and Medical Aid	\$531,566
Pensions	\$2,302,935
Medical Insurance	\$3,931,610
Dental Insurance	\$346,893

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u>\$7,113,004</u>
--	--	--------------------

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2018 WATER RATES

			READY TO SERVE CHARGE PER MONTH	
			INSIDE TACOMA	OUTSIDE TACOMA
METER SIZE				
5/8	inch	.....	\$22.05	\$26.46
3/4	inch	.....	\$33.08	\$39.70
1	inch	.....	\$55.13	\$66.16
1-1/2	inch	.....	\$110.25	\$132.30
2	inch	.....	\$176.40	\$211.68
3	inch	.....	\$330.75	\$396.90
4	inch	.....	\$551.25	\$661.50
6	inch	.....	\$1,102.50	\$1,323.00
8	inch	.....	\$1,764.00	\$2,116.80
10	inch	.....	\$2,535.75	\$3,042.90
12	inch	.....	\$3,720.94	\$4,465.13

			CHARGE FOR WATER USED PER MONTH PER 100 CUBIC FEET	
			INSIDE TACOMA	OUTSIDE TACOMA
<u>Residential Service</u>				
Each 100 cubic ft. of water consumption during the winter months of October through May			\$1.895	\$2.274
First 500 cubic ft. of water consumption per month during the summer months of June through September			\$1.895	\$2.274
Each 100 cubic ft. of water consumption over 500 cubic ft. during the summer months of June through September			\$2.369	\$2.843
<u>Commercial and Industrial</u>				
General Service			\$2.123	\$2.548
Large Volume Service (over 65,000 cubic feet annually)			\$1.782	\$2.138
<u>Parks and Irrigation Service</u>				
Each 100 cubic feet of water consumption			\$3.485	\$4.182

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. 28423 and were effective January 1, 2018.

Residential service rate for outside Tacoma does not include Fircrest, Puyallup, University Place, and Lakewood.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2018 FIRE PROTECTION RATES

RATES FOR PRIVATE FIRE PROTECTION SERVICE ON A SEPARATE METER INSIDE THE CITY OF TACOMA ARE AS FOLLOWS:

METER SIZE		MONTHLY CHARGE	WATER INCLUDED FOR MONTHLY LEAKAGE AND TESTING PURPOSES (100 Cubic Feet)
2	inch	\$26.07	2.99
3	inch	\$37.96	2.99
4	inch	\$63.42	2.99
6	inch	\$142.25	2.99
8	inch	\$253.24	2.99
10	inch	\$396.11	2.99
12	inch	\$633.57	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

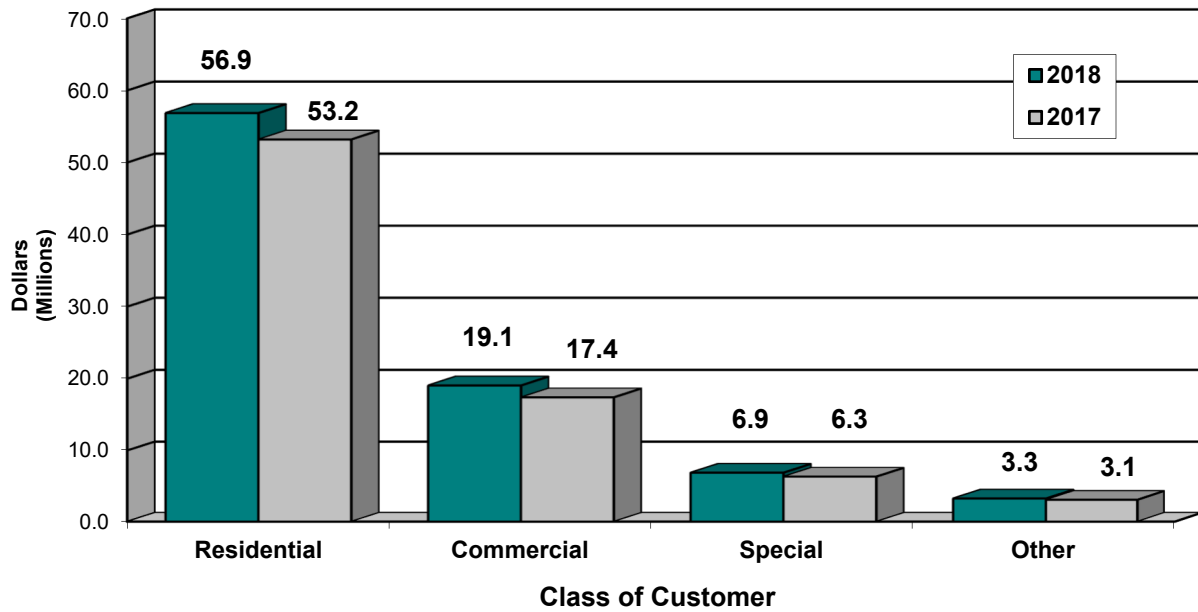
The above rates for fire service shall apply where City water is used for all purposes on such premises exclusive of that amount allowed for testing and leakage.

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:

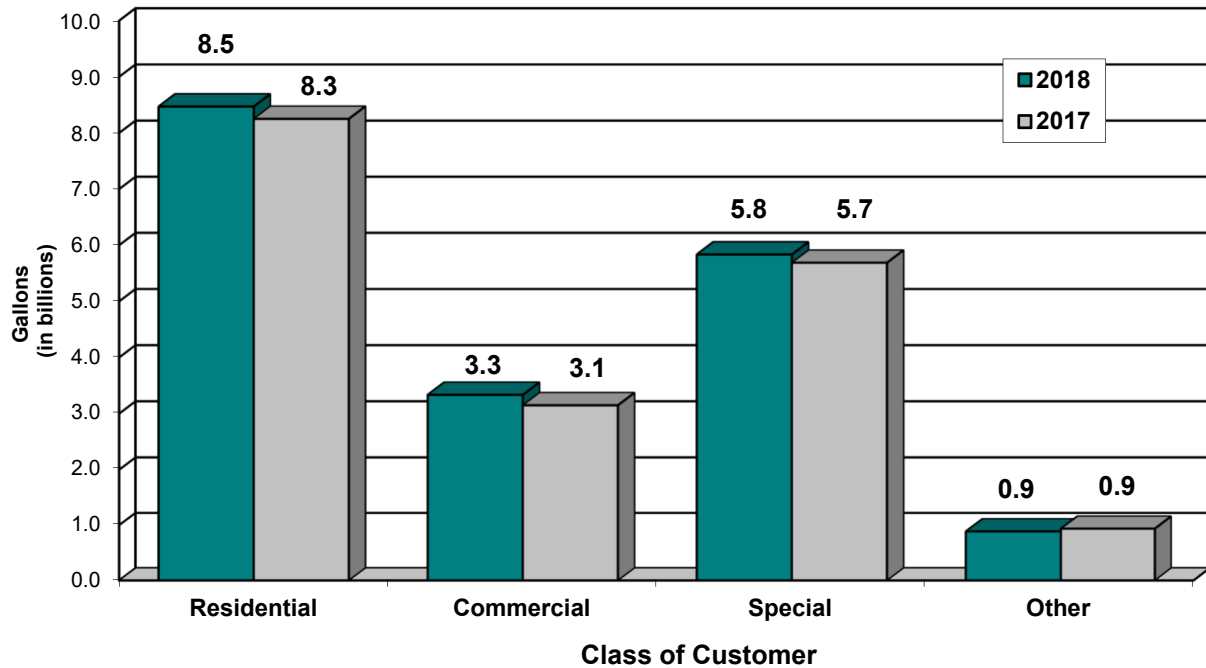
Outside City, other contract.....	\$4.752
Fircrest Franchise.....	\$4.752
Lakewood, Puyallup, and University Place Franchises...	\$4.752

The Fire Protection Rates were established by Ordinance No. 28423 and were effective January 1, 2018.

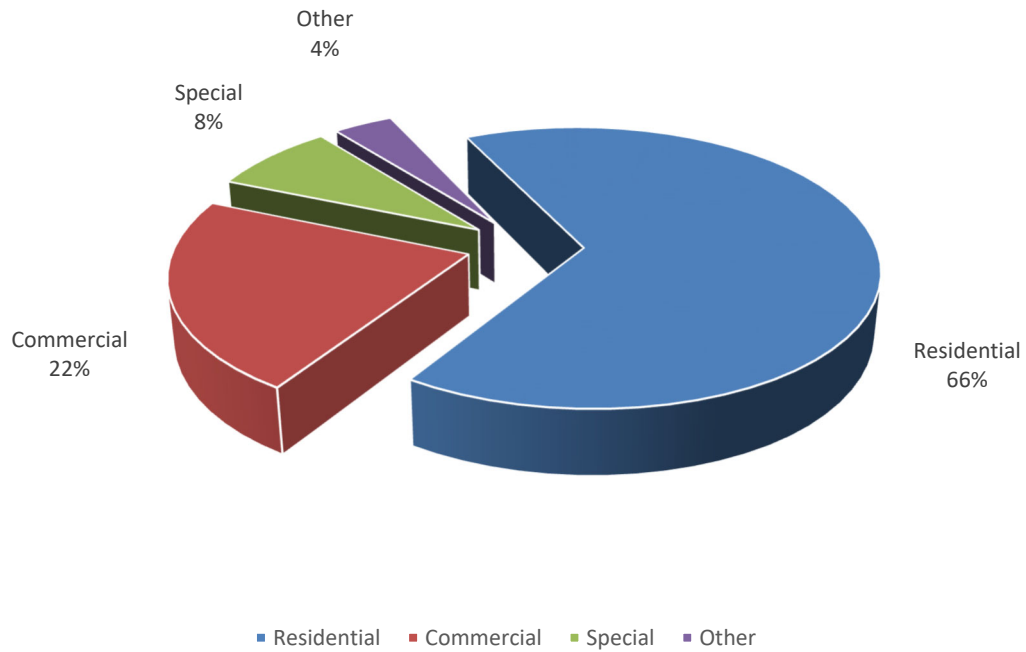
WATER SALES
Year to Date - December 2018 & 2017



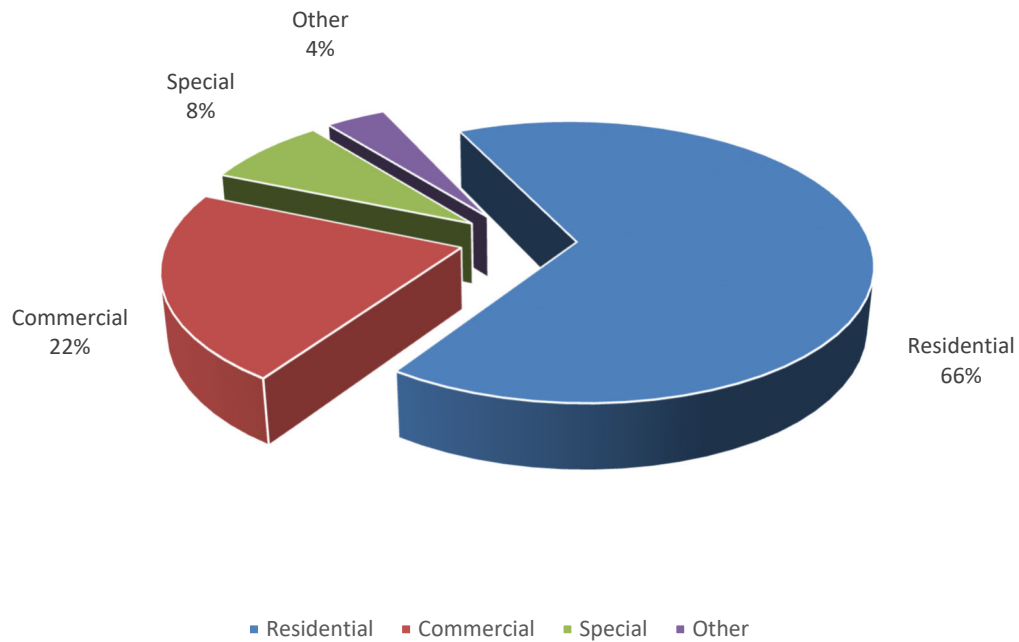
WATER CONSUMPTION
Year to Date - December 2018 & 2017



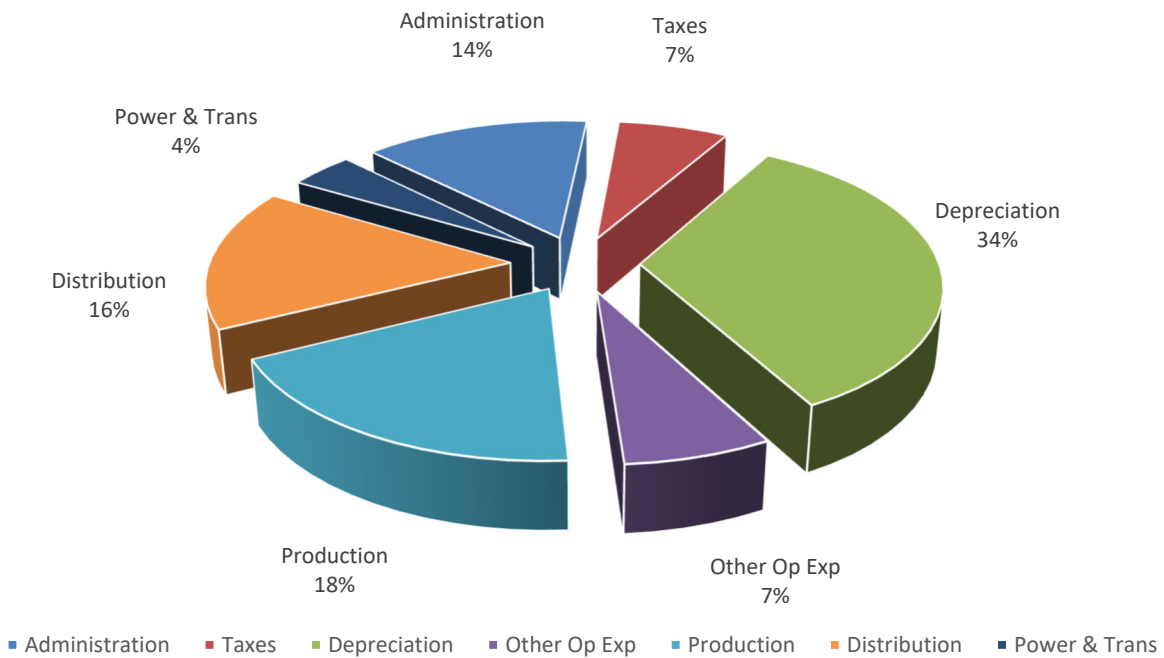
WATER SALES
Year to Date - December 2018
(\$86,047,481)



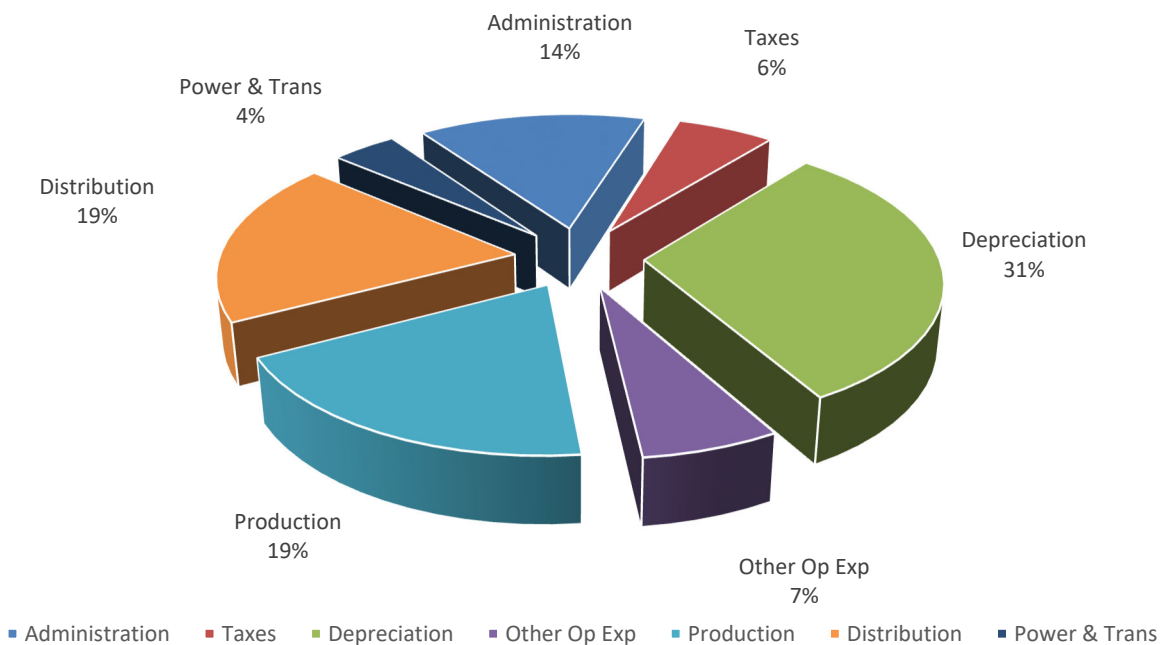
WATER SALES
Year to Date - December 2017
(\$79,999,893)



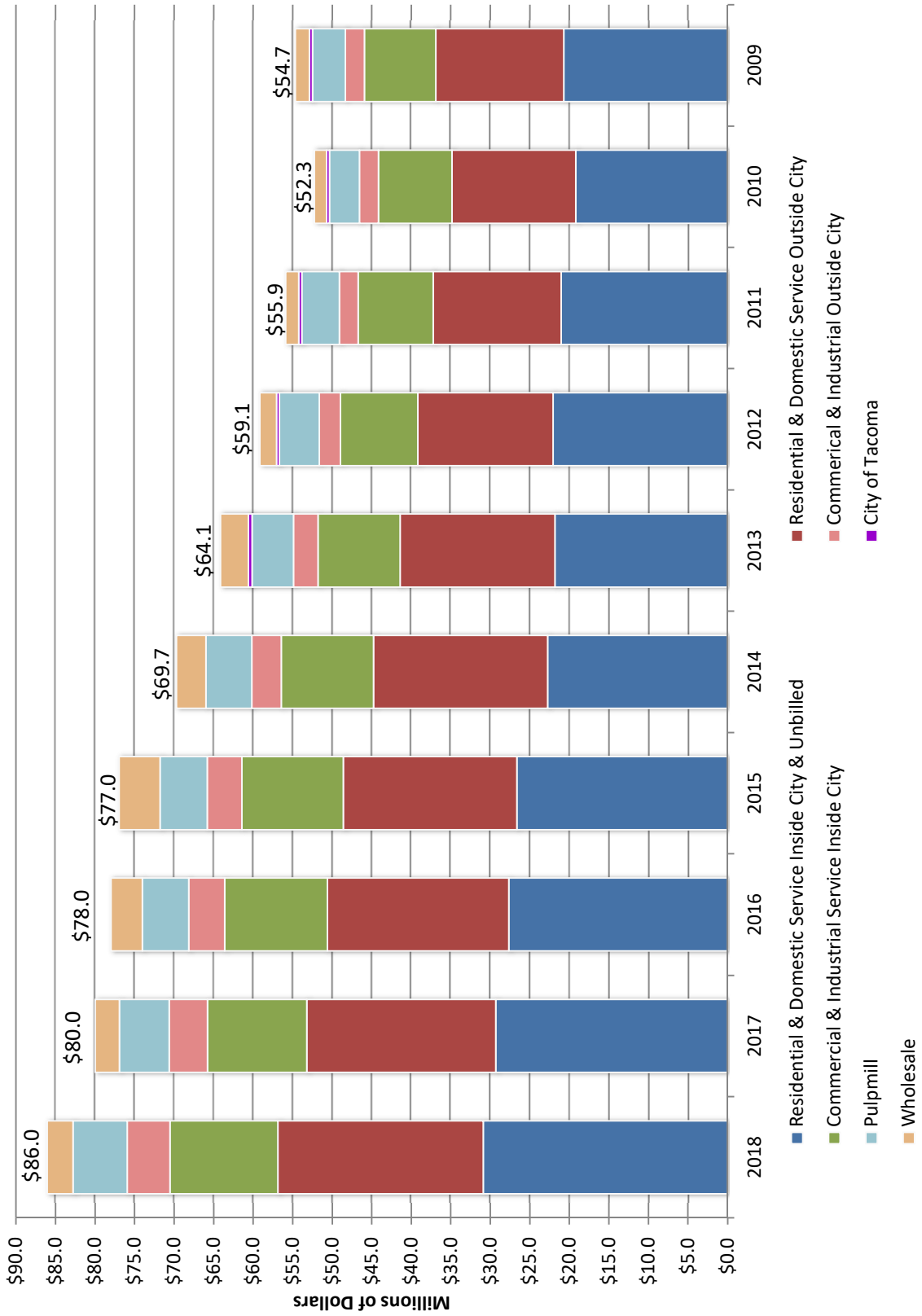
TOTAL OPERATING EXPENSES
Year to Date - December 2018
(\$77,283,808)



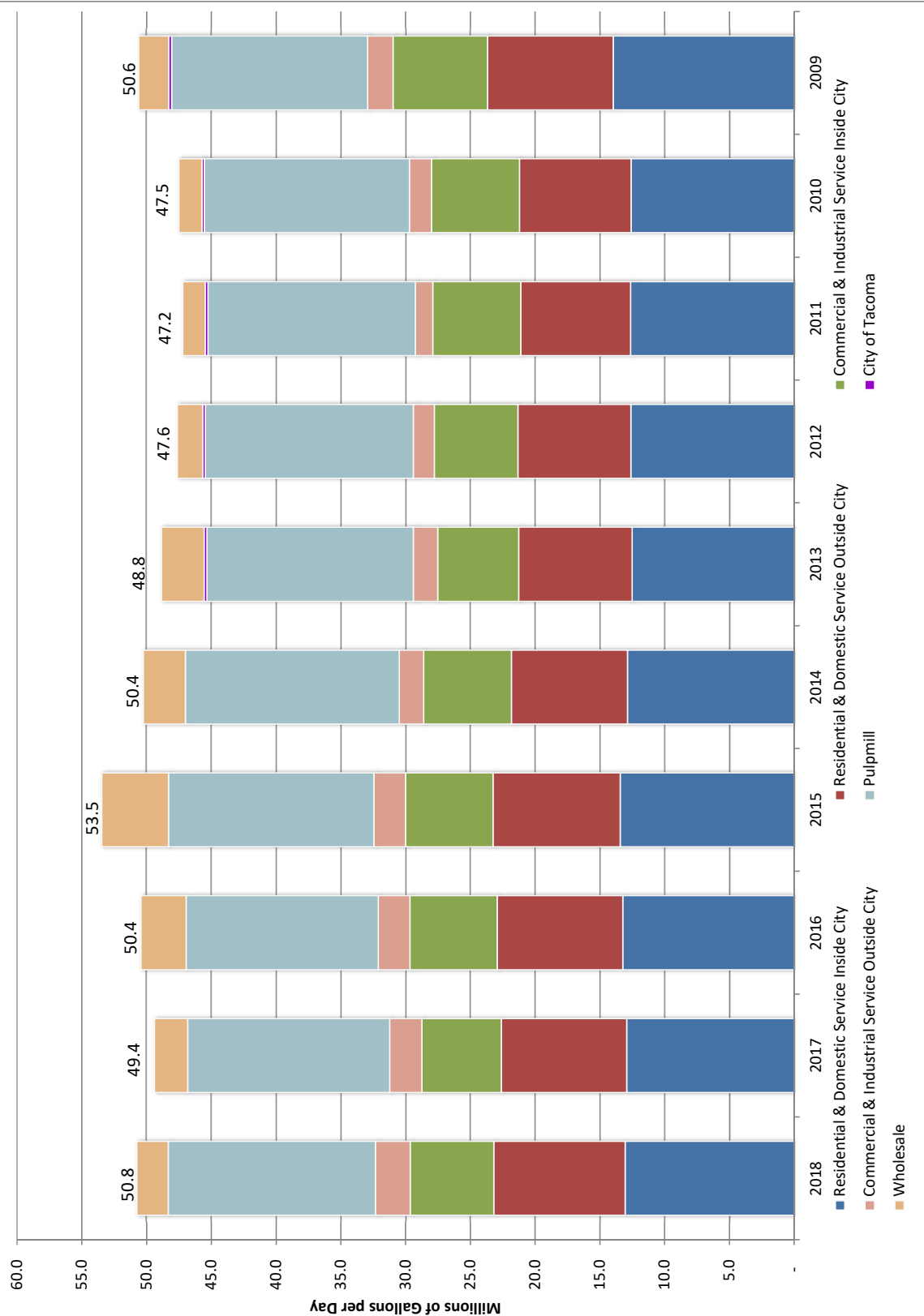
TOTAL OPERATING EXPENSES
Year to Date - December 2017
(\$77,736,237)



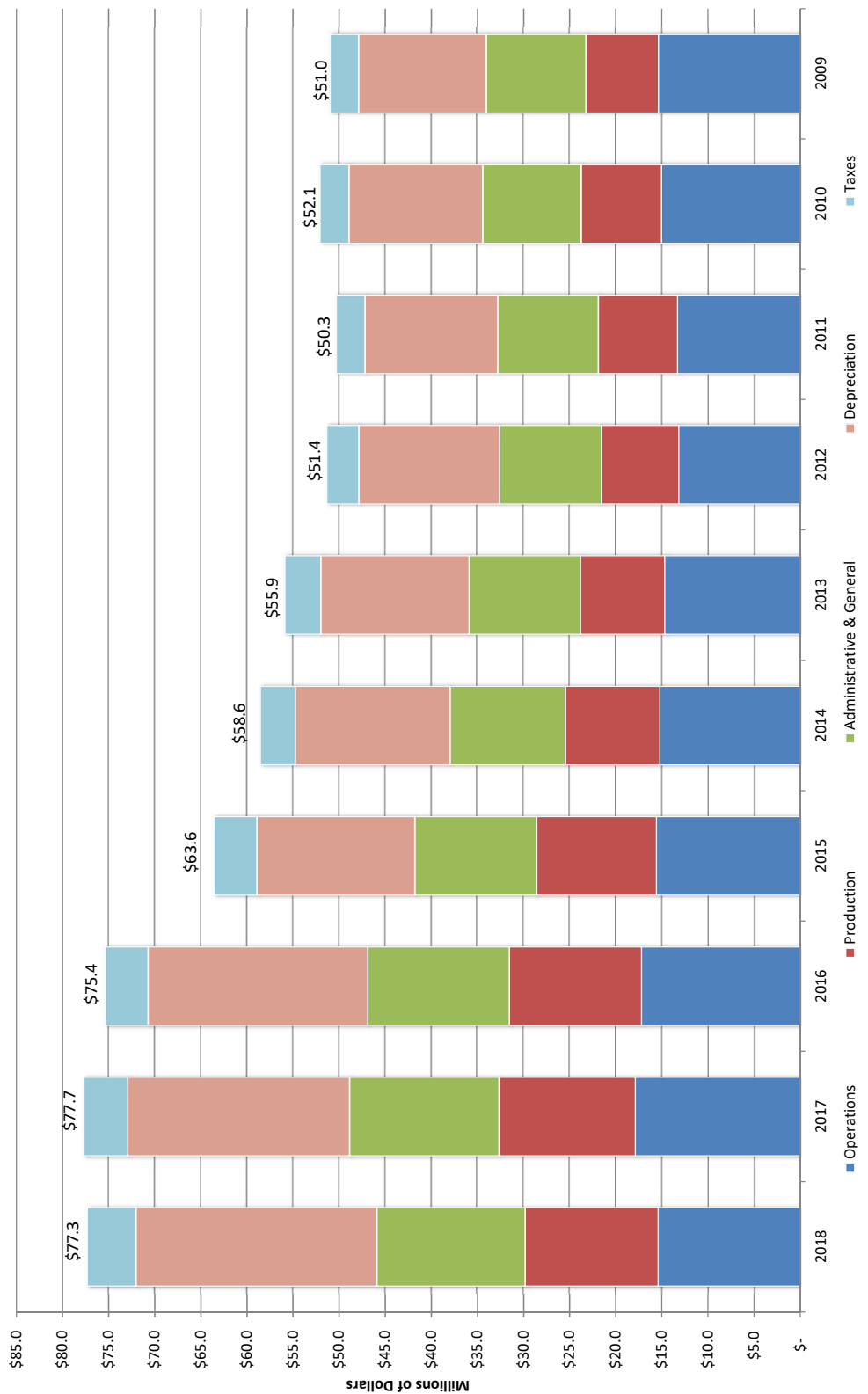
TEN-YEAR SUMMARY OF WATER SALES (MILLIONS OF \$)



TEN-YEAR SUMMARY OF WATER DEMAND (MGD)



TEN-YEAR SUMMARY OF O&M EXPENSE (MILLIONS OF \$)





2018 SUPERINTENDENT'S REPORT

I am pleased to share with you the Tacoma Water Superintendent's Report for 2018. It has been a very busy year with a lot of accomplishments. I am most excited to share with you the continuing work we have done to focus on the safety of our employees. Safety is of utmost importance to me – I believe we work to live and not live to work. Any accident or injury is one too many – we should go home to our families and friends the same way we came to work that day. In order for us to meet our mission to provide clean, reliable water now and in the future, we must have a workforce at work and able to do their work in a sustainable manner.

As we began 2018 we identified safety as one of our core values for the first time and put renewed focus on improving our safety culture – making it top of mind and the first thing we think of as we go about our work. All of our meetings now begin with a safety moment; field crews openly talk about hazards; we proactively conduct safety audits to identify hazards and correct them. In our recent employee survey, over 90% of our employees acknowledge safety as a high priority. The best part about this safety culture improvement is that it is being led by staff throughout the organization. I am very pleased and encouraged by the progress made in 2018 and hope to only improve going forward.

While we are always managing our budget, in any even numbered year like 2018 we develop the next biennial budget that, in this case, will be used for 2019-2020. A tremendous amount of work goes into assembling a 2-year budget. It is the culmination of planning for staffing, operations and maintenance activities, capital spending, needed asset renewals and improvements, coupled with any rate adjustments needed to collect the revenue to support the budget. Once the draft budget and rate proposals were developed, we worked diligently to share it with the public in an unprecedented way to receive feedback on the proposal. We attended over 40 public meetings and enjoyed sharing the work we do to provide drinking water to the community. Thank you for supporting our work and confirming your confidence in us to execute this on your behalf.

In the following report you will have the opportunity to hear about the work each section has been focused on in 2018 to make everything we do work in concert with one another. You will see some overlap in those things that we work on together and hear some of the behind the scene details. I wanted to take the opportunity to highlight two large multi-year efforts now underway – Workforce Connect and the TPU Advanced Meter projects.

The project kick-off for Workforce Connect occurred in 2018, along with much preparation to ensure a successful outcome for Tacoma Water and the City. This project will not only replace our aging mobile workforce management tool, but will bring much needed new functionality to advance our work initiation, execution and data capture. Consider how far mobile technology has come since 2003, the year our current mobile work tool was released; for reference the first iPhone was released in 2007! The first release on the new platform will be for our utility locators in early 2019; followed by a more substantial release scheduled later in 2019 for mobile work order management for field staff.

The TPU Advanced Meter project saw a lot of progress in 2018 with the development of detailed project requirements and the selection of a suite of vendors to provide the requested solutions. This project will continue for several more years, as it is a large effort that will include replacing all of our existing residential water meters with new meters capable of remote communication. This

will facilitate monthly billing, better customer understanding for how their water is used, as well as advanced leak detection capabilities to name a few key benefits. A customer portal will be deployed as part of the project to enhance customer interactions with TPU. As you can imagine the scope of the project is quite large; so stay tuned for more information as progress is made.

ASSET & INFORMATION MANAGEMENT

Strategy Management

2018 marked the sixth year of formal strategy management at Tacoma Water. As we entered 2018, our 2012 Strategic Plan had been largely implemented from 2013 – 2017. We recognized that development of a new five-year plan to replace the 2012 Strategic Plan would occur in 2019, giving time for orientation of both the new Water Superintendent and Utilities Director. To create strategic focus for 2018, the Effective Utility Management framework was used to identify gaps which were represented as themes on our 2018 map: community understanding and support; workforce development; operational innovation; and operational optimization.

A total of 6 initiatives were completed this year. Although this isn't as many as some prior years, there are two initiatives underway mentioned earlier that are large multi-year efforts – specifically Workforce Connect and the TPU Advanced Meter project. In an effort to improve alignment across TPU and the City of Tacoma, we initiated strategic coordination with Tacoma Power, Environmental Services and Tacoma 2025. We also initiated the work to develop a new 2020 strategic plan as well as implement overall program improvements.

In 2018 in response to the Strategic Plan, Tacoma Water hired a dedicated Knowledge Management Administrator. This role is focused on development of a standardized approach and organization for Tacoma Water records management, systems and tools to manage our knowledge assets (SharePoint restructure), and capturing and auditing our business processes.

Key Projects

Asset and Information Management staff typically plays a key role in support of various projects for the operating units of the utility. This year was no different as the two large scale transformational projects, Workforce Connect and the TPU Advanced Meter project, as well as other initiatives required assistance from staff.

For the TPU Advanced Meter project, staff was actively involved in the procurement process to select through a competitive process the vendors who will deliver the various components of the project. In addition, staff played a key role in the analysis of meter data to develop a sound meter replacement strategy for all 105,000 water meters.

Tacoma Water staff is serving in key leadership roles, product owner and co-sponsor, for the Workforce Connect project. Staff participated in development of user stories, a means of gathering technical requirements for the project as well as working to promote consistency in work process and data collection for all sections and assets.

Asset Management

Asset and Information Management hired a consultant for a week long workshop (involving staff at all levels of Tacoma Water, as well as staff from Tacoma Power, Environmental Services and IT) to identify short term and long term strategies/efforts for improving SAP work management functionality for tracking and reporting on maintenance efforts. Tacoma Water's Planning and Scheduling Steering Team then prioritized the identified items to guide future work efforts related to our SAP environment. In conjunction with this same team, Asset Management staff developed more detailed work management work flows to cover notification creation, planning, scheduling, execution and work order closeout.

The Functional Location Improvement Project (FLIP) also was approved and commenced in 2018. This project is to develop a new functional location structure in SAP that supports improved work management and reporting. Essentially it is a restructuring of our asset hierarchy for consistency across all of Tacoma Water.

In 2018 Tacoma Water partnered with Tacoma Power to provide Institute of Asset Management training to TPU Staff. The management team attended a 4-hour training; 28 people attended a 1-day training; and 7 people (including the Superintendent and both Deputy Superintendents) attended the 5-day certificate course.

To mark the 10th anniversary of our formal asset management project, Tacoma Water completed the 2018 Asset Management Customer Value benchmarking exercise. We participated in this globally recognized asset management benchmarking 10 years ago, and undertook participation in the 2018 cohort to understand our current state and identify our asset management roadmap for the next 10 years.

Geographical Information System (GIS)

We are excited to report a number of items related to Tacoma Water's GIS, BlueWave. For the first time all distribution order cards used to document field construction activities (including water services, water main and more) are mapped and there is no backlog. GIS staff completed the BlueWave secure sockets layer (SSL) project to ensure a secure encrypted connection between web browser and server known as a secure HTTPS connection. Finally, work was done to review the consistency/synchronization of water asset data in SAP, our work management software, and BlueWave, our GIS. A current state analysis was conducted, and a first step toward improved reconciliation was launched. An automated master data QA/QC process was developed and runs weekly, improving awareness, management and reduction of inconsistencies in our data.

WATER QUALITY

Lead and Copper Corrosion Control

Following the Lead Response in 2016, the Water Quality Section proceeded with bringing in a consulting team of nationally recognized experts to evaluate Tacoma's corrosion control treatment. Following extensive testing in 2017, a revised Corrosion Control Recommendation Study was completed and approved by the Washington Department of Health (WDOH). This report established new optimized corrosion control treatment requirements for all of Tacoma Water's sources, including groundwater for the first time.

Sanitary Survey Inspection

In September 2018, WDOH completed a Sanitary Survey inspection of Tacoma Water's water distribution related facilities. This distribution focused inspection is generally conducted every 5-years, and did not include the Green River Filtration Facility (GRFF) which was last inspected in 2016 and is generally inspected every 3-years. The findings from WDOH focused primarily on two topics with potential Water Quality impacts. Development of a plan for pressurization of Pipeline 1 was identified, as well as addressing some identified potential contamination risks at some reservoir and air valve locations. Tacoma Water has provided our plan to address these identified findings to WDOH.

PFAS Sampling

In response to national and regional concerns, voluntary testing for manmade perfluorinated chemicals known as PFAS was conducted at individual groundwater wells and the Green River. This sampling detected levels of these PFAS compounds that were above the Health Advisory Level established by EPA at a single well (Well 10C) where unfluoridated water was provided via a spigot on the well building. As a result, this well was immediately taken out of service and Tacoma Water worked with both State and County health officials to develop and delivery health advisory messages to the public that may have accessed water from this well. This event generated some brief local media interest from newspapers and TV.

GRFF Optimization and Training

Staff from the Green River Filtration Facility (GRFF) completed a 15 month Performance Based Training program hosted by WDOH along with other major utilities in the state including: Seattle, Everett, City of Bellingham, Pasco, City of Richland, Skagit PUD, City of Anacortes and Yakima. This program was designed to create a collaborative group from which other operators can gain knowledge and valuable experience on lessons learned and best practices. In addition, the GRFF was also awarded a Bronze Certificate of Achievement under the WDOH Treatment Optimization Program (TOP) for 3 years of outstanding performance. The GRFF has met the TOP optimization criteria continuously since it officially went on line in 2015.

Emergency Response Drill – Green River spill response drill

In May 2018, a three-day emergency drill was conducted at the Tacoma Water intake structure with BNSF, Department of Ecology, Environmental Protection Agency, Coast Guard and several emergency response agencies. This drill simulated a spill response in the Green River, just upstream of Tacoma Water's intake, and included deployment of booms that would be used in an actual spill response.

Restructure of Watershed / Environmental Programs Teams

The Watershed Operations and Environmental Programs work groups were consolidated under a single Assistant Division Manager. Two new Operations Managers were selected to lead each of these workgroups, and each has been working to rebuild their staffing to full strength.

Property Management

Staff in the consolidated Watershed and Environmental Programs group were involved in a number of property related efforts for Tacoma Water in 2018. Notable among these efforts included projects related to the Pipeline 4 Trail, the Deep Creek Pipeline 1 Protection Project, and the future Fish Restoration Facility property which is part of the 1995 Settlement Agreement with the Muckleshoot Indian Tribe. In addition, the remediation of the McMillin 100 Acre Woods site was completed, which was previously sold to Pierce County Parks and Recreation.

North Fork Wellfield Strategy / North Fork 7 replacement

Following the recommendations established in the North Fork Well System Strategy Plan, Tacoma Water moved forward with the replacement of the pump and motor for North Fork Well 7. The contract award, vendor coordination, submittal review, and site preparation were completed; however, manufacturing delays by the vendor prevented installation in 2018. It is anticipated that the new pump and motor will be installed and in service by the end of Q1 2019, which will restore a critical element of the overall Green River supply.

Operating Guidelines /Dashboard Development with Water Supply

In order to enhance coordination and reporting from the Water Quality and Water Supply Operations groups, an Operating Guidelines Document was developed that can be used with several other documents to identify key operating considerations for both the GRFF and in-town supply requirements, to guide decision-making. A communication protocol (weekly huddle style meeting) was selected and implemented, that will keep parties informed of operational conditions. In addition, a conceptual Dashboard reporting several key operating parameters of interest to Operating personnel at various locations was developed and agreed to. Further implementation of this dashboard is planned in 2019.

WATER SUPPLY

Integrated Water Resource Plan

Tacoma Water owns and operates a diverse and complex mix of water resources, ranging from the Green River to an array of groundwater wells located in the City and Pierce County. In 2018 our Resource Planning & Operations group completed an Integrated Resource Plan (IRP) demonstrating the reliability and value of that diverse set of resources well into the future, despite the ever-growing threat of climate change, and with the expectation of a growing, thriving community. The resource plan is incorporated into the larger Water System Plan, and together this work demonstrates the capability of the Utility to meet the wide range of regulatory and public expectations it faces. This capability, however, does come with the need for long-term, consistent investment in the resources, infrastructure, practices and planning required to deliver water.

Water Shortage Response

A Water Shortage Response Plan was completed in 2018 to accompany the IRP. The value of the Green River surface water supply is that in the majority of Pacific Northwest years, it yields more water than is needed both for water supply and a healthy fishery. Our IRP modeling and our experience tells us that there will be infrequent years, however, when the combination of snow and rain is well below normal. These drought years require a structured, well developed response. *Entering* the Water Shortage Response Plan in these years is a prudent and expected step to ensure we meet both our obligations for drinking water, and our obligations to the natural environment. It includes an array of options to both augment supply and curb demand through several stages, and its use represents an important element of overall supply planning.

Seismic resilience

A significant challenge facing all cities on the west coast, and across a spectrum of infrastructure, is seismic resilience. Tacoma Water completed a vulnerability assessment highlighting this issue in 2015 & 2016, and began the long road of implementation. The current state of our older transmission pipelines means that following a seismic event like a rupture in the Cascadia Subduction Zone fault, these supply lines from the Green River will be severed, and transmission moving water from McMillin Reservoir into Tacoma will likely also be lost. We have determined that the fastest way to restore some supply to Tacoma will be from the more local groundwater. Major progress occurred in 2018 to analyze and scope seismic improvement work at three key

groundwater facilities, and at Water's Operations Building. This work laid the foundation for large design and construction projects that are launching in 2019.

Emergency Management

Tacoma Water, in conjunction with Tacoma Power, and the City of Tacoma worked to coordinate and improve utility-wide emergency planning. Recognizing that supply-chain interruption of fuel will be a critical threat in a regional emergency, the Utilities and the City jointly drilled an event to control and access the refueling station on South Lawrence Street. This exercise highlighted several lessons learned. Beyond this exercise, the combined TPU team has charted a broad range of emergency management issues for future work.

Aging infrastructure

The IRP highlighted the capability of the water resource portfolio, but does so under the stated expectation that the infrastructure required to deliver that resource is reliable. Currently there are pumps, motors, pipes and electrical equipment that are 50 to 90 years old. Some of that remains in effective operating condition, while other components are at the end of, or beyond their service life. In 2018, a significant amount of prioritization of need was initiated, and this work continues.

Executing asset management

Over the past several years, the development of the asset management program has included a move from standing orders for work on assets that are "lumped" to discrete work orders for each maintenance activity. This has led to a much more robust understanding of maintenance needs, costs, and evolved prioritization and management of schedules and tasks. This change from largely reactive maintenance to dominantly planned maintenance has been an enormous cultural shift. In 2018, over 3,000 discrete maintenance work orders were completed by Water Supply personnel, repairing a wide array of infrastructure, and providing key preventative maintenance. Work has been planned and scheduled to improve staff assignments and asset maintenance records. This approach to work has also been initiated in other Sections of Water, and will continue to develop, and be better enabled by current technology projects, including Workforce Connect.

Pipeline 1

This 27 mile long transmission pipeline is the original conduit alignment bringing water from the Green River to our large storage facility McMillin reservoir on the South Hill of Puyallup. From this location, the hydraulics of our largely gravity supply system is set. In 2018, two major assessment projects were launched to evaluate the hydraulics and condition of Pipeline 1, involving the deployment of instrumentation, and the use of a new acoustical sensor technology "in a ball" called a SmartBall that travelled down the pipeline. We now have a better understanding of how the hydraulics in the pipeline operate, and have identified several pipeline leaks that will be repaired. While some segments of this pipeline have been renewed in the last decade, the majority of the pipeline is 50 to 80 years old. The age itself isn't necessarily the problem, but rather the fact that it was not designed to operate as it now must, and much of it is highly vulnerable to seismic failure. Identifying long-term solutions for Pipeline 1 will be a priority in 2019.

Electrical and Telecommunications Systems

Like all modernizing utilities, the complex operations of the Tacoma Water system depend on strong electrical, communications, and control systems. In 2018 substantial improvements were made to improve backup electrical power systems at key pumping & treatment facilities and the Water Control Center. Water collaborated with Tacoma Power to plan improvements to our radio and microwave systems, and substantial upgrades were completed for system-wide controls in multiple locations.

DISTRIBUTION OPERATIONS AND ENGINEERING

Lead Gooseneck Replacement Project

Distribution Engineering, Distribution Operations and Asset & Information Management collaborated to develop a Lead Gooseneck Replacement Plan to replace 1,215 suspected lead goosenecks from the distribution system within five years. The project's objectives will complete the work in a geographically equitable manner, provide relevant regular communication to staff and public, and involve a coordinated effort with area partners in an effort to minimize disruptions to staffing levels and planned work.

Through 2018, the gooseneck project has exceeded our goal of resolving 608 suspected lead gooseneck locations by either being removed or verified not to have a gooseneck by staff.

System Acquisition

In late 2017, Tacoma Water took over system operation of the Curran Road Mutual Water Association water system. In 2018, we dedicated staff resources to ensure that the transition of our new customers to our system was smooth. We provided education pieces, answered questions, and responded to invoicing and customer concerns. Improvements to the acquired water system began with the first design work and main replacement projects being completed. These improvements will be spread out over the next 8-10 years.

Conservation and Efficiency Programs

Tacoma Water's new 2018-2027 conservation plan was approved by the Public Utility Board and City Council. In 2018, our conservation program attended 14 community events, totaling over 1,500 conversations about conservation with our customers. We gave out over 200 water-efficient showerheads and over 500 faucet aerators. The focus this year was planning the new peak season demand reduction programming.

Customer/Stakeholder Relationships

In collaboration with Marketing Communications, a strategy document was developed detailing modes of communication to address customer segments and messaging. Staff met regularly to optimize the execution of the plan and begin work to establish deliberate communication channels with those customer segments.

The Customer Support group serves our development community via phone, online, and in person services. These customer touch points were evaluated for ways to improve operations and the customer experience of the development community. In 2019, hours of operation will be adjusted after outreach to stakeholders is complete.

Sound Transit

In 2018, final plans for the Tacoma Link Light Rail system were submitted and approved for construction. A workshop was held to educate staff about the project specifics and safety. In addition, a hands-on training to become familiar with materials and tools that would be used on the project was held for the Distribution Operations field crews. Services and water main work will begin in 2019 on this high profile community project.

Main Replacement Program

Nearly 11 miles of new distribution main were added to the system and 27 design plans were completed for new developments. We continue to use and refine our distribution mains economic model to prioritize projects. The development and installation of major projects such as Sound Transit, Tehaleh, City subarea plans, and improvements to the acquired Curran Road Mutual Water Association system will be our focus over the coming years.

New Services

The Customer Support Group continued to execute at a high level to meet the developer demand for the construction of schools, short plats, shopping centers, restaurants, residential homes and apartments. The workload production statistics match the sentiment around the Puget Sound region regarding economic development for new business and real estate. In 2018, we created approximately 860 fixed fee orders, which was near the average from 2004-2008, and is about triple the amount from the low of 297 in 2010. The number of time and material orders dramatically increased over 50% of the year's past. While we pulled back from the recording breaking 250 water availability letters from 2017, we did issue 208 beating previous years' performance. We commented on over 1,370 permits, which is almost 20% more than year's past. Private development work in the City and County remains strong.

Locating technology upgraded equipment

In 2018, Tacoma Water staff performed over 28,000 infrastructure locates. In order to provide the tools and accuracy needed to keep up with demand; ground penetrating radar (GPR) equipment was purchased and integrated into operations. The GPR unit will be used for locating non-ferrous infrastructure, including plastic, asbestos cement, concrete, high density polyethylene and polyvinyl chloride which represents approximately 197 miles of our system. Within our service area non-ferrous structures exist mainly in acquired systems in Pierce County, University Place and Federal Way.

Operations

In 2018, the system experienced 28 main breaks (2.2 breaks/100 miles of pipe/year). This is less than last year's 52 main breaks (4.1 breaks/100 miles of pipe/year), and is well below the industry recommended target of 15 breaks/100 miles of pipe/year and reflects a highly reliable water system.

Flushing

The unidirectional flush teams cleaned 253 miles of main in 2018, approximately 20% of the distribution system. Additionally, 2,147 dead end mains were flushed.

H2O TO GO – Water Bottle Refill Stations

In 2018, Tacoma Water partnered with the City of Tacoma Public Works Department to install its second combination water bottle refill station-drinking fountain near South 38th Street and Yakima Ave as part of the Lincoln District Revitalization. The project goal is to communicate the value of Tacoma's water to customers by linking tap water to the Green River, to promote thoughtful and efficient water use and water as a renewable resource. Further installations are planned for 2019 and beyond with additional partners that include Metro Parks Tacoma and Tacoma Pierce County Health Department.

FINANCE AND ANALYTICS

Budget and Rate Development

On November 20th, the City Council unanimously approved Water's budget and cost of service rates for the 2019-2020 biennium. The approval of this package marked the culmination of an intensive policymaker and public review process that included more than 45 meetings with numerous customer groups, franchise cities, neighborhood councils and members of the community. Through this process, we worked to achieve alignment with policymakers, and ensure that we gave them ample opportunity to consider the policy implications of our budget and rate proposals and understand how, together, they support the strategic direction of the utility.

The \$228 million biennial budget reflects thousands of hours of work done by Tacoma Water staff to make the most effective use of ratepayer dollars, and includes:

- a. Developing robust "business case" analyses for \$61 million of capital projects
- b. Remit a total of \$29 million of federal, state and local taxes and franchise fees
- c. Support \$53 million of debt service on outstanding revenue bonds and low-interest state loans
- d. Support 291 employees in the delivery of clean, reliable water to our service area every day

The rate proposal that supports this budget includes two 2.5% average rate adjustments per year, with class-specific adjustments each year between -3.2% and 4.9%. Average residential customers will see bill impacts of approximately \$1 per month for each of these adjustments, which will be implemented on January 1, 2019 and January 1, 2020. As a part of these adjustments, Tacoma Water will stop identifying public fire protection separately on customer bills. The rate design will still send a signal to customers to use water wisely, while continuing to pursue policy objectives of rate and revenue stability.

Wholesale Pricing Strategy Project

Tacoma Water continued work on innovative wholesale pricing methods in 2018, with the objective of increasing net revenue while managing supply risk. Market pricing concepts, as well as changes to the status quo "embedded cost" pricing approach, were discussed with wholesale customers in preparation for policymaker review in early 2019.

Adaptive Insights Reporting Platform Deployment

In 2018, the Financial Stewardship team deployed a tool called Adaptive Insights across Tacoma Water to improve the visibility and timeliness of expense reporting. This platform will enable stakeholders across Tacoma Water to view the enterprise capital project portfolio status, including scope, schedule, and budget, understand the causes of projects that are off track, and ensure that all stakeholders are looking at the same version of the truth. It will do the same for operations and maintenance expenses, and will facilitate regular discussions with cost center managers and improve proactive expense management.

Performance Management

The Programs and Analytics group hired one employee in 2018 to begin building an enterprise organizational performance management platform for Tacoma Water. The purpose of this work is to help the organization improve alignment behind common goals and targets, monitor performance against those targets, and identify the need to make course corrections along the way. Ultimately, this platform will increase the capacity of the organization to continuously improve the way it does business. It should also help individual employees see their role in contributing to the success of the organization as a whole, and improve our ability to execute against our strategic plan. The bulk of the work done in 2018 involved the introduction of performance management concepts to the organization, assessing our maturity across the various

dimensions of performance management, and establishing a roadmap towards our desired level of maturity in upcoming years.

Analytics Strategy and Ops Analytics Use Case

The Programs and Analytics group completed significant work in 2018 to develop a roadmap for analytics maturity at Tacoma Water. Working with other departments within Tacoma Water and across TPU and the City, this group engaged in formalizing an Analytics Steering Committee that is comprised of members from UTS, Power, Water, and ITD. It has developed enterprise communications to improve organizational understanding of the value of data management and analytics. This group has also provided leadership and analytical support to a project involving two analytics use cases – power natural resources, and water quality. This project has yielded critical insights into the current state of analytics maturity within Tacoma Water and across City Government, enabled the organization to collaboratively make investments in analytical infrastructure, and set the table for TPU to formalize a strategy around data management and analytics. The group has also engaged heavily in the City's deployment of SAP HANA, aiding in the formation of a project plan and project management.

THANK YOU FOR THIS OPPORTUNITY TO SHARE WHAT HAS BEEN HAPPENING AT TACOMA WATER IN 2018. WE LOOK FORWARD TO THE 2019 REPORT TO CONTINUE THE CONVERSATION!



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.

ANNUAL

TACOMA RAIL

2018

**FINANCIAL
REPORT**



Public Utility Board

WOODROW JONES

Chair

KAREN LARKIN

Vice-Chair

BRYAN FLINT

Secretary

MARK PATTERSON

Member

CHRISTINE COOLEY

Member

JACKIE FLOWERS

Director of Utilities

DALE KING

Rail Superintendent

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA RAIL

TABLE OF CONTENTS

FINANCIAL DATA

INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT DISCUSSION AND ANALYSIS	3 - 9
STATEMENTS OF NET POSITION	11 - 12
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	14
STATEMENTS OF CASH FLOWS	15 - 16
NOTES TO FINANCIAL STATEMENTS	17 - 33

REQUIRED SUPPLEMENTARY INFORMATION

PROPORTIONATE SHARE OF THE COLLECTIVE OPEB LIABILITY.	36
---	----

STATISTICAL DATA (UNAUDITED)

TEN-YEAR FINANCIAL REVIEW.....	39 - 40
TEN-YEAR SWITCHING STATISTICS.....	41 - 42
COMPARISON OF CARS SWITCHED & SWITCHING REVENUES	43
FUNDS AVAILABLE FOR DEBT SERVICE	44
TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS	45
GRAPHS	46 - 49

SUPERINTENDENT'S REPORT (UNAUDITED).....	50 - 51
---	----------------

This page has been left blank intentionally.

FINANCIAL DATA

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Department of Public Utilities, Rail Division (the Division), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Tacoma, Department of Public Utilities, Rail Division as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the Rail Division adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective December 31, 2017. Financial statements as of and for the year ended December 31, 2017, have been restated for this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The statistical data on pages 39 through 49 and the superintendent's report on pages 50 through 51 are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, on our consideration of City of Tacoma, Department of Public Utilities, Rail 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 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.

Mass Adams LLP

Tacoma, Washington
May 28, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Rail's financial performance provides an overview of the financial activities for the years ended December 31, 2018, 2017 and 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2018 and 2017, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of Tacoma Rail's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, capital and related financing, non-capital financing and investing activities.

The Notes to Financial Statements provide additional disclosures that are essential to a full understanding of the data provided in the financial statements. They are an integral part of Tacoma Rail's presentation of financial position, results of operations and changes in cash flow.

Financial Highlights

Tacoma Rail continued to meet its goal of providing efficient, cost-effective rail service in its service territory. Doing so requires a continued investment in infrastructure and enforcing a disciplined tactical plan to respond to growth in local, national and world economies as they pertain to the rail industry.

The operating results for Tacoma Rail in 2018 indicate an increase in both intermodal and non-intermodal traffic. Tacoma Rail's agreement with the Union Pacific to assemble 10,000-foot intermodal trains on a daily basis proved a major success in 2018. An increase of more than 10,100 domestic intermodal railcars were handled by Tacoma Rail on behalf of Union Pacific. Unit trains were up versus the prior year, otherwise the commercial business was flat. Locomotive servicing revenues continue to

increase due to the inherent value the service provides to the Union Pacific and BNSF operations.

Overview of the Financial Statements

Tacoma Rail is reporting a change in net position of \$2.0 million in 2018, compared to (\$10.2) million in 2017, an increase of \$12.1 million. The increase in net position is predominately due to an increase of \$2.4 million in operating revenues, offset with a decrease of \$9.1 million in operating expenses, an increase of \$0.8 million in non-operating revenues, and an increase of \$76,000 in contributions.

In 2017, Tacoma Rail realized a change in net position of (\$10.2) million, compared to \$2.0 million in 2016, a decrease of \$12.1 million. The decrease in net position was due to a decrease of \$0.1 million in operating revenues, an increase of \$10.2 million in operating expenses, and a decrease in non-operating revenue of \$1.0 million. As a result of the implementation of GASB 75, the net OPEB Liability was restated and greatly contributed to the overall decrease in net position.

The following table highlights Tacoma Rail's past three years' operating results.

OPERATING RESULTS (in thousands)					
<u>Description</u>	<u>2018</u>	<u>2017 As Restated</u>	<u>2016</u>	<u>18/17 Increase (Decrease)</u>	<u>17/16 Increase (Decrease)</u>
Operating Revenues	\$ 33,165	\$ 30,717	\$ 30,827	\$ 2,448	\$ (110)
Operating Expenses	29,786	38,837	28,608	(9,051)	10,229
Operating Income (Loss)	3,379	(8,120)	2,219	11,499	(10,339)
Net Non-Operating Revenues	1,215	458	1,425	757	(967)
Contributions	112	36	939	76	(903)
Transfers Out	(2,751)	(2,549)	(2,591)	(202)	42
Change in Net Position	<u>\$ 1,955</u>	<u>\$ (10,175)</u>	<u>\$ 1,992</u>	<u>\$ 12,130</u>	<u>\$ (12,167)</u>

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.

As a result of the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Net OPEB Obligation was replaced by the Total OPEB Liability resulting in a restatement of the December 31, 2017 net position in the amount of \$9.3 million.

STATEMENTS OF NET POSITION
(in thousands)

<u>Description</u>				18/17	17/16
	<u>2018</u>	<u>2017</u> <u>As Restated</u>	<u>2016</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Capital Assets (Net)	\$ 26,113	\$ 26,706	\$ 28,217	\$ (593)	\$ (1,511)
Current and Other Assets	18,694	13,964	14,026	4,730	(62)
Deferred Outflows	994	114	-	880	114
Total Assets and Deferred Outflows	\$ 45,801	\$ 40,784	\$ 42,243	\$ 5,017	\$ (1,459)
Invested in Capital Assets, Net of Related Debt	\$ 20,890	\$ 20,662	\$ 22,003	\$ 228	\$ (1,341)
Restricted Net Position	-	-	65	-	(65)
Unrestricted Net Position	(76)	(1,803)	6,966	1,727	(8,769)
Total Net Position	20,814	18,859	29,034	1,955	(10,175)
Long-Term Debt	4,403	5,223	5,397	(820)	(174)
Current Liabilities	3,421	2,241	3,794	1,180	(1,553)
Long-Term Liabilities	16,873	14,461	4,018	2,412	10,443
Total Liabilities	24,697	21,925	13,209	2,772	8,716
Deferred Inflows	290	-	-	290	-
Total Net Position, Liabilities and Deferred Inflows	\$ 45,801	\$ 40,784	\$ 42,243	\$ 5,017	\$ (1,459)

Revenues

2018 Compared to 2017

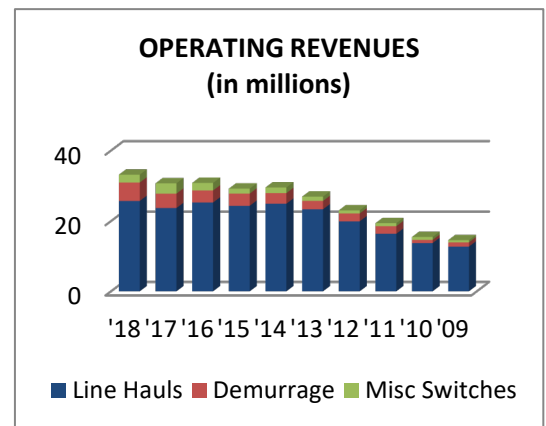
In 2018, Tacoma Rail operating revenues of \$33.2 million were \$2.5 million higher than the \$30.7 million in 2017. Overall switching revenues increased \$1.3 million (4.8%), from 2017. The following table summarizes the switching revenues by activity type for the last two years.

Activity Types	Rail Cars				Switching Revenues (in thousands)			
	2018	2017	Var	%Chg	2018	2017	Var	%Chg
Intermodal Line Hauls	66,661	61,300	5,361	8.7%	\$ 11,265	\$ 10,544	721	6.8%
Commercial Line Hauls	28,264	27,762	502	1.8%	14,029	12,875	1,154	9.0%
Capital Div. Line Hauls	753	686	67	9.8%	419	286	133	46.5%
Miscellaneous Switches	13,041	17,382	(4,341)	-25.0%	2,220	2,944	(724)	-24.6%
Total Line Hauls	108,719	107,130	1,589	1.5%	\$ 27,933	\$ 26,649	\$ 1,284	4.8%

Demurrage and other operating revenues increased \$1.2 million. Demurrage revenue increased by \$218,000 and locomotive servicing revenue and other revenue increased \$1.0 million. This is due to increased locomotive servicing, increase in fuel price and allowing customers railcars to dwell in transit longer than in 2017.

2017 Compared to 2016

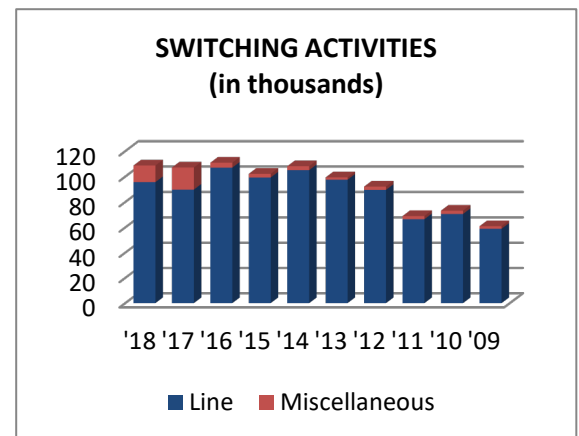
In 2017, Tacoma Rail operating revenues of \$30.7 million were \$0.1 million lower than the \$30.8 million in 2016. Overall switching revenues decreased \$0.8 million (2.8%), from 2016.



Switching Activities

Switching activities increased in 2018 by 1,589 cars (1.5%) to 108,719, from 107,130 in 2017. The most significant increase in switching activity can be seen in intermodal line-hauls which were up by 5,361 cars (8.7%) due to an increase in intermodal line haul rail traffic. The average number of cars switched over the last ten years is 93,162.

During 2017, total switching activities decreased by 3,792 cars (3.4%) from 2016. The decrease in intermodal line haul rail traffic was the dominant factor. Intermodal line-hauls were down by 15,414 cars (20.1%) in 2017.



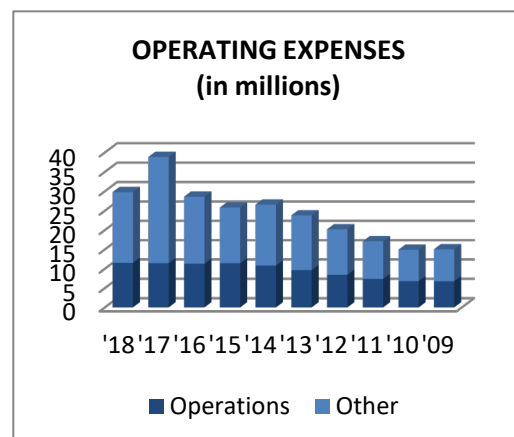
The table below shows the changes in switching volumes for the last three years.

SWITCHING ACTIVITIES			18/17	17/16
			Increase	Increase
<u>Description</u>	<u>2018</u>	<u>2017</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
Line Hauls	95,678	89,748	5,930	(17,311)
Miscellaneous Switches	13,041	17,382	(4,341)	13,519
Total Cars Switched	108,719	107,130	1,589	(3,792)

Expenses

2018 Compared to 2017

In 2018, Tacoma Rail operating expenses of \$29.8 million were \$9.0 million lower than the \$38.8 million in 2017. Repair and maintenance materials and services increased \$2.4 million due to more heavy track maintenance activities. An increase in fuel prices of \$0.6 million also contributed to higher expenses. These increases were off-set with IBNR claims credit adjustment of \$1.7 million and a decrease in volume incentive of \$1.0 million. Due to the implementation of GASB 75 in 2017, Administration expenses decreased \$12.7 million in 2018.



2017 Compared to 2016

In 2017, Tacoma Rail operating expenses of \$38.8 million were \$10.2 million higher than the \$28.6 million in 2016. This was primarily due to an increase of \$0.4 million in salaries and wages, an increase of \$0.4 million in supplies and expenses, and the implementation of GASB 75 in the amount of \$9.3 million. Depreciation also increased \$0.1 million due to an increase in depreciable assets compared to the same period.

Capital Assets

Total Capital Assets decreased \$0.6 million during 2018. The decrease was primarily due to the accumulated depreciation of \$1.7 million off-set with the additions of \$0.6 million in road and equipment property in service and \$0.5 million of new activity in Construction Work In Progress. \$0.6 million additions included the new railroad at-grade crossing on Alexander Ave, including a new switch and lead, to accommodate secondary access into the future Wallenius Wilhelmsen Logistics auto terminal facility. In 2018, Construction Work in Progress additions were \$1.1 million versus \$0.8 million in 2017.

During 2017, total Capital Assets decreased \$1.5 million. This decrease was reflected primarily in \$1.0 million in retirements and a decrease in the amount of new activity in Construction Work in Progress. Road property plant increased \$1.2 million for track upgrades and rehabilitation projects such as Taylor Way Wye Track, Transfer Yard Connection and West End Configuration.

The following table summarizes Tacoma Rail's capital assets, net of accumulated depreciation, for the last three years.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION
(in thousands)

<u>Description</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>18/17</u>	<u>17/16</u>
				Increase (Decrease)	Increase (Decrease)
Land	\$ 160	\$ 160	\$ 167	\$ -	\$ (7)
Road Property Plant	15,733	16,165	14,928	(432)	1,237
Building	1,772	1,932	2,040	(160)	(108)
Machinery Equipment	7,649	8,176	8,702	(527)	(526)
Office and Fixture	64	95	126	(31)	(31)
Construction Work In Progress	735	178	2,254	557	(2,076)
Total Net Capital Assets	<u>\$ 26,113</u>	<u>\$ 26,706</u>	<u>\$ 28,217</u>	<u>\$ (593)</u>	<u>\$ (1,511)</u>

Additional information on Tacoma Rail's capital assets can be found in Note 4 to the Financial Statements.

Debt Administration

In 2018, no new Washington State loans from the Department of Transportation were obtained.

In 2017, no new Washington State loans from the Department of Transportation were obtained for Tacoma Rail. Draws were taken in 2017 on Transfer Yard Connection (Phase 3), West Lead High Side Rebuild and Taylor Wye Rehabilitation in the amounts of \$33,821, \$369,519 and \$311,457 respectively.

The following table shows the outstanding long-term debt balances for the past three years. Additional information on Tacoma Rail's long-term debt can be found in Note 5 to the Financial Statements.

LONG-TERM DEBT
(in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>18/17</u>	<u>17/16</u>
				Increase (Decrease)	Increase (Decrease)
Long-Term Debt Balance, December 31	\$5,223	\$6,044	\$6,213	(\$821)	(\$169)

Debt Service Coverage

Tacoma Rail is required by its bond covenants to maintain a 1.25 times debt service coverage. In 2018 and 2017, Tacoma Rail had no bonds, only interest free loans. In 2016, principal and interest were covered 19.68 times.

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 Rail'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 independently 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 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.

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF NET POSITION

	DECEMBER 31,	
	2018	2017 (As Restated)
ASSETS		
CAPITAL ASSETS		
Road and Equipment Property	\$47,174,783	\$46,585,758
Less Accumulated Depreciation	(21,796,237)	(20,058,523)
Total	25,378,546	26,527,235
Construction Work in Progress	734,853	178,476
Net Capital Assets	26,113,399	26,705,711
CURRENT ASSETS		
Cash & Equity in Pooled Investments	12,686,178	8,729,263
Customer Accounts Receivable	3,472,293	3,222,019
(Net of Allowance for Doubtful Accounts of \$163,474 in 2018 and \$157,883 in 2017)		
Interfund Receivable	16,786	157,958
Prepayments	1,305,685	688,313
Materials and Supplies Inventory	1,212,852	1,166,772
Total Current Assets	18,693,794	13,964,325
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for OPEB	993,546	114,073
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$45,800,739	\$40,784,109

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

	DECEMBER 31,	
	2018	2017 (As Restated)
NET POSITION AND LIABILITIES		
NET POSITION		
Net Investment in Capital Assets.....	\$20,889,915	\$20,661,984
Unrestricted	(76,202)	(1,803,072)
TOTAL NET POSITION	20,813,713	18,858,912
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
State Loans.....	4,403,234	5,223,477
Total Long-Term Debt	4,403,234	5,223,477
CURRENT LIABILITIES		
Accounts Payable	1,273,977	753,674
Wages Payable and Compensated Absences	373,678	315,741
Unemployment and Other Tax Payables	334,953	289,858
Volume Incentive Payable	291,668	-
Current Portion of Long-Term Debt	820,250	820,250
Interfund Payable	326,936	60,733
Total Current Liabilities	3,421,462	2,240,256
LONG-TERM LIABILITIES		
On the Job Injury Reserve	810,912	829,761
Long-Term Portion of Compensated Absences	1,064,965	1,011,762
Pension Withdrawl Liability	2,320,000	-
OPEB Liability	12,179,967	11,048,417
Incurred but not Reported Claims	496,684	1,571,524
Total Long-Term Liabilities	16,872,528	14,461,464
TOTAL LIABILITIES	24,697,224	21,925,197
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows for OPEB	289,802	-
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS		
	<u>\$45,800,739</u>	<u>\$40,784,109</u>

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2018	2017 (As Restated)
OPERATING REVENUES		
Switching Revenues	\$27,933,469	\$26,648,873
Demurrage and Other Operating Revenues	5,231,761	4,068,008
Total Operating Revenues	33,165,230	30,716,881
OPERATING EXPENSES		
Maintenance of Way and Structures	3,358,643	2,202,950
Mechanical	7,505,089	5,227,384
Operations	11,517,919	11,429,489
Administration	5,201,024	17,901,356
Taxes - State	465,808	432,081
Depreciation	1,737,714	1,644,373
Total Operating Expenses	29,786,197	38,837,633
Net Operating Income	3,379,033	(8,120,752)
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	152,072	68,420
Loss from Disposition of Property	-	(649,715)
Miscellaneous	1,062,250	1,039,772
Interest Expense	-	(6)
Total Non-Operating Revenues	1,214,322	458,471
Contributions - Grants	112,306	-
Contributions - Others	-	36,254
Total Contributions	112,306	36,254
Transfers		
City of Tacoma Gross Earnings Tax	(2,750,860)	(2,548,959)
Total Transfers	(2,750,860)	(2,548,959)
CHANGE IN NET POSITION	1,954,801	(10,174,986)
TOTAL NET POSITION - BEGINNING OF YEAR	18,858,912	29,033,898
TOTAL NET POSITION - END OF YEAR	\$20,813,713	\$18,858,912

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	DECEMBER 31, 2018	DECEMBER 31, 2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$33,056,128	\$30,469,510
Cash Paid to Suppliers	(7,679,348)	(11,134,999)
Cash Paid to Employees	(17,609,274)	(15,866,186)
Taxes Paid	(420,713)	(432,233)
Net Cash From Operating Activities	7,346,793	3,036,092
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(2,750,860)	(2,548,959)
Net Cash From Financing Activities	(2,750,860)	(2,548,959)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, Net	(1,145,403)	(133,340)
Principal Payments on Long-Term Debt	(820,243)	(884,488)
Interest Paid	-	(872)
Proceeds from Capital Contributions	112,306	36,254
Proceeds from Long-Term Debt	-	714,797
Proceeds from Other Non-Operating Revenues	1,062,250	390,057
Net Cash Used in Capital and Related Financing Activities	(791,090)	122,408
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	152,072	68,420
Net Cash From Investing Activities	152,072	68,420
Net Increase (Decrease) in Cash and Equity in Pooled Investments	3,956,915	677,961
Cash & Equity in Pooled Investments at January 1	8,729,263	8,051,302
Cash & Equity in Pooled Investments at December 31	<u>\$12,686,178</u>	<u>\$8,729,263</u>

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

	YEAR TO DATE	
	DECEMBER 31, 2018	DECEMBER 31, 2017 (As Restated)
Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities:		
Operating Income	\$3,379,033	(\$8,120,752)
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities:		
Depreciation	1,737,714	1,644,373
Other Contingent Liability	2,320,000	-
Net OPEB Liability (credit)	541,879	9,932,455
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable	(250,274)	(88,740)
Interfund Receivable	141,172	(148,131)
Materials and Supplies Inventory	(46,079)	(142,439)
Prepayments	(617,372)	1,118,897
Accounts Payable	520,303	(132,016)
Customer Deposits	-	(10,500)
Unemployment and other Tax Payables	45,095	(152)
Wages Payable and Compensated Absences.....	57,937	35,919
Volume Incentive Payable	291,668	(1,249,999)
Interfund Payable	266,203	(199,785)
Long-Term Portion of Compensated Absences	53,203	8,118
On the Job Injury Reserve	(18,849)	56,354
Incurred but not Reported Claims	(1,074,840)	332,490
Total Adjustments	3,967,760	11,156,844
Net Cash From Operating Activities	\$7,346,793	\$3,036,092

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA RAIL - Tacoma Rail (the Division) is a division of the City of Tacoma, Department of Public Utilities, which also operates the Power and the Water Divisions and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. Tacoma Rail provides rail switching services to the Port of Tacoma and major Tacoma industries under its Tidelands Division. Tacoma Rail also provides rail service from its Capital Division. The Capital Division interchanges rail cars with BNSF in East Olympia. No traffic for the Capital Division enters Tacoma Rail's Tidelands infrastructure. In addition, Tacoma Rail manages the Mountain Division which is a reporting unit within Public Works and is included in the City's CAFR. Tacoma Rail is reimbursed for direct expenses. An operating agreement between Tacoma Rail and the Mountain Division is in place through 2019.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CHANGE IN ACCOUNTING PRINCIPLE – Effective for the fiscal year 2018, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions. It replaces the requirement of GASB statements No. 45 and No. 57. Specifically, this statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. It identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefits payments to their actuarial present value, and attribute that present value to periods of employee service. Requirements were also established for note disclosures and required supplemental information. The Division has made the required adjustments as prescribed by GASB Statement No. 75. As a result of this implementation the Net OPEB Obligation was replaced by the total OPEB Liability resulting in a restatement of the December 31, 2017 balances. For further information please see Note 12 Restatements of 2017 Balances.

GASB Statement No. 85 – *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (both pensions and other postemployment benefits other than pensions). Where applicable, the Division has made the required adjustments as prescribed by GASB Statement No. 85.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which existing resources are placed into an irrevocable trust for the sole purpose of extinguishing debt. It improves the accounting and financial reporting for prepaid insurance on debt that is extinguished and improves the required note disclosures for debt that is defeased in substance. The Division has made the required adjustments as prescribed by GASB Statement No. 86.

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

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

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 RCW), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds 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 East West Bank, Opus Bank and Home Street Bank.

The Division's equity in that portion of City Tacoma Investment Pool held in qualified public depositories at December 31, 2018 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 FDIC insurance up to \$250,000. All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

CUSTOMER ACCOUNTS RECEIVABLE - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts.

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

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

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

SPECIAL FUNDS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. As of fiscal year end 2018, there were zero funds in special funds.

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

Depreciation is recorded using the straight-line method at the beginning of the year and based on estimated economic lives of operating assets placed in service as follows:

Roads RR & bridges	7 – 20 years
Building	10 – 25 years
Machinery Equipment	10 – 25 years
Office and Fixture	5 – 20 years

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

CONTRIBUTIONS - In accordance with Generally Accepted Accounting Principles, Accounting and Financial Reporting for Non-exchange Transactions, grants and contributions are recorded as contribution revenue.

COMPENSATED ABSENCES – The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO (personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new 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 an expense in the year earned.

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

OPERATING REVENUES - Service rates are authorized by the Tacoma City Council. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year-end. Revenues are based on services rendered through the end of the year.

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

TAXES – The City charges the Division Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays business and occupation tax to the State at the rate of 1.5% on service revenues. The Division is exempt from payment of federal income tax.

NET POSITION – The Statement of Net Position reports all financial and capital resources. The difference between assets and 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 that are attributable to the acquisition, construction, or improvements of those assets.

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

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

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

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

ON THE JOB INJURY RESERVE - Liabilities for claims are initially recorded when the expected loss is both probable and reasonably estimated. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. Liabilities recorded for unasserted on the job injury claims are based on information currently available. Estimates of liabilities for on the job injury claims are undiscounted.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, general economic conditions, fuel supply availability and rising fuel prices, weather and natural disaster-related disruptions, collective bargaining labor disputes, federal government regulations such as Federal Railroad Administration and Environmental Protection Agency or orders concerning the operation, maintenance and/or licensing of facilities, transportation of chemicals and other hazardous materials, acts of terrorism, war, or risk of war.

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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			
Debt Securities	12/31/2018	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 282,822,308	\$ -	\$ 282,822,308	\$ -
U.S. Agency Securities	447,015,280	-	447,015,280	-
Supranational Securities	19,814,100	-	19,814,100	-
Municipal Bonds	35,748,647	-	35,748,647	-
Corporate Securities	24,607,491	-	24,607,491	-
	<u>\$ 810,007,826</u>	<u>\$ -</u>	<u>\$ 810,007,826</u>	<u>\$ -</u>

	As of			
Debt Securities	12/31/2017	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 218,142,864	\$ -	\$ 218,142,864	\$ -
U.S. Agency Securities	517,345,818	-	517,345,818	-
Supranational Securities	19,966,040	-	19,966,040	-
Municipal Bonds	40,760,727	-	40,760,727	-
	<u>\$ 796,215,449</u>	<u>\$ -</u>	<u>\$ 796,215,449</u>	<u>\$ -</u>

Tacoma Rail's share of the City Investments shown in the table above is 1.20% and 0.94% as of December 31, 2018 and 2017.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2018 and 2017 follows:

	Balance December 31, 2017	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2018
Land	\$ 160,456	\$ -	\$ -	\$ -	\$ 160,456
Road Property Plant	28,421,562	589,025	-	-	29,010,587
Building	4,504,209	-	-	-	4,504,209
Machinery Equipment	12,813,816	-	-	-	12,813,816
Office and Fixture	685,715	-	-	-	685,715
Total Capital Asset In Service	46,585,758	589,025	-	-	47,174,783
Less Accumulated Depreciation	(20,058,523)	(1,737,714)	-	-	(21,796,237)
	26,527,235	(1,148,689)	-	-	25,378,546
Construction Work in Progress	178,476	1,148,422	-	(592,045)	734,853
Net Capital Assets	<u>\$ 26,705,711</u>	<u>\$ (267)</u>	<u>\$ -</u>	<u>\$ (592,045)</u>	<u>\$ 26,113,399</u>

	Balance December 31, 2016	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2017
Land	\$ 167,256	\$ -	\$ -	\$ (6,800)	\$ 160,456
Road Property Plant	26,685,617	2,818,803	(1,082,858)	-	28,421,562
Building	4,457,044	40,003	-	7,162	4,504,209
Machinery Equipment	12,814,201	-	-	(385)	12,813,816
Office and Fixture	685,642	-	-	73	685,715
Total Capital Asset In Service	44,809,760	2,858,806	(1,082,858)	50	46,585,758
Less Accumulated Depreciation	(18,847,293)	(1,644,373)	433,143	-	(20,058,523)
	25,962,467	1,214,433	(649,715)	50	26,527,235
Construction Work in Progress	2,254,277	798,362	-	(2,874,163)	178,476
Net Capital Assets	<u>\$ 28,216,744</u>	<u>\$ 2,012,795</u>	<u>\$ (649,715)</u>	<u>\$ (2,874,113)</u>	<u>\$ 26,705,711</u>

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 LONG-TERM DEBT

Long-term debt activities for 2018 and 2017 were as follows:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Department of Transportation State Loans	6,043,727	-	(820,243)	5,223,484	820,250
Total Long-Term Debt	<u>\$ 6,043,727</u>	<u>\$ -</u>	<u>\$ (820,243)</u>	<u>\$ 5,223,484</u>	<u>\$ 820,250</u>

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
Revenue Bonds	\$ 64,238	\$ -	\$ (64,238)	\$ -	\$ -
Department of Transportation State Loans	6,149,180	714,797	(820,250)	6,043,727	820,250
Total Long-Term Debt	<u>\$ 6,213,418</u>	<u>\$ 714,797</u>	<u>\$ (884,488)</u>	<u>\$ 6,043,727</u>	<u>\$ 820,250</u>

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT

**Washington State Department of Transportation Loans
(WSDOT)**

	2018	2017
2009 WSDOT loan for locomotive idling improvement, with 0% interest, due in yearly installments of \$1,759 from 2010 through 2024	10,554	12,313
2009 WSDOT loan for locomotive servicing facility upgrades, with 0% interest, due in yearly installments of \$16,630 from 2011 through 2025	116,412	133,042
2011 WSDOT loan for locomotive repower, with 0% interest, due in yearly installments of \$45,000 from 2013 through 2022	180,000	225,000
2012 WSDOT loan for Tacoma Rail Annie Tracks 1&2 Rail Relay, with 0% interest, due in yearly installments of \$61,200 from 2013 through 2022	244,800	306,000
2012 WSDOT loan for Yard Tracks 2, 3 & 4, with 0% interest, due in yearly installments of \$34,859 from 2013 through 2022	139,437	174,296
2013 WSDOT loan for East 11th Street Crossing, with 0% interest, due in yearly installments of \$34,732 from 2014 through 2023	173,660	208,392
2013 WSDOT loan for Yard Tracks 5 & 6, with 0% interest, due in yearly installments of \$36,394 from 2014 through 2023	181,968	218,362
2013 WSDOT loan for Yard Tracks 8 & 9, with 0% interest, due in yearly installments of \$61,863 from 2015 through 2024	371,174	433,037
2013 WSDOT loan for Port Pass West, with 0% interest, due in yearly installments of \$25,000 from 2015 through 2024	149,997	174,997
2013 WSDOT loan for N. Intermodal Yard lead track, with 0% interest, due in yearly installments of \$36,639 from 2016 through 2025	256,470	293,109
2013 WSDOT loan for East Loop 17th St., with 0% interest, due in yearly installments of \$77,307 from 2016 through 2025	541,149	618,456
2013 WSDOT loan for Taylor Way Track Rehabilitation, with 0% interest, due in yearly installments of \$110,506 from 2016 through 2025	773,540	884,046
2013 WSDOT loan for West Loop, with 0% interest, due in yearly installments of \$51,577 from 2016 through 2025	361,039	412,616
2014 WSDOT loan for SR509 Track Improvements, with 0% interest, due in yearly installments of \$91,000 from 2016 through 2025	637,005	728,005
2015 WSDOT loan for Edwards Crossover Rehabilitation, with 0% interest, due in yearly installments of \$12,112 from 2017 through 2026	96,896	109,007
2015 WSDOT loan for East Lead Low Side Rebuild, with 0% interest, due in yearly installments of \$40,574 from 2017 through 2026	324,599	365,171

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Junior Lien Debt continued	2018	2017
2015 WSDOT loan for Transfer Yard Connection (Phase 3), with 0% interest, due in yearly installments of \$15,000 from 2017 through 2026	120,000	135,000
2015 WSDOT loan for West Lead High Side Rebuild, with 0% interest, due in yearly installments of \$36,952 from 2017 through 2026	295,617	332,567
2015 WSDOT loan for Taylor Wye Rehabilitation, with 0% interest, due in yearly installments of \$31,146 from 2017 through 2026	249,167	280,311
Subtotal Junior Lien Debt	5,223,484	6,043,727
Less Current Portion of Debt	(820,250)	(820,250)
Long-term Portion of Junior Lien Debt	<u>\$ 4,403,234</u>	<u>\$ 5,223,477</u>

Scheduled principal maturities on junior lien debts and interest payments are as follows:

	Principal	Interest
2019	\$ 820,250	\$ -
2020	\$ 820,250	\$ -
2021	\$ 820,250	\$ -
2022	\$ 820,250	\$ -
2023	\$ 694,183	\$ -
2024-2026	\$ 1,248,301	\$ -
	<u>\$ 5,223,484</u>	<u>\$ -</u>

Tacoma Rail's revenue bonds are secured by the net revenue of Tacoma Rail and all cash and investments held in the bond fund. The junior lien debt is subject to certain financial and non-financial covenants.

NOTE 6 SIGNIFICANT CUSTOMER

Tacoma Rail's predominate sources of revenue are Union Pacific (UP) and Burlington Northern Santa Fe (BNSF). Revenue from UP and BNSF represented 34% and 42% of total revenues, respectively, in 2018. Revenue in 2017 was 32% and 46%, respectively. Accounts receivable from UP and BNSF in 2018 represented 35% and 44% of total customer accounts receivable, respectively. Accounts receivable in 2017 was 37% and 35%, respectively.

NOTE 7 FLEET SERVICES FUND

The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of the Department vehicles and related equipment. Tacoma Rail pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Rail in 2018 and 2017 were \$627,082 and \$526,433, respectively.

NOTE 8 SELF-INSURANCE FUND

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

Tacoma Rail is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Rail and administrative expenses of the Fund. Tacoma Rail's premium payments totaled \$600,000 in 2018 and \$266,667 in 2017. Assets in the Self-Insurance Fund total \$7.9 million which exceeds accrued and incurred but not reported (IBNR) liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Rail's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

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

Other insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current property insurance policy has a deductible of \$250,000 for buildings and property within buildings and \$10,000 per vehicle. General government obtains coverage on general government's buildings and property within buildings with a limit of \$500,000 and a retention of \$150,000 with exceptions. For the Department, there is a self-insured retention of \$1.5 million for general liability. The public official liability policy has a \$250,000 deductible. The Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate.

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

NOTE 9 PENSION PLAN

Employees of Tacoma Rail are members of the United States Railroad Retirement System, in lieu of participating in Social Security and Tacoma Employees' Retirement System. The Railroad Retirement System is a payroll-based system. In 2018 and 2017, Tacoma Rail contributed \$2,169,591 and \$2,140,844 respectively, per structures set forth by the United States Railroad Retirement Board shown as follows:

	<u>EARNINGS BASE</u>	
	<u>2018</u>	<u>2017</u>
Employer Tier I	\$ 128,400	\$ 127,200
Employer Tier II	95,400	94,500
Employer Medicare	No Limit	No Limit
	<u>TAX RATE</u>	
	<u>2018</u>	<u>2017</u>
Employer Tier I	6.20%	6.20%
Employer Tier II	13.10%	13.10%
Employer Medicare	1.45%	1.45%

Information was unavailable to determine if an actuarial liability exists for the City, but the entire Federal system has an unfunded actuarial liability of \$51.3 billion as of December 31, 2016. There is currently no schedule to amortize the unfunded liability and the system is currently functioning on a pay-as-you-go basis. Rates are determined based on actuarial valuations, which occur every three years. The City's obligation is to pay, in full, the payroll withholdings to the system.

NOTE 10 WESTERN METAL INDUSTRY PENSION FUND

The City of Tacoma has approximately 113 employees who participate in the Western Metal Industry Pension Fund (Plan). The Plan is a cost-sharing, defined benefit, multiple-employer pension plan and is administered by the Board of Trustees. The Trustees and other Plan fiduciaries have discretionary authority to interpret the Plan and determine entitlement to Plan benefits.

In 2018, Rail Mechanics and Rail Track Workers elected to withdraw from the Plan effective December 31, 2018. Rail Yard Clerks are the only remaining members for the Rail Division. The Collective Bargaining Unit Agreement between the City of Tacoma and the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma Yard Clerk Unit is effective through December 31, 2019. For the year ending December 31, 2018 the Rail Division had 26 employees participating in the Plan. Effective, January 1, 2019, five Tacoma Rail employees will remain in the Plan. The Trustees have adopted the "free look" rule set forth in subsection 4210(a) of ERISA related to withdrawal liabilities. Please see Note 12 Commitments and Contingencies for further information regarding the withdrawal.

Information was unavailable to determine if an actuarial liability exists for the City in 2018, however, the Plan was in "critical" status in the Plan Year ended December 31, 2017. The Plan fell into critical status following the 2009 Plan Year and was certified as "critical" in 2010. In an effort to improve the Plan's funding situation, the Trustees adopted a Rehabilitation Plan on May 28, 2010 and subsequently updated it on July 24, 2012 and December 9, 2016.

The Rehabilitation Plan consists of reductions in adjustable benefits including early retirement benefits and retirement payment options, and contribution increases of 16% per year for up to 11 years over the current contribution level. These contribution increases do not translate into additional benefit accruals but instead are directed solely toward improving the Plan's funded status.

Annual reports also are available from the US Department of Labor, Employee Benefits Security Administration's Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202.693.8673. Or, a copy of the Plan's annual report may be obtained by making a written request to the Plan administrator.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

The employer is required to make contributions to the Plan absent terms of a Collective Bargaining Agreement.

The contributions rates for 2017 and 2018 by classification were as follows:

	Contribution Rates		
	July 1, 2016 - June 30, 2017	July 1, 2017 - June 30, 2018	July 1, 2018 - June 30, 2019
Mechanics	\$229.60 every two weeks	\$252 every two weeks	\$274.40 every two weeks
Track Workers	6.56% of gross wages	7.20% of gross wages	\$213.64 per pay period
Yard Clerks	\$1.26 per compensable hour	\$1.37 per compensable hour	\$1.48 per compensable hour

In 2017 and 2018 Tacoma Rail contributed \$132,371 and \$143,604, respectively.

There is currently no schedule to amortize the unfunded liability for the employees who are remaining within the Plan and the system is currently functioning on a pay-as-you-go basis. The City's obligation is to pay, in full, the payroll withholdings to the system.

NOTE 11 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.

Benefits 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, 2017 for non-LEOFF 1 members includes 3,490 active participants, 476 deferred retirees, 150 retirees, and 105 spouses of current retirees. The membership as of January 1, 2018 for LEOFF 1 members includes 1 active participant and 406 retirees.

The plan is funded on a pay-as-you-go bases and there are no assets accumulated in a qualifying trust.

ACTUARIAL ASSUMPTIONS AND OTHER INPUTS - The Valuation Date is January 1, 2017 for non-LEOFF 1 members and January 1, 2018 for 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, 2017. This is the date as of which the total OPEB liability is determined. The Reporting Date is December 31, 2018. This is the Division's fiscal year ending date.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2017 and January 1, 2018 furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date: January 1, 2017
Census Date: January 1, 2017
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: 3.44% for pay-as-you-go funding

Medical Cost Trend:

2017	9.10%
2018	6.40%
2019	5.80%
2020	5.30%
2030	5.40%
2040	5.50%
2050	5.20%

Note that the trend for year 2017 reflects the amount by which 2018 medical cost are expected to exceed 2017 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.40% 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. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions -
Discount Rate (Liabilities):

3.44%

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.

Rail - Certain Rail employees and their spouses are entitled to employer-paid retiree medical benefits until age 65 when retiring at age 60 with 30 years of service.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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 3.44% from 3.78%. 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, 2018 the Division reporting a liability of \$12,179,967 for its proportionate share of the collective total OPEB liability of \$220.8 million. The OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of January 1, 2017. At December 31, 2016 the participating Division's proportion was 5.28058% as compared to 5.51599% at December 31, 2017. For the year ended December 31, 2018 Tacoma Rail recognized an OPEB expense of \$541,879.

At December 31, 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ -
Changes of assumptions	-	417,842
Changes in Employer Proportion	-	411,797
Differences in Contributions	(289,802)	-
Contributions Made Subsequent to the Measurement Date	-	163,907
Total	\$ (289,802)	\$ 993,546

The Division reported \$163,907 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2019	\$	137,569
2020	\$	137,569
2021	\$	137,569
2022	\$	137,569
2023	\$	137,569
Thereafter	\$	13,754
	\$	<u>701,599</u>

SENSITIVITY OF THE DIVISION'S PROPORTIONATE SHARE OF THE OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 3.44%, 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 (2.44%) or one percentage point higher (4.44%) than the current rate.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

	1% Decrease 2.44%	Current Discount Rate 3.44%	1% Increase 4.44%
Net OPEB liability	\$ 13,851,142	\$ 12,179,967	\$ 10,794,564

SENSITIVITY OF THE DIVISION'S PROPORTIONATE SHARE OF THE OPEB LIABILITY TO CHANGES IN THE HEALTHCARE COST TREND RATES

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
Net OPEB liability	\$10,717,322	\$ 12,179,967	\$ 13,930,805

EXCISE TAX FOR HIGH COST OR "CADILLAC" HEALTH PLANS IN 2020 AND BEYOND – An excise tax for high cost health coverage or "Cadillac" health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The Consolidated Appropriations Act (CAA), which was signed into law in December 2015, delays the tax for two years, until 2020.

GASB Statement No. 75, indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current "substantive" plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

There is significant uncertainty with respect to the excise tax at this time. President Trump recently signed an executive order which gives instruction to the leaders of the new administration to unwind certain aspects of the ACA, especially those components deemed "burdensome." It remains unclear how this would be implemented, especially due to the interconnected nature of the ACA. The City has continued to value the excise tax as it currently appears in the tax code, but will monitor this situation carefully going forward.

NOTE 12 RESTATEMENTS OF 2017 BALANCES

Due to the Divisions adoption of GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, the 2017 financial statements and its net position as of December 31, 2017 were restated to conform to the reporting requirements.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Revised balances are shown in the following schedule:

	As Previously Reported	Restatement Adjustment	As Restated
STATEMENT OF NET POSITION			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows for OPEB	\$ -	\$ 114,073	\$ 114,073
NONCURRENT LIABILITIES			
OPEB Liability	1,625,881	9,422,536	11,048,417
NET POSITION - End of year	28,167,375	(9,308,463)	18,858,912
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING EXPENSES			
Administration	\$ 8,592,893	\$ 9,308,463	\$ 17,901,356

NOTE 13 COMMITMENTS AND CONTINGENCIES

CLAIMS STEMMING FROM THE AMTRAK DERAILMENT ON DECEMBER 18, 2017, IN DUPONT, WASHINGTON:

Five individuals filed claims and all were denied, for an unspecified amount for alleged damages arising from a derailment of an Amtrak passenger train in DuPont, Washington on December 18, 2017. It is alleged that Tacoma Rail owned, planned, built, financed, approved, inspected, maintained or repaired the tracks. To date, no lawsuits have been filed. Amtrak has agreed to indemnify Tacoma Rail and has accepted Tacoma Rail's tender of these claims.

GENERAL LEGAL MATTERS - Tacoma Rail is involved in various litigations in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on Tacoma Rail's financial position beyond amounts already accrued as of December 31, 2018.

TACOMA RAIL OPERATION OF CITY OF TACOMA, DEPARTMENT OF PUBLIC WORKS ("PUBLIC WORKS"), MOUNTAIN DIVISION - Public Works owns approximately 142 miles of track, called Mountain Division, that connects to Tacoma Rail track in Tacoma, Washington. Tacoma Rail is under contract with Public Works to perform as its operator through 2019. The agreement states that Public Works would fund Tacoma Rail for any operations on the Mountain Division.

WESTERN METAL INDUSTRY PENSION FUND (WMIPF) WITHDRAWAL

On December 11, 2018 the Tacoma City Council approved the collective bargaining agreements for the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma Rail Mechanics and Track Workers. Contained in these agreements were a call for cessation of the participation in the Western Metal Industry Pension Fund (WMIPF). The contributions submitted for the December 31, 2018, payroll was the final contributions made on behalf of the employees in those two units.

WMIPF remains in “critical” status in the Plan Year ended December 31, 2017 after being certified as “critical” in the 2010 Plan Year. WMIPF provided the City of Tacoma with a Partial Withdrawal Liability Estimate for the Rail Mechanics and Track Workers. Because the withdrawal of these two bargaining units constitutes a partial withdrawal of the City of Tacoma controlled group, a final partial withdrawal liability assessment cannot be completed until made available by WMIPF in 2020. The cause of the delay is due to the calculation requiring the use of contributory base unit data for the 2019 Plan Year.

The Rail Division has recognized a Partial Withdrawal Liability in the amount of \$2,320,000 as the expected loss is both probable and reasonably estimated.

REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	Fiscal Year Ended December 31st,	
	2018	2017
Employer's proportion of the collective OPEB liability as a percentage	5.52%	5.28%
Employer's proportion share of collective OPEB liability	\$12,179,967	\$11,048,417
Employer's covered-employee payroll	\$11,191,578	\$11,033,203
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	108.83%	100.14%

** 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.*

**Notes to Required Supplementary Information
For the Fiscal Year Ended December 31, 2018**

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 3.44% from 3.78%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

This page has been left blank intentionally.

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR FINANCIAL REVIEW

	2018	2017 (As Restated)	2016	2015
STATEMENTS OF NET POSITION				
ASSETS				
Railway Plant - Net	\$26,113,399	\$26,705,711	\$28,216,744	\$24,748,388
Other Property and Special Funds	-	-	64,974	64,861
Current and Accrued Assets	18,693,794	13,964,325	13,960,977	14,843,745
Deferred Outflows	993,546	114,073	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	45,800,739	40,784,109	42,242,695	39,656,994
LIABILITIES				
Long-Term Debt	4,403,234	5,223,477	5,397,028	5,556,302
Current and Accrued Liabilities	3,421,462	2,240,256	3,793,795	3,443,589
Long-Term Liabilities	16,872,528	14,461,464	4,017,974	3,615,442
Total Liabilities	24,697,224	21,925,197	13,208,797	12,615,333
Deferred Inflows	289,802	-	-	-
NET POSITION	20,813,713	18,858,912	29,033,898	27,041,661
TOTAL LIABILITIES AND NET POSITION AND DEFERRED INFLOWS	\$45,800,739	\$40,784,109	\$42,242,695	\$39,656,994
STATEMENTS OF INCOME				
OPERATING REVENUES				
Switching Revenues	\$27,933,469	\$26,648,873	\$27,417,653	\$25,690,797
Other Operating Revenues	5,231,761	4,068,008	3,409,347	3,474,443
Total Operating Revenues	33,165,230	30,716,881	30,827,000	29,165,240
OPERATING EXPENSES				
Operation and Maintenance	27,582,675	36,761,179	26,696,068	24,168,168
Taxes	465,808	432,081	439,317	417,135
Depreciation	1,737,714	1,644,373	1,472,955	1,220,882
Total Operating Expenses	29,786,197	38,837,633	28,608,340	25,806,185
NET OPERATING INCOME (LOSS)	3,379,033	(8,120,752)	2,218,660	3,359,055
NON-OPERATING REVENUES (EXPENSE)				
Net Other Income	1,174,556	426,311	2,287,330	1,878,109
Interest Earned on Investments ...	152,072	68,420	86,126	51,379
Interest on Unfunded Debt	-	(6)	(8,542)	(21,678)
Total Non-Operating Revenues ...	1,326,628	494,725	2,364,914	1,907,810
TRANSFERS OUT				
City Gross Earnings Tax	2,750,860	2,548,959	2,591,337	2,410,016
Transfers to Other Funds	-	-	-	45,378
CHANGE IN NET POSITION	\$1,954,801	(\$10,174,986)	\$1,992,237	\$2,811,471

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

2014	2013	2012	2011	2010	2009
\$21,058,809	\$18,015,675	\$16,258,926	\$13,958,818	\$9,446,780	\$9,813,322
65,104	65,110	397,381	399,607	400,792	406,268
15,964,236	12,961,818	11,397,915	8,867,794	8,686,413	8,474,144
-	-	-	-	6,103	7,121
37,088,149	31,042,603	28,054,222	23,226,219	18,540,088	18,700,855
4,482,801	2,764,959	2,166,751	2,001,568	2,101,571	2,641,116
4,096,245	3,232,279	3,920,067	1,762,532	1,602,400	1,569,847
4,278,913	2,827,186	1,617,434	1,315,320	1,226,721	1,634,512
12,857,959	8,824,424	7,704,252	5,079,420	4,930,692	5,845,475
-	-	-	-	-	-
24,230,190	22,218,179	20,349,970	18,146,799	13,609,396	12,855,380
\$37,088,149	\$31,042,603	\$28,054,222	\$23,226,219	\$18,540,088	\$18,700,855
\$26,495,108	\$24,570,867	\$20,793,364	\$17,250,227	\$14,580,858	\$13,365,092
2,962,289	2,372,435	2,250,434	2,153,392	898,739	1,212,804
29,457,397	26,943,302	23,043,798	19,403,619	15,479,597	14,577,896
25,063,534	22,348,268	18,962,149	16,117,560	13,942,626	14,235,461
429,875	437,282	404,105	339,525	261,854	214,935
1,069,265	996,782	824,549	641,315	706,323	577,643
26,562,674	23,782,332	20,190,803	17,098,400	14,910,803	15,028,039
2,894,723	3,160,970	2,852,995	2,305,219	568,794	(450,143)
1,830,033	1,004,957	1,282,274	3,836,348	1,524,627	1,678,847
72,535	21,155	81,907	132,196	74,327	139,662
(34,122)	(45,941)	(62,090)	(80,959)	(102,293)	(133,177)
1,868,446	980,171	1,302,091	3,887,585	1,496,661	1,685,332
2,440,631	2,240,525	1,931,338	1,632,180	1,311,439	1,244,359
310,527	32,407	20,577	13,049	-	-
\$2,012,011	\$1,868,209	\$2,203,171	\$4,547,575	\$754,016	(\$9,170)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR SWITCHING STATISTICS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
SWITCHING REVENUES				
Line Hauls	\$25,713,116	\$23,704,622	\$25,683,614	\$24,334,649
Local and Miscellaneous	<u>2,220,353</u>	<u>2,944,251</u>	<u>1,734,039</u>	<u>1,356,148</u>
TOTAL SWITCHING REVENUES	\$27,933,469	\$26,648,873	\$27,417,653	\$25,690,797
 NUMBER OF CARS SWITCHED				
Line Hauls	95,678	89,748	107,059	99,277
Local and Miscellaneous	<u>13,041</u>	<u>17,382</u>	<u>3,863</u>	<u>2,896</u>
TOTAL NUMBER OF CARS SWITCHED..	108,719	107,130	110,922	102,173
 SWITCHING STATISTICS (AVERAGE)				
Revenue/Line Haul Car	\$268.75	\$264.12	\$239.90	\$245.12
Revenue/Local & Miscellaneous Car	\$170.26	\$169.39	\$448.88	\$468.28

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$24,933,732	\$23,358,089	\$19,913,410	\$16,395,640	\$13,744,377	\$12,735,114
<u>1,561,376</u>	<u>1,212,778</u>	<u>879,954</u>	<u>854,587</u>	<u>836,481</u>	<u>629,978</u>
\$26,495,108	\$24,570,867	\$20,793,364	\$17,250,227	\$14,580,858	\$13,365,092
105,079	97,536	89,554	66,440	70,574	58,892
<u>3,058</u>	<u>1,830</u>	<u>2,563</u>	<u>2,513</u>	<u>2,601</u>	<u>2,032</u>
108,137	99,366	92,117	68,953	73,175	60,924
\$237.29	\$239.48	\$222.36	\$246.77	\$194.75	\$216.25
\$510.59	\$662.72	\$343.33	\$340.07	\$321.60	\$310.03

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

COMPARISON OF CARS SWITCHED AND SWITCHING REVENUES

	December 2018	December 2017	YEAR ENDED DECEMBER 31, December 31, 2018	December 31, 2017
SWITCHING REVENUES				
LINE HAULS--INTERMODAL	\$1,113,244	\$792,840	\$11,265,293	\$10,543,023
LINE HAULS--COMMERCIAL	1,358,800	1,137,010	14,028,690	12,875,290
LINE HAULS--CAPITAL DIVISION	30,210	25,042	419,133	286,309
MISCELLANEOUS SWITCHES	169,274	264,463	2,220,353	2,944,251
TOTAL SWITCHING REVENUES	<u>\$2,671,528</u>	<u>\$2,219,355</u>	<u>\$27,933,469</u>	<u>\$26,648,873</u>
 SWITCHING ACTIVITIES (CARS)				
LINE HAULS--INTERMODAL	6,698	4,716	66,661	61,300
LINE HAULS--COMMERCIAL	3,104	2,204	28,264	27,762
LINE HAULS--CAPITAL DIVISION	53	60	753	686
MISCELLANEOUS SWITCHES	720	2,060	13,041	17,382
TOTAL CARS SWITCHED	<u>10,575</u>	<u>9,040</u>	<u>108,719</u>	<u>107,130</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

FUNDS AVAILABLE FOR DEBT SERVICE

	2018	2017 (As Restated)	2016	2015	2014
Total Income	\$ 34,379,552	\$ 31,175,358	\$ 32,260,821	\$ 30,248,665	\$ 30,482,258
Less: Operating Exp	<u>28,048,483</u>	<u>37,193,260</u>	<u>27,135,385</u>	<u>24,585,303</u>	<u>25,493,409</u>
Income Available for Debt Service	<u>\$ 6,331,069</u>	<u>\$ (6,017,902)</u>	<u>\$ 5,125,436</u>	<u>\$ 5,663,362</u>	<u>\$ 4,988,849</u>
Bond Redemption	\$ -	\$ -	\$ 248,525	\$ 235,569	\$ 223,288
Bond Interest	-	-	11,891	24,847	37,127
Debt Service Payable ...	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,416</u>	<u>\$ 260,416</u>	<u>\$ 260,415</u>
Time Debt Service Covered	-	-	19.68	21.75	19.16

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2018

FEDERAL

Railroad Retirement	\$2,169,591	
Railroad Unemployment Insurance	45,946	
Total		2,215,537

STATE OF WASHINGTON

Retail Sales & Use Tax	524,508	
Utility and Business Occupation Tax	465,809	
Total		990,317

CITY OF TACOMA

Gross Earnings Tax		2,750,860
--------------------------	--	-----------

TOTAL TAXES		<u>\$5,956,714</u>
-------------------	--	--------------------

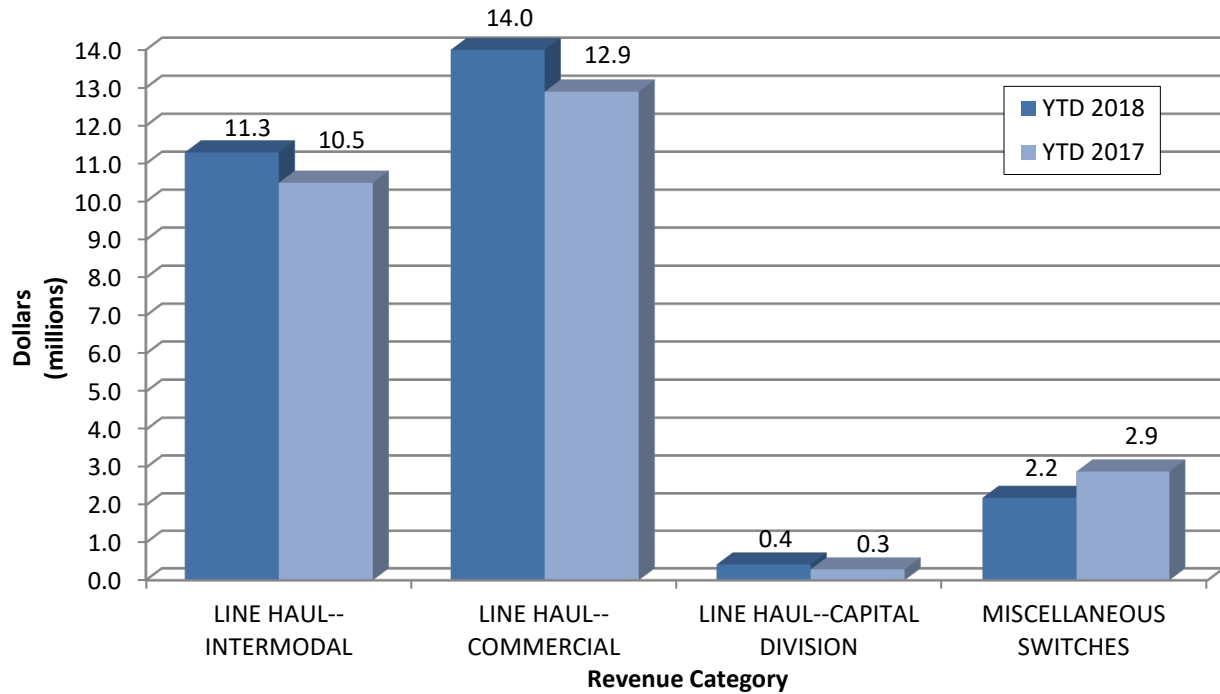
Taxes as a % of Total Operating Revenues of \$33,165,230		17.96%
---	--	--------

EMPLOYEE WELFARE CONTRIBUTIONS

Pierce County Medical Bureau	\$1,986,782	
Washington Dental Service	175,227	
Other Contributions	452,390	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u>\$2,614,399</u>

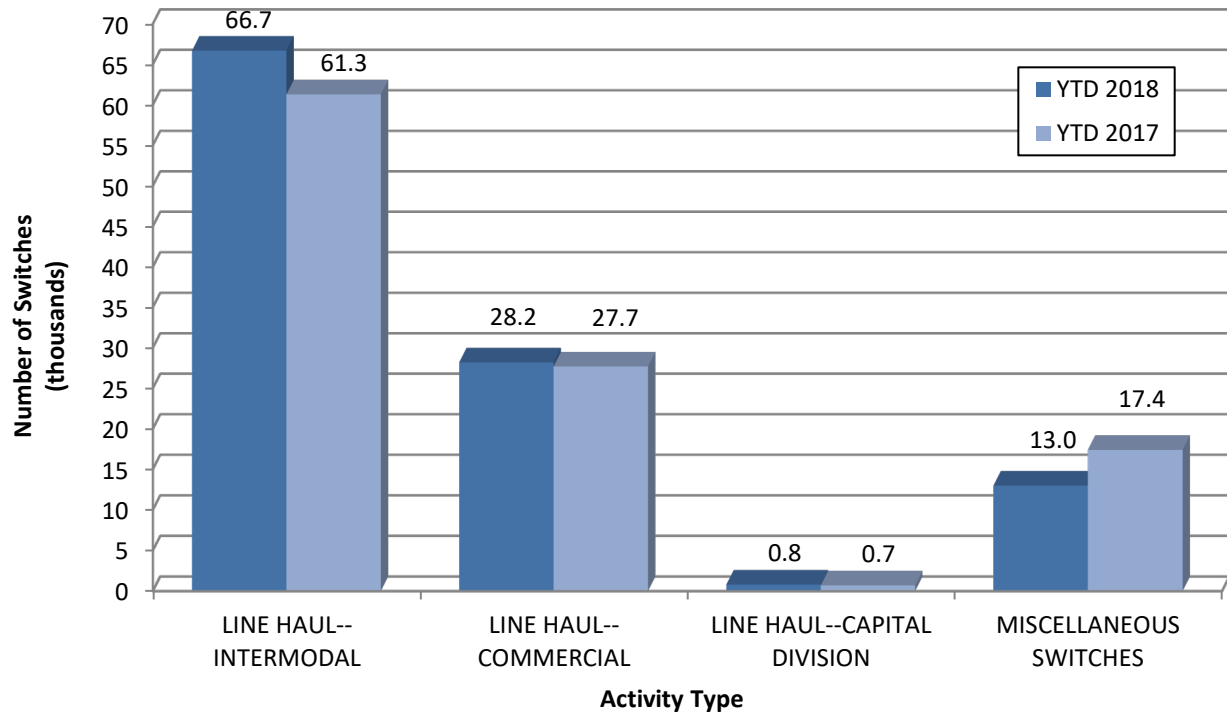
SWITCHING REVENUES

Year to Date - December 2018 & 2017

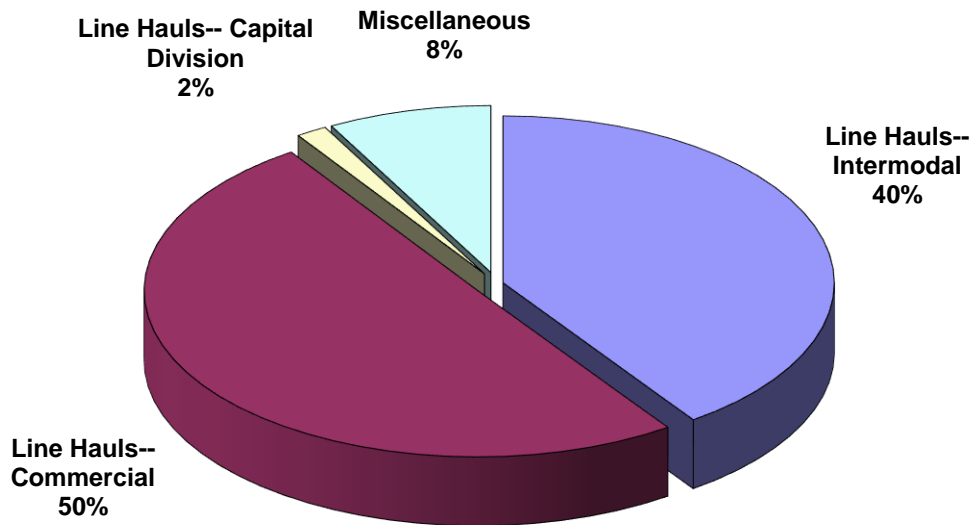


SWITCHING ACTIVITIES

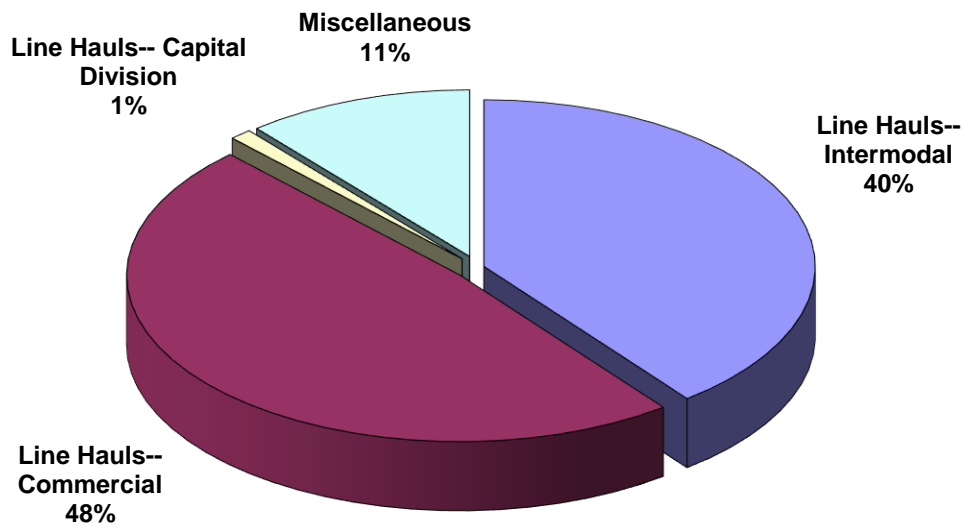
Year to Date - December 2018 & 2017



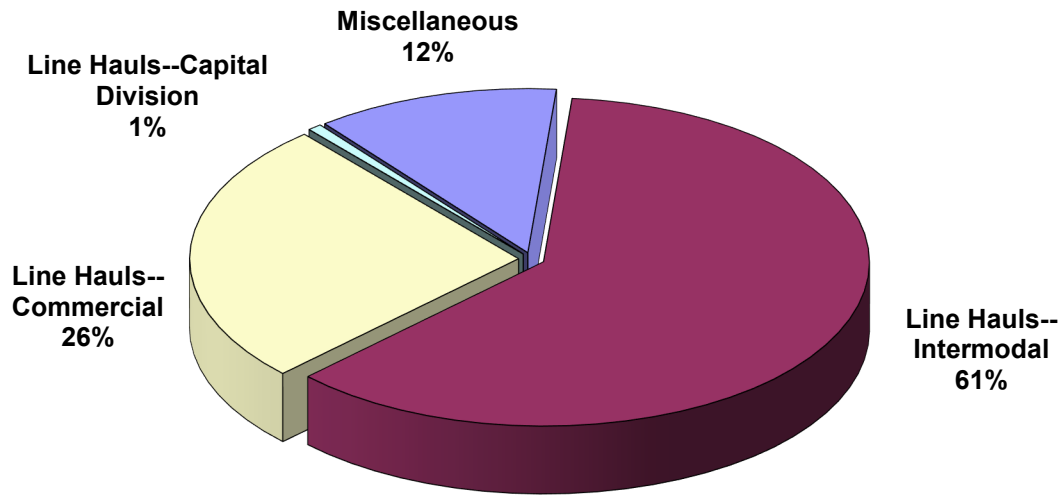
SWITCHING REVENUES
Year to Date - December 2018 (\$27,933,469)



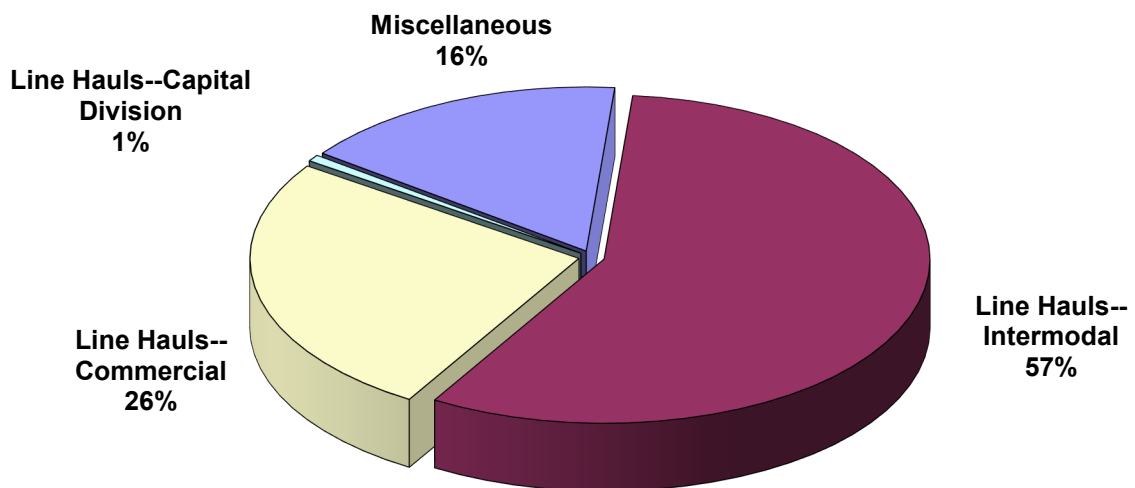
SWITCHING REVENUES
Year to Date - December 2017 (\$26,648,873)



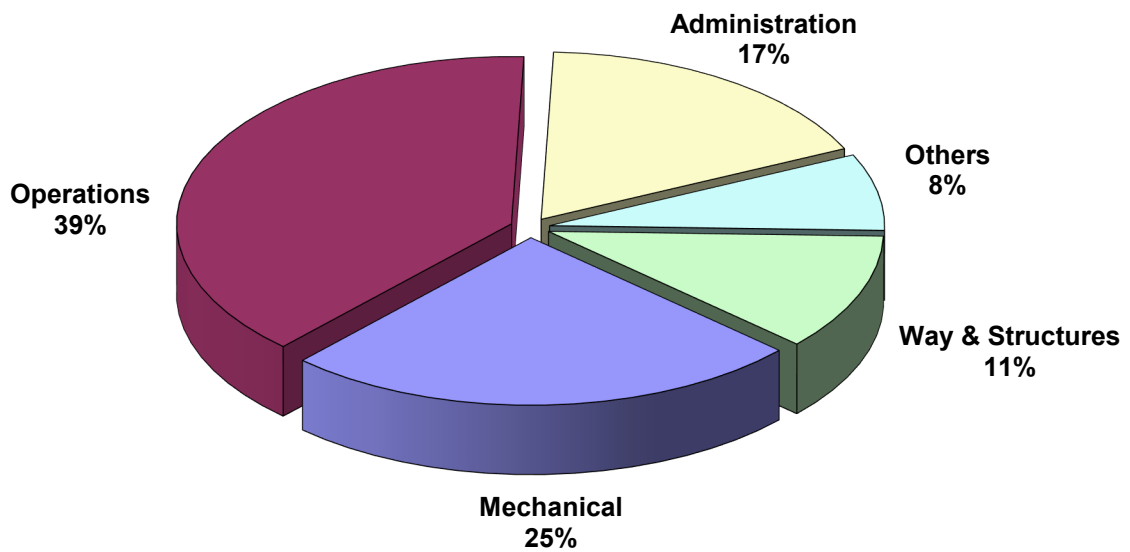
SWITCHING ACTIVITY
Year to Date - December 2018 (108,719 cars)



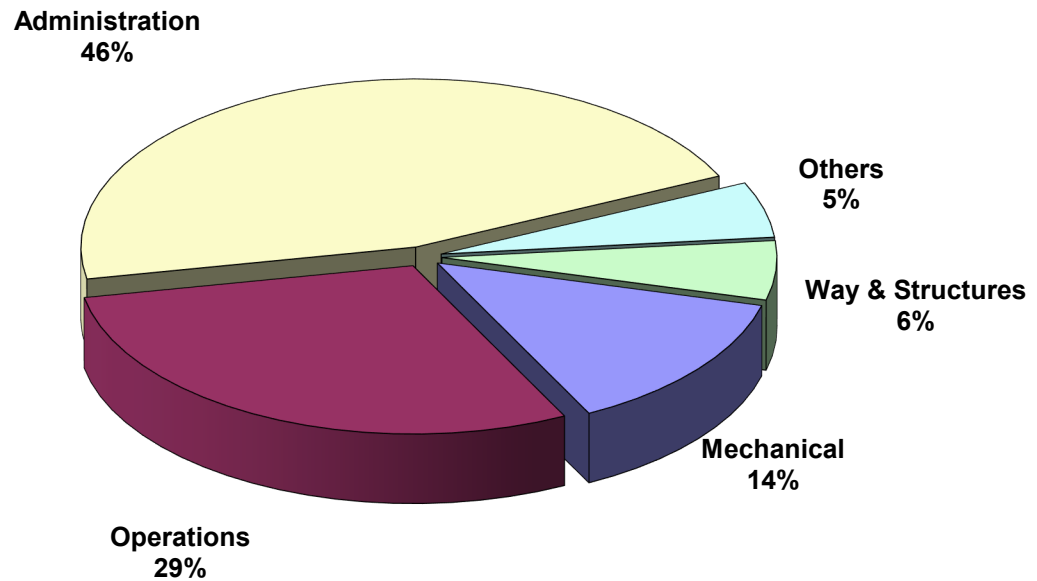
SWITCHING ACTIVITY
Year to Date - December 2017 (107,130 cars)



TOTAL OPERATING EXPENSES
Year to Date - December 2018 (\$29,786,197)



TOTAL OPERATING EXPENSES
Year to Date - December 2017 (\$38,837,633)



2018 SUPERINTENDENT'S REPORT TACOMA RAIL

Tacoma Rail continued to meet its primary goal of providing efficient, cost-effective rail service to the Port of Tacoma and Tacoma's industrial areas (Tidelands Division), to Lakeview (Capital Division) and to Frederickson (Mountain Division) in 2018.

TIDELANDS DIVISION

Line haul count was up by more than 23,000 units in 2018 over 2017. An increase in both intermodal platforms and unit train railcars led to a corresponding increase in line haul revenue of approximately \$2.0 million. The Northwest Seaport Alliance (NWSA) experienced volatility in international intermodal trade leading to large monthly volume swings throughout 2018. Tacoma Rail's agreement with the Union Pacific to assemble 10,000-foot intermodal trains on a daily basis proved a major success this year. Over 29,000 domestic intermodal platforms were handled by Tacoma Rail on behalf of Union Pacific generating nearly \$1.5 million in incremental revenue in 2018.

Unit trains were up versus the prior year, otherwise the commercial business was flat with an overall increase of 7% in 2018. New Washington State environmental rules mandating the development of oil spill contingency plans were a focus area for Tacoma Rail. We successfully completed our first Department of Ecology supervised tabletop spill drill in October.

	2018	2017	2016	2015	2014	2013
Intermodal platforms	191,129	171,443	214,156	187,827	184,451	179,673
Unit train railcars	24,922	21,641	17,410	13,800	13,838	8,759
All others	27,604	27,519	30,844	31,142	32,509	30,904
Total line hauls	243,655	220,603	262,410	232,769	230,798	219,336

CAPITAL DIVISION

From 686 carloads in 2017, total traffic on the Capital Division increased 10% to 753 carloads. The Capital Division provides service to customers in South Tacoma and Lakewood through our freight franchise on the rail line owned by Sound Transit. Expenses have increased on the Capital Division as Positive Train Control (PTC) becomes functional.

MOUNTAIN DIVISION

Tacoma Rail operates the Mountain Division for the City of Tacoma. Carloads handled grew from 1,482 in 2017 to 1,594 in 2018. The increase was led by Hardie Building Products, which had more than 23% growth in line haul traffic. Expenses have increased on the Mountain Division as PTC becomes functional. A new tariff was implemented in 2018 to mitigate the expense and change the Mountain Division's relationship with the BNSF from a Handling Carrier to a Switching Carrier.

Dale W. King
Superintendent



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.

ANNUAL

FLEET SERVICES FUND

2018

**FINANCIAL
REPORT**



Public Utility Board

WOODROW JONES

Chair

KAREN LARKIN

Vice-Chair

BRYAN FLINT

Secretary

MARK PATTERSON

Member

CHRISTINE COOLEY

Member

JACKIE FLOWERS

Director of Utilities

DON ASHMORE

Utilities Fleet Manager

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

FLEET SERVICES FUND

TABLE OF CONTENTS

FINANCIAL DATA

MANAGEMENT DISCUSSION AND ANALYSIS.....	1 - 6
STATEMENTS OF NET POSITION.....	7 - 8
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITIONS.....	9 - 10
STATEMENT OF NET POSITION.....	11
EQUITY DISTRIBUTION.....	12
STATEMENTS OF CASH FLOWS.....	13 - 14
NOTES TO FINANCIAL STATEMENTS.....	15 - 22

REQUIRED SUPPLEMENTARY INFORMATION

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY....	24
SCHEDULE OF THE CITY OF TACOMA'S CONTRIBUTIONS.....	24

STATISTICAL DATA

TEN YEAR FINANCIAL REVIEW.....	27 - 28
FLEET PLANT IN SERVICE.....	29 - 30
TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS.....	32
GRAPHS.....	33 - 34

MANAGER'S REPORT.....	35 - 36
-----------------------	---------

This page has been left blank intentionally.

FINANCIAL DATA

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Fleet Services Fund provides an overview of the financial activities for the years ended December 31, 2018, 2017 and 2016. The information presented here should be read in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that is provided.

Overview of the Financial Statements

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2018 and 2017, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operations, investing and financing activities.

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

Management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived.

Financial Statement Analysis

During 2018, Fleet Services realized net loss of \$804,000 compared to net loss of \$1.5 million recorded in 2017. Operating revenues increased \$261,000 in 2018 (4.3%). Operating expenses decreased \$459,000 (5.6%). The overall result is a net increase in operating income of \$720,000 from a year earlier.

In 2017, Fleet Services realized net loss of \$1.5 million compared to net gain of \$1.2 million recorded in 2016. Operating revenues decreased \$2.2 million in 2017 (26.5%). Operating expenses increased \$656,000 (8.8%). The overall result is a net decrease in operating income of \$2.9 million from a year earlier.

Selected Financial Information

(in thousands)

Category	2016	2017	2018
Operating Revenues	\$ 8,297	\$ 6,096	\$ 6,357
Operating Expenses	7,481	8,137	7,678
Operating Income (Loss)	816	(2,041)	(1,321)
Other Income	397	526	517
Transfers In	2	-	-
Change in Net Position	\$ 1,215	\$ (1,515)	\$ (804)
Current Assets	\$ 20,351	\$ 19,066	\$ 17,010
Other Assets	-	-	368
Deferred Outflows	965	916	472
Capital Assets (Net)	26,250	25,981	26,967
Total Assets	47,566	45,963	44,817
Total Liabilities	1,928	1,708	928
Deferred Inflows	56	188	626
Net Investment in Capital Assets	26,250	25,981	26,967
Restricted	26,276	26,276	26,644
Unrestricted	(6,945)	(8,190)	(10,348)
Total Net Position	\$ 45,581	\$ 44,067	\$ 43,263

Revenues

Fleet Services operating revenue is comprised of five categories: Maintenance, Capital Recovery, Administrative Overhead, Fuel and Fuel Loading and Pool Car Rental. Operating revenues were \$6.4 in 2018, \$6.1 in 2017 and \$8.3 million in 2016.

Maintenance revenues are mainly related to staff labor and were \$2.2 million in 2018, 2017 and 2016.

Capital recovery revenues are collected on each vehicle and piece of equipment based on anticipated equipment replacement needs for each business unit. Capital recovery revenues were \$2.6, \$2.4, and \$5.1 million in 2018, 2017, and 2016 respectively. Capital recovery revenue increased \$274,000 in 2018 compared to 2017, which had decreased \$2.8 million compared to 2016. The decline is primarily due to Tacoma Power discontinuing their contribution until an analysis of future purchase needs is complete.

Administrative Overhead revenue is the fee charged for each vehicle that is in service. The number of vehicles in service varies from month to month and the rate can vary based on type of vehicle. Administrative Overhead revenue was \$1.4 million, \$1.4 million and \$828,000 in 2018, 2017, and 2016 respectively.

Fuel and fuel loading revenues are affected by year to year changes in vehicle usage and fluctuations in fuel prices. Fuel related revenues were \$66,000, \$54,000, and \$47,000 for 2018, 2017 and 2016 respectively.

Pool car revenues are based on usage and were \$128,000, \$126,000 and \$123,000 for 2018, 2017 and 2016 respectively.

Expenses

Fleet Services operating expense is comprised of four major categories: Repairs and service, stores operations, administration and depreciation. Fleet services expenses were \$7.7, \$8.1 and \$7.5 million in 2018, 2017 and 2016 respectively.

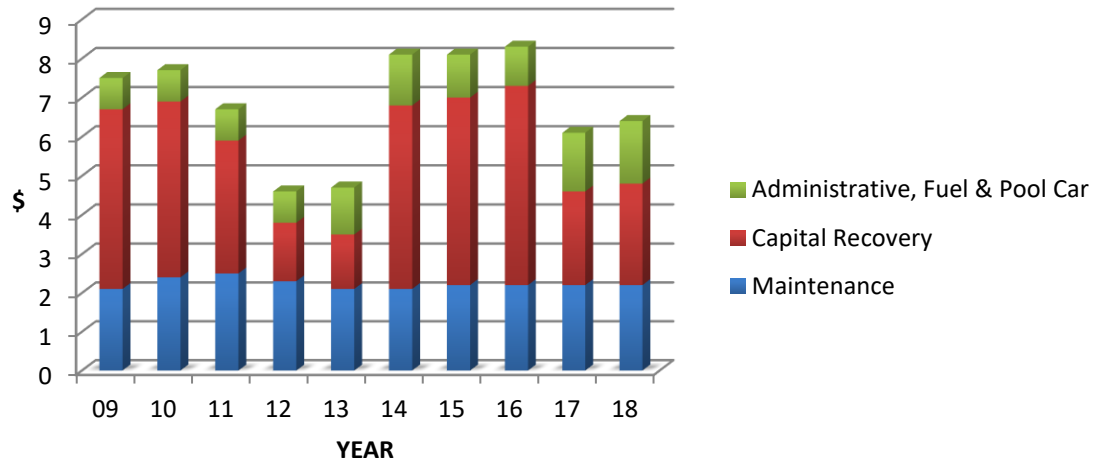
Repairs and service expense relates to shop operations which provide preventive and corrective maintenance and repairs to vehicles and pieces of equipment for Tacoma Public Utilities and other service groups. Repair and service expenses were \$2.3 million in 2018 and \$2.7 million in 2017 and 2016.

Stores operation is a parts warehouse maintained by Fleet which had expenses of \$307,000, \$338,000 and \$329,000 in 2018, 2017 and 2016 respectively.

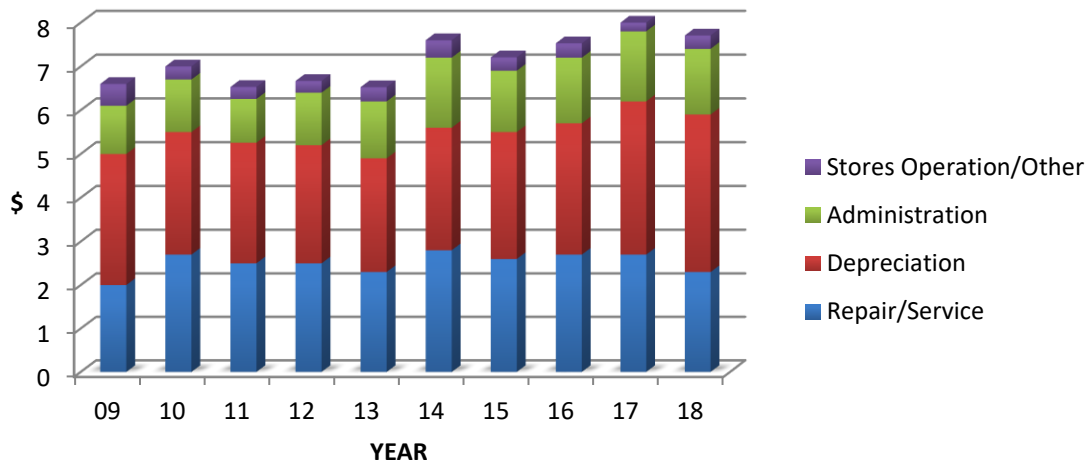
Administration expenses were \$1.5, \$1.6 and \$1.5 million in 2018, 2017 and 2016 respectively.

Depreciation expense was \$3.6, \$3.5 and \$3.0 million in 2018, 2017 and 2016 respectively. Fluctuations in depreciation expense are the result of timing in equipment retirements, capitalization of replacements and changes in fleet size.

OPERATING REVENUES (in millions)

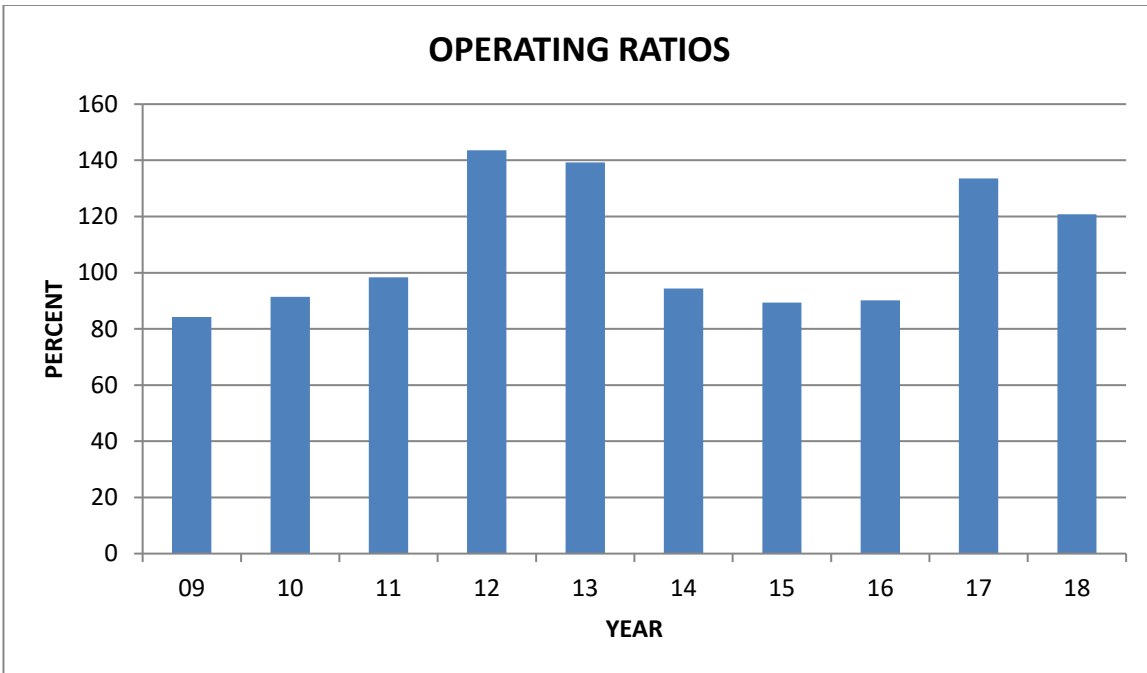


OPERATING EXPENSES (in millions)



Operating Ratio

The Fund's operating ratios, a common measure of efficiency and defined as operating expenses as a percentage of revenue, for 2018, 2017 and 2016 are 120.8%, 133.5%, and 90.2%. The Fund needs to maintain a low operating ratio in order to generate the funds necessary for its extensive capital outlay program. The graph shows how that percentage has fluctuated over the years.



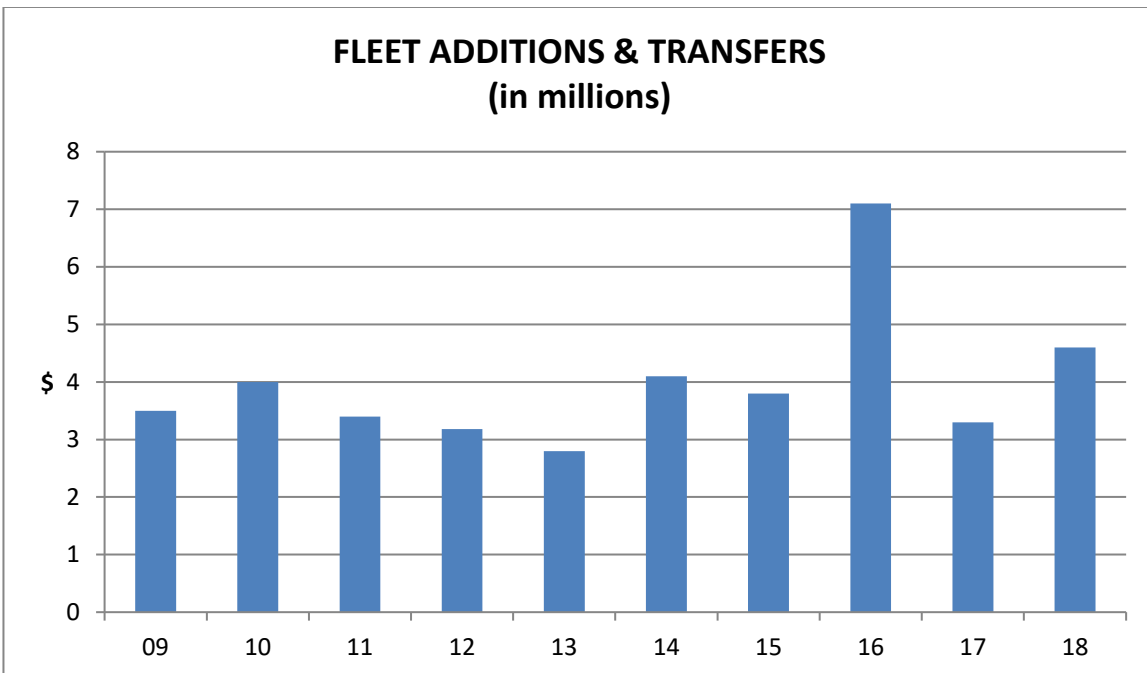
Non-Operating Revenues (Expenses)

Interest income increased \$119,000 from (\$3,000) in 2017 to \$116,000 in 2018. Interest income in 2018 increased primarily due to the GASB 31 mark to market adjustment and 2017 decreased primarily due to less interest earned on the revenue pool.

It is the practice of Fleet Services to arrange for public auction sale of vehicles and equipment that are declared surplus by the assigned sections. Fifty-two vehicles and pieces of equipment were retired in 2018 for a net gain of \$401,000, a decrease of \$128,000 compared to 2017. Fleet Services reported a net gain of \$529,000 in 2017, an increase of \$181,000 compared to 2016.

Fixed Asset Additions

Purchases of fleet vehicles and equipment in 2018 were \$4.6 million with seventy-five vehicles and pieces of equipment placed into service compared with \$3.3 million in 2017 with sixty-five vehicles and pieces of equipment placed into service. Purchases of fleet vehicles and equipment in 2016 were \$7.1 million with sixty-three vehicles and pieces of equipment placed into service.



Summary

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

Jackie Flowers
Director of Utilities

Andrew Cherullo
Finance Director

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

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND DECEMBER 31, 2017

	2018	2017
ASSETS		
FIXED		
Office Furniture and Equipment	\$616,901	\$616,901
Stores and Shop Equipment	719,411	719,380
Transportation Equipment	47,481,737	44,411,067
Power-Operated Equipment	16,701,468	16,747,985
Accumulated Depreciation	(38,554,217)	(37,242,725)
Total Fixed Assets	26,965,300	25,252,608
Construction Work in Progress	2,061	728,123
Net Fixed Assets	26,967,361	25,980,731
CURRENT		
Current Fund Cash & Equity in Pooled Investments	16,085,070	18,652,494
Accounts Receivable	184,049	98,535
Interdivision Receivable	382,541	5,486
Materials and Supplies	358,068	309,993
Total Current Assets	17,009,728	19,066,508
OTHER ASSETS		
Net Pension Asset	367,979	-
TOTAL ASSETS	44,345,068	45,047,239
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for Pensions	471,904	915,881
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$44,816,972	\$45,963,120

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

	2018	2017
NET POSITION AND LIABILITIES		
NET POSITION		
Net Investment in Capital Assets	\$26,967,361	\$25,980,731
Restricted for:		
Tacoma Power	18,095,346	18,095,346
Tacoma Water	7,199,933	7,199,933
Tacoma Rail	981,147	981,147
Net Pension Asset	367,979	-
Unrestricted	(10,348,775)	(8,190,226)
	<u>43,262,991</u>	<u>44,066,931</u>
TOTAL NET POSITION	43,262,991	44,066,931
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable & Other	637,800	542,346
Wages Payable	83,022	68,548
Interdivision Payable	78	12,786
Total Current Liabilities	<u>720,900</u>	<u>623,680</u>
LONG-TERM LIABILITIES		
Employee Vacation and Sick Leave Accrual	206,696	209,679
Net Pension Liability	-	874,422
Total Long-term Liabilities	<u>206,696</u>	<u>1,084,101</u>
TOTAL LIABILITIES	<u>927,596</u>	<u>1,707,781</u>
DEFERRED INFLOW OF RESOURCES		
Deferred Inflows for Pensions	<u>626,385</u>	<u>188,408</u>
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS	<u><u>\$44,816,972</u></u>	<u><u>\$45,963,120</u></u>

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

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2018 AND DECEMBER 31, 2017

	DECEMBER 2018	DECEMBER 2017
OPERATING REVENUE		
Maintenance Revenue	254,896	\$172,905
Capital Recovery	204,226	207,832
Administrative Overhead	112,985	116,453
Fuel and Fuel Loading	4,733	4,241
Pool Car Rental	10,726	23,077
Total Operating Revenue	<u>587,566</u>	<u>524,508</u>
OPERATING EXPENSES		
Repairs and Servicing		
Shop Operations	8,490	318,807
Outside Services	28,104	11,280
Total Repairs and Servicing	<u>36,594</u>	<u>330,087</u>
Stores Operations	(715)	48,583
Administration	(166,986)	189,863
Depreciation	310,878	285,130
Total Operating Expenses	<u>179,771</u>	<u>853,663</u>
OPERATING INCOME (LOSS)	407,795	(329,155)
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	(79,238)	(115,799)
Gain (Loss) on Disposition of Equipment	211,791	76,350
Sale of Scrap	2,700	1,180
Total Non-Operating Revenues (Expenses)	<u>135,253</u>	<u>(38,269)</u>
CHANGE IN NET POSITION	<u>\$543,048</u>	<u>(\$367,424)</u>
TOTAL NET POSITION - BEGINNING OF YEAR		
TOTAL NET POSITION - END OF YEAR		

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

YEAR TO DATE	YEAR TO DATE		
DECEMBER 2018	DECEMBER 2017	2018/2017 VARIANCE	PERCENT CHANGE
\$2,178,241	\$2,176,378	\$1,863	0.1%
2,634,745	2,360,298	274,447	11.6%
1,350,835	1,379,587	(28,752)	-2.1%
65,517	54,116	11,401	21.1%
127,890	125,755	2,135	1.7%
6,357,228	6,096,134	261,094	4.3%
2,176,720	2,677,135	(500,415)	-18.7%
77,285	39,659	37,626	94.9%
2,254,005	2,716,794	(462,789)	-17.0%
307,445	337,500	(30,055)	-8.9%
1,526,791	1,589,619	(62,828)	-4.0%
3,589,783	3,492,861	96,922	2.8%
7,678,024	8,136,774	(458,750)	-5.6%
(1,320,796)	(2,040,640)	719,844	-35.3%
115,934	(2,988)	118,922	3980.0%
397,667	514,559	(116,892)	-22.7%
3,255	14,303	(11,048)	-77.2%
516,856	525,874	(9,018)	-1.7%
(803,940)	(1,514,766)	\$710,826	-46.9%
44,066,931	45,581,697		
<u>\$43,262,991</u>	<u>\$44,066,931</u>		

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

STATEMENT OF NET POSITION
DECEMBER 31, 2018

Invested in Capital Assets:		
Balance January 1, 2018	\$25,980,731	
Capital Additions	2,298,122	
Depreciation	<u>(1,311,492)</u>	
Total Invested in Capital Assets		26,967,361
Restricted Net Position:		
Balance January 1, 2018	26,276,426	
Net Reductions through December 31, 2018	<u>367,979</u>	
Total Restricted Net Position December 31, 2018 ..		26,644,405
Unrestricted Net Position:		
Balance January 1, 2018	(8,190,226)	
Net Reductions through December 31, 2018	<u>(2,158,549)</u>	
Total Unrestricted Net Position December 31, 2018 ..		<u>(10,348,775)</u>
TOTAL NET POSITION DECEMBER 31, 2018		<u><u>\$43,262,991</u></u>

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

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

EQUITY DISTRIBUTION AS OF DECEMBER 31, 2018

	TACOMA POWER	TACOMA WATER	TACOMA RAIL	TOTAL
Balance January 1, 2018	\$28,967,870	\$13,627,937	\$1,471,124	\$44,066,931
Contributions During Year	-	-	-	-
Equity Contrib. at Dec 31, 2018 ...	28,967,870	13,627,937	1,471,124	44,066,931
Current Year Operations:				
Total Operating Revenue *	4,231,951	1,912,599	212,678	6,357,228
Less: Repairs & Servicing Expense *	1,481,695	697,063	75,247	2,254,005
Administration Expense ** ...	1,345,593	419,358	69,285	1,834,236
Depreciation Expense	2,598,965	870,596	120,222	3,589,783
Total Expenses	5,426,253	1,987,017	264,754	7,678,024
Net Operating Revenue	(1,194,302)	(74,418)	(52,076)	(1,320,796)
Add: Other Income ***	340,505	159,088	17,263	516,856
Net Operating Results	(853,797)	84,670	(34,813)	(803,940)
Total Equity	\$28,114,073	\$13,712,607	\$1,436,311	\$43,262,991

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

** Allocated to each division based on vehicle count.

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

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

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	DECEMBER 31, 2018	DECEMBER 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash From Customers	\$5,894,659	\$6,238,263
Cash Paid to Suppliers	(1,757,038)	(1,437,618)
Cash Paid to Employees	(2,645,488)	(3,259,365)
Net Cash From Operating Activities	1,492,133	1,541,280
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, Net	(4,576,413)	(3,223,362)
Disposition of Equipment/Scrap.....	400,922	528,862
Net Cash From Financing Activities	(4,175,491)	(2,694,500)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	115,934	(2,988)
Net Cash From Investing Activities	115,934	(2,988)
Net Change in Cash and Equity in Pooled Investments	(2,567,424)	(1,156,208)
Cash and Equity in Pooled Investments at January 1	18,652,494	19,808,702
Cash and Equity in Pooled Investments at December 31	<u>\$16,085,070</u>	<u>\$18,652,494</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2018 Annual Report.

	YEAR TO DATE	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities:		
Operating Income (Loss)	(\$1,320,796)	(\$2,040,640)
Pension (Credits) Expenses	(360,447)	220,377
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities:		
Depreciation and Amortization	3,589,783	3,492,861
Accounts Receivable	(85,514)	115,223
Interdivision Receivable	(377,055)	26,906
Materials and Supplies	(48,075)	(13,955)
Accounts Payable & Other	95,454	(142,670)
Interdivision Payable	(12,708)	(67,140)
Absences Payable	11,491	(49,682)
Total Adjustments	3,173,376	3,361,543
Net Cash Provided by Operating Activities	<u>\$1,492,133</u>	<u>\$1,541,280</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fleet Services Fund was established in 1984 by City of Tacoma Ordinance No. 23295. On January 1, 1985, most vehicles owned by the Tacoma Power, Tacoma Water and Tacoma Rail were transferred to this Fund. The purpose of the Fund is to provide for scheduled maintenance, repair, and replacement of Department vehicles.

Basis of Financial Statements - The Fleet Service Fund is an Internal Service Fund of the City of Tacoma used for the operation of the Department of Public Utilities consolidated fleet management program with responsibilities for all vehicle administration under a fleet manager.

The Fund accounts for its financial operation by using a self-balancing set of accounts established primarily for handling transactions of a nature peculiar to Fleet Service operations. A description of the Fund's principal accounting policies follows.

Fixed Assets - Fixed assets are stated at cost and are depreciated primarily using a straight-line method over the estimated useful life of the asset.

Inventory - The inventory is valued on the moving average cost method.

Revenues - Revenues are based on services rendered through the end of the year.

Cash and Equity in Pooled Investments and Investments - The Fund's cash balances are a deposit with the City Treasurer's Tacoma Investment Pool (TIP) for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the TIP are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Assets. Interest earned on such pooled investments is allocated daily to the participating funds based on each fund's daily equity in the TIP.

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

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds 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 East West Bank, Opus Bank and Home Street Bank.

The Fund's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2018 and 2017 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

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

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

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

NOTE 2 INVESTMENTS MEASURED AT FAIR VALUE

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

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

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

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.

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

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

	As of			
Debt Securities	12/31/2018	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 282,822,308	\$ -	\$ 282,822,308	\$ -
U.S. Agency Securities	447,015,280	-	447,015,280	-
Supranational Securities	19,814,100	-	19,814,100	-
Corporate Securities	24,607,491	-	24,607,491	-
Municipal Bonds	35,748,647	-	35,748,647	-
Total	\$ 810,007,826	\$ -	\$ 810,007,826	\$ -

	As of			
Debt Securities	12/31/2017	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 218,142,864	\$ -	\$ 218,142,864	\$ -
U.S. Agency Securities	517,345,818	-	517,345,818	-
Supranational Securities	19,966,040	-	19,966,040	-
Municipal Bonds	40,760,727	-	40,760,727	-
Total	\$ 796,215,449	\$ -	\$ 796,215,449	\$ -

Fleet's share of the City Investments shown in the table above is 1.52% and 2.01% for 2018 and 2017.

NOTE 3 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS)

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

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

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

Administration of The System - The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and 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.

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

At the direction of the City Council, the System is administered by the Board of Administration (the Board) consisting of nine regular members and one alternate member. The members of the Board are: the Mayor, who serves as Chair; the Director of Finance; the City Manager (or designee); the Public Utilities Director (or designee); three elected employee representatives; one elected retired representative; and one City resident (not employed by the City) elected by the other eight members. The nine Board members appoint a TERS member, either active or retired, as an alternate Board member. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of the 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, 2017 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits	2,396	
Terminated vested and other terminated participants	715	
Active members:		
City of Tacoma	2,677	
Pierce Transit	8	
South Sound 911	2	
Tacoma-Pierce County Health Department	<u>261</u>	
Total active members		<u>2,948</u>
Total membership		<u><u>6,059</u></u>

Membership - Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighter, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the South Sound 911 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.

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

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

At its November 28, 2017 meeting, the Tacoma City Council approved an increase in the total contribution rate from 20% of pay to 21% of pay effective February 1, 2018. The contribution rate continues to be 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, 2017
Valuation Date	January 1, 2018
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. The amortization method for the ADC is as follows*: <ul style="list-style-type: none">• Level percent• Open periods• 25 year amortization period*• 3.75% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.

**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, 2018 valuation date and December 31, 2017 fiscal year end. Therefore, no adjustments were needed from the January 1, 2018 actuarial valuation date to the calculated liabilities as of December 31, 2017. There were changes between the January 1, 2017 and January 1, 2018 valuation dates. Those changes were reflected in the January 1, 2018 actuarial valuation and are discussed below.

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

The UAAL amortization period changed from 30 years to 25 years for years beginning January 1, 2018 and later.

At its June 8, 2017 meeting, the TERS Board approved updates to the service purchase factors and optional form factors effective January 1, 2018. The Board also approved updated factors for use in converting member contributions with interest into the unmodified benefit form for comparison to the service retirement benefit. This change will be effective January 1, 2020.

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, 2017. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	2.06%
US Inflation-Indexed Bonds	5.0%	1.36%
High Yield Bonds	9.0%	4.69%
Emerging Market Debt	5.0%	3.39%
Global Equity	41.5%	4.95%
Public Real Estate	2.0%	5.55%
Private Real Estate	2.5%	3.83%
Private Equity	10.0%	8.88%
Master Limited Partnerships	4.0%	4.20%
Timber	2.0%	4.04%
Infrastructure	2.0%	4.89%
Agriculture	2.0%	4.54%
Assumed Inflation - Mean		2.75%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Real Mean Return		4.56%
Portfolio Median Nominal Geometric Return		6.68%
Portfolio Standard Deviation		11.77%
Long-Term Expected Rate of Return, net of investment expenses		7.00%

Sensitivity Analysis - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 7%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability (asset)	\$ 1,496,137	\$ (367,979)	\$ (1,925,705)

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

As of December 31, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (203,903)	\$ -
Changes of assumptions	-	224,463
Net Difference Between Projected and Actual Earnings	(422,255)	-
Changes in Employer Proportion	(227)	261
Contributions Made Subsequent to the Measurement Date	-	247,180
Total	\$ (626,385)	\$ 471,904

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

Amounts will be recognized in pension expense as follows:

2019	\$ (28,818)
2020	(5,086)
2021	(190,370)
2022	(167,922)
2023	(9,465)
Thereafter	-
	<u>\$ (401,661)</u>

The proportionate share of the Fleet Division is 0.94% of total System's pension liability. The proportionate share was based on the actual contributions for the year.

NOTE 4 FLEET SERVICES REFUND

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for two budget cycles and to return any excess funds to customers based on their scheduled monthly payments. In 2018 and 2017, Fleet Services returned 75% of the interest earned on the capital replacement reserve to the appropriate users. The amounts refunded in 2018 and 2017 were \$193,978 and \$155,807 respectively.

This page has been left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Net Pension Liability Last 10 Years*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset) as a percentage	0.94%	0.94%	0.96%	1.05%
Employer's proportion share of net pension liability (asset)	(\$367,979)	\$874,422	\$835,359	(\$101,261)
Employer's covered payroll	\$2,179,654	\$2,152,532	\$2,244,782	\$2,183,372
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	-16.88%	40.62%	38.81%	-4.64%
Plan fiduciary net position as a percentage the total pension liability	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Contractually required employer contribution	\$247,180	\$227,116	\$227,848	\$239,770
Contributions in relation to the contractually required employer contribution	(247,180)	(227,116)	(227,848)	(239,770)
Employer contribution deficiency (excess)	-	-	-	-
Employer's covered employee payroll	\$2,100,109	\$2,179,654	\$2,152,532	\$2,244,782
Employer contribution as a percentage of covered-employee payroll	11.77%	10.42%	10.59%	10.68%

* 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.

This page has been left blank intentionally.

STATISTICAL DATA

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

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2009	2010	2011	2012
ASSETS				
Fixed - Net	\$18,100,171	\$19,164,435	\$19,631,756	\$20,043,909
Current	23,665,442	26,034,139	24,425,237	26,873,162
Other	-	-	-	-
Total Assets	41,765,613	45,198,574	44,056,993	46,917,071
Deferred Outflows	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	41,765,613	45,198,574	44,056,993	46,917,071
LIABILITIES				
Current	753,706	2,728,220	431,649	4,558,862
Deferred Inflows	-	-	-	-
NET POSITION	41,011,907	42,470,354	43,625,344	42,358,209
TOTAL LIABILITIES, NET POSITION AND DEFERRED INFLOWS	\$41,765,613	\$45,198,574	\$44,056,993	\$46,917,071
STATEMENTS OF INCOME				
OPERATING REVENUES				
Maintenance Revenue	\$2,096,838	\$2,369,705	\$2,499,589	\$2,333,084
Capital Recovery	4,568,298	4,462,261	3,382,819	1,497,410
Pool Car Rental	93,436	86,625	68,411	82,423
Administrative and Fuel	723,748	731,116	730,871	727,395
Total Operating Revenues	7,482,320	7,649,707	6,681,690	4,640,312
OPERATING EXPENSES				
Repairs and Servicing	2,001,911	2,713,546	2,488,151	2,451,583
Stores Operations	202,206	257,075	274,399	267,989
Administration	1,092,601	1,181,369	1,047,029	1,228,920
Depreciation	2,999,842	2,838,774	2,756,785	2,716,103
Total Operating Expenses	6,296,560	6,990,764	6,566,364	6,664,595
OPERATING INCOME (LOSS)	1,185,760	658,943	115,326	(2,024,283)
NON-OPERATING INCOME (EXPENSE)				
Interest Income	148,018	(5,943)	360,639	92,913
Net Other Income (Expense)	112,895	230,375	253,627	247,292
Total Non-Operating Income (Expense)	260,913	224,432	614,266	340,205
Net Income (Loss) Before Contributions & Transfers ...	1,446,673	883,375	729,592	(1,684,078)
Total Capital Contributions	-	4,000	174,815	46,877
Transfers In	333,517	571,072	250,583	370,066
NET INCOME (LOSS)	\$1,780,190	\$1,458,447	\$1,154,990	(\$1,267,135)

2013	2014	2015	2016	2017	2018
\$20,270,054	\$21,386,337	\$22,275,221	\$26,250,230	\$25,980,731	\$26,967,361
22,007,068	23,472,087	23,333,088	20,350,890	19,066,508	17,009,728
-	-	101,261	-	-	367,979
42,277,122	44,858,424	45,709,570	46,601,120	45,047,239	44,345,068
-	-	240,412	964,710	915,881	471,904
42,277,122	44,858,424	45,949,982	47,565,830	45,963,120	44,816,972
1,039,418	1,987,209	1,476,341	1,928,210	1,707,781	927,596
-	-	106,900	55,923	188,408	626,385
41,237,704	42,871,215	44,366,741	45,581,697	44,066,931	43,262,991
\$42,277,122	\$44,858,424	\$45,949,982	\$47,565,830	\$45,963,120	\$44,816,972
\$2,101,367	\$2,097,335	\$2,196,833	\$2,176,445	\$2,176,378	\$2,178,241
1,372,888	4,689,984	4,826,427	5,122,589	2,360,298	2,634,745
73,772	125,367	136,685	123,377	125,755	127,890
1,115,860	1,141,785	914,378	874,367	1,433,703	1,416,352
4,663,887	8,054,471	8,074,323	8,296,778	6,096,134	6,357,228
2,274,301	2,844,024	2,578,812	2,712,254	2,716,794	2,254,005
326,773	398,011	308,946	329,268	337,500	307,445
1,323,636	1,592,691	1,386,437	1,451,298	1,589,619	1,526,791
2,570,362	2,768,745	2,937,475	2,988,385	3,492,861	3,589,783
6,495,072	7,603,471	7,211,670	7,481,205	8,136,774	7,678,024
(1,831,185)	451,000	862,653	815,573	(2,040,640)	(1,320,796)
(99,756)	54,921	(24,043)	48,726	(2,988)	115,934
165,334	474,892	193,493	348,476	528,862	400,922
65,578	529,813	169,450	397,202	525,874	516,856
(1,765,607)	980,813	1,032,103	1,212,775	(1,514,766)	(803,940)
-	-	-	-	-	-
645,102	652,698	338,904	2,181	-	-
(\$1,120,505)	\$1,633,511	\$1,371,007	\$1,214,956	(\$1,514,766)	(\$803,940)

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

FLEET PLANT IN SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2018

FIXED ASSET ACCOUNTS

	Book Cost 1/1/18	Additions 2018
Office Furniture and Equipment	\$616,901	\$ -
Stores and Shop Equipment	719,380	31
Transportation Equipment	44,411,067	4,094,516
Power-Operated Equipment	16,747,985	556,388
Construction Work in Progress.....	728,123	2,061
	<u> </u>	<u> </u>
TOTAL FIXED ASSETS	<u>\$63,223,456</u>	<u>\$4,652,996</u>

ACCUMULATED DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/18
Office Furniture and Equipment	Various	\$546,327
Stores and Shop Equipment	Various	606,567
Transportation Equipment	Various	24,075,894
Power-Operated Equipment	Various	12,013,937
		<u> </u>
TOTAL ACCUMULATED DEPRECIATION		<u>\$37,242,725</u>

Retirements 2018	Transfers & Adjustments	Book Cost 12/31/18
\$ -	\$ -	\$616,901
-	-	719,411
(1,586,124)	562,278	47,481,737
(768,719)	165,814	16,701,468
-	(728,123)	2,061
<u>(\$2,354,843)</u>	<u>(\$31)</u>	<u>\$65,521,578</u>

Annual Accrual Cr.	Transfers & Adjustments	Accumulated Depreciation 12/31/18
\$5,422	\$ -	\$551,749
19,403	-	625,970
2,891,311	(1,524,297)	25,442,908
673,647	(753,994)	11,933,590
<u>\$3,589,783</u>	<u>(\$2,278,291)</u>	<u>\$38,554,217</u>

This page has been left blank intentionally.

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

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2018

FEDERAL

Social Security (FICA)		\$159,681
------------------------------	--	-----------

STATE OF WASHINGTON

Retail Sales Tax	368,500	
State Employment Security	3,340	
Total		<u>371,840</u>

TOTAL TAXES		<u><u>\$531,521</u></u>
-------------------	--	-------------------------

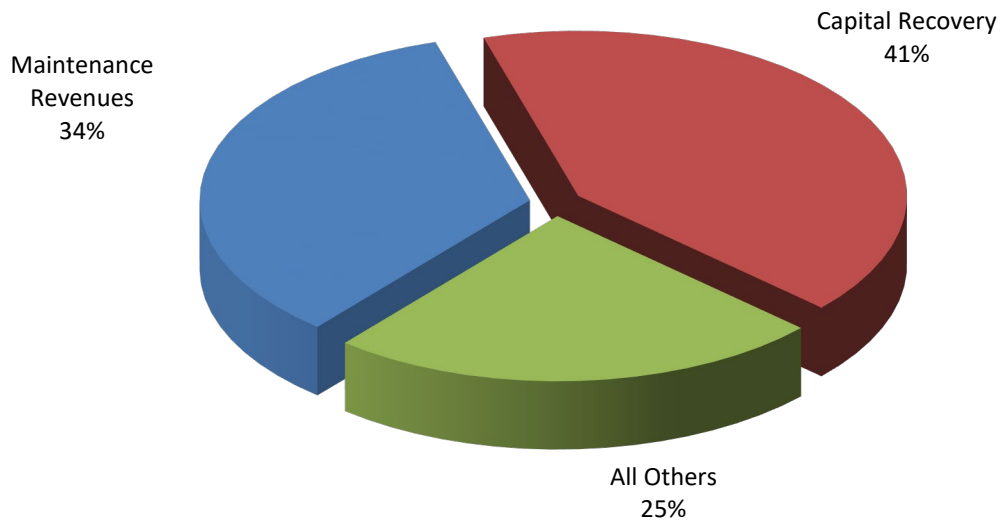
Taxes as a % of Total Revenues of \$6,357,228.....	8.36%
--	-------

EMPLOYEE WELFARE CONTRIBUTIONS

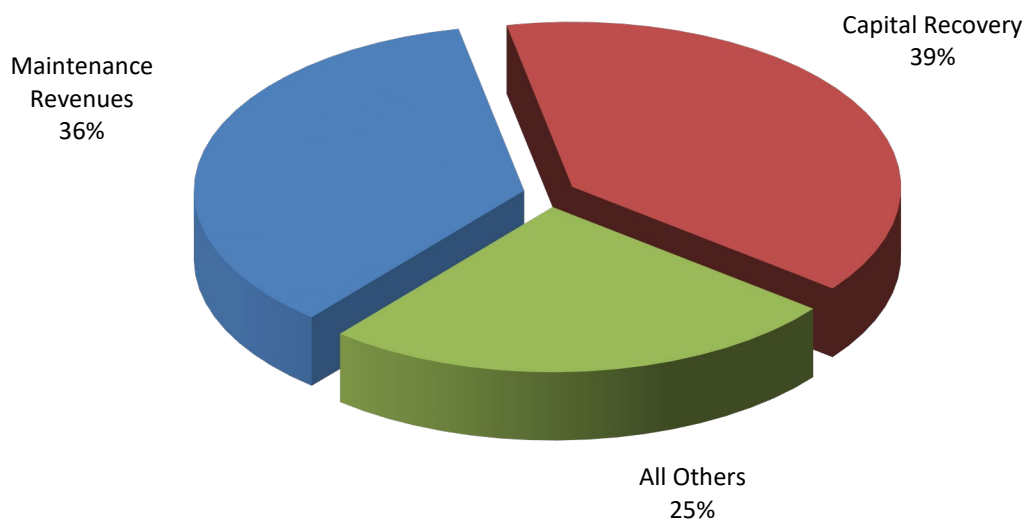
Industrial Insurance and Medical Aid	\$33,876
City of Tacoma Pension Fund	230,025
Washington Dental Service	37,295
Pierce County Medical Bureau	<u>439,827</u>

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS	<u><u>\$741,023</u></u>
--	-------------------------

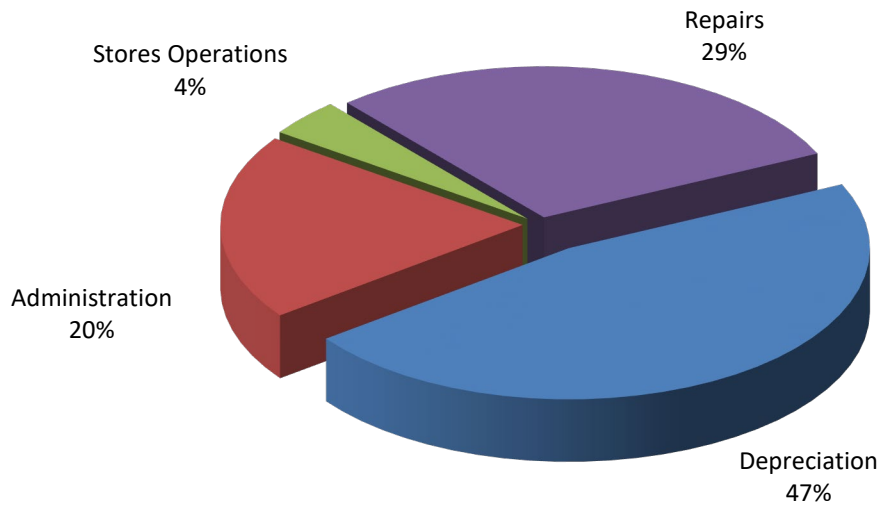
TOTAL OPERATING REVENUES
Year to Date - December 2018 (\$6,357,228)



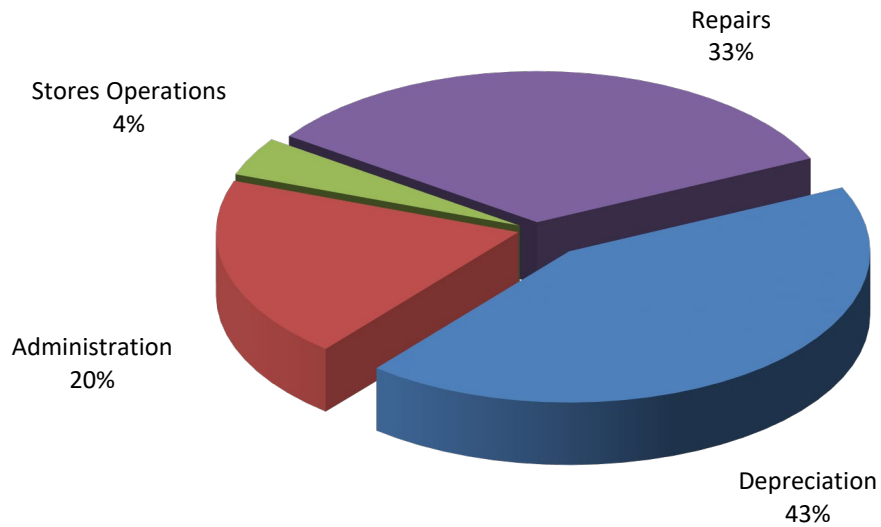
TOTAL OPERATING REVENUES
Year to Date - December 2017 (\$6,096,134)



TOTAL OPERATING EXPENSES
Year to Date - December 2018 (\$7,678,024)



TOTAL OPERATING EXPENSES
Year to Date - December 2017 (\$8,136,774)



FLEET MANAGER'S REPORT

Fleet Services completed a successful year providing vehicle and equipment maintenance and management services to our customers.

Fleet Finance

Fleet Services worked with customers during the year to assure they had the vehicles and equipment needed to perform their duties. Specification and purchasing procedures were completed for 75 pieces of equipment. Fleet Services arranged for public auction the sale of 52 pieces of equipment that were declared surplus by the assigned sections.

Fleet Services continued to return interest earned on fund investments for the year to our customers. A total of \$193,978 was credited to individual vehicle replacement funds through December 2018, with the allocation based on the amount each had paid into the fund.

After returning these funds to customers, the Fleet Fund ended the year with a \$16,085,070 cash and investment balance.

Fleet Maintenance

Fleet Services maintenance shop performed 1,275 preventive maintenance services and inspections and 3,939 corrective work orders on Public Utilities vehicles and equipment.

Fleet Services also performed state-mandated emissions testing on 145 vehicles with passing results.

Fleet Initiatives

TPU Fleet Services continued our efforts to make improvements in 2018 with a primary focus on lowering gasoline and diesel consumption through biofuel use and considering environmental friendly alternatives when making vehicle related procurement decisions.

TPU Fleet Services was the first fleet in our area to purchase two new XLhybrid technology plug-in hybrid electric pickup trucks for use out at Generation section project sites. We also purchased our first hybrid electric passenger van for the Fleet Motor Pool.

Fleet Services worked with Transmission & Distribution section workgroups on a 90-day pilot to use renewable diesel (R99) fuel in seven medium and heavy duty vehicles. The pilot was successful and confirmed that this fuel could be a drop in with no major infrastructure change. This also confirmed the reliability and benefit claims, including a reduction in emission issues. Furthermore, TPU and City of Tacoma Fleets are working

jointly with other fleet organizations in the area in hopes of making this fuel a more cost effective option for alternative fuel.

In 2018, bio-diesel fuel usage increased by 52% compared to 2017 after TPU and City Fleets made the decision to use bio-diesel fuel year round.

Fleet Services began using HUBB reusable oil filters in 60 light duty vehicles in 2018 and plan to use them exclusively in all light duty vehicles. The new filters are designed to improve performance, save money and also reduce the negative environmental impacts over conventional oil filters.

Fleet Parts

Fleet Services parts warehouse issued \$802,534.80 in parts in support of the maintenance shop. Of this amount, 35 percent (\$277,994.50) was issued from stock and 65 percent (\$524,540.30) was ordered non-stock from vendors. The Fleet parts warehouse accomplished 11,132 issue transactions totaling 34,700 items.

Fleet Staff Development

Fleet Services employees received an average of 29.5 hours of technical, personal development, and safety-oriented training per person.

The Fleet Services Tool and Training Committee helped specify and obtain tools and shop equipment designed to increase productivity and safety.

Don Ashmore
Fleet Manager



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.

ANNUAL

SELF-INSURANCE CLAIM FUND

2018

**FINANCIAL
REPORT**



Public Utility Board

WOODROW JONES

Chair

KAREN LARKIN

Vice-Chair

BRYAN FLINT

Secretary

MARK PATTERSON

Member

CHRISTINE COOLEY

Member

JACKIE FLOWERS

Director of Utilities

CHRIS ROBINSON

Power Superintendent/COO

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

SELF-INSURANCE CLAIM FUND

TABLE OF CONTENTS

FINANCIAL DATA

MANAGEMENT DISCUSSION AND ANALYSIS	1 - 5
STATEMENTS OF NET POSITION.....	6
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION	7 - 8
EQUITY DISTRIBUTION	10
STATEMENTS OF CASH FLOWS	11 - 12
NOTES TO FINANCIAL STATEMENTS	13 - 15

STATISTICAL DATA

CLAIMS STATISTICS SUMMARY	18
CLAIMS STATISTICS DETAIL	19 - 20
TEN-YEAR FINANCIAL REVIEW	21 - 22

FINANCIAL DATA

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Self-Insurance Fund provides an overview of the financial activities for the years ended December 31, 2018, 2017 and 2016. The information presented here should be read in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that is provided.

Overview of the Financial Statements

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2018 and 2017, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses, and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operations, investing and financing activities.

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

Management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived.

Financial Statement Analysis

The Fund is reporting a net gain of \$1.5 million in 2018 compared to a net loss of \$1.7 million recorded in 2017. Total revenues increased by \$2.1 million and total expenses decreased by \$1.1 million for the year.

In 2017, the Fund reported a net loss of \$1.7 million compared to a net gain of \$658,000 in 2016. Total revenues decreased by \$35,000 and total expenses increased by \$2.3 million for the year.

Selected Financial Information

(in thousands)

Category	2016	2017	2018
Premiums	\$1,240	\$1,207	\$3,240
Interest	<u>62</u>	<u>59</u>	<u>119</u>
Total Income	1,302	1,266	3,359
Total Expenses	<u>644</u>	<u>2,922</u>	<u>1,814</u>
Change in Net Position (Net Income)	\$658	(\$1,656)	1,545
Current Assets	\$7,633	\$7,029	\$7,868
Accounts Payable Claims	4,810	5,857	5,159
Other Liabilities	<u>17</u>	<u>22</u>	<u>13</u>
Total Liabilities (Current)	<u>4,827</u>	<u>5,879</u>	<u>5,172</u>
Total Net Position	\$2,806	\$1,150	\$2,696

Revenues

Self-Insurance fund revenues are contributions from the Power, Water and Rail funds and the interest earned. Total revenues were \$3.4 million for 2018 and \$1.3 million for 2017. The increase of \$2.1 million is primarily due to additional contributions of \$1.7 million from Power and \$333,000 from Rail.

Expenses

Self-Insurance fund expenses include claims and handling expenses paid during the year, adjustments to accrued claims and administrative expenses. Support Services claims and handling expenses are allocated to Power and Water only and based on each fund's percentage of combined claims and handling expense for the year. Administrative expenses are allocated to Power, Water and Rail funds based on each fund's percentage of total claims incurred during the year.

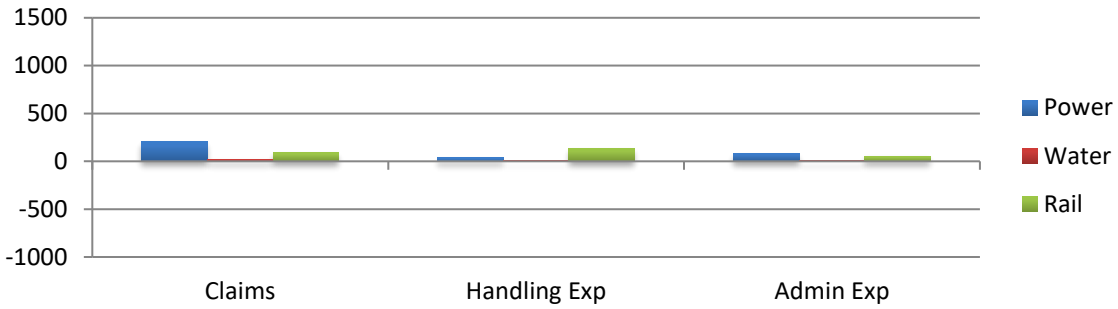
Total expenses in 2018, 2017 and 2016 were \$1.8 million, \$2.9 million, and \$644,000 respectively. The increase or decrease in expenses from year to year is primarily due to adjustments in expected future developments accrued by the Fund. Negative claims expense is generally the result of adjustments to the liability where expected claims were accrued in one year and subsequently denied or revised the next year.

Claims expense was \$1.4 million for 2018, a decrease of \$1.0 million (41.5%) compared to 2017. This is due to net increases in claims from Power and Water of \$1.3 million and \$35,000 respectively primarily offset by decreases in claims from Rail of \$2.4 million.

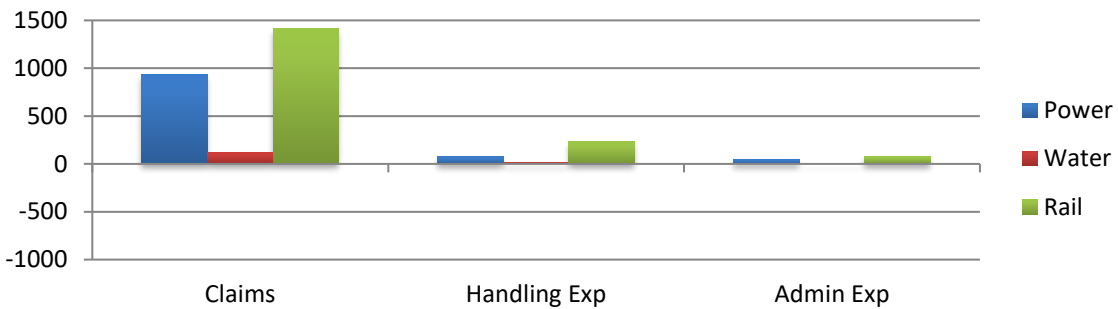
Litigation Expense and Settlements decreased by \$118,000 primarily due to the decrease in handling expenses for Rail.

Incidental and Administrative Expense increased by \$33,000 primarily due to the purchase of new software. The cost of which was shared between General Government and the Self-Insurance fund.

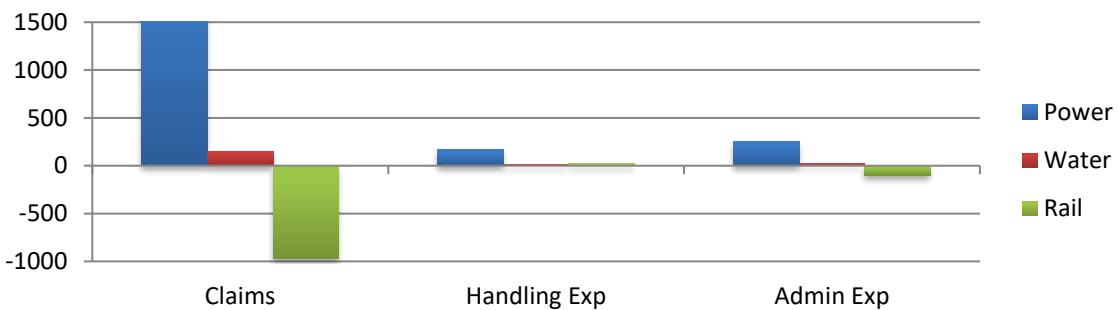
2016 Expenses (\$ in thousands)



2017 Expenses (\$ in thousands)



2018 Expenses (\$ in thousands)



Self-Insurance Claims

Claims paid by the Fund generally fall into four distinct categories. The following table illustrates the impact the various types of claims had on the Fund in 2018, 2017, and 2016.

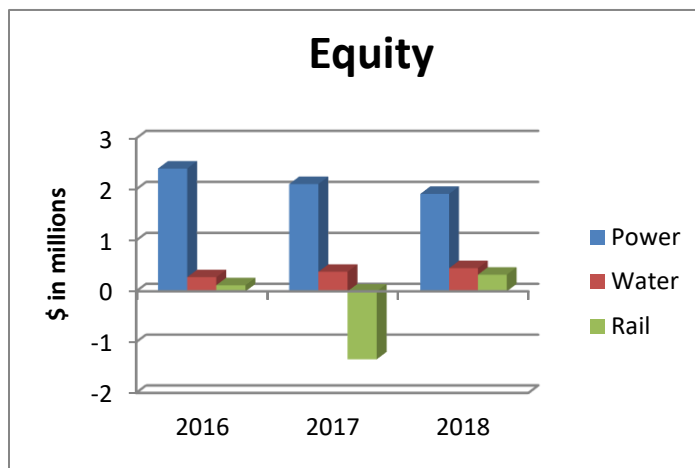
Category	2016	2017	2018
Non-Vehicular (Bodily Injury/Property Damage)	\$228,542	\$1,384,648	\$2,090,768
Vehicular (Bodily Injury/Property Damage)	13,600	32,574	40,043
Hazardous Waste (Environmental)	-	-	-
Contract/Harassment	-	-	-
Total Claims Paid	\$242,142	\$1,417,222	\$2,130,811

This table compares the balances that have been accrued as accounts payable claims at year-end 2018, 2017, and 2016 for these same four categories.

Category	2016	2017	2018
Non-Vehicular (Bodily Injury/Property Damage)	\$4,764,576	\$5,816,444	\$5,080,204
Vehicular (Bodily Injury/Property Damage)	45,307	40,748	79,265
Hazardous Waste (Environmental)	-	-	-
Contract/Harassment	140	-	-
Total Accrued Accounts Payable Claims	\$4,810,023	\$5,857,192	\$5,159,469

Equity

The Fund's equity at the end of 2018 is \$2.7 million compared to \$1.2 million in 2017 and \$2.8 million in 2016. The following graph provides a visual presentation as to how the Fund's equity is shared.



Summary

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

Jackie Flowers
Director of Utilities

Andrew Cherullo
Finance Director

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

STATEMENTS OF NET POSITION - DECEMBER 31, 2018 AND DECEMBER 31, 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT		
Cash and Equity in Pooled Investments	<u>\$7,867,653</u>	<u>\$7,028,558</u>
TOTAL ASSETS	<u><u>\$7,867,653</u></u>	<u><u>\$7,028,558</u></u>
 NET POSITION AND LIABILITIES		
NET POSITION		
Restricted:		
Interfund Contributions	<u>\$2,695,690</u>	<u>\$1,150,408</u>
TOTAL NET POSITION	2,695,690	1,150,408
CURRENT LIABILITIES		
Accounts Payable Claims	5,159,469	5,857,192
Accounts Payable Claims Handling	1,884	12,048
Interdivision Payable	<u>10,610</u>	<u>8,910</u>
TOTAL LIABILITIES	<u>5,171,963</u>	<u>5,878,150</u>
TOTAL NET POSITION AND LIABILITIES	<u><u>\$7,867,653</u></u>	<u><u>\$7,028,558</u></u>

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2018 AND DECEMBER 31, 2017

	DECEMBER 2018	DECEMBER 2017
INCOME		
Premiums	\$128,333	\$128,333
Interest	<u>(29,676)</u>	<u>(38,478)</u>
TOTAL INCOME	98,657	89,855
EXPENSES		
Claims	(1,077,899)	537,716
Litigation Expense and Settlements	65,425	19,064
Incidental and Administrative Expense	<u>14,188</u>	<u>12,668</u>
TOTAL EXPENSES	<u>(998,286)</u>	<u>569,448</u>
CHANGE IN NET POSITION	<u>\$1,096,943</u>	<u>(\$479,593)</u>
TOTAL NET POSITION - JANUARY 1		
TOTAL NET POSITION - DECEMBER 31		

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

YEAR-TO-DATE			
DECEMBER 2018	DECEMBER 2017	2018/2017 VARIANCE	PERCENT CHANGE
\$3,240,000	\$1,206,667	\$ 2,033,333	168.5%
118,906	59,596	59,310	99.5%
3,358,906	1,266,263	2,092,643	165.3%
1,441,389	2,464,390	(1,023,001)	-41.5%
200,729	318,999	(118,270)	-37.1%
171,506	138,917	32,589	23.5%
1,813,624	2,922,306	(1,108,682)	-37.9%
1,545,282	(1,656,043)	3,201,325	193.3%
1,150,408	2,806,451	(1,656,043)	
\$2,695,690	\$1,150,408	\$1,545,282	

This page has been left blank intentionally.

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

EQUITY DISTRIBUTION AS OF DECEMBER 31, 2018

	TACOMA POWER	TACOMA WATER	TACOMA RAIL	TOTAL
Balance January 1, 2018	\$2,104,983	\$384,479	(\$1,339,054)	\$1,150,408
Contributions (Premiums)	2,400,000	240,000	600,000	3,240,000
Claims (1).....	(2,262,667)	(153,422)	974,192	(1,441,897)
Claims Handling Expense	(169,065)	(11,413)	(20,251)	(200,729)
Administrative Expense (2) ...	(253,420)	(17,178)	99,600	(170,998)
Interest Income (3)	92,557	13,754	12,595	118,906
Balance December 31, 2018	<u>\$1,912,388</u>	<u>\$456,220</u>	<u>\$327,082</u>	<u>\$2,695,690</u>
GASB 10 Adjustments (4)	<u>(1,912,388)</u>	<u>(456,220)</u>	<u>(327,082)</u>	<u>(2,695,690)</u>
Adj Balance December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (1) Service divisions' claims of \$508 have been added to this area.
- (2) Service divisions' claims and handling of \$508 have been deducted from Administrative Expense. These costs have been allocated to Power and Water divisions based on the ratio of claims activity to date. Service division does not provide support to Rail.
- (3) Effective 2017, interest income has been allocated to each division based on the allocated cash balance as of the date of this statement.
- (4) Tacoma Power, Water and Rail divisions have adjusted year-end balances to include their share of the equity in the Self Insurance Fund.

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

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	DECEMBER 31, 2018	DECEMBER 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums Received	\$3,240,000	\$1,206,667
Claims Paid	(2,130,811)	(1,417,222)
Administrative and Other Expenses	(389,000)	(453,612)
Net Cash From Operating Activities	720,189	(664,167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest Received	118,906	59,596
Net Cash From Financing Activities	118,906	59,596
Net Change in Cash and Equity in Pooled Investments	839,095	(604,571)
Cash and Equity in Pooled Investments at January 1	7,028,558	7,633,129
Cash and Equity in Pooled Investments at December 31	<u>\$7,867,653</u>	<u>\$7,028,558</u>

	YEAR TO DATE	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities:		
Net Income (Loss)	\$1,545,282	(\$1,656,043)
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities:		
Interest Income	(118,906)	(59,596)
Adjustments to Reconcile Net Income (Loss) to Net Cash From Operating Activities:		
Interdivision Payable	1,700	(3,312)
Accounts Payable Claims	(697,723)	1,047,167
Accounts Payable Claims Handling	(10,164)	7,617
Total Adjustments	(825,093)	991,876
Net Cash From Operating Activities	<u>\$720,189</u>	<u>(\$664,167)</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Self-Insurance Claim Fund was established in 1979 by City of Tacoma Ordinance No. 21863. Its purpose is to account for all monetary transactions required to carry out a self-insurance program for Tacoma Power and Tacoma Water of the City of Tacoma, Department of Public Utilities. Its first year of full operation was 1981. In November 1985, under the terms of City of Tacoma Ordinance No. 23513, Tacoma Rail became a participant in the self-insurance program.

Insurance Coverage. In 1994 with insurance prices becoming more reasonable, all divisions again elected to purchase insurance for third party liability losses to which they may be exposed. Coverage levels are \$60.0 million for Tacoma Power and Tacoma Water with a \$1.5 million retention and \$100.0 million aggregate coverage with a \$50.0 million limit per occurrence for Tacoma Rail with \$1.0 million retention. The policies for Tacoma Power, Tacoma Water, Tacoma Rail and Public Officials coverage are "occurrence based" type policies. Additionally, all divisions now have Public Officials Liability Insurance; coverage is \$1.3 million for each wrongful act with \$2.6 million aggregate coverage with a \$200,000 retention level for each wrongful act. The Department has also purchased "All Risk" property damage insurance. Coverage applies to select properties, vehicles and equipment.

Basis of Financial Statements. The Self-Insurance Fund is an Internal Service Fund of the City of Tacoma operated by the Department of Public Utilities.

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

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

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

The Fund's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2018 and 2017 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

SELF-INSURANCE CLAIM FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

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

Incurred but Not Reported (IBNR). The Fund uses accrual basis of accounting for recognizing not only claims that have been asserted where probable loss is estimable but also cases where incidents have occurred but where claims have not been reported. For incurred but not reported incidents, a reasonable estimate has been made of the potential expense where it appears probable that a claim will be asserted.

NOTE 2 INVESTMENTS MEASURED AT FAIR VALUE

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

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

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

The fair value evaluations are provided by Interactive Data.

SELF-INSURANCE CLAIM FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

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

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

	As of 12/31/2018	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 282,822,308	\$ -	\$ 282,822,308	\$ -
U.S. Agency Securities	447,015,280	-	447,015,280	-
Supranational Securities	19,814,100	-	19,814,100	-
Municipal Bonds	35,748,647	-	35,748,647	-
Corporate Securities	24,607,491	-	24,607,491	-
Total	\$ 810,007,826	\$ -	\$ 810,007,826	\$ -

	As of 12/31/2017	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 218,142,864		\$ 218,142,864	\$ -
U.S. Agency Securities	517,345,818	-	517,345,818	-
Supranational Securities	19,966,040		19,966,040	
Municipal Bonds	40,760,727	-	40,760,727	-
Total	\$ 796,215,449	\$ -	\$ 796,215,449	\$ -

Self Insurance's share of the City Investments shown in the table above is 0.74% and 0.76% for 2018 and 2017.

NOTE 3 PENDING LEGAL ACTIONS AND CLAIMS FOR WHICH THE EXPOSURE TO LIABILITY MAY EXCEED \$300,000 PER OCCURRENCE.

Miscellaneous. Tacoma Public Utilities has received several miscellaneous claims that either do not allege significant amounts, or that the Legal Department has determined do not pose a risk of liability to the Utilities.

STATISTICAL DATA

This page has been left blank intentionally.

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

CLAIMS STATISTICS SUMMARY - DECEMBER 31, 2018

NUMBER OF CLAIMS PAID (JANUARY 1 - DECEMBER 31, 2018)

	<u>Tacoma Power</u>	<u>Tacoma Water</u>	<u>Tacoma Rail</u>	<u>Svc. Divs.</u>	<u>Total</u>
Over \$5,000	9	7	3	-	19
\$1,001 - 5,000	10	10	-	1	21
\$501 - 1,000	2	5	-	-	7
\$100 - 500	4	11	2	3	20
Less than \$100	<u>3</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>9</u>
	28	39	5	4	76
Total Dollar Amount of Claims Paid	\$1,913,340	\$136,665	\$76,379	\$4,427	\$2,130,811

NUMBER OF CLAIMS ACCRUED AT DECEMBER 31, 2018

Over \$50,000	17	2	2	-	21
\$10,000 - 50,000	10	2	2	-	14
Less than \$10,000	<u>260</u>	<u>88</u>	<u>9</u>	<u>2</u>	<u>359</u>
	287	92	13	2	394
Total Dollar Amount Accrued for Known Claims	\$4,127,056	\$420,225	\$308,475	\$526	\$4,856,282
Total Dollar Amount Accrued for Unknown Claims	<u>\$73,920</u>	<u>\$32,029</u>	<u>\$196,309</u>	<u>\$929</u>	<u>\$303,187</u>
Total Dollar Amount Accrued for All Claims	<u><u>\$4,200,976</u></u>	<u><u>\$452,254</u></u>	<u><u>\$504,784</u></u>	<u><u>\$1,455</u></u>	<u><u>\$5,159,469</u></u>

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

CLAIMS STATISTICS DETAIL - DECEMBER 31, 2018

NUMBER OF CLAIMS PAID (JANUARY 1 - DECEMBER 31, 2018)

Range	Non-Vehicular Bodily Injury/Property Damage			
	Tacoma Power	Tacoma Water	Tacoma Rail	Svc. Divs.
Over \$5,000	8	7	3	-
\$1,001 - 5,000	6	8	-	-
\$501 - 1,000	2	5	-	-
\$100 - 500	4	11	1	3
Less than \$100	3	6	-	-
	23	37	4	3
Total Dollar Amount of Claims Paid	\$1,881,467	\$132,451	\$75,892	\$958
Average Dollar Amount of Claims Paid	\$81,803	\$3,580	\$18,973	\$319

NUMBER OF CLAIMS ACCRUED AT DECEMBER 31, 2018

Range	Non-Vehicular Bodily Injury/Property Damage			
	Tacoma Power	Tacoma Water	Tacoma Rail	Svc. Divs.
Over \$50,000	17	2	2	-
\$10,000 - 50,000	10	2	1	-
Less than \$10,000	241	79	5	2
	268	83	8	2
Total Dollar Amount Accrued for Known Claims .	\$4,101,756	\$405,010	\$269,725	\$526
Total Dollar Amount Accrued for Unknown Claims	\$73,920	\$32,029	\$196,309	\$929
Total Dollar Amount Accrued for All Claims ...	<u>\$4,175,676</u>	<u>\$437,039</u>	<u>\$466,034</u>	<u>\$1,455</u>

Vehicular Bodily Injury/Property Damage				Contract/Harassment			
Tacoma Power	Tacoma Water	Tacoma Rail	Svc. Divs.	Tacoma Power	Tacoma Water	Tacoma Rail	Svc. Divs.
1	-	-	-	-	-	-	-
4	2	-	1	-	-	-	-
-	-	-	-	-	-	-	-
-	-	1	-	-	-	-	-
-	-	-	-	-	-	-	-
5	2	1	1	-	-	-	-
\$31,873	\$4,214	\$487	\$3,469	-	-	-	-
\$6,375	\$2,107	\$487	\$3,469	-	-	-	-

Vehicular Bodily Injury/Property Damage				Contract/Harassment			
-	-	-	-	-	-	-	-
-	-	1	-	-	-	-	-
19	9	4	-	-	-	-	-
19	9	5	-	-	-	-	-
\$25,300	\$15,215	38,750	-	-	-	-	-
-	-	-	-	-	-	-	-
\$25,300	\$15,215	38,750	-	-	-	-	-

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

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	<u>2009</u>	<u>2010</u>	<u>2011</u>
ASSETS			
Current	\$4,564,534	\$4,483,283	\$3,934,405
TOTAL ASSETS	<u>4,564,534</u>	<u>4,483,283</u>	<u>3,934,405</u>
LIABILITIES			
Current	1,415,874	2,540,439	2,193,523
NET POSITION	<u>3,148,660</u>	<u>1,942,844</u>	<u>1,740,882</u>
TOTAL LIABILITIES AND NET POSITION	\$4,564,534	\$4,483,283	\$3,934,405
 STATEMENTS OF INCOME			
INCOME			
Premiums	\$324,000	\$324,000	\$744,000
Interest	121,687	71,595	123,337
Litigation Settlement Refund	-	-	-
Total	<u>445,687</u>	<u>395,595</u>	<u>867,337</u>
EXPENSES			
Claims	(148,043)	1,347,562	680,886
Claims Handling Expense	197,319	103,138	270,349
Incidental & Admin. Expense	<u>157,380</u>	<u>150,711</u>	<u>118,064</u>
Total	<u>206,656</u>	<u>1,601,411</u>	<u>1,069,299</u>
NET INCOME (LOSS)	\$239,031	(\$1,205,816)	(\$201,962)

2012	2013	2014	2015	2016	2017	2018
<u>\$5,359,525</u>	<u>\$5,681,826</u>	<u>\$6,227,388</u>	<u>\$6,855,931</u>	<u>\$7,633,129</u>	<u>\$7,028,558</u>	<u>\$7,867,653</u>
5,359,525	5,681,826	6,227,388	6,855,931	7,633,129	7,028,558	7,867,653
3,441,738	4,902,069	5,994,441	4,707,462	4,826,678	5,878,150	5,171,963
<u>1,917,787</u>	<u>779,757</u>	<u>232,947</u>	<u>2,148,469</u>	<u>2,806,451</u>	<u>1,150,408</u>	<u>2,695,690</u>
\$5,359,525	\$5,681,826	\$6,227,388	\$6,855,931	\$7,633,129	\$7,028,558	\$7,867,653
\$2,470,377	\$1,040,004	\$1,040,004	\$1,240,000	\$1,240,000	\$1,206,667	\$3,240,000
78,820	23,559	52,827	35,169	61,576	59,596	118,906
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2,549,197	1,063,563	1,092,831	1,275,169	1,301,576	1,266,263	3,358,906
1,678,679	1,817,285	1,375,087	(968,980)	350,057	2,464,390	1,441,389
560,911	248,952	134,293	196,895	172,963	318,999	200,729
<u>132,702</u>	<u>135,356</u>	<u>130,261</u>	<u>131,732</u>	<u>120,574</u>	<u>138,917</u>	<u>171,506</u>
2,372,292	2,201,593	1,639,641	(640,353)	643,594	2,922,306	1,813,624
\$176,905	(\$1,138,030)	(\$546,810)	\$1,915,522	\$657,982	(\$1,656,043)	\$1,545,282



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.